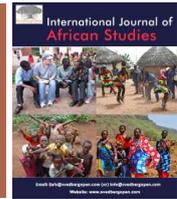




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Informal Solutions to Formal Barriers: Re-evaluating Intra-African Trade through the Lens of the Shadow Economy

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Abstract

Conventional analyses of African trade frequently highlight how low formal intra-regional trade volumes signify a significant economic integration deficit. This paper challenges that narrative, arguing that this conclusion largely obscures a substantial redirection of economic activity into the informal sector. Pervasive non-tariff barriers, combined with protectionist policies and excessively complex regulatory environments, create a powerful disincentive for formal trade, pushing economic operators to seek informal channels for market access. Drawing an analogy to fluid dynamics, economic activity is inherently adaptive, always seeking easier routes when confronted with formal obstacles. Despite this conceptual framework, a significant gap exists in current economic research. Quantitative studies are lacking that demonstrate a link between the frequency and severity of protectionist actions, regulatory burdens and trade barriers and measurable shift of formal trade into the informal economy. Filling this research gap is crucial for developing more effective policies aimed at promoting the formalization of intra-African trade.

Keywords: *Borders, Borderlands, Informal economy, ICBT, Shadow economy, Intra-African trade*

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1. Introduction

Regional economic integration in Africa is widely recognized for its potential to stimulate economic growth and foster sustainable development through formal trade (Brandi *et al.*, 2025). However, the prevailing narrative in numerous economic reports and analyses consistently highlights a comparatively low level of intra-regional trade among African nations compared to other established economic blocs. This observation frequently leads to the conclusion that the continent faces a significant deficit in its trade and integration endeavors. Nevertheless, the empirical situation on the ground presents a more intricate and nuanced reality than what official trade statistics alone might convey. This paper presents a provocative counter-narrative, arguing that what appears as a deficit in formal trade activity in Africa might divert attention from a deeper and more complex economic reality: the obscure and often underestimated role played by widespread protectionist measures, excessive regulation of economic activities, and pervasive Non-Tariff Barriers (NTBs).

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These three interconnected factors compel many businesses to operate within informal channels, thereby escaping official statistical capture. Notably prevalent and persistent across various African economies (UNCTAD, 2024), they inadvertently create powerful incentives for formal trade activities to migrate into the less regulated, yet highly dynamic, informal sector. This diversion, in turn, initiates a self-reinforcing vicious cycle wherein the expansion of informal trade further entrenches the challenges to formalization. This paper explores the key drivers behind this shift, analyzing its far-reaching implications and relevance for the success of regional integration efforts across the continent.

2. A Reinterpretation of Low Intra-African Trade

The prevailing discourse on intra-African trade often invokes the enduring observation that “Africa produces what it does not consume and consumes what it does not produce” (Mazrui and Patel, 1973). This statement succinctly captures a long-standing structural imbalance in the continent’s economic relations, predominantly characterized by the export of raw materials and the import of finished goods (Abdel-Latif *et al.*, 2025). Statistics on intra-African trade further reinforce this narrative of limited internal trade. As reported by Afreximbank (2025), intra-African trade constitutes a mere 15% of total exports from African nations. This figure remains notably modest when compared with other global regions such as Asia, where intra-regional trade exceeds 55% of total trade and Europe, where it surpasses 70% (Afreximbank, 2023). This conventional narrative, which gained significant traction and widespread dissemination following the publication of the UNCTAD Economic Development in Africa Report 2019, primarily argues that the low levels of intra-African trade are a direct consequence of several interconnected factors. These including inadequate infrastructure, fragmented markets, diverse regulatory frameworks and weak industrialization. This perspective often frames the limited formal trade as a fundamental hurdle to achieving robust economic development and deeper regional integration (see Figure 1 for illustration of geographical regional integration trends).

