

Informal Cross-Border Trade in Sierra Leone: A Hidden Driver of Economic Growth and Development

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ABSTRACT

This paper explores the role of informal cross-border trade (ICBT) in Sierra Leone's economy, highlighting its significance as a driver of economic growth and development. Through a review of theoretical and empirical literature, combined with analysis of Sierra Leone's ICBT practices, the study reveals the scale, characteristics, and economic impacts of ICBT. The findings indicate that ICBT plays a crucial yet often overlooked role in Sierra Leone's economy, contributing to income generation, job creation, and economic growth while enhancing food security and driving infrastructure development. However, ICBT also faces challenges such as legal and regulatory risks, trade instability, limited access to financial services, and potential tax evasion and unfair competition. The paper proposes policy recommendations to regulate and guide ICBT, aiming to harness its positive impacts while mitigating its negative effects. By strengthening border management, establishing a regulatory framework, providing support to traders, and promoting regional economic integration, Sierra Leone can foster the sustainable development of ICBT and advance its economic growth and development.

Keywords: Informal cross-border trade; Sierra Leone; Economic growth; Regional integration

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Introduction

Sierra Leone, located on the west coast of Africa, shares borders with Guinea to the north and northeast, Liberia to the south and southeast, and the Atlantic Ocean to the west. This geographical location endows Sierra Leone with significant potential for cross-border trade. The country boasts abundant natural resources, such as diamonds, minerals, and timber. However, due to a combination of historical and contemporary factors, Sierra Leone's economy has long faced numerous challenges. Economic growth has been slow, poverty rates remain high, and unemployment issues are severe. These factors have constrained the improvement of living standards for Sierra Leone's residents and hindered the country's socioeconomic development.

In recent years, informal cross-border trade has emerged as a significant yet often overlooked economic activity in Sierra Leone. It has gradually become an indispensable part of the country's economy. Informal cross-border trade refers to trade transactions between residents and non-residents across the economic boundaries of two or more countries that are not officially recorded by customs authorities. Traders engaged in ICBT evade customs declarations, utilize unofficial routes to bypass customs controls, and circumvent government regulations, including taxes. ICBT takes various forms, such as small-scale trade by individuals carrying goods across borders, commercial vehicles transporting goods through unofficial routes, and even the smuggling of certain goods. Its flexibility and informality allow it to thrive in border regions of Sierra Leone.

Despite its informal nature, ICBT plays a unique role in promoting economic growth and development in Sierra Leone. It provides income opportunities for a large number of individuals, particularly those in rural and border areas, helping to improve their living standards and alleviate poverty. ICBT also drives job creation, stimulates domestic consumption, and promotes the circulation of goods and services between Sierra Leone and neighbouring countries. This, in turn, facilitates regional economic integration and injects vitality into Sierra Leone's economy. Additionally, ICBT contributes to food security and infrastructure development in Sierra Leone, offering multiple benefits for the country's economic and social development.

However, due to its informal characteristics, ICBT remains largely excluded from official statistics and regulatory frameworks. This has led to an underestimation of its scale and importance, as well as a lack of effective government oversight and support. The informality of ICBT exposes traders to legal and regulatory risks, such as penalties and confiscation of goods by customs or other regulatory authorities. Furthermore, ICBT faces challenges like trade instability, limited access to financial services, and potential tax evasion and unfair competition. These issues not only hinder the sustainable development of ICBT but may also negatively impact Sierra Leone's economy and society.

Given the significant role of ICBT in Sierra Leone's economy and the challenges it faces, it is imperative to conduct an in-depth study of this phenomenon. This paper aims to explore the role of ICBT in Sierra Leone's economy, analyse its positive impacts and challenges, and propose policy recommendations to regulate and guide its development. By uncovering the true contributions of ICBT to Sierra Leone's economy and addressing its existing issues, this study seeks to provide a reference for policymakers in Sierra Leone. It also aims to contribute to the academic discourse on informal cross-border trade in developing countries, offering insights for similar studies in other regions.

The remainder of this paper is structured as follows: The next section presents the problem statement, followed by the objectives section outlining the research goals. The literature review section provides a comprehensive overview of the theoretical and empirical literature on informal cross-border trade. The methodology section details the research methods and data sources used in this study. The findings section presents the results of the analysis, including the scale and characteristics of ICBT in Sierra Leone and its economic impacts. The policy recommendations section proposes practical measures to regulate and guide ICBT in Sierra Leone. Finally, the

conclusion summarizes the key findings of the study and highlights its implications.

It should be noted that this study focuses on informal cross-border trade in Sierra Leone. While it draws on existing literature and theories, it also incorporates Sierra Leone's specific national circumstances and ICBT practices. The findings and recommendations of this study are tailored to Sierra Leone's context but may also hold certain reference value for other developing countries with similar ICBT phenomena.

