

The realities of cross-border trade between Sierra Leone and its neighbours



In brief

- It is increasingly recognised that Informal Cross Border Trade in Africa and in particular, the Mano River Union (MRU) countries is critical owing to its broader impact on the economies of these countries.
- This brief analyses the extent of informal cross border trade, particularly in terms of the volume, value, direction, and composition of imports and exports in the MRU.
- The researchers find a large level of informal trade exists within the MRU largely due to a weak trade facilitation process along the main borders, making trading along the formal borders lengthy and costly.
- The researchers make a series of policy recommendations that policymakers can implement in the short- and long-term that will simplify trade along borders and ultimately reduce the amount of untaxed trade along borders.

This project was funded by IGC Sierra Leone

Background and context

It is increasingly recognised that Informal Cross Border Trade (ICBT) in Africa and in particular, the Mano River Union (MRU)¹ countries is critical owing to its broader impact on the economies of these countries. The communities within the territorial boundaries of the MRU share a lot in common both culturally and socially. They speak the same or similar languages, live in inter-marriage unions, and own land on either side of the borders. The traders engage in the buying and selling of assorted products ranging from food items to electronic appliances to earn a living. This alone provides an incentive to these communities to engage in Informal Cross Border Trade (ICTB) to exploit available opportunities on either sides of the border.

Informal trade takes different forms and is known under different names², however in this brief, informal trade is used to refer to imports and exports of legitimately produced goods and services (i.e., legal goods and services), which directly or indirectly escape from the regulatory framework for taxation and other procedures set by the government, and often go unrecorded or incorrectly recorded into official national statistics of the trading countries. Informal trade thus refers to goods traded by formal and informal firms that are unrecorded on official government records and that fully or partly evade payment of duties and charges. Such goods include commodities that pass through unofficial routes and avoid customs controls, as well as goods that pass through official routes with border crossing points and customs offices yet involve illegal practices. Such practices can comprise *under-invoicing* (i.e., reporting a lower quantity, weight or value of goods to pay lower import tariffs), misclassification (i.e., falsifying the description of products so that they are misclassified as products subject to lower tariffs), mis-declaration of the country of origin, or bribery of customs officials (see Figure 1).

Figure 1: Types of informal cross-border trade

Type A	Informal (unregistered) traders or firms operating entirely outside the formal economy
Type B	Formal (registered) firms fully evading trade-related regulations and duties (e.g., avoiding official border crossing posts)
Type C	Formal (registered) firms partially evading trade-related regulations and duties by resorting to illegal practices (e.g., under-invoicing)

Source: OECD Trade Policy Working Paper No. 86, 2009.

1. The Mano River Union is a sub-regional economic and political union comprising of Guinea, Liberia, Sierra Leone, and Cote d'Ivoire.

2. For example, unrecorded trade, illegal trade, unofficial trade, underground trade, part of parallel market activity, the activities of black market, trade subject of over-and under-invoicing, smuggling or hoarding.

There is a prevalent conviction among most African economies that ICBT should be criminalised due to its negative impacts on their economies. These African economies hold such view because of their failure to understand and fix the underlying conditions of ICBT and its potential impact on national and regional economies. On a more positive note, ICBT can in the *short-to medium-term* encourage entrepreneurial activity and regional trade (which is currently marginal in the formal economy of the continent)³, contribute to greater food security (in food-importing countries suffering from food deficit), and enhance income earnings and employment opportunities for poor households (particularly for women) in importing and exporting countries (FEWSNET-WFP, 2007) who would otherwise suffer from social exclusion. ICBT also benefits consumers by increasing the availability of goods at affordable prices.

However, whilst informal trade practice may provide short-term solutions to poor households, in the long-run it can seriously challenge the economic development of a country. The ICBT creates unfair competition vis-à-vis formal traders, reduces the incentives to invest in the formal economy, and lowers business opportunities in regional and global markets, which diminishes the prospects for private sector and overall economic development. The practice is recognised to lower the efficiency of measures put in place to ensure health, safety, and environmental protection. Agricultural commodities which are often traded informally, for example, escape sanitary and phytosanitary controls meant to ensure adequate food safety at home and avoid proliferation of diseases across borders (Lesser, C and Moise-Leeman, E, 2009). Such practices also erode government revenue and leads to unreliable external trade statistics which might hinder the formulation of appropriate trade and macroeconomic policies.

Whilst the existence of informal realities at the borders is increasingly recognised, few efforts (DTIS, 2013, FEWSNET, 2017) have been made to systematically study how they function or to understand differences across population group and locations within the MRU. In recognition of the dire need for reliable trade data to monitor and evaluate the impact of trade policies on investment in Sierra Leone, and consistent with its mandate of trade promotion and facilitation the Sierra Leone Investment Promotion Agency (SLIEPA) engaged the IGC to undertake a study on cross border trade with a particular focus on agricultural products which are typically traded, processed and consumed in the MRU. This was envisioned as a pilot study though produced interesting results, one capable of directing national and intraregional trade policy reform. The pilot study⁴ found a number of results that overturned perceptions policy makers in Sierra Leone had in several areas, which led to demand for this larger project to elaborate on the pilot findings.

