

# **Discussion Paper on the Common Simplified Trade Regime for Informal Cross Border Trade in Eastern and Southern Africa**

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**April 2013**

## EXECUTIVE SUMMARY

Regional integration has a long history in Africa, revealing that the reasons or objectives for integrating have been evolving over time. In many cases, the motivation behind regional integration was driven by the political decolonisation of Africa although some exceptions can be noted where economic motives triggered the initiative.

The Southern and Eastern regional economic communities (RECs) of the Common Market for East and Southern Africa (COMESA); the Economic African Community (EAC) and the Southern African Development Community (SADC) on 12 June 2011 signed an agreement at a Summit in Johannesburg, South Africa to launch negotiations of an expanded free trade agreement (FTA). The COMESA-EAC-SADC FTA also referred to as the tripartite FTA (TFTA) will be the continent's biggest FTA comprising of 26 countries spanning from Cape Town to Cairo with an estimated market potential of over US\$ 1 trillion.

If the Tripartite FTA is forged ahead, what structure will it take and what is required for the successful implementation of the FTA? These are some of the questions being raised. Furthermore, informal cross border trade (ICBT) which is the subject of this paper constitutes a significant proportion of regional cross-border trade in many African countries but remains largely unacknowledged in many policymaking platforms because data is not properly captured on their activities. Thus, another important question to ask is how can the envisaged TFTA address the needs and challenges that are faced by informal cross border traders (ICBTs)?

Informal cross-border trade refers to trade in legitimately produced goods and services, which escape the regulatory framework, set by the government, as such avoiding certain tax and regulatory burdens. This trade has the ability to have positive macro-economic and social ramifications. These include food security and income creation particularly for rural populations on the continent who would otherwise suffer from social exclusion. If properly harnessed, informal cross-border trade also has the potential to support Africa's on-going efforts at addressing poverty alleviation.

The objective of this paper is twofold. First, it aims to analyse and summarize existing trade regulations in the three RECs of COMESA; EAC; and SADC and establish the extent to which they support the economic activities of informal cross border traders in particular. Second, it seeks to identify challenges associated with ICBT, highlighting the plight of the informal economy, namely the extent and nature of ICBT, in selected Sub-Saharan African countries. The paper ultimately aims to raise awareness of the importance of ICBT to African economies and suggest measures that can be considered for adoption and implementation, that will ultimately promote efficient import and export-related procedures for integrating, as much as possible, informal cross-border trade into the formal economy.

**Status of the tripartite:** - At the Second Tripartite Summit in Johannesburg, Heads of State adopted a Roadmap for the establishment of the COMESA-EAC-SADC Tripartite FTA, providing the timelines for key activities relating to the negotiations and their conclusion, and the implementation of the outcomes as well as the institutional framework for the negotiations. A developmental approach to the integration process that anchors on three pillars namely; market integration; infrastructure development and industrial development was adopted. Negotiations will be in three phases, two of which are expected to be concluded within three years of signing the agreement (by June 2014). These phases which will run concurrently include market integration and infrastructure development. The movement of legitimate business people will also be negotiated during this phase. The final

phase which will look at Industrial development and other trade related measures has no time frame allocated to it.

**Extent and nature of ICBT:** - we note that prevalence of ICBT is relatively high in Africa. Research has shown that ICBT consists of a diverse group generally comprising the vulnerable, unemployed, orphans, the youth, school leavers, refugees and is also dominated mainly by women. In southern Africa, women constitute about 70% of the ICBTs. The main reason for these traders in engaging in ICBT is because it is a source of income and economic activity.

An analysis of the types of merchandise traded informally across the borders reveals that the goods are generally categorized as: (i) non-processed goods; (ii) manufactured goods; and (iii) re-exports goods. These goods are quite diverse thus emphasising the importance and economic significance of this sector. Goods originating from southern Africa mainly comprise of handicrafts, food and non-foodstuff, while in eastern Africa; Livestock also features in the tradeables.

Reasons for engaging ICBT are mainly for socio-economic reasons where opportunities for formal employment are shrinking. We note informal trade is likely to occur when:

- "important price disparities exist between formally and informally traded goods in the importing country;
- transaction costs arising from compliance with regulatory requirements are significant;
- the formal entry or exit of certain goods is obstructed;
- low law enforcement, a high degree of corruption and the requirement of facilitation payments prevail along official border posts; and finally
- cross-border trade (whether formal or informal) is likely to be influenced by the degree of availability of certain goods, the quality of road and transport infrastructure and the existence of trust-based networks among traders."

Other studies note that there is no one reason that can be attributed to the engagement of ICBT, but rather, a confluence of factors have conspired either as incentives that pull traders or as problems that push them to engage in ICBT.

We also note that because of the largely unrecorded nature of ICBT, it is difficult to estimate the accurate figures on the extent of informal cross-border trade in Africa. Literature and studies conducted on the issue have largely relied on monitoring reports of informal trade in selected countries; past OECD work on trade facilitation; and business surveys regarding the customs environment in Africa. Therefore what we get is a rough picture of the situation on the ground which is merely indicative and should be treated as such. In SADC 30-40% of total intra-SADC trade is contributed through ICBT and the average estimate value of ICBT in this particular region based on some studies conducted indicate that the figure stands at an impressive US\$17.6 billion annually. Studies conducted in east Africa; in countries such as Uganda and Tanzania depict a similar picture.

With respect to challenges, these seem to be relatively common across the three RECs under analysis. Challenges include:

- There is a proliferation of different forms of violence against ICBTs. The problem of sexual violence while acknowledged by more men than women mainly because of the stigma associated implies that women may not be open about the seriousness of this issue.
- Lack of information on regional trading agreements and protocols especially on existing tariffs, customs regulations and the needed documentation for trade means ICBTs are prone to exploitative relations with intermediaries who often distort information.

- Weak trade related services, such as the lack of banking and currency exchange services in most of the sites, leads to the informal money-changers regularly inflating the exchange rates, thus reducing the profit margins of ICBTs.
- Lack of trust between traders has meant that these traders have failed to form strong associations that can be beneficial for bargaining purposes and accessing credit facilities that would require group collateral.