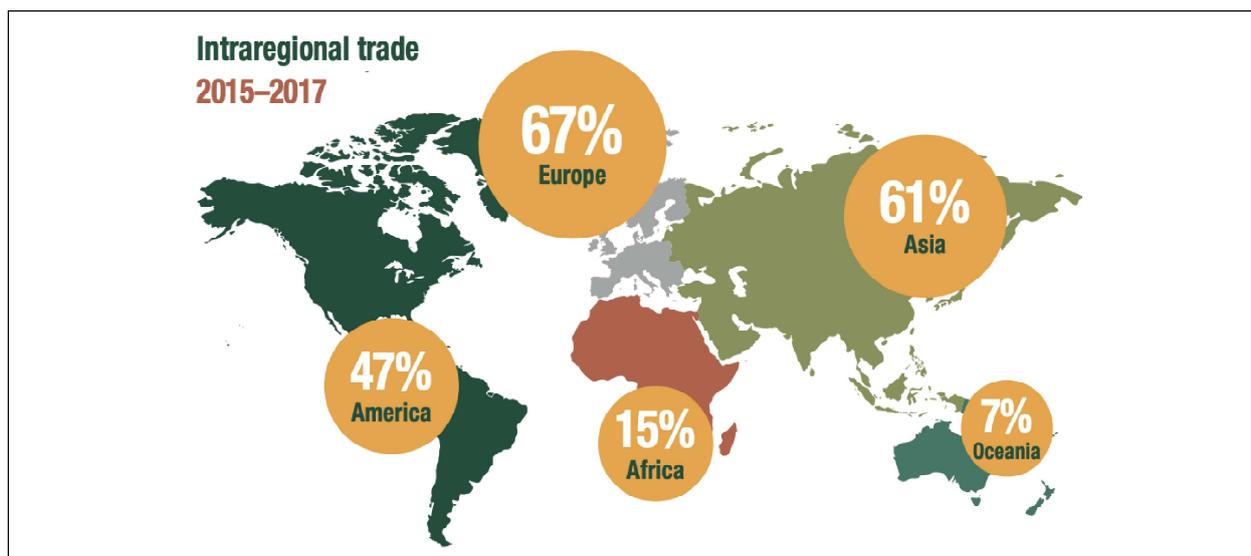


Figure 1: Intra-Regional Trade in Africa 2015-2017

Source: UNCTAD Economic Development in Africa Report (2019)

However, while the aforementioned factors are undeniably present and exert significant influence on the current levels of intra-African trade, emerging research suggests that official statistics might not fully capture the true scale of economic exchange within Africa. Gammadigbe (2021) and Mold (2022), for instance, contend that studies on African regional integration are most flawed, highlighting the systematic failure to acknowledge the significant role played by Informal Cross-Border Trade (ICBT). Similarly, Karkare *et al.* (2021) point out that official statistics misrepresent the true extent of intra-African trade as they do not capture the significant proportion of small-scale, unrecorded, and informal exchanges, suggesting that ICBT is an enduring feature of the African economic landscape and unlikely to decline, given its useful role for consumers. In fact, informal trade channels ensure access to goods at more affordable prices, especially in regions where formal trade channels are either cost-prohibitive or inefficient and price differentials are high. While precisely quantifying informal trade is challenging, estimations indicate that its volume constitutes between 7% and 16% of formal intra-African trade flows, and between 30% and 72% of formal trade between neighboring countries (UNECA, 2021). Notably, Mold (2022) calculates that for non-oil resource-intensive and landlocked countries, the

average share of exports destined for the African market could be as high as 38-42% of total trade (see Table 1 below). This finding directly challenges the prevailing narrative of Africa “not consuming what it produces”, leading the author to advocate for a more optimistic portrayal of exchanges internal to the continent.

	Intra-African exports (USD millions)	Total exports (USD millions)	Percent of Intra-African trade	With ICBT at 30 percent	With ICBT at 50 percent
Landlocked countries	11,217	40,125	28 percent	36 percent	42 percent
Other resource intensive	40,184	160,180	25 percent	33 percent	38 percent
Africa excl. oil exporters	65,965	302,173	22 percent	28 percent	33 percent
Intra-African trade	80,316	482,125	17 percent	22 percent	25 percent
Oil exporters	14,351	179,952	8 percent	10 percent	12 percent

Source: UNCTADStat

A clarification regarding the definition of ICBT is necessary. Informal cross-border trade is defined as commercial activities where traders bypass formal procedures and thus are not captured in official customs statistics. This encompasses various practices, including non-declaration of goods, evasion of duties and levies, utilization of clandestine routes, and non-adherence to regulatory import/export requirements (Desiderio, 2025).

Despite growing scholarly interest in the analysis of this phenomenon, there is a notable deficiency in existing economic research regarding the underlying factors contributing to its sustained prevalence across African borderlands, which are widely recognized as areas of opportunity characterized by high trade intensity (Brenton and Soprano, 2018). While a few studies (Ogalo, 2020), demonstrate that protectionist measures and NTBs directly contribute to ICBT growth by increasing prices of products sold by cross-border small scale traders (compelling them to avoid official channels), a scarcity of quantitative analysis persists in this area. During the preparation of this paper, the only identified calculation of the impact of NTBs on intra-regional trade was made by a 2023 East African Community (EAC) Regional Meeting Committee study cited by TradeMark Africa, but not publicly available. This study estimates that NTBs caused additional expenses of US\$16,703,970 on businesses in the region during 2022, leading to an average trade reduction of 58% (TradeMark Africa, 2024). The absence of comparable calculations of the impact of NTBs on intra-regional trade in other African regions severely limits the substantiation of the causal link between these impediments and the expansion of ICBT. Making the 2023 EAC Regional Meeting Committee report publicly available is crucial for two reasons. Firstly, it would provide a valuable template for other African regions seeking to quantify the direct costs of NTBs on intra-regional trade. Secondly, its public release would facilitate broader verification of the methodology employed for such quantification, thereby enhancing the credibility and comparability of future economic research in this important area.