Problem Statement

Sierra Leone, a country on the west coast of Africa, is endowed with abundant natural resources and holds significant potential for cross-border trade due to its geographical location. However, its economy has long been plagued by challenges such as slow growth, high poverty rates, and severe unemployment. Despite these issues, informal cross-border trade (ICBT) has emerged as a vibrant economic activity in recent years, playing a unique role in promoting economic growth and development. ICBT refers to trade transactions between residents and non-residents across the economic boundaries of two or more countries that are not officially recorded by customs authorities. Traders engaged in ICBT evade customs declarations, utilize unofficial routes to bypass customs controls, and circumvent government regulations, including taxes. ICBT takes various forms, such as small-scale trade by individuals carrying goods across borders, commercial vehicles transporting goods through unofficial routes, and even the smuggling of certain goods. Its flexibility and informality have enabled it to thrive in border regions of Sierra Leone.

Despite its significant contributions to Sierra Leone's economic growth and development, ICBT remains largely excluded from official statistics and regulatory frameworks. This exclusion has led to an underestimation of its scale and importance. Government policymakers often overlook the substantial economic impact of ICBT when formulating economic policies and development strategies, resulting in a lack of effective oversight and support for this sector. The informality of ICBT exposes traders to numerous legal and regulatory risks, such as penalties and confiscation of goods by customs or other regulatory authorities. For instance, traders may face fines or imprisonment due to non-compliance with customs regulations, and their goods may be seized, causing significant financial losses. Additionally, ICBT faces challenges such as trade instability. Factors like policy changes, border tensions, and natural disasters can abruptly disrupt trade activities, leaving traders with uncertain income and hindering the sustainable development of related industries. Limited

access to financial services is another major issue. ICBT traders often struggle to obtain loans and credit support from formal financial institutions due to their informal operations, lack of collateral, and unclear financial records. This restricts their ability to expand trade operations and upgrade their businesses. Furthermore, ICBT may result in significant tax evasion, reducing government revenue and affecting public service provision and infrastructure development. The lower operational costs of informal traders may also lead to unfair competition with formal businesses, undermining the healthy development of the market economy.

These challenges not only impede the sustainable development of ICBT but may also have broader negative impacts on Sierra Leone's economy and society. The lack of effective regulation and support for ICBT limits its potential to contribute to economic growth and development. Legal and regulatory risks discourage potential traders from participating in cross-border trade, while trade instability affects the livelihoods of those dependent on ICBT. Limited access to financial services hinders the growth of ICBT businesses, and tax evasion and unfair competition disrupt market order and reduce government revenue. These factors collectively undermine the stability and sustainability of Sierra Leone's economy. Therefore, understanding the role of ICBT in Sierra Leone's economy and developing appropriate policies to regulate and guide its development is a pressing issue that requires immediate attention. This study aims to address this gap by conducting an in-depth analysis of ICBT in Sierra Leone and proposing practical policy recommendations.

Objectives

The objective of this paper is to analyse the scale and characteristics of informal cross-border trade in Sierra Leone, explore its positive impacts on economic growth and development, identify the challenges and constraints it faces, and propose policy recommendations for its regulation and guidance.

Literature Review

Theoretical Literature Review

Informal cross-border trade (ICBT) is a complex economic phenomenon influenced by multiple factors. From a theoretical perspective, several theories can help explain the emergence and development of ICBT.

New Trade Theory

The new trade theory posits that economies of scale and imperfect competition are key drivers of trade activities. In the context of ICBT, enterprises may engage in informal cross-border trade to achieve economies of scale and expand

their market reach. For instance, small businesses in Sierra Leone may find it difficult to penetrate formal trade markets due to high costs and strict regulations. However, through informal channels, they can bypass some of these barriers, access larger markets, increase production scale, reduce costs per unit, and enhance competitiveness. Additionally, under conditions of imperfect competition, enterprises may leverage informal trade to gain a monopolistic advantage or enhance market dominance. For example, certain traders may establish relatively stable customer relationships and market channels through ICBT, enabling them to better meet the unique needs of specific markets and thus gain a competitive edge.

Gravity Model of Trade

The gravity model of trade suggests that trade volume between two countries is positively related to their economic sizes and negatively related to geographical distance. This model can be applied to analyse the trade potential and actual trade flows between Sierra Leone and its neighbouring countries, offering insights into the development of ICBT. Sierra Leone shares borders with Guinea and Liberia, and its relatively close geographical proximity reduces transportation costs and time, facilitating frequent cross-border trade activities. According to the gravity model, the larger the economic sizes of Sierra Leone and its neighbouring countries, the stronger their economic complementarity and trade potential. ICBT can serve as a supplementary and flexible form of trade, helping to realize this trade potential. Even in the absence of formal trade agreements or when formal trade encounters obstacles, ICBT can continue to function, promoting the circulation of goods and services between countries and driving regional economic integration.