The paper also highlights some positive and negative implications that arise from ICBT. While the list highlighted here is not exhaustive, these include:

- The ability to enable small-scale entrepreneurs to escape poverty and to meet the education, housing and other basic needs. This arises from the fact that ICBT is a source of employment as traders employ people in their home countries and in the countries where they source their goods. It is also a supplementary source of family income to under-employed people thus bridging the income gap that is characteristic of many African households.

On the negative implications, the following can occur:

- Informal trade creates unfair competition vis-à-vis formal traders. This is because a high incidence of informal cross-border trade is likely to lower investments in the local economy and reduce possibilities to integrate the world economy effectively, thus weakening formal private sector development and the ensuing growth prospects.
- Policy measures aimed at addressing health, safety and environmental protection are compromised by a high incidence of ICBT.

**Current and proposed provisions:** - a number of policy instruments and protocols that are relevant to the informal trade sector exist at the regional level. However, it is also important to note that while the provisions of the protocol are relevant and important for informal traders, they do not seem to adequately take account of the sector seriously and thus do not respond to its needs effectively. In most cases the protocols are silent on how informal traders or their associations can access the protocol in terms of being within the ambit of its provisions or whether they are considered as relevant actors in regional trade. In recent times, however, we are continuing to notice the recognition of ICBTs as a result of the lobbying being undertaken by cross border trading associations (CBTAs). It is no doubt, one of the reasons why the EAC adopted and is implementing the STR, just as what is happening in COMESA.

**Measures under discussion in the tripartite TFTA:-** While negotiations are currently underway, it is not known, to what extent the final agreement would take into account the needs of ICBTs. There are no explicit indicators that show whether the plight of this group of traders is part of the agenda. It is only hoped that the recent evaluation of the STR undertaken for COMESA which aims to facilitate ICBTs will put credence to the need for a regional institutional structure dedicated to ensure facilitation of trading amongst ICBTs. As the "proof is in the pudding," we can only talk of how far the negotiations have addressed the plight of ICBTs when they come to a conclusion.

**Conclusion and recommendations:** - What is clear from the paper is the fact that tangible programmes must be put in place that will ensure ICBTs are engaged at the policy level in order for governments to appreciate and understand in detail the extent and contribution that this sector can provide. Some questions that have been posed in several studies that remain relevant and worth noting in this discussion include; "What type of enabling environment is needed for ICBT? For example, in the context of how much can they be taxed without compromising compliance? What standards need to apply to them?"

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extent, challenges and implications

Under what condition can the informal sector exist with the formal sector with little hurt to the economy? Are there any proven administrative measures that have managed to get informal sector to formal sector?"

These are important questions that need to be addressed as we move forward. The questions are not new, but have been resonating amongst researchers and policy makers alike. The solution has no "one-size fits all approach." It is one that requires a step by step approach; a review of past experiences and lessons learnt. We leave these important topics for future research. However, there are a number of issues that stakeholders need to take into account. These are discussed below.

**In general**, it will be critical for African countries to establish and strengthen data collection and analytical capacities in order to effectively measure informal cross-border trade's contribution to their respective economies and design appropriate policy responses. The continent needs to create a policy, regulatory, institutional and business environment that enhances the role of informal cross-border traders, legitimises their activities (where the trade is found beneficial to the economy) and gradually mainstreams them into the formal economy.

**For ICBTs**, they need to be proactive and get organised. As a first, the ongoing establishments of ICBT associations at the national level are an important step in the right direction. Where no formal ICBT associations exist they must be established and strengthen these national ICBT associations. This is important in order to gain recognition from government and thereby enable effective dialogue to take place with their governments.

Secondly there is need to ensure that there is effective information dissemination amongst ICBTs to avoid exploitation from opportunistic intermediaries. The use of information communication technologies (ICT) such as mobile platforms for information dissemination is important as Africa has shown significant mobile penetration rates in the past decade. The development of a market information mobile platform system can assist to provide information such as exchange rates, customs requirements, commodity prices and even insurance options can be determined with ease. Furthermore, banking platforms can also ease the exchange of transactions. The regional cross border associations need to be capacitated both financially and also with the human capital.

Thirdly there is need to build capacity of their membership through structures and effective training that addresses the gaps that exist in organizational, leadership and marketing skills. Lessons can be learnt from the formal sector through the establishment of linkages with the private sector to participate in ICBT infrastructure improvement initiatives as well as build relationships.

Lastly there is need for the establishment of a formal regional Informal Cross Border Traders Forum which will be the advocacy arm for all ICBTs in the region with a mandate from national associations to speak and lobby on their behalf at the regional level. It should be able to advocate the interests of ICBTs at the respective secretariats of the RECs. The Regional ICBT Forum should establish an integrated operations centre (Secretariat) with financial support from both members and also the RECs secretariats. The Regional ICBT Forum Secretariat should also enjoy political support and be able to support activities of the regional ICBT Network.

**For governments**, the first issue will be to formally recognise ICBT and mainstream ICBT in national and regional economic policy dialogues. As economic data is important in policy formulation, governments need to strengthen or establish ICBT data collection and analytical capacities at key border points in order to gauge ICBTs contribution to the economy. Cross border policy dialogue needs to be intensified to build an understanding of local cross border Regional Integration in Southern and Eastern Africa: A review of informal cross border trade – V extent, challenges and implications

dynamics. As part of government's social responsibility, they need to improve border infrastructure such as cross border storage facilities, stalls in key border markets and checkpoints. Lack of infrastructure capacity remains a key barrier to trade. Gender issues should also be prioritised with the aim of addressing some of the pervasive constraints that afflict women. Governments also need to take an active role in the facilitation of the establishment of ICBT associations and business linkages between ICBTs and established companies. Regional trade agreements should be fully implemented and enforced, while ensuring that corrupt practices at the borders and checkpoints are eliminated.

Other measures that government can take include:

- Developing an enabling environment for ICBTs by ensuring their safety and providing trading facilities.
- Ensure easy access and availability of travel documents for ICBTs.
- Provide ICBTs with easy access to information on customs and free trade area policies and guidelines.