Further research, conducted in diverse African contexts including Côte d’Ivoire, Kenya, Nigeria, and Senegal, indicates that NTBs—specifically the request of bribes and other informal payments by government officials—not only reduce the likelihood of formal trade but also incentivize formal firms to turn to informality (Gajigo and Hallward-Driemeier, 2012). However, it is important to note that this specific research primarily examines the informal economy in a general context rather than focusing on the dynamics within borderland regions.

On the other hand, in regions where specific policy tools are deployed to promote the formalization of ICBT, like the Simplified Trade Regime (STR),¹ their effectiveness is frequently constrained at numerous African borders by suboptimal implementation and persistence of trade barriers. This compels many small-scale traders to continue opting for informal routes, avoiding official border posts (Akaezuwa *et al.*, 2020). The case of Uganda exemplifies this challenge: despite having implemented the STR at many borders with its neighbors, implementation challenges have reduced the

¹ The Simplified Trade Regime (STR) enables traders operating in borderland regions to benefit from an exoneration of customs duties for transactions falling below a pre-determined value threshold defined through mutual agreement among participating nations. In addition, the scheme serves as a mechanism to promote the formalization of cross-border small-scale traders. This is achieved by associating to this tool a series of trade facilitation benefits, encompassing streamlined trade procedures, a significant reduction in regulatory formalities pertaining to goods clearance, enhanced access to trade-related information, and targeted assistance for navigating cross-border administrative requirements (Desiderio, *ult. cit.*).

effectiveness of this facilitation scheme, causing a significant decline of the share of ICBT in total export earnings from 15% to 7% between 2013 and 2020, before rebounding to an average of 12% between 2021 and 2022.² This fluctuation is attributed to a combination of persistent NTBs, including inadequate market information and cumbersome customs procedures (Okillong, 2023).

Further analysis reveals that the effectiveness of the STR is significantly hampered by pervasive implementation shortcomings and lack of cross-border dedicated infrastructure. These include low awareness or understanding of the STR among small-scale traders, insufficient training for customs and border officials, endemic corruption at border posts, and the absence of trade assistance desks and essential cross-border facilities, such as designated markets where small-scale traders can formally conduct their commercial activities (International Organization for Migration, 2024; Sabiti, 2022). Moreover, specific restrictions have been introduced in some cases that diminish traders' willingness to utilize this facilitation mechanism. Ethiopia and Kenya, for instance, in April 2025 concluded a bilateral agreement for the implementation of an STR at the Moyale border post. This agreement makes access to simplified border formalities contingent upon obtaining a specific, government-issued business license, subject to a periodically adjusted quota. In addition, the STR restricts permissible trade to a defined geographical area, with Kenyan traders that are authorized to conduct commercial activities in the Ethiopian territory within a 50-kilometer radius from the Moyale border, while Ethiopian traders are permitted to operate in Kenya within a 100-kilometer radius (Tegafaw, 2025). While exploring other specific case studies of STR successes or failures in diverse border contexts could illuminate further nuanced factors that constrain STR utilization, the aforementioned analysis strongly suggests that the overall success of formalization initiatives hinges upon a broader reduction of NTBs and protectionist measures at large. This also includes mitigating other regulatory complexities that collectively disincentivize formal trade.

Despite these insights, a significant gap persists in the literature regarding robust, quantitative studies that precisely measure the movement of businesses from formal to informal in response to NTBs. On the other hand no quantitative studies have been conducted that specifically link protectionist policies and regulatory burdens to measurable shifts in formal trade volumes towards the informal sector, particularly in borderland regions. This gap limits the empirical substantiation of the causal link between these impediments and the expansion of ICBT in African borderland regions. Addressing this lacuna is paramount for fully understanding the drivers of cross-border informal trade so to develop effective policies aimed at promoting formalization and fostering inclusive economic growth.