3. It is estimated that official intra-African trade accounts for about 10% of total Africa exports and imports (Keane, J.M. Cali, and Kennan, J., 2010).

4. See IGC Working Paper 2015 reference number F-39303-SLE-1

This study therefore is in response to the Sierra Leone Investment and Export Promotion Agency's (SLIEPA) and the Ministry of Finance and Economic Planning request for a comprehensive and reliable trade data (particularly for agricultural commodities) across the land borders between Sierra Leone and its neighbours. This could be used to assess the impact of government policies on trade, the extent to which the country's trade balance is underestimated and the quantum of revenue government is losing due to informal activities at the borders.

Research objectives

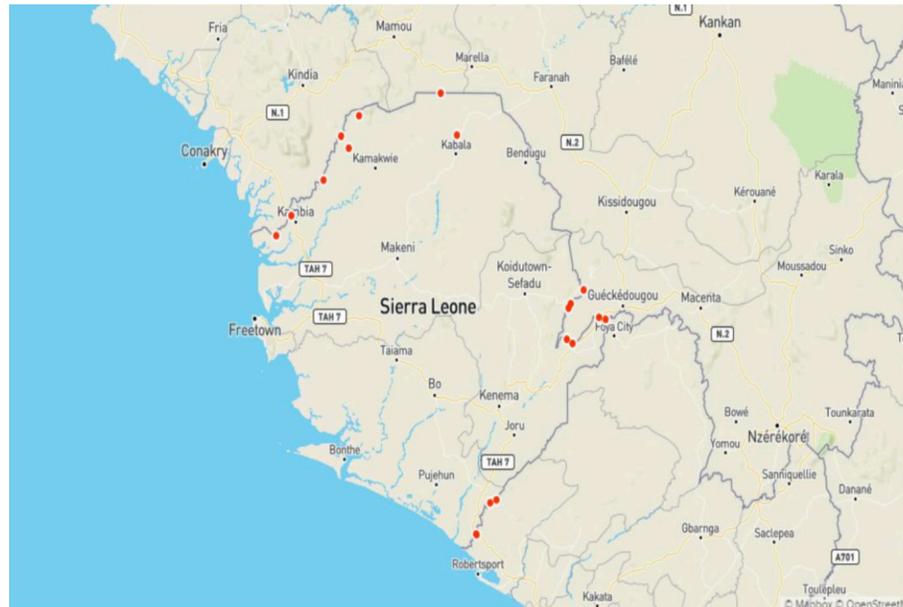
The underlying objective of this project is to contribute to the basic understanding of informal cross border trade, and to collect data on the volume, value, direction, and composition of imports and exports in the MRU that will help inform reform measures on national and intraregional trade policies. Specifically, the following are specific objectives were pursued in this study:

- Generate information on informal trading environment which include a detailed empirical picture of the realities of cross-border trade by informal businesses, including variation in these patterns across location, seasons and different groups;
- Collect data on volume of exportation and importation of agricultural goods;
- Collect data on importation and exportation of cigarettes as well as price data for the same;
- Estimate payments, both formal and informal, made by cross border traders to both state and non-state involved in CBT;
- Identify which trade facilitation measures have potential to encourage traders from the region to switch from informal to formal trade.

Description of the research

The data gathering for this study was divided into three broad elements, which are: (i) Observation and border monitoring, (ii) structured interviews with traders, (iii) and in-depth interviews with key informants and community leaders.

The main part of the study was the monitoring and quantitative assessment of informal trade in the same selected locations. Enumerators were stationed at 12 informal border crossings and seven formal borders to observe and record trade flows for seven days each in four months. Overall, 19 border crossings (see map of borders investigated below) accounting for about 15% of total border crossings in the 12 chiefdoms were re-monitored.



Secondly, in order to gain deeper insight into cross border activities and deepen the understanding of the factors that contribute to the continued ICBT activities at the border crossings as well as the contributions of such trade in poverty reduction in border communities, we conducted 56 in-depth-interviews (14 during each visit) in each border community selected with, among others, key local government officials, chiefdom authorities, border post officials, key tax administration officials at the local government level, key personalities within civil society, bike riders, traders associations, and border security personnel and Chattermen. With this method, we paid particular attention to understanding the informal trading environment, including the porosity of borders, informal trade flows – volume, value and composition, causes of informal trade practices in border communities surveyed.