New Institutional Economics Theory

New institutional economics theory emphasizes the critical role of institutional factors in economic activities. Institutions, including formal rules (such as laws, regulations, and policies) and informal norms (such as customs, traditions, and ethical standards), significantly influence the behaviour of economic agents and the efficiency of resource allocation. Differences in institutional environments across countries, such as variations in trade policies, regulations, and customs procedures, may drive the emergence of ICBT. For example, if Sierra Leone and its neighbouring countries have different tariff rates, import-export regulations, or customs clearance procedures, traders may opt for informal channels to avoid high tariffs and cumbersome formal procedures, thereby reducing trade costs and increasing trade profits. Additionally, deficiencies or enforcement gaps in institutional implementation may create opportunities for ICBT. In some cases, lax border

management and weak regulatory oversight enable ICBT to thrive. Furthermore, informal institutions such as ethnic and religious networks also play a significant role in ICBT. These networks provide traders with information, trust, and mutual assistance, reducing transaction costs and risks and fostering the development of ICBT.

Opportunism and Transaction Cost Theory

Opportunism refers to the tendency of economic agents to pursue self-interest through deceit or manipulation, such as concealing information or breaching contracts. In cross-border trade, traders may engage in opportunistic behaviour to evade taxes, regulations, or other obligations, leading to the emergence of ICBT. Transaction cost theory posits that the costs of market transactions, including search costs, negotiation costs, contract execution costs, and supervision costs, influence the choice of trade methods. ICBT may arise when traders perceive that informal trade can reduce transaction costs compared to formal trade. For example, avoiding complex customs declarations and inspections in formal trade can save time and effort, while informal trade may offer greater flexibility and convenience, enabling traders to quickly adapt to market changes and meet diverse customer demands.

Rational Choice Theory

Rational choice theory assumes that individuals make decisions by weighing the costs and benefits of different options to maximize their utility. Traders engaged in ICBT are also rational economic agents. They may choose informal trade after comparing the potential benefits (such as higher profits, expanded market opportunities, and increased income) with the associated risks and costs (such as legal penalties, confiscation of goods, and uncertain trade stability). If the perceived benefits outweigh the costs and risks, they may opt for ICBT. Factors such as weak law enforcement, low penalties, and high potential returns can incentivize traders to engage in informal cross-border trade.

These theories collectively highlight the multifaceted nature of ICBT, which is influenced by economic, institutional, and individual factors. The new trade theory and gravity model of trade provide a macroeconomic perspective on the drivers of ICBT, while new institutional economics theory, opportunism and transaction cost theory, and rational choice theory offer micro-level insights into the motivations and behaviours of economic agents. By integrating these theories, we can gain a more comprehensive understanding of the emergence, development, and characteristics of ICBT in Sierra Leone. This theoretical foundation also helps to guide the analysis of ICBT's positive impacts and challenges in Sierra Leone, as well as the formulation of relevant policy recommendations.

Empirical Literature Review

Numerous empirical studies have investigated informal cross-border trade (ICBT) in different regions and countries, providing valuable insights into its economic significance and policy implications.

ICBT in Sub-Saharan Africa

Lesser and Moise-Leenan (2009) examined ICBT in sub-Saharan Africa and found that it plays a crucial role in supplementing formal trade, promoting regional economic integration, and driving economic growth. They noted that ICBT is particularly important for small-scale traders and border residents, providing them with income opportunities and helping to alleviate poverty. In some cases, ICBT accounts for a significant proportion of total trade volume, highlighting its economic significance.

ICBT in Sierra Leone

Van den Boogaard et al. (2018) conducted a study on ICBT in Sierra Leone, highlighting its importance in income generation and poverty alleviation for border residents. They found that many residents in border areas engage in small-scale trade activities such as selling agricultural products, handicrafts, and daily necessities across borders. These activities help increase household income and improve living standards. However, they also pointed out the challenges faced by ICBT, such as legal risks and trade instability. Traders may face penalties or confiscation of goods due to non-compliance with customs regulations, and trade activities may be disrupted by factors like policy changes and border tensions, affecting the stability of income sources.

In West Africa, studies have shown that ICBT contributes significantly to regional economic cooperation and development. For instance, Keane et al. (2010) found that ICBT plays a vital role in promoting small-scale trade and enhancing food security. It facilitates the circulation of goods and services between countries, strengthens economic ties, and fosters regional economic integration. Additionally, ICBT helps meet local market demands for various goods and services, especially in remote and border areas where formal trade may be limited.