**For the regional economic communities**, it is time to change the way of doing business. If past experience can be a measure of future expectations, we note that there is need for a new approach. This calls for a new culture, a new ideology amongst African countries in order to complete effective economic integration. The fact that the African Union (AU) ceased recognising new RECs and encouraging the consolidation of existing RECs of which governments are complying demonstrates a strong political commitment on the part of the partner states. However, the existing RECs still have to overcome major challenges. The main challenge is the gap between the commitments and their implementation.

At this early stage, there are important lessons to take and to consider what will contribute to a successful regional economic integration arrangement. Within the building blocs – the RECs, as a first will need to empower the regional institutions and mainly the Secretariats with a clear mandate to make independent decisions guided by the Agreements. Furthermore, provide these regional institutions and secretariats with adequate resources both in terms of financial and human capital to function effectively. The recent introduction of a Community levy in CEMAC, EAC and ECOWAS is a first step to address these financial difficulties.

What will mark a turning point for African integration is when member states are committed to the development of a comprehensive rules-based integration arrangement within the consolidated RECs. Thus implying that, they will implement the provisions of the agreement, subscribe to effective monitoring of compliance and sanctions for non-compliance. The remedy lies in the outcome of the political economy that operates differently and is distinct from the past.

**Civil society** has an important role as agents of change and advocacy. Their efforts on trade facilitation can go a long way in assisting ICBT associations to established, therefore, we recommend that they include ICBTs in their national development plans. As capacity building agents, civil society can provide support to African countries to develop ICBT data collection and analytical capacities, contribute to the ongoing research on ICBT to determine the contribution of informal networks to cross-trade integration. Studies should aim at to answer some of the questions raised above and also build on existing research that has focussed on: (i) assessing the economic benefits of cross-border informal network; (ii) understanding the specific cities of border markets; and (iii) shedding light on the relationships between traders and public institutions in border areas.

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## 1 Introduction

### 1.1 Background

Regional integration has a long history in Africa, revealing that the reasons or objectives for integrating have been evolving over time. In many cases, the motivation behind regional integration was driven by the political decolonisation of Africa although some exceptions can be noted where economic motives triggered the initiative. An example of the latter is the establishment of the Southern African Customs Union (SACU) in 1910 whose primary goal was to promote economic development through regional coordination of trade.

The attainment of independence by most African countries has witnessed a new wave of regional integration initiatives which put emphasis on socio-economic integration. The shift has largely been motivated by the need for a stronger bargaining base in the global environment and for mutual benefit in the form of accelerated growth and development. Examples of agreements that highlight economic integration as one of their objectives in their Preamble include the Southern African Development Community (SADC) and the Common Market for East and Southern Africa (COMESA) Treaties. Furthermore African countries are embarking on regional integration with a view to increase intra-regional trade.

The Southern and Eastern regional economic communities (RECs) of the Common Market for East and Southern Africa (COMESA); the Economic African Community (EAC) and the Southern African Development Community (SADC) on 12 June 2011 signed an agreement at a Summit in Johannesburg, South Africa to launch negotiations of an expanded free trade agreement (FTA). The COMESA-EAC-SADC FTA also referred to as the tripartite FTA (TFTA) will be the continent's biggest FTA comprising of 26 countries spanning from Cape Town to Cairo with an estimated market potential of over US\$ 1 trillion<sup>1</sup>.

Launching of this tripartite FTA has been welcomed with mixed feelings. The benefits of an expanded FTA are undoubtedly numerous for participating countries, although in reality, some countries will stand to benefit more than others. Some of the benefits include duty free access to an enlarged market; an opportunity to simplify the Rules of Origin requirements; elimination of non-tariff barriers; increased cooperation of social and economic development projects that are otherwise impossible to implement on an individual basis. On the downside, the possibility of polarisation effects might be of concern, since the emergence of a few poles of industrialisation and the polarisation of investment towards the larger and more diversified economies of the region is possible. Furthermore, customs revenue losses will significantly affect most countries whose economies rely on this as a source of revenue.

Despite the obvious benefits and losses, the question is whether the proposed FTA will come to fruition. The idea, although quite noble faces a lot of challenges and perhaps in reality, impossible to maintain. If the Tripartite FTA is forged ahead, what structure will it take and what is required for the successful implementation of the FTA? These are some of the questions being raised. Furthermore, informal cross border trade (ICBT) which is the subject of this paper constitutes a significant proportion of regional cross-border trade in many

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<sup>1</sup>Communique' of the 2nd COMESA-EAC-SADC Tripartite Summit June 2011.

African countries but remains largely unacknowledged in many policymaking platforms because data is not properly captured on their activities. Thus, another important question to ask is how can the envisaged TFTA address the needs and challenges that are faced by informal cross border traders (ICBTs)?

For the purposes of this analysis, informal cross-border trade refers to trade in legitimately produced goods and services, which escape the regulatory framework, set by the government, as such avoiding certain tax and regulatory burdens (Lesser and Moisé-Leeman, 2008). This trade has the ability to have positive macro-economic and social ramifications. These include food security and income creation particularly for rural populations on the continent who would otherwise suffer from social exclusion. If properly harnessed, informal cross-border trade also has the potential to support Africa's on-going efforts at addressing poverty alleviation.

Given the fact that an expanded RTA may be difficult to coordinate the rationalisation of the differing policies, it is imperative that a policy framework for eastern and southern Africa is developed that addresses the challenges of ICBT in the existing trade regimes under the RECs of COMESA, SADC and EAC.

## **1.2 Objective and structure of the paper**

The objective of this paper is twofold. First, it aims to analyse and summarize existing trade regulations in the three RECs of COMESA; EAC; and SADC and establish the extent to which they support the economic activities of informal cross border traders in particular.

Second, it seeks to identify challenges associated with ICBT, highlighting the plight of the informal economy, namely the extent and nature of ICBT, in selected Sub-Saharan African countries.

The paper ultimately aims to raise awareness of the importance of ICBT to African economies and suggest measures that can be considered for adoption and implementation, that will ultimately promote efficient import and export-related procedures for integrating, as much as possible, informal cross-border trade into the formal economy.