Finally, the study relied on implementing a broad based survey of cross border traders on the official borders. Traders were interviewed at both the border crossing and the border markets where goods across borders are offloaded. In the two main borders (Gbalamuya and Jendemba with an average traffic flow of over 100 traders a day), the first trader interviewed was selected each day purposively by the supervisor assigned at each border and thereafter every 20th trader was interviewed. Similar methodology was used to select traders in the border markets.

Main findings of the research

The following are main findings from the surveys and observations:

1. **There is weak trade facilitation process along the main borders, making trading along the formal borders lengthy and costly.** The documentation requirements for cross-border trade in agricultural goods between Sierra Leone and its neighbours are cumbersome. For one to export agricultural goods to neighbouring countries, a copy of the export license is required.

The export certification fee paid to the National Revenue Authority increased from \$21.42⁵ in October 2016 to \$35.70 in December per declaration, and remained at that cost throughout the survey. More importantly, an export license⁶ for agricultural goods is granted to very few traders (about six in the entire country) who in turn sell the license to other traders through their agents in Bamoi market, Bo city, and other cities.

Additionally, traders are required to pay a \$4.30 phytosanitary inspection fee to agricultural officers at the borders; \$7.20 for police clearance; an administrative fee of \$4.30; and write a formal letter to the Collector of Customs at the main borders informing him or her about the exportation. For small or low value consignments usually channelled by micro, small and medium enterprises (MSMEs), the costs of complying with complex requirements and formalities may be disproportionate relative to the transaction value. This, in part, might explain the high incidence of informal cross-border trade among such firms.

2. **On average, more women (65%) are engaged in trade through formal borders than men (35%), whilst the reverse was true for informal borders.** The main reason for such gender composition in cross border trade is the relatively easier terrain and fewer risks in term of loss of goods at the formal borders when compared to informal borders.
3. **With regards the educational status of traders crossing the official borders, more than half of exporters (54%) and importers (56%) completed primary education.** About 25% of exporters and 20% of import traders never attended formal education, however 57% of traders crossing the Sanya border in the Bombali districts in the Northern Province never attended school. Also only 2% of traders crossing the main border at Gbalamuya reported to have attained tertiary education. This gives an indication that in Sierra Leone, the majority of traders engaged in cross border trade have very low education.
4. **Trade, in particular cross border trade in agricultural products, between Sierra Leone and its neighbours is determined by seasonal and price variabilities.** Trade volume increases significantly during the dry seasons for the major agricultural commodities traded across the borders but is relatively lower during the raining season owing to the production cycle, and bad road network for all borders.
5. **Sierra Leone exported 2,368 metric tons of agricultural goods with estimated value of \$1.2 million to neighbouring countries of Guinea and Liberia through the seven formal borders, whilst the country imported 2,052 metric tons of agricultural goods with estimated value of \$1.9**

5. US\$=Le7000

6. Acquired at the Ministry of Trade and Industry in the Capital Freetown

million through the same borders. Similarly, along the 12 informal borders surveyed, it was observed that Sierra Leone exported 468 metric tons of agricultural goods with an estimated value of \$414,285 whilst the country imported 199 metric tons with estimated value of \$507,142 through the informal border. Thus, in terms of volume or quantity of agricultural goods traded, Sierra Leone is a net exporter to its neighbours whilst in terms of value Sierra Leone is a net importer of agricultural goods.

6. The surveys revealed that the highest volume of cross border trade in agricultural goods occurred between Sierra Leone and Guinea.
7. Officially, local rice is not exported from Sierra Leone to Guinea or Liberia. However, in reality, it was observed that 120.925 metric tons of local rice was imported from Guinea and Liberia through the seven formal borders.
8. **This study corroborates anecdotal evidence which suggests that the volume of trade between Sierra Leone and the two neighbouring countries is higher when compared to what is reported in the official trade statistics.** The study reveals that recording of trade statistics is still a huge challenge in other formal borders other than Gbalamuya and Jendema since customs officers are not interested in reporting export given that no official tax is levied on export (i.e., destination principle of taxation). The underreporting in official data is exacerbated by the non-deployment of phytosanitary and customs officers at semi and informal borders. It was observed, during the survey, that at the two official borders (Gbalamuya and Jendema) where both exports and imports are recorded by phytosanitary and customs officials, only 40% of actual agricultural export volume is recorded, whilst about 60% of imports of agricultural goods are recorded between Sierra Leone and its neighbours by the phytosanitary officers.
9. Similarly, it was observed that 121.3 metric tons of agricultural exports and 136.9 metric tons of agricultural imports through other formal, semi, and informal borders were not recorded due to the absence of phytosanitary officers at these borders.
10. **The reason for such huge underreporting, particularly for export is attributed to three principal factors:** Firstly, poor verification of declaration made by the clearing agents and Chattermen. Customs officers are mostly not interested in recording export data given that no duty is charged on export but do record import data which minimises underreporting for import. Secondly, underreporting of volume and packaging unit by exporters is due mainly to increased transaction cost. All costs (export certification fee, phytosanitary fee, and administrative fees) are based on declaration. Therefore as more declarations are made, the more the trader pays. It was observed that the weights of goods were underreported by at least 25 kg. Whilst the official weight reported

was 50 kg, which is a standard weight reported by the Ministry of Agricultural for some agricultural goods such as gari, it was observed by the enumerators that a bag of gari exported weighed more than 75 kg. This is true also for kola nuts where both the quantity and weight were underreported by phytosanitary officials.