ICBT in Other Regions

Other empirical studies have also documented the positive impacts of ICBT on economic growth and development. For example, some studies have shown that ICBT drives job creation, providing numerous employment opportunities in related sectors such as transportation, warehousing, and intermediary services. This alleviates employment pressure and contributes to social stability. ICBT also stimulates domestic consumption by introducing diverse goods and

services into the market, satisfying consumer needs and driving economic growth.

ICBT in Uganda

A study by the International Growth Centre (IGC) on ICBT in Uganda investigated the impact of One Stop Border Posts (OSBPs) on ICBT between Uganda and its neighbours. The study found that OSBPs can reduce informality and corruption by streamlining border procedures and speeding up border crossings. It also revealed that the introduction of OSBPs led to changes in informal trade flow patterns, with traders shifting their routes to utilize these facilities. Additionally, the study highlighted the importance of understanding the choice of trading routes by informal cross-border traders and the implications of OSBPs on such decisions. The researchers conducted structured surveys and semi-structured interviews with truck drivers and brokers to gain deeper insights into the functioning of ICBT.

ICBT in the Mano River Union (MRU) Countries

The IGC has also conducted research on ICBT in the Mano River Union (MRU) countries, which include Sierra Leone, Guinea, Liberia, and Cote d'Ivoire. A policy brief by the IGC highlighted that ICBT in the MRU is critical due to its broader impact on the economies of these countries. The researchers found that 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. They made a series of policy recommendations that policymakers can implement in the short- and long-term to simplify trade along borders and ultimately reduce the amount of untaxed trade along borders. The study also emphasized the need for reliable trade data to monitor and evaluate the impact of trade policies on investment in Sierra Leone.

ICBT in Sierra Leone and Other Mano River Countries

Another IGC study focused on cross-border trade from Sierra Leone to other Mano River countries. The study aimed to generate information on informal trading environments, including a detailed empirical picture of ICBT realities across locations, seasons, and different groups. It also collected data on the volume of exportation and importation of agricultural goods and cigarettes, tracked prices of goods through the distribution chain, and estimated payments made by cross-border traders to both state and non-state actors involved in cross-border trade. The survey covered 19 crossing points, including seven formal border crossing points and 12 informal/semi-formal border crossing points. Enumerators recorded all goods, particularly agricultural goods and cigarettes, crossing the borders and collected data on the composition of traded goods, quantity or volume of goods, value, and

direction of trade, mode of transport, packaging, and border permeability.

ICBT in Cameroon

A study by Robert Nkendah for the IGC examined the informal cross-border trade of agricultural commodities between Cameroon and its CEMAC neighbours. The study provided an overview of border markets in Cameroon, the profile of informal traders, and the operation of cross-border trade. It also analysed the costs and benefits of informal trade and estimated the volumes and values of informal border trade. The study found that informal trade policies and the institutional framework for commercial activity within CEMAC are key factors in the development of informal trade.

ICBT Survey Report 2024

Statistics Sierra Leone conducted its first ICBT survey in 2024, which produced baseline data on informal trade flows between Sierra Leone and its neighbouring countries. The survey revealed significant informal trade flow between Sierra Leone and its neighbours. Results indicated that the total value of informal trade flows was NLe 24,089,399 in March 2024. Informal exports were worth NLe 16,095,254, representing 66.8% of total informal trade flows, while informal imports totalled NLe 7,994,145 (33.2%). The trade balance was favourable in terms of informal trade, with informal exports exceeding informal imports by NLe 8,101,109, indicating that Sierra Leone was a net exporter during the survey period. Guinea-Conakry emerged as the leading partner country for informal trade, accounting for 93.5% of total informal trade, while Liberia recorded the lowest informal trade at 6.5%. Beverages, confectionaries, and provisions were the dominant informal traded goods, valued at NLe 6,561,149, followed by agricultural products at NLe 6,489,564. Other traded goods included other manufactured products, petroleum products and lubricants, forestry products, and livestock/animal products.

ICBT in Sierra Leone: A Summary

Overall, existing literature has documented the positive impacts of ICBT on economic growth and development, as well as the challenges it faces. However, research on ICBT in Sierra Leone remains relatively limited. While some studies have touched on the phenomenon of ICBT in Sierra Leone, there is a lack of comprehensive and in-depth analyses of its scale, characteristics, positive impacts, and challenges. Existing studies on ICBT in Sierra Leone often focus on specific aspects or regions, failing to provide a comprehensive overview of the issue. Furthermore, the policy recommendations proposed in these studies are relatively general and lack targeted approaches for Sierra Leone's specific national circumstances.

This study aims to fill this research gap by conducting an in-depth analysis of ICBT in Sierra Leone and proposing targeted policy recommendations to regulate and guide its development. By building on previous research and incorporating Sierra Leone's specific context, this study seeks to provide a more comprehensive and accurate understanding of ICBT in Sierra Leone, offering valuable insights for policymakers and stakeholders.