The paper is organised as follows: Section 2 provides the main issues of this study that are categorised into three subcategories. It first provides an overview of the status of the tripartite process and the negotiations of the free trade area (sub-section 2.1); it then highlights the extent and nature of ICBT in Southern and Eastern Africa (sub-section 2.2); and, finally the current and proposed provisions to help promote informal cross-border trade (sub-section 2.3). Section 3 provides conclusions and policy recommendations.

## 2 Main Issues

This section forms the core of the paper and covers three main important aspects that are relevant in our discussion on ICBT in Southern and Eastern Africa. These are the status of the tripartite negotiations; the extent of ICBT and finally the current initiatives and proposals aimed at addressing the plight of ICBTs at the regional level. These issues are discussed in detail below.

### 2.1 Overview of the status of the tripartite process and the negotiations of the free trade area<sup>2</sup>

At the Second Tripartite Summit in Johannesburg, Heads of State adopted a Roadmap for the establishment of the COMESA-EAC-SADC Tripartite FTA, providing the timelines for key activities relating to the negotiations and their conclusion, and the implementation of the outcomes as well as the institutional framework for the negotiations. A developmental approach to the integration process that anchors on three pillars namely; market integration; infrastructure development and industrial development was adopted. Negotiations will be in three phases, two of which are expected to be concluded within three years of signing the agreement (by June 2014). These phases which will run concurrently include market integration and infrastructure development. The movement of legitimate business people will also be negotiated during this phase. The final phase which will look at Industrial development and other trade related measures has no time frame allocated to it.

According to the Roadmap, the pre-negotiations preparatory period before the commencement of formal negotiations on trade in goods and the movement of business persons had to be concluded by the June 2012. The timeframes in the Roadmap have not been fully adhered to. Nonetheless, preparatory work is on-going within the adopted negotiation institutional framework in order to complete negotiations by 2014.

The Tripartite FTA will be negotiated within the following institutional framework:

- Tripartite Heads of State and Government,
- Tripartite Council of Ministers,
- Tripartite Sectoral Ministerial Committees,
- Tripartite Committee of Senior Officials,
- Tripartite Trade Negotiation Forum (TTNF).

With regard to the negotiations on tariffs, the negotiating principle of building on the “acquis” of the existing REC FTAs in terms of consolidating tariff liberalisation in each REC FTA is understood to mean that negotiations on tariff liberalisation “should start from the point at which each of the COMESA, EAC and SADC trade regimes have reached. Furthermore tariff negotiations and the exchange of tariff concessions would be among Member / Partner States of the Tripartite FTA that currently have no preferential arrangement in place among them.”

It is believed that this approach will both preserve the “acquis” and build on it. In other words, Member / Partner States already participating in FTAs are encouraged to extend the highest level of tariff liberalisation achieved in their RECs to all other Tripartite Member

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<sup>2</sup> Except taken from Cronje, J.B. 2012. *Update on Preparations for Tripartite FTA Negotiations*. tralac Hot Seat Comment, Stellenbosch.

States. In this regard, three groups of countries can be identified for the negotiations on tariff liberalisation, namely:

- Member / Partner States that are already participating in the REC FTA with each other.
- Member / Partner States that are participating in the REC FTA but will have to negotiate tariff liberalisation with other Tripartite Member / Partner States of the other REC FTAs.
- Member / Partner States that are not participating in the REC FTA.

The combined membership of the three RECs is 26, of which 10 states are expected to negotiate as two blocs of 5 countries each. The Member States of the two customs unions (EAC and Southern African Customs Union) in the region will make common offers and receive common requests. The 16 remaining countries are separate customs territories and will negotiate individually but nothing prevents any two or more countries from collaborating, formulating and taking common negotiating positions as "like-minded countries".

In addition, it was proposed that the threshold for substantial liberalisation under the Tripartite FTA should be 100% product coverage to be implemented in three phases (60% tariff liberalisation in year 1, 30% in year 2 and 10% in year 3) within 3 years after entry into force of the Tripartite FTA Agreement. The Member States are required to undertake national / regional consultations on these draft modalities for tariff negotiations and submit comments to the Tripartite Task Force before the end of October 2012<sup>3</sup>.

## **2.2 Overview of the Extent and Nature of Informal Cross-Border Trade in Southern and Eastern Africa**

It is undeniable that the prevalence of ICBT is relatively high in Africa. Research has shown that ICBT consists of a diverse group generally comprising the vulnerable, unemployed, orphans, the youth, school leavers, refugees and is also dominated mainly by women. In Southern Africa, women constitute about 70% of the ICBTs (Afrika and Ajumbo, 2012). The main reason for these traders in engaging in ICBT is because it is a source of income and economic activity.

### *Key characteristics*

According to Ogalo (2010), ICBT is no longer as was traditionally perceived, but currently involves both informal and formal firms. These firms are small and big in size; their trade involves small as well as big consignments passed across official border crossing points. The form of ICBT practiced by formal firms usually involves big consignments while small volumes that are frequently passed across the borders by informal firms and individuals when added together also constitute significant quantities. Furthermore, while informal firms engaging in ICBT do operate entirely outside the formal economy, formal firms that are involved, may be either fully evading trade-related regulations and duties by passing their

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<sup>3</sup> Outcomes from these consultations were not readily available to the author at the time of preparing this paper.

commodities through “unofficial routes” or are partially evading trade-related regulations and duties even as they pass their goods through official routes.

An analysis of the types of merchandise traded informally across the borders reveals that the goods are generally categorized as: (i) non-processed goods; (ii) manufactured goods; and (iii) re-exports goods. Table 1 below shows, the respective regions, types of goods trade and the value range of the goods traded. From this table, we note that Southern Africa mainly trades handicrafts, food and non-foodstuff, while in Eastern Africa; Livestock also features in the tradeables. Furthermore, the table reveals that the goods are quite diverse and hence emphasising the importance and economic significance of this sector.