11. Loss of revenue was prevalent particularly at informal borders with high permeability due to the absent of customs officers. Moreover, though Sanya border is recognised as a formal border, no presence of customs officers was observed throughout the survey. It was reported that for the past five years, no customs officer was deployed at this border post. The study estimates the government lost \$33,418 in four weeks in respect of dutiable imports through the semi borders and Sanya. Extrapolating for the entire year, it is conservatively estimated that government lost \$430,000 as revenue on dutiable imports, which is about 0.8% of import duty collected by the National Revenue Authority (NRA) in 2016.

Alternatively, the revenue loss was about 16.67% of annual revenue target assigned to the Gbalamuya main customs to collect.

12. The non-availability of customs and phytosanitary officers in most of the borders has increased informal cross border trade thereby exacerbated underreporting of trade statistics in Sierra Leone. Other factors influencing informal trade practices include high formal taxes, unfair administration of tax system, and price variations.

Policy recommendations

The study therefore recommends the following:

- In the short run, the Government of Sierra Leone should consider introducing a simplified customs documentation, and eliminating most export documentation processes such as: export license, police clearance, and application letter to customs for low valued agricultural goods. In the medium- and long-term, authorities in the MRU should consider introducing a simplified trade regime for agricultural commodities produced in the region whereby small-scale traders benefit from a Simplified Customs Document and a Simplified Certificate of Origin, under which goods that are MRU originating and whose value does not exceed \$500 per consignment qualify automatically for duty-free entry in the MRU. Such a certificate is to be issued at the border posts, and not just in capital cities, to enable traders located in remote areas to benefit from the regime.
- It is essential to sensitise and educate traders on the import/export requirements and formalities. Helping MSME traders comply with existing trade regulations is important even when a simplified trade regime is put in place. Furthermore, conducting border community sensitisation campaigns and empowering local traders with basic

knowledge on management and customs procedures could go a long way in addressing the ICBT issue. Alternatively, a special advisory unit for MSMEs could be set up within customs administrations.

- The Government of Sierra Leone should mainstream ICBT in national and economic policy dialogues to foster better understanding of the dynamics of ICBT.
- Customs and phytosanitary officers should be deployed at bigger semi-formal borders, in particular Sanya, Yumkellam, and Kukuna, with relatively high trade volumes. The intermittence border patrols, particularly at Yumkella and Kukuna in the Kambia district have not proved to be effective as the trade volume recorded during the survey period, with no presence of customs and phytosanitary officers, was very high.
- There is a need to institute robust monitoring of border activities by the government and non-state actors to minimise the unfair tax administrative practices at the formal borders. In the long-run, fiscal authorities could institute or develop automatic data query mechanism capable of capturing and matching H.S. codes, volume, value, and payments for transactions at the main borders of Gbalamuya and Jendema.
- The government can rationalise the tax system and fast track the implementation of the ECOWAS Common External Tariff (CET) so as to harmonise taxes in the sub region.
- In the medium to long-term, Sierra Leone should embark on the production of high valued agricultural goods such as onions and cashew nuts, as well as embark on agro-based industries to improve its trade competitiveness in the MRU. Such moves will also put Sierra Leone in the advantage position with regards to its trade balance with its neighbour, and could reduce the demand for foreign currency for the purchase of these high value goods.
- The policy to ban key commodities such as rice and palm oil was identified as one of the causes of informal trade practices. There is a need for government to revisit this policy, and if possible lift such ban but levy fairer taxes on such commodities to ensure fair trade in the sub-region.
- With the introduction of excise on cigarettes through the Finance Act 2017, there is need for robust border monitoring to minimise smuggling of cigarettes and tobacco products into the country.

Implementation issues for policy recommendations

The porosity of borders between Sierra Leone and its neighbours poses a huge challenge to authorities to effectively deploy staff (i.e., phytosanitary and custom officers) across all borders. However, the study has revealed there are few borders large enough in terms of trade volume and value to justify deployment of critical border officers such as police and phytosanitary and customs officers. Harmonisation of border operations and implementation of the ECOWAS CET, as well as implementation of simplified border documentation require strong political will from

the different sovereign states of the MRU. The study concludes that the approach to criminalised ICBT demonstrates policymakers' failure to understand the underlying conditions of ICBT and its potential impacts on national and regional economies.

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