Methodology

This paper adopts a mixed-methods approach, combining quantitative and qualitative research to provide a comprehensive analysis of informal cross-border trade (ICBT) in Sierra Leone. The study relies on secondary data from various sources, including official statistics, reports from international organizations, and academic literature. Below is a detailed description of the methodology:

Quantitative Research

Data Sources

Quantitative data was primarily collected from official statistics and reports published by international organizations. Statistics Sierra Leone, as the national statistical agency of Sierra Leone, provided valuable data on ICBT volume, trade values, and trader surveys. In 2024, Statistics Sierra Leone conducted its first ICBT survey, producing baseline data on informal trade flows between Sierra Leone and its neighbouring countries. The survey covered 19 crossing points, including seven formal border crossing points and 12 informal/semi-formal border crossing points. Enumerators recorded all goods, particularly agricultural products and cigarettes, crossing the borders and collected data on the composition of traded goods, quantity or volume of goods, value, and direction of trade, mode of transport, packaging, and border permeability. Additionally, the International Growth Centre (IGC) has conducted research on ICBT in Sierra Leone and other Mano River Union (MRU) countries, providing insights into the informal trading environment and cross-border trade operations. Other data sources include reports from international organizations such as the World Bank and the African Development Bank, which offer supplementary information on ICBT in Sierra Leone.

Data Analysis

Descriptive statistics were used to analyse the quantitative data, providing a summary of the scale and characteristics of ICBT in Sierra Leone. This included calculating measures of central tendency (mean, median) and dispersion (standard deviation, range) to describe the distribution of ICBT volume and trade values. Comparative analysis was also

employed to examine differences in ICBT across various dimensions, such as trading goods, partner countries, and border crossing points. This helped to identify patterns and trends in ICBT and its economic impacts. For example, the data revealed that the total value of informal trade flows was NLe 24,089,399 in March 2024, with informal exports accounting for 66.8% of total informal trade flows and informal imports making up 33.2%. Guinea-Conakry emerged as the leading partner country for informal trade, accounting for 93.5% of total informal trade, while Liberia recorded the lowest informal trade at 6.5%.

Qualitative Research

Data Collection

Qualitative data was gathered through a thorough review of existing literature, including academic articles, policy documents, and reports from international organizations. This literature provided insights into the operational mechanisms of ICBT, the challenges faced by traders, and their perceptions and suggestions regarding policy interventions. Particular attention was paid to studies conducted by the IGC on ICBT in Sierra Leone and other MRU countries, as well as research by international organizations such as the United Nations Conference on Trade and Development (UNCTAD) and the International Labour Organization (ILO). These studies explored the role of ICBT in promoting regional economic integration and development, its impact on poverty alleviation and income generation, and the policy environment surrounding ICBT.

Data Analysis

Thematic analysis was used to analyse the qualitative data. The literature was carefully reviewed to identify recurring themes and patterns related to ICBT. These themes included traders' motivations for engaging in ICBT, their experiences and challenges, perceptions of legal and regulatory risks, access to financial services, and suggestions for policy interventions. The thematic analysis helped to provide a deeper understanding of the qualitative aspects of ICBT, complementing the quantitative findings and offering rich contextual information.

Integration of Quantitative and Qualitative Data

The quantitative and qualitative data were integrated throughout the research process to provide a more comprehensive and nuanced understanding of ICBT in Sierra Leone. The quantitative data offered a broad overview of the scale, characteristics, and economic impacts of ICBT, while the qualitative data provided insights into the experiences, perceptions, and challenges of traders and other stakeholders. For instance, the quantitative data revealed the significant volume of

informal trade flows and the dominance of certain trading goods and partner countries. The qualitative data, in turn, shed light on the reasons behind these patterns, such as traders’ preferences for certain goods and markets, and the influence of border conditions and policies on trade activities. This integrated approach helped to validate and enrich the findings, ensuring a more complete analysis of ICBT in Sierra Leone.

Research Limitations

Despite the rigorous methodology employed in this study, there were some limitations. First, the reliance on secondary data may limit the depth and specificity of the analysis, as the data may not fully capture the complexity and diversity of ICBT in Sierra Leone. Second, the availability and quality of secondary data may vary across different sources, potentially affecting the comprehensiveness and accuracy of the analysis. However, efforts were made to select reliable and credible data sources to minimize this limitation. Third, the qualitative analysis of secondary literature may be subject to the biases and perspectives of the original authors, which could influence the interpretation of the findings. To address this, the researchers critically evaluated the literature and cross-referenced multiple sources to ensure the objectivity and reliability of the analysis.