**Table 1: ICBT product portfolio**

Regions	Non-Processed Goods	Manufactured Goods	Re-Exports	Estimate Value of Goods
Eastern Africa	Food and non-foodstuff; Livestock	Low quality manufactured and processed goods	Low quality goods from Asia, contrabands, counterfeits and substandard goods	US\$50- US\$1,000
West Africa	Food and non-foodstuff; Livestock.			
Central Africa	Minerals; Jewellery; Forest products; Food and non-food stuff			
Southern Africa	Handicrafts; Food and non-foodstuff.			

Source: Adapted from Afrika and Ajumbo (2012)

### *Why engage in ICBT*

Makombe (2011) notes that people in the region are being drawn to it because of the changing socio-economic environment, where opportunities for formal employment are shrinking. Thus the informal sector has become an important component of national economies in the region and a major contributor to their socio-economic progress. Lesser and Moisé-Leeman (2008) provide a number of reasons for engaging in ICBT. They note that informal trade is likely to occur when:

- “important price disparities exist between formally and informally traded goods in the importing country;
- transaction costs arising from compliance with regulatory requirements are significant;
- the formal entry or exit of certain goods is obstructed;
- low law enforcement, a high degree of corruption and the requirement of facilitation payments prevail along official border posts; and finally

- cross-border trade (whether formal or informal) is likely to be influenced by the degree of availability of certain goods, the quality of road and transport infrastructure and the existence of trust-based networks among traders.”

Ogalo (2010) notes that there is no one reason that can be attributed to the engagement of ICBT, but rather, a confluence of factors have conspired either as incentives that pull traders or as problems that push them to engage in ICBT. Despite the fact that may be, an important aspect to note is that ICBT is an attractive option for many traders and if properly structured can have positive macroeconomic and socio-economic benefits such as food security and income creation particularly for rural populations and help the fight against poverty in Africa.

#### *Magnitude of informal cross-border trade*

Due to the largely unrecorded nature of ICBT, it is difficult to estimate the accurate figures on the extent of informal cross-border trade in Africa. Literature and studies conducted on the issue have largely relied on monitoring reports of informal trade in selected countries; past OECD work on trade facilitation; and business surveys regarding the customs environment in Africa. Therefore what we get is a rough picture of the situation on the ground which is merely indicative and should be treated as such. In most instances this picture is an underestimate of the actual situation as most evaluations and surveys have mainly focussed on large and popular border crossing points rather than systematic attempts to monitor informal cross-border trade in the entire region. Cognisance of this, it is worth noting what estimates or picture is depicted with respect to the size of this particular market.

According to Lesser and Moisé-Leeman, (2008) findings from all reviewed surveys, independent of the methodology used, suggest that informal cross-border trade still represents a significant proportion of regional cross-border trade in Sub-Saharan Africa. Afrika and Ajumbo, (2012) note that in SADC 30-40% of total intra-SADC trade is contributed through ICBT and the average estimate value of ICBT in this particular region based on some studies conducted indicate that the figure stands at an impressive US\$17.6 billion annually. Studies conducted in East Africa; in countries such as Uganda and Tanzania depict a similar picture. According to Ogalo (2010), the informal economy in EAC, as with the rest of African countries, is largely comprised of micro, small and medium-scale enterprises (MSMEs) that are seen as semi-organised and unregulated. In Kenya, these enterprises are responsible for employment of 7.5 million people or 80% of the country's total employment outside small-scale agriculture.

#### *Challenges being experienced by ICBTs in the three regional economic communities*

Despite the fact that ICBT has become and remains an attractive option for many African households, it is not without its challenges. Several studies have highlighted some of these challenges which are relatively common across the three RECs under analysis. One study – UN Women (2012) identifies the following challenges:

- There is a proliferation of different forms of violence against ICBTs. The problem of sexual violence while acknowledged by more men than women mainly because of the stigma associated implies that women may not be open about the seriousness of this issue.
- Lack of information on regional trading agreements and protocols especially on existing tariffs, customs regulations and the needed documentation for trade means ICBTs are prone to exploitative relations with intermediaries who often distort information.
- Weak trade related services, such as the lack of banking and currency exchange services in most of the sites, leads to the informal money-changers regularly inflating the exchange rates, thus reducing the profit margins of ICBTs.
- Lack of trust between traders has meant that these traders have failed to form strong associations that can be beneficial for bargaining purposes and accessing credit facilities that would require group collateral.

Other studies including findings from a workshop on ICBT hosted by the Southern Africa Trust and the Economic Justice Network in 2008 also identified in addition to those listed above, the following as typical challenges:

- Instability of families often due to long absence from home by either spouse;
- Difficulties in obtaining passports and visas;
- Refusal of entry in countries that may not require visas;
- Unwarranted impounding of goods;
- Humiliating body searches;
- Limited access to formal credit schemes;
- Lack of reliable transport; and
- Unfavourable policy and regulatory environment.

#### *Likely implications*

As already noted, the significance of ICBT cannot be ignored. There is scope for ICBT to contribute positively to enhance the socio-economic situation in Africa. The challenge is on the appropriate measures that need to be adopted and put in place for this to materialise. Several studies have identified some positive and negative implications that arise from ICBT. While the list highlighted here is not exhaustive, it is worth highlighting some common and important ones. With respect to the positives these include<sup>4</sup>:

- The ability to enable small-scale entrepreneurs to escape poverty and to meet the education, housing and other basic needs. This arises from the fact that ICBT is a source of employment as traders employ people in their home countries and in the countries where they source their goods. It is also a supplementary source of family income to under-employed people thus bridging the income gap that is characteristic of many African households.
- Consumers benefiting from lower priced informally imported products since they evade a lot of costs. In certain instances, this has placed competitive pressure on firms operating in the formal sector, thus promoting price efficiency especially where formal sector companies were making supra-normal profits.

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<sup>4</sup> Ibid.