3. The Adaptive Capacity of African Traders

The adaptive capacity of markets, particularly in environments characterized by significant institutional barriers, trade frictions, or pervasive regulatory requirements, is a recurring theme in scholarly and economic discourse (Verwaal *et al.*, 2022). Applied to economics, especially in developing contexts, this concept refers to the ability of economic agents to adjust their strategies, organizational structures, and behaviors in response to evolving and often adverse external conditions. This adaptability is not merely a reactive response, but often a proactive mechanism to sustain economic activity. As Lopes (2023) highlights, in Africa informality serves as a critical adaptive mechanism for trade when formal channels are too restrictive.³ This perspective implicitly acknowledges that existing NTBs and other impediments to formal trade push economic activity into less efficient, informal channels as a way to circumvent rigidities at borders (e.g., bypassing official checkpoints, evading complex border procedures or product compliance requirements). Supporting this, a study by Bensassi *et al.* (2018) at the Benin-Nigeria border identifies NTBs, sanitary and phytosanitary (SPS) regulations, stringent labeling requirements, and quality standards as primary drivers of informal trade. The World Customs Organization (WCO, 2015) further highlights the unique capacity of informal trade to exploit and adapt to fiscal and customs policy asymmetries prevalent at borders. In essence, when official border procedures are overly cumbersome, inefficient, or prohibitively costly, economic agents—driven by the fundamental imperatives of survival and profit maximization—naturally seek alternative avenues to conduct their business (OSCE, 2012). This phenomenon underscores the inherent fluidity and resilience of trade flows. Much like water finding an alternative path when its natural course is obstructed, economic activity will always seek the path of least resistance to reach its market. However, while this adaptive behavior of economic agents in navigating trade barriers, particularly in the African context, exemplifies a

² This data is based on cross-border trade surveys that the Bank of Uganda periodically carries out in collaboration with the Uganda Bureau of Statistics (UBOS): https://www.bou.or.ug/bouwebsite/bouwebsitecontent/statistics/External_Sector_Statistics/Trade_Statistics/Composition-of-Exports_Values-and-Volumes.xlsx

³ CNBC Africa, interview with Carlos Lopes on how to unlock opportunities for private sector growth, June 6, 2023, available at this link: <https://www.cnbc.com/media/6328891203112/carlos-lobes-on-how-to-unlock-opportunities-for-private-sector-growth/>

remarkable entrepreneurial spirit, it simultaneously shows how systemic inefficiencies and regulatory burdens inadvertently drive formal trade into the informal economy.

4. Drivers of the Shift to Informal Trade

The redirection of formal trade towards informal networks in Africa is driven by a series of interconnected factors. NTBs are prominent among them, significantly impeding the smooth flow of goods through African borders and rendering formal trade cumbersome and economically unviable for many operators. UNCTAD data (2025) highlights the severity of this problem, indicating that the Ad-Valorem Equivalent (AVE)⁴ of non-tariff barriers in Africa is the highest globally, standing at nearly four times the average in developed countries (Figure 2).

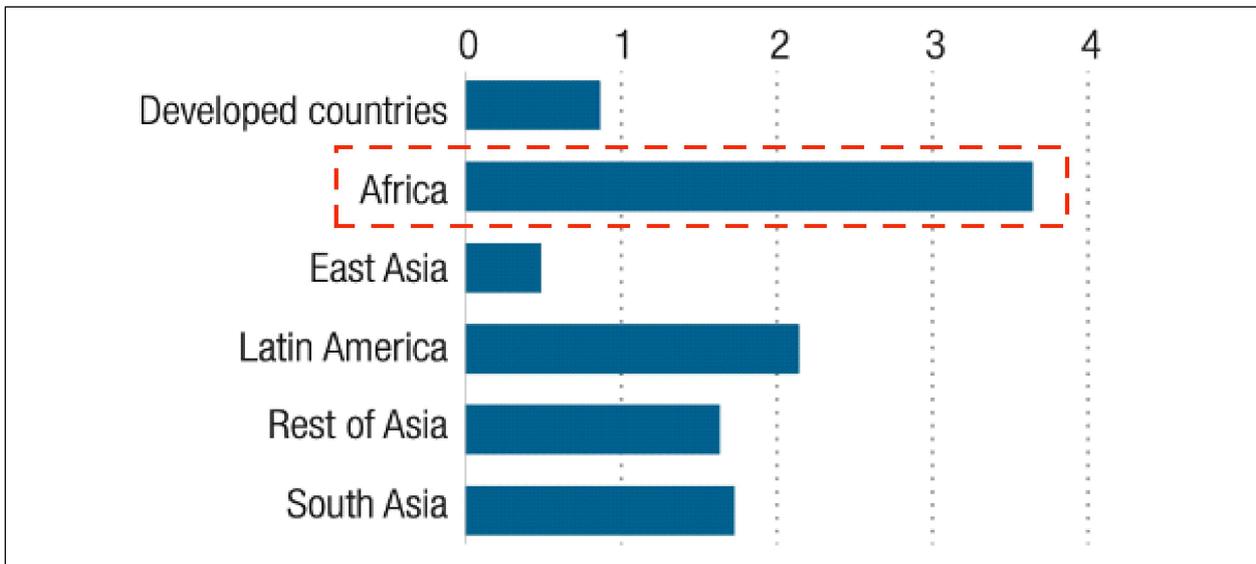


Figure 2: Ad-Valorem Equivalent (Percentage)