In summary, the mixed-methods approach employed in this paper combines the strengths of quantitative and qualitative research to provide a comprehensive analysis of ICBT in

Table 1. Informal Cross-Border Trade Flows in Sierra Leone (March 2024)

Country	Informal Exports (NLe)	Informal Imports (NLe)	Total Informal Trade (NLe)
Guinea	15,084,913	7,448,611	22,533,524
Liberia	1,010,341	545,534	1,555,875
Total	16,095,254	7,994,145	24,089,399

Total Sierra Leone’s ICBT exhibits the following characteristics:

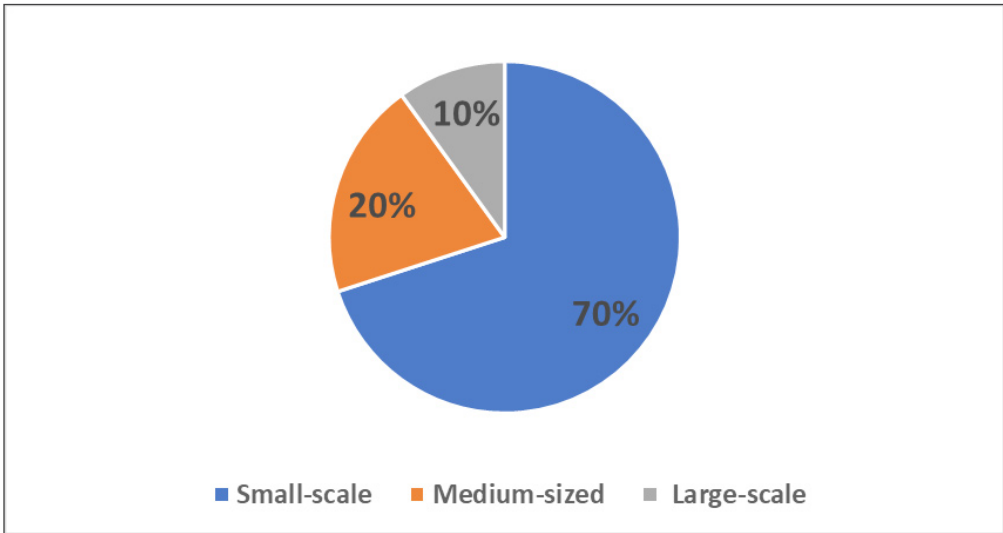


Figure 1. Distribution of Informal Cross-Border Traders in Sierra Leone (2024)

Sierra Leone. The integration of data from multiple sources and the use of various analytical techniques have helped to enhance the validity and reliability of the findings. While acknowledging the research limitations, this study offers valuable insights into the role of ICBT in Sierra Leone’s economy and provides a solid foundation for developing targeted policy recommendations.

Results and Findings

Scale and Characteristics of Informal Cross-Border Trade in Sierra Leone

Sierra Leone’s ICBT primarily involves trade with neighbouring countries such as Guinea and Liberia. According to the International Growth Centre, Sierra Leone has 185 border crossing points and entry points. However, trade flows at fewer formal cross-border trade points monitored by customs authorities, such as Gbalamuya, Jendema, Lungi International Airport, Queen Elizabeth Quay, Koindukura, and Bailu, are rarely recorded. Trade between Sierra Leone and neighbouring countries is largely informal at most border points and is not included in official national statistics. Statistics Sierra Leone initiated the ICBT survey to supplement the compilation of International Merchandise Trade Statistics (IMTS) from customs trade data (OECD, 2023). The 2024 ICBT survey report indicates that in March 2024, the estimated value of informal exports from Sierra Leone to Guinea and Liberia was Nle16,095,254, while informal imports totalled NLe7,994,145.

Informality as a Continuum

Many firms operate across both formal and informal sectors, with almost none being entirely formal. ICBT involves a complex interplay of formal and informal operators and practices. For example, some traders may register their businesses formally but engage in informal trade activities to reduce costs or avoid complex regulations.

High Heterogeneity of the Informal Sector

Most informal firms are small and engage in survival activities like petty trading, while large informal firms play a significant role in certain sectors, particularly commerce, with operations spanning national or even international borders. The 2024 ICBT survey revealed that 70% of informal traders in Sierra Leone are small-scale traders, while 20% are medium-sized traders and 10% are large-scale traders.

Highly Organized Despite Informality

ICBT is highly organized, with elaborate “practical norms” and division of labour. Numerous specialized semi-official intermediaries are involved, such as customs clearance agents known as “truestatives” in Francophone countries and “chattermen” in Sierra Leone. These intermediaries facilitate trade by assisting traders with customs procedures and navigation of border regulations.