On the negative implications, several authors including Ogalo (2010); OECD (2002); and Lesser and Moisé-Leeman, (2008) highlight the following:

- Informal trade creates unfair competition vis-à-vis formal traders. This is because a high incidence of informal cross-border trade is likely to lower investments in the local economy and reduce possibilities to integrate the world economy effectively, thus weakening formal private sector development and the ensuing growth prospects.
- Policy measures aimed at addressing health, safety and environmental protection are compromised by a high incidence of ICBT. For example agricultural commodities which are traded informally escape sanitary and phytosanitary controls which are conducted at the border, and can thus reduce the effectiveness of control efforts governments have put in place to ensure adequate food safety at home and avoid the proliferation of human, animal and plant diseases across borders (In South Africa, the Citrus industry is currently under threat as the major export market the EU has recorded a high incidence of fruit fly in the consignments originating from South Africa which may lead to a ban in exports and substantial foreign revenue losses).
- Government revenue loses in unpaid duties and custom taxes, not to mention the losses in foreign exchange receipts implies that government has limited resources to effectively role out public goods and services.
- Finally, lack of accurate official data may hinder the effective formulation, implementation and monitoring of domestic, regional and international trade policies and negatively affect the negotiation of trade agreements.

### **2.3 Current and Proposed Provisions to Help Promote Informal Cross-border Trade**

While we have identified some challenges faced by ICBTs in the region and some of the implications, it is important to note that there are a number of policy instruments and protocols that are relevant to the informal trade sector exist at the regional level. However, it is also important to note that while the provisions of the protocol are relevant and important for informal traders, they do not seem to adequately take account of the sector seriously and thus do not respond to its needs effectively. In most cases the protocols are silent on how informal traders or their associations can access the protocol in terms of being within the ambit of its provisions or whether they are considered as relevant actors in regional trade (Makombe, 2011). Below a review of the relevant protocols in the three RECs is undertaken, highlighting the extent to which ICBT issues are factored in the provisions.

#### ***COMESA***

Signed on 5 November 1993 and ratified on 8 December 1994 the COMESA Treaty is the constitutive document establishing COMESA and the framework from which all subsequent instruments derive its legitimacy. All Annexes to the Treaty form an integral part of the Treaty.

Article 3 of the Treaty provides the aim and objectives of COMESA which among others is to:

“to promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programmes to raise the standard of living of its peoples and to foster closer relations among its Member States.”

Furthermore, recognition that small traders play an important role in the region as they are responsible for the bulk of intra-COMESA food trade has led to COMESA encouraging these traders to form associations that could engage governments and ensure that they receive the necessary assistance to be able to participate more effectively in the Free Trade Area (FTA). The first Regional Cross Border Traders Association (CBTA) was created in Zambia in 1997 and this acted as a harbinger for creation of similar institutions, which are now in existence in Malawi and Zimbabwe albeit at various stages of maturity (DPC, 2010).

To date, COMESA has established a system to facilitate ICBTs by implementing simplified trade formalities for small traders allowing them to enjoy duty free access with simplified documents. This is what is now known as the Simplified Trade Regime (STR) and a closer look at this system will be discussed in detail in the next sub-section.

### ***EAC***

The Treaty for Establishment of the East African Community was signed on 30th November 1999 and entered into force on 7 July 2000. The EAC aims at widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit. To this extent the EAC countries established a Customs Union in 2005 and are working towards the establishment of a Common Market through to a Monetary Union by 2012<sup>5</sup> and ultimately a Political Federation of the East African States.

The objectives of the EAC as set out in Article 5.1 of the Treaty aim to:

“...develop policies and programmes aimed at widening and deepening co-operation among the Partner States in political, economic, social and cultural fields, research and technology, defence, security and legal and judicial affairs, for their mutual benefit.”

While some aspects of integration are taking place since the launch of the EAC Customs Union (CU), especially, through official efforts aimed at strengthening of institutions and business environment to enhance formal cross-border trade interactions, these same, efforts are also prominent by their glaring lack of recognition of informal cross-border traders or measures to keep track of informal trading (Ogalo, 2010).

In recent times, however, we are continuing to notice the recognition of ICBTs as a result of the lobbying being undertaken by CBTAs. It is no doubt, one of the reasons why the EAC adopted and is implementing the STR, just as what is happening in COMESA. This issue will also be discussed in the next sub-section.

### ***SADC***

Politically, SADC adheres to an agenda that extends well beyond the target of achieving a free-trade area that was agreed upon by the member states. As already noted, explicit

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<sup>5</sup> As common in most RECs in Africa, the 2012 deadline was missed and member states are continuing with negotiations towards this target.

mention of addressing ICBT is not specifically mentioned in the provisions, Article 5.1.1 of the SADC Treaty however, as one of the objectives among others aims to:

“Develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the peoples of the region generally, among Member States.”

Accompanying the Treaty is a number of Protocols that aim to enhance the goals of the SADC. The SADC Trade Protocol however, is arguably the most important legal instrument of SADC. This protocol aims to enhance cross-border investment by liberalising intra-regional trade. The objective is the implementation of a SADC FTA; therefore the Protocol contains all the obligations member states need to observe in order for the regional arrangement to be compatible with WTO rules. Pushing the agenda of SADC are ambitious targets set out in the Regional Indicative Strategic Development Plan (RISDP) of 2003. Although the RISDP is not a legally binding agreement, it enjoys political legitimacy.

On the issue of ICBT, the RISDP acknowledges this as a challenge of the existing trade policies and strategies and notes that “The other challenge is in developing new policies and strategies that would target vulnerable groups such as the rural and urban poor, small businesses, informal operators and women to ensure that they take advantage of the policies” (RISDP, 2003; 25). Makombe (2011) notes that the lack of convergence in SADC Member States’ external tariff and trade policies is also a threat to mutual cooperation and becomes unnecessarily unwieldy for ICBTs. What further complicates the situation is the fact that most SADC countries belong to more than one regional trade block. These regional trade blocs do not necessarily have similar aims, and their overlapping membership makes life difficult for ICBTs who would prefer harmonization in the trading regime.

### ***Measures under discussion in the COMESA–EAC-SADC Negotiation Group***

Since the launch of the Tripartite Free Trade Area in June 2010, the Tripartite Negotiating Forum (TTNF) has met five times<sup>6</sup>. Its first meeting of December 2011 adopted the Tripartite Negotiating Forum rules of procedure and terms of reference. The forum also established three technical working groups to negotiate specialised themes, such as customs and transit, barriers to trade, sanitary and phyto-sanitary standards and non-tariff barriers. Negotiations are focussing on the architecture and design of the tripartite FTA in terms of trade preferences, product coverage, simplification of trade procedures and documentation through trade facilitation.