Source: UNCTAD, *Key Statistics and Trends in Trade Policy* (2024)

Beyond NTBs, other protectionist policies implemented by various African nations further contribute to this redirection. These measures, which often include high tariffs, import bans, denials of preferential treatment, or border closures, impede regional trade and undermine regional integration efforts. Consequently, many traders resort to informal trade channels to circumvent them, with a counterproductive effect on regional integration. The prevalence of protectionist policies across Africa are illustrated by the cases below:

- At the beginning of April 2025, Tanzania imposed a ban on agricultural imports from South Africa and Malawi, reportedly in retaliation for earlier restrictions on Tanzanian banana exports. This trade dispute, which led to a temporary disruption of trade flows between the three countries, was ultimately resolved through diplomatic negotiations in late April ([The East African, 2025b](#)).
- In January 2025, Uganda closed Bunagana, Ishasha, Busanza and other border posts with the Democratic Republic of Congo after the entry in Goma—the capital of the North Kiwu province—of the M23 rebels (an armed group fighting Congolese forces in the mineral-rich eastern DRC). The border posts were reopened after more than six months, in July 2025 ([The East African, 2025a](#)).
- In August 2024, trade tensions between Zambia and the Democratic Republic of Congo (DRC) led to the closure of their shared border. These frictions originated in June 2024 when the DRC’s Ministry of Trade issued decrees imposing a 12-month ban on the import of beers, soft drinks, gray cement, and clinkers. These measures were intended to protect local industries and stimulate domestic production. In response, Zambian authorities closed the border in August, completely paralyzing bilateral trade ([Bloomberg News, 2024](#)).

⁴ The Ad-Valorem Equivalent (AVE) of a non-tariff barrier is the conversion in percentage terms of the cost of a trade policy measure. In essence, this indicator converts the impact of a non-tariff barrier (such as a quota, a complex customs procedure, or a specific standard) into a tariff-like percentage, thereby allowing for a direct comparison with traditional tariffs. The primary objective of the AVE is to enable a quantitative assessment of an NTB’s trade restrictiveness, thereby facilitating direct comparison with traditional tariffs.

- Algeria has consistently employed temporary import bans as a tool to protect its domestic industries and reduce its trade deficit. A recent case occurred in October 2024, when Algeria prohibited the import of specific steel products, including wire rods, alloy steels, iron and steel sheet piles, watering equipment, and irrigation stations. This measure was explicitly justified by the Algerian government as necessary to safeguard its local steel sector and promote its development (Aouadi, 2024). This protectionist approach is not new for Algeria. The government has a history of implementing such bans. For instance, in January 2018, approximately 900 consumer products, ranging from cell phones to household appliances and certain foodstuffs, were subject to import restrictions (RFL, 2018). Similarly, in January 2010, the Ministry of Commerce imposed a ban on 1,141 products, encompassing agricultural and agri-food items, textiles, paper and cardboard, and various household appliances (L'Expression, 2010). More recently, Algeria announced an import ban on petrol and diesel products, effective 2026, aimed at promoting domestic refinery operations (African Manager, 2025). These instances collectively demonstrate a recurring pattern in Algeria's trade policy, characterized by the strategic use of import prohibitions to achieve national economic objectives.
- In June 2023, Kenya formally raised a complaint to the EAC Secretariat, asserting that its juice products were denied preferential market access in Uganda and subjected to a full import duty of 35% (EAC, 2023) in violation of the EAC Customs Union, to which both Kenya and Uganda are members.
- Since January 2022, Botswana and Namibia have engaged in reciprocal import bans on certain fruits and vegetables originating from each other's territories, subsequently extended to South Africa. These bans were implemented to shield local producers from surges in imports of such products in their respective territories. While Botswana lifted its ban on South African vegetable imports in 2024, Namibia continues to maintain its restrictions (African Agri Magazine, 2025).
- In March 2019, Rwanda closed its borders with Uganda following a diplomatic dispute concerning the alleged illegal detention of a number of Rwandan citizens in Uganda (Byaruhanga, 2019).
- In August 2019, Nigeria closed its land borders with all neighboring countries. This action was taken despite Nigeria's participation, along with Benin and Niger, in the Economic Community of West African States (ECOWAS) Customs Union.⁵ The measure was primarily aimed at curbing the smuggling of rice from Benin and addressing the illicit export of subsidized Nigerian petrol to neighboring nations (Kassa and Zeufack, 2020).