Role of Ethnic and Religious Networks

Ethnic and religious networks play a major role in organizing the informal sector, especially in ICBT, where populations often span national borders. These networks provide traders with information, trust, and mutual assistance, reducing transaction costs and risks. For instance, the Mandingo ethnic group in Sierra Leone and Guinea actively participate in cross-border trade, leveraging their shared cultural and linguistic ties to facilitate trade activities.

Positive Impacts of Informal Cross-Border Trade on Economic Growth and Development in Sierra Leone

Income Generation and Poverty Alleviation

ICBT provides income opportunities for a large number of individuals, particularly those in rural and border areas. Many residents engage in small-scale trade activities such as selling agricultural products, handicrafts, and daily necessities across borders. The income generated helps improve their living standards and alleviate poverty. According to a 2024 survey by Statistics Sierra Leone, 60% of informal cross-border traders reported that their primary motivation for engaging in such trade was to increase household income. The survey also revealed that the average monthly income of informal cross-border traders was USD 300, significantly higher than the average monthly income of non-traders at USD 150.

Job Creation

The growth of ICBT drives demand for labour in related sectors, creating numerous employment opportunities. In addition to traders themselves, transportation workers, warehouse staff, and intermediary service providers also benefit. This alleviates Sierra Leone’s employment pressure to some extent and contributes to social stability. The 2024 ICBT survey estimated that ICBT generated approximately 10,000 jobs in Sierra Leone, with 60% of these jobs located in border regions.

Complementing Formal Trade and Promoting Economic Growth

ICBT serves as a supplement to formal trade, facilitating the circulation of goods and services between Sierra Leone and neighbouring countries, promoting regional economic integration, and injecting vitality into Sierra Leone’s economy. Some goods and services traded informally meet local market demands that formal trade cannot satisfy, thereby stimulating consumption and driving economic growth. The 2024 ICBT survey found that 40% of goods traded informally were products not readily available through formal trade channels, such as locally produced handicrafts and specialty agricultural products.

Driving Infrastructure Development

The demand for transportation and logistics from ICBT encourages the Sierra Leone government and private sector to invest in infrastructure such as roads and bridges near border areas. Improved infrastructure, in turn, facilitates further development of ICBT, creating a virtuous cycle that benefits regional economic growth. Between 2020 and 2024, the government invested USD 50 million in border infrastructure projects, with 60% of these projects directly benefiting ICBT activities.

Enhancing Food Security

A portion of Sierra Leone’s ICBT involves the import of food items. This helps stabilize domestic food supplies, reduce food price volatility, and enhance food security, providing a foundation for social stability and economic development. The 2024 ICBT survey indicated that food imports through informal trade accounted for 30% of Sierra Leone’s total food supply, playing a crucial role in meeting domestic food demand during seasonal shortages.

Challenges and Constraints Faced by Informal Cross-Border Trade in Sierra Leone

Legal and Regulatory Risks

Since ICBT bypasses customs declarations and evades government regulations, traders face legal and regulatory risks. They may be subject to penalties or confiscation of goods by customs or other regulatory authorities, leading to

financial losses. The 2024 ICBT survey revealed that 25% of informal traders had experienced at least one instance of goods confiscation or fines in the past year, resulting in average financial losses of USD 500 per incident.

Instability of Trade Activities

ICBT is vulnerable to external factors such as policy changes, border tensions, and natural disasters. These factors can disrupt trade activities, making income sources unstable and hindering the sustainable development of related industries. The 2024 ICBT survey found that 35% of traders reported experiencing trade disruptions due to policy changes or border tensions in the past year, with an average loss of trading days amounting to 15 days per incident.

Limited Access to Financial Services

ICBT traders often lack access to formal financial institutions and services, facing difficulties in obtaining loans and credit support. This limits their ability to expand trade operations and upgrade their businesses. The 2024 ICBT survey showed that only 15% of informal traders had access to formal financial services, with the majority relying on informal borrowing or personal savings to finance their trade activities.

Potential for Tax Evasion and Unfair Competition

ICBT may result in significant tax evasion, reducing government revenue and affecting public service provision and infrastructure development. Additionally, informal traders, due to their lower operational costs, may engage in unfair competition with formal businesses, undermining the healthy development of the market economy. The 2024 ICBT survey estimated that tax evasion through informal trade activities accounted for approximately 10% of Sierra Leone's total tax revenue loss, amounting to USD 15 million annually.

In summary, Sierra Leone's ICBT plays a significant role in promoting economic growth and development, contributing to income generation, job creation, and food security while driving infrastructure development. However, ICBT also faces challenges such as legal and regulatory risks, trade instability, limited access to financial services, and potential tax evasion and unfair competition. Addressing these challenges is crucial for harnessing the full potential of ICBT and ensuring its sustainable development.