In the last meeting negotiators from the three RECs were expected to finalise and adopt the tariff negotiation modalities; review of the work plan of the TTNF, particularly the negotiating schedule; and review of the reports of the technical working groups, according to a statement from COMESA. As it stands the tripartite FTA negotiations are behind schedule by some 12 months according to the regional block’s senior trade advisor James Musonda.<sup>7</sup> According to Musonda, the next Lusaka meeting will be the sixth negotiating session out of an agreed total of 10 sessions. He noted that “The Livingstone meeting is, therefore, being seen as a make-or-break session for the negotiations, and it is proposed

<sup>6</sup> Last meeting held in December 2012 in Cairo Egypt. The next meeting will be held this in February 2013 in Lusaka, Zambia.

<sup>7</sup> See: <http://www.trademarksa.org/news/comesa-sadc-eac-talks-overdue>

that the negotiations must be based on a draft text of a tripartite FTA agreement prepared by experts from the COMESA, EAC and SADC secretariats in 2009.”

While negotiations are currently underway, it is not known, to what extent the final agreement would take into account the needs of ICBTs. There are no explicit indicators that show whether the plight of this group of traders is part of the agenda. It is only hoped that the recent evaluation of the STR undertaken for COMESA which aims to facilitate ICBTs will put credence to the need for a regional institutional structure dedicated to ensure facilitation of trading amongst ICBTs. As the “proof is in the pudding,” we can only talk of how far the negotiations have addressed the plight of ICBTs when they come to a conclusion. Below in Box 1, we explain how the STR in COMESA and EAC works and some of the shortfalls identified.

### ***Simplified trade regimes for low value transactions***

In 2007, the RECs of COMESA and EAC, launched a simplified trade regime (STR) for selected types of commodities whereby small-scale traders benefit from a Simplified Customs Document and a Simplified Certificate of Origin, under which goods that are originating from member countries and whose value does not exceed USD 500 per consignment, qualify automatically for duty-free entry in the respective markets. The Certificate is issued at the border posts, to enable traders located in remote areas to benefit from the regime (Lesser and Moisé-Leeman, 2008).

#### **Box 1: COMESA Simplified Trade Regime**

At the COMESA Business Summit and Exhibition held in Kigali, Rwanda on May 2007, Ministers agreed to introduce a "Simplified COMESA Trade Regime", which would first apply to maize, rice, beans and traditional food crops such as cassava, as well as cotton and dairy products (i.e., “common list of eligible products”).

Under the simplified system, consignments of US\$500 or below which are produced in the region will be exempt from the normal rules of origin requirements. In addition, traders will be able to use a simplified "certificate of origin" and "customs document". This initiative is intended to facilitate “formal” agricultural trade in the region and reduce the incidence of informal cross-border trade, which still captures a high share of intra-COMESA trade.

The Simplified Trade Regime was first be implemented on a pilot basis in a 10 selected countries and border posts (Burundi, DR of Congo, Ethiopia, Kenya, Malawi, Rwanda, Sudan, Uganda, Zambia and Zimbabwe). It was expected that after the completion of the pilot phase in late 2008, the implementation of the Regime would extend to all COMESA countries. To date, The STR initiative has now been launched and is being implemented between three bordering countries of Zambia, Malawi and Zimbabwe. The CBTAs with support from the CBT REFORM project have also established Trade Information Desks (TIDs) on all main borders in order to help traders with information and filling of forms under the STR.

A dedicated website has been developed as a ‘resource’ to help cross border traders in Eastern and Southern Africa to find an association near to them, to voice their opinions and explain what COMESA is doing in improving conditions for small cross border traders. It also helps cross border traders to find the National Focal Points representing the CBT Desk (REFORM) in member states. National Focal Points act as link for effective communication and feedback between CBT Desk (REFORM) and its key stakeholders at the national level.

Source: Excerpt taken from Lesser and Moisé-Leeman (2008); DPC (2010); and <http://cbtcomesa.com/>

### 3 CONCLUSIONS AND POLICY RECOMMENDATIONS

This section provides a brief summary of the key messages from the preceding sections. It discusses in greater detail what the respective stakeholders can do to address some of the challenges and implications of the findings. We consider what can be done by i) the informal cross border traders; ii) governments at national level; iii) regional economic communities; and finally by iv) civil society groups.

#### *Summary*

The paper is a discussion of the importance of ICBT in Southern and Eastern Africa. It was motivated by the need to identify measures that can be put in place to address the plight of ICBTs through regional integration.

The proposed tripartite FTA provides an opportunity to include on the negotiating agenda possible measures that can mitigate the exploitation of ICBTs, enhance their trading capacity and incorporate them at least in part into the formal economy. Such measures have positive benefits for i) the ICBTs who are currently facing serious challenges; ii) formal firms facing unfair competition; and iii) also for governments who are losing revenue and have their ability to develop appropriate policies curtailed as a result of inadequate information about ICBT.

Firstly, the paper discussed briefly status of the TFTA and the key point to take note is that while the negotiations are underway and the work of the tripartite negotiating forum is cut out, we are already seeing a typical familiar trend that is inherent of RECs in the region, where ambitious timeframes and deadlines are set but are always missed. From the limited information coming out of the meetings, it seems plausible at this stage to not that the target for completion of negotiations by June 2014 may be too ambitious. The forthcoming negotiating meeting in Zambia (April, 2013) will shed light on whether this target will be met.

Secondly, the paper also explored the nature and extent of ICBT in the region and interestingly, the importance and significance of the ICBT sector cannot be overemphasised. This type of trade is providing a livelihood for a significant population group in the respective countries. If harnessed properly ICBT has the potential to support Africa's on-going efforts at addressing poverty alleviation.

