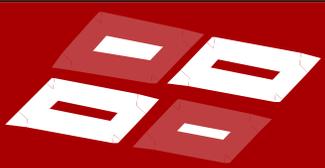




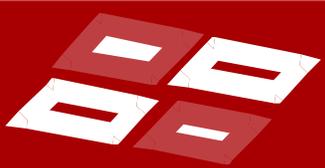
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**Unrecorded Cross-Border Trade
Between Kenya and Uganda**