An analysis of active complaints registered on "tradebarriers.org", the NTBs monitoring platform for the Tripartite Free Trade Area (encompassing the EAC, the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC), reveals clear patterns in the types of obstacles hindering regional trade. Specifically, it shows that financial barriers are the most frequently reported and pervasive non-tariff impediments. This category includes a range of issues such as administrative fees (e.g., undocumented charges for health certificates or arbitrary payments at roadblocks), as well as taxes and other border charges (like discriminatory excise duties on goods or the denial of preferential tariff treatment). Issues related to transit are also frequent. These include burdensome fines for minor route deviations, exorbitant permit requirements or charges for goods in transit, and overall lengthy and costly customs clearance procedures. Such obstacles disproportionately affect landlocked countries and extend journey times, thereby increasing logistics costs and reducing the competitiveness of African products.

Other protectionist measures that are particularly recurrent are temporary import bans on certain products and border closures, which act as direct market access barriers. A similar picture emerges in other African blocs. For instance, in ECOWAS⁶ and the West African Economic and Monetary Union (WAEMU),⁷ common NTBs largely revolve around informal or unusually high payments at border posts, stringent and often non-transparent regulatory requirements applied by border agencies, and the arbitrary behavior of officials.

These challenges, much like those in the Tripartite region, contribute to high trade costs and unpredictable enforcement of regulations, ultimately stifling economic growth and regional integration. Furthermore, analysis of complaints lodged by economic operators on the various NTB monitoring platforms reveal an extensive array of quality and product safety

⁵ On 29 January 2025, Niger, along with Mali and Burkina Faso, officially ceased to be member of ECOWAS. This withdrawal formalized their departure after a period of diplomatic tension and following a series of military coups in these countries.

⁶ Data on NTBs in the ECOWAS region are extracted from the Trade Obstacles Alert Mechanism (TOAM) NTB monitoring platform (<https://www.tradeobstacles.org/ecowas/Home.aspx>).

⁷ Data on NTBs in the WAEMU region are extracted from the Trade Obstacles Alert Mechanism (TOAM) NTB monitoring platform (<https://www.tradeobstacles.org/uemoa/Home.aspx>).

standards as well as veterinary, sanitary and phytosanitary (SPS) regulations that products must meet in destination markets. In this regard, UNCTAD (2013), notes that compared to other developing countries, African nations regulate their imports relatively more, often imposing costly Pre-Shipment Inspections (PSIs) to traders to verify the quality/quantity of their goods. While some these regulations are crucial for safeguarding human, animal, and plant health, they impose substantial compliance costs that in many cases small-scale traders are unable or unwilling to bear. Adhering to these standards frequently necessitates additional expenses for testing, certification, specialized packaging, or specific procedures to eliminate pests, such as fumigation, to be often undertaken at their own expense. Consequently, traders may opt for informal channels to circumvent these increased costs, enabling them to export and sell their products at lower prices.

5. Strategies to Formalize Informal Small-Scale Cross-Border Trade

To encourage small-scale traders in Africa to engage in formal cross-border trade, while ensuring adherence to quality, product safety, and SPS regulations without imposing prohibitive costs on such operators, a wide range of measures can be implemented, including:

- 1) **Simplification and Harmonization of Regulations:** African Regional Economic Communities (RECs) should intensify efforts to harmonize SPS and product quality standards and regulations across member States, particularly through the adoption of mutual recognition agreements. This would reduce the complexity and variability of requirements that traders currently face when moving goods across borders, making compliance more straightforward.
- 2) **Graduated Compliance:** African nations could consider a phased approach to SPS compliance for informal traders that decide to formalize. This would allow them for simpler initial requirements, gradually increasing stringency as traders gain experience and capacity.
- 3) **Simplified Border Procedures and Reduced Fees and Charges:** Administrative procedures for obtaining permits, licenses, and certifications can be streamlined and simplified for traders seeking formalization. This includes reducing the number of required documents or processing times. Moreover, fees for inspections, testing, and certifications can be reduced or waived for small-scale traders, especially for low-value consignments, to enhance the attractiveness of formal trade. The Simplified Trade Regime (see Desiderio, *ult. cit.*) is one of the tools currently employed by some African RECs to achieve this objective.
- 4) **Promote Cooperation and Coordination among Different Border Agencies:** Implementing coordinated border management practices at borders, specifically by establishing joint controls and sharing of information mechanisms among border agencies with inspection responsibilities, can reduce duplication of efforts, minimize delays, and provide a more predictable environment for traders.
- 5) **E-Certification and Digital Platforms:** African governments can invest in and promote the use of electronic certification systems and other digital platforms for sharing trade documents and SPS or product quality standards information. This can significantly reduce the need for paper documents, speed up clearance times, and improve accountability. The e-phyto certification system is a good example. E-phyto is a global initiative designed to replace traditional paper phytosanitary certificates with electronic equivalents. This system dramatically improves the speed, accuracy, and security of information exchange regarding plant health.⁸ Another example is the EAC SPS Information Sharing Platform (SPS-IP), a system that enables electronic sharing and access of trade documents such as Phytosanitary and import permits issued from the country of origin to the country of destination, aiming to eliminate the need for traders to present paper documents at points of entry, transit or exit in the EAC (Kuhlmann *et al.*, 2024).
- 6) **Risk-Based Inspections:** The implementation of risk-based inspection systems, focusing selective checks targeting high-risk commodities and traders, while allowing lower-risk products and those with a good compliance record to pass with fewer inspections, can further reduce delays and costs for compliant traders, optimizing resource allocation.

⁸ Developed by the Standards and Trade Development Facility (STDF), a global partnership that facilitates safe, inclusive trade and development outcomes, the ePhyto Hub is a web platform that allows countries to exchange phytosanitary certificates electronically. These certificates, often referred to as “plant passports”, are official documents issued by the exporting country’s phytosanitary authority. They serve to verify that a given consignment, comprising plants, plant products, or other regulated articles, complies with the importing or transit country’s specific phytosanitary import requirements, such as freedom from quarantine pests. A single phytosanitary certificate can cover multiple products within the same consignment.

7) **Clarity and Transparency:** Ensuring that all regulations, procedures, fees, and changes are easily and publicly accessible in local languages (e.g., through trade information desks or online platforms), can facilitate compliance for small-scale traders at a lower cost.

Equally important are capacity building and technical assistance activities. Targeted training programs can be developed for small-scale traders, particularly women, on SPS requirements, quality standards, Good Agricultural Practices (GAPs),⁹ Good Hygiene Practices (GHPs),¹⁰ and basic food safety principles. Peer-to-peer learning among traders should also be encouraged and mentorship programs should be periodically organized where experienced formal traders can guide small-scale informal traders on compliance requirements and best practices.

These strategies can be complemented by efforts to enhance access to finance and promote market access and value chain integration for small-scale traders. Highlighting the benefits of SPS or product quality compliance, such as access to higher-value markets and enhanced consumer trust, can ultimately lead to increased profitability and sustained growth for traders.

By implementing these comprehensive strategies, governments can effectively reduce the barriers to compliance for small-scale traders, foster a more inclusive formal trade environment, and ultimately promote safer and more competitive intra-African trade.

6. The Lose-Lose Scenario of a Restrictive Trade Environment with Implications on Regional Integration

The persistent imposition of trade barriers, the maintenance of protectionist policies, and the increasing regulatory complexity of trade operations by African nations collectively impede the growth of formal trade. In such an environment, potentially profitable businesses are incentivized to transition into the less regulated informal sector to circumvent these obstacles. This dynamic creates a “lose-lose” scenario for all stakeholders.

For States, the proliferation of informal trade leads to substantial losses in crucial tax revenues, directly restricting their capacity for public investment and undermining fiscal stability. Concurrently, traders find an incentive to maintain operations on a smaller, less efficient scale, to avoid detection by government authorities. This limits their overall economic activity, severely constraining their potential for expansion.

Informal traders also typically face exclusion from formal finance,¹¹ as their activities are often perceived by financial institutions as high-risk due to their unregulated nature, volatile income streams, and vulnerability to external shocks like policy shifts or economic downturns. This exclusion has fostered the emergence at many African borders of informal money lenders, who primarily operate within established social, ethnic, or family networks where lending is based on trust and reputation rather than formal contracts. This situation presents a significant risk for growth of organized crime in Africa. It can lead to a proliferation of criminal enterprises, posing broader threats to national and regional security. Furthermore, traders operating within the informal economy are exposed to heightened risks, including harassment and exploitation, as they are deprived of the legal protections and growth opportunities afforded by the formal economic sector (Tawodzera and Chikanda, 2021).