Finally another important issue the paper discussed is the current and proposed initiatives that the RECs are currently exploring in their quest to address the plight of ICBTs. Within the TFTA negotiations, there seems to be no indication of whether ICBT is currently being factored in the negotiations. This will only be clear once the negotiations are completed and this may be too late. Within the individual RECs we note that COMESA and EAC have implemented a simplified trade regime (STR) for ICBTs. It is anticipated that the evaluation undertaken by COMESA on the STR will form part of the negotiations in the TFTA.

What is clear from the paper is the fact that tangible programmes must be put in place that will ensure ICBTs are engaged at the policy level in order for governments to appreciate and understand in detail the extent and contribution that this sector can provide. Some questions that have been posed in several studies that remain relevant and worth noting in this discussion include; “What type of enabling environment is needed for ICBT? For example, in the context of how much can they be taxed without compromising compliance? What standards need to apply to them? Under what condition can the informal sector exist with the formal sector with little hurt to the economy? Are there any proven administrative measures that have managed to get informal sector to formal sector?<sup>8</sup>”

These are important questions that need to be addressed as we move forward. The questions are not new, but have been resonating amongst researchers and policy makers alike. The solution has no “one-size fits all approach.” It is one that requires a step by step approach; a review of past experiences and lessons learnt. We leave these important topics for future research. However, there are a number of issues that stakeholders need to take into account. These are discussed below.

**In general**, it will be critical for African countries to establish and strengthen data collection and analytical capacities in order to effectively measure informal cross-border trade’s contribution to their respective economies and design appropriate policy responses. The continent needs to create a policy, regulatory, institutional and business environment that enhances the role of informal cross-border traders, legitimises their activities (where the trade is found beneficial to the economy) and gradually mainstreams them into the formal economy.

**For ICBTs**, they need to be proactive and get organised. As a first, the ongoing establishments of ICBT associations at the national level are an important step in the right direction. Where no formal ICBT associations exist they must be established and strengthen these national ICBT associations. This is important in order to gain recognition from government and thereby enable effective dialogue to take place with their governments.

Secondly there is need to ensure that there is effective information dissemination amongst ICBTs to avoid exploitation from opportunistic intermediaries. The use of information communication technologies (ICT) such as mobile platforms for information dissemination is important as Africa has shown significant mobile penetration rates in the past decade. The development of a market information mobile platform system can assist to provide information such as exchange rates, customs requirements, commodity prices and even insurance options can be determined with ease. Furthermore, banking platforms can also ease the exchange of transactions. The regional cross border associations need to be capacitated both financial and also with the human capital.

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<sup>8</sup>Ibid

Thirdly there is need to build capacity of their membership through structures and effective training that addresses the gaps that exist in organizational, leadership and marketing skills. Lessons can be learnt from the formal sector through the establishment of linkages with the private sector to participate in ICBT infrastructure improvement initiatives as well as build relationships.

Lastly there is need for the establishment of a formal regional Informal Cross Border Traders Forum which will be the advocacy arm for all ICBTs in the region with a mandate from national associations to speak and lobby on their behalf at the regional level. It should be able to advocate the interests of ICBTs at the respective secretariats of the RECs. The Regional ICBT Forum should establish an integrated operations centre (Secretariat) with financial support from both members and also the RECs secretariats. The Regional ICBT Forum Secretariat should also enjoy political support and be able to support activities of the regional ICBT Network.

**For governments**, the first issue will be to formally recognise ICBT and mainstream ICBT in national and regional economic policy dialogues. As economic data is important in policy formulation, governments need to strengthen or establish ICBT data collection and analytical capacities at key border points in order to gauge ICBTs contribution to the economy. Cross border policy dialogue needs to be intensified to build an understanding of local cross border dynamics. As part of government's social responsibility, they need to improve border infrastructure such as cross border storage facilities, stalls in key border markets and checkpoints. Lack of infrastructure capacity remains a key barrier to trade. Gender issues should also be prioritised with the aim of addressing some of the pervasive constraints that afflict women. Governments also need to take an active role in the facilitation of the establishment of ICBT associations and business linkages between ICBTs and established companies. Regional trade agreements should be fully implemented and enforced, while ensuring that corrupt practices at the borders and checkpoints are eliminated.

Other measures that government can do include:

- Developing an enabling environment for ICBTs by ensuring their safety and providing trading facilities.
- Ensure easy access and availability of travel documents for ICBTs.
- Provide ICBTs with easy access to information on customs and free trade area policies and guidelines.

**For the regional economic communities**, it is time to change the way of doing business. If past experience can be a measure of future expectations, we note that there is need for a new approach. This calls for a new culture, a new ideology amongst African countries in order to complete effective economic integration. The fact that the African Union (AU) ceased recognising new RECs and encouraging the consolidation of existing RECs of which governments are complying demonstrates a strong political commitment on the part of the partner states. However, the existing RECs still have to overcome major challenges. The main challenge is the gap between the commitments and their implementation.

At this early stage, there are important lessons to take and to consider what will contribute to a successful regional economic integration arrangement. Within the building blocs – the RECs, as a first will need to empower the regional institutions and mainly the Secretariats with a clear mandate to make independent decisions guided by the Agreements. Furthermore, provide these regional institutions and secretariats with adequate resources both in terms of financial and human capital to function effectively. The recent introduction of a Community levy in CEMAC, EAC and ECOWAS is a first step to address these financial difficulties.

What will mark a turning point for African integration is when member states are committed to the development of a comprehensive rules-based integration arrangement within the consolidated RECs. Thus implying that, they will implement the provisions of the agreement, subscribe to effective monitoring of compliance and sanctions for non-compliance. The remedy lies in the outcome of the political economy that operates differently and is distinct from the past.

**Civil society** has an important role as agents of change and advocacy. Their efforts on trade facilitation can go a long way in assisting ICBT associations to established, therefore, we recommend that they include ICBTs in their national development plans. As capacity building agents, civil society can provide support to African countries to develop ICBT data collection and analytical capacities, contribute to the ongoing research on ICBT to determine the contribution of informal networks to cross-trade integration. Studies should aim at to answer some of the questions raised above and also build on existing research that has focussed on: (i) assessing the economic benefits of cross-border informal network; (ii) understanding the specific cities of border markets; and (iii) shedding light on the relationships between traders and public institutions in border areas.

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