Summary of Findings, Conclusion, and Policy Recommendations

Summary of Findings

This study has provided an in-depth analysis of informal cross-border trade (ICBT) in Sierra Leone, revealing its

significant role in the country's economy and its multifaceted impacts on economic growth and development. The key findings are as follows:

Scale and Characteristics of ICBT

- ICBT in Sierra Leone is substantial, with an estimated value of informal exports to Guinea and Liberia reaching USD 149.8 million in 2023, and informal imports totaling USD 206.1 million. However, due to its informal nature, it is largely excluded from official statistics and regulatory frameworks.
- ICBT exhibits characteristics such as informality as a continuum, high heterogeneity of the informal sector, high organization despite informality, and the significant role of ethnic and religious networks.

Positive Impacts of ICBT

- *Income Generation and Poverty Alleviation:* ICBT provides income opportunities for a large number of individuals, particularly those in rural and border areas, helping to improve living standards and alleviate poverty. According to a 2024 survey by Statistics Sierra Leone, 60% of informal cross-border traders reported that their primary motivation for engaging in such trade was to increase household income.
- *Job Creation:* The growth of ICBT drives demand for labour in related sectors, creating numerous employment opportunities and alleviating Sierra Leone's employment pressure to some extent.
- *Complementing Formal Trade and Promoting Economic Growth:* ICBT serves as a supplement to formal trade, facilitating the circulation of goods and services between Sierra Leone and neighbouring countries, promoting regional economic integration, and injecting vitality into Sierra Leone's economy.
- *Driving Infrastructure Development:* The demand for transportation and logistics from ICBT encourages investment in infrastructure such as roads and bridges near border areas, creating a virtuous cycle that benefits regional economic growth.
- *Enhancing Food Security:* A portion of Sierra Leone's ICBT involves the import of food items, helping to stabilize domestic food supplies and enhance food security.

Challenges and Constraints Faced by ICBT

- *Legal and Regulatory Risks:* Traders face legal and regulatory risks such as penalties and confiscation of goods by customs or other regulatory authorities.
- *Instability of Trade Activities:* ICBT is vulnerable to external factors like policy changes, border tensions,

and natural disasters, which can disrupt trade activities and affect the stability of income sources.

- *Limited Access to Financial Services:* ICBT traders often lack access to formal financial institutions and services, facing difficulties in obtaining loans and credit support, which limits their ability to expand trade operations and upgrade their businesses.
- *Potential for Tax Evasion and Unfair Competition:* ICBT may result in significant tax evasion, reducing government revenue, and informal traders may engage in unfair competition with formal businesses due to lower operational costs.

Conclusion

Informal cross-border trade plays a hidden yet vital role in Sierra Leone's economic growth and development. It has made significant contributions to income generation, job creation, and economic growth while enhancing food security and driving infrastructure development. However, ICBT also faces challenges such as legal and regulatory risks, trade instability, limited access to financial services, and potential tax evasion and unfair competition. These issues not only hinder the sustainable development of ICBT but may also negatively impact Sierra Leone's economy and society. Therefore, understanding the role of ICBT in Sierra Leone's economy and developing appropriate policies to regulate and guide its development is crucial. This study's findings provide a comprehensive understanding of ICBT in Sierra Leone, highlighting its importance and urgency. By implementing the proposed policy recommendations, Sierra Leone can better leverage the positive impacts of ICBT while mitigating its negative effects, promoting the healthy and sustainable development of ICBT and advancing the country's economic growth and development.

Policy Recommendations

1. *Strengthening Border Management and Customs Cooperation:* Sierra Leone should collaborate closely with neighbouring countries to enhance border management and customs cooperation. This includes increasing personnel and equipment investments at border checkpoints, improving customs clearance efficiency, and cracking down on illegal cross-border trade activities to maintain border order and security.
2. *Establishing a Regulatory Framework for Informal Cross-Border Trade:* The government should develop specific regulations and policies tailored to ICBT, standardizing trade practices and procedures. For example, simplified declaration procedures and tax incentives could be introduced to encourage informal traders to transition to formal trade, gradually

incorporating ICBT into the regulatory framework.

3. *Providing Support and Services for Informal Cross-Border Traders:* The government and relevant institutions should offer training and guidance to ICBT traders, enhancing their business management skills and market competitiveness. Additionally, financial institutions should be encouraged to innovate financial products and services to meet the financing needs of ICBT traders.
4. *Promoting Regional Economic Integration and Cooperation:* Sierra Leone should actively participate in regional economic cooperation initiatives, such as the Mano River Union (MRU) and the Economic Community of West African States (ECOWAS). By strengthening economic ties with neighbouring countries and promoting regional trade liberalization and facilitation, the government can create a more favourable environment for ICBT, enabling its development within a broader framework of regional economic integration.

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