7. Conclusion

The perceived deficit in formal intra-African trade does not accurately reflect the full scope of economic activity that is currently conducted by economic actors across the continent. This is essentially because a significant volume of trade shifts into the informal sector, a phenomenon driven primarily by the cumulative effect of Non-Tariff Barriers (NTBs), overly complex regulatory environments, and protectionist policies applied by African nations. These obstacles, as

⁹ GAPs are a set of voluntary guidelines and standards designed to ensure the safety, quality, and sustainability of agricultural products throughout the entire production process, from farm to consumer.

¹⁰ GHPs are a set of fundamental principles and procedures essential for minimizing the risk of biological, chemical, and physical contamination in food products. They are crucial for preventing the spread of diseases, ensuring product safety, and maintaining overall public health.

¹¹ Informal traders typically face exclusion from formal financial institutions due to the perception that their ventures are high-risk. This perception stems from their unregulated nature, volatile income streams, and susceptibility to external shocks, such as policy shifts, economic downturns, or natural disasters. This exclusion has fostered the emergence of informal money lenders at many African borders. These lenders primarily operate within established social, ethnic, or family networks, where loans are often based on trust and reputation rather than formal contracts.

evidenced by the significantly high ad-valorem equivalent of NTBs in Africa and numerous illustrative cases of economic protectionism (some of which have been illustrated in this paper), create strong incentives for traders to bypass formal channels. While we acknowledge that informality at African borders is a multifaceted phenomenon influenced by a range of socio-economic and institutional factors beyond just restrictions to trade, the focus herein remains on the critical role of these impediments. Despite the adaptive capacity demonstrated by African entrepreneurs in navigating these obstacles is commendable, reliance on informal cross-border trade comes with substantial economic costs.

From a governmental perspective, undeclared trade results in significant losses in tax revenue, impeding public investment and fiscal stability of African nations. Moreover, the persistence of informality perpetuates systemic inefficiencies that obstruct business formalization and growth, consequently limiting access to crucial growth-enabling factors such as formal finance. For traders, operating at informal level also exposes them to heightened risks, including exploitation and harassment. This creates a lose-lose scenario, in which neither States nor individual economic actors fully realize their potential for economic advancement.

Beyond these direct economic implications, a thriving shadow economy, particularly in borderland regions, has broader adverse societal consequences. First, the prevalence of informal labor within these economies significantly compromises labor rights. Workers engaged in the shadow economy typically lack legal protections, being deprived of entitlements such as minimum wage, occupational safety and health standards, and crucial social security protection. This precarity renders them highly vulnerable to exploitation and abuse, perpetuating cycles of poverty and insecurity. Secondly, informal operations, driven by cost-cutting imperatives, frequently bypass environmental protection regulations. This can manifest in practices such as the use of prohibited or hazardous products and packaging materials and the illicit disposal of waste, leading to environmental degradation. The lack of oversight and accountability in the shadow economy also increases consumers' exposure to products that may not meet established quality, safety, or health standards, posing direct risks to public health and safety. Finally, a thriving shadow economy at borderlands presents a significant risk of linkages to illicit financial flows and organized crime. The opacity and lack of formal transaction records in informal sectors create fertile ground for money laundering and the financing of illegal activities. This clandestine financial infrastructure can lead to a proliferation of criminal enterprises in Africa, posing broader threats to national and regional security.

Despite the conceptual framework presented in this paper, a notable deficiency has been identified in existing economic research concerning the quantification of the impact of NTBs, protectionist policies and regulatory complexity on the sustained prevalence of informal trade activities at African borderlands. The only identified assessment on the impact of NTBs on intra-regional trade stems from a 2023 EAC Regional Meeting Committee study. While this study is not publicly available, a February 2024 communiqué from TradeMark Africa referenced its findings, indicating that in 2022, NTBs reportedly imposed additional expenses of US\$16,703,970 on businesses in the region, leading to an average trade reduction of 58%. On the other hand, no quantitative studies have been conducted that specifically link protectionist policies and regulatory burdens to measurable shifts in formal trade volumes towards the informal sector, particularly in borderland regions. This gap limits the empirical substantiation of the causal link between these impediments and the expansion of ICBT.

A failure to fully understand these quantitative dynamics impedes the effective dismantlement of barriers restricting formal economic activity at African borders. Consequently, it undermines the ambitious goals of continental integration initiatives, perpetuating a suboptimal economic landscape where significant potential remains confined within the shadow economy. This identified weakness concerning direct quantitative evidence for the formal-to-informal shift establishes a clear agenda for future research: addressing this gap is imperative for developing more targeted and effective policy interventions aimed at accelerating the formalization of intra-African trade and fostering economic growth, especially in the high-intensity trade areas of African borderlands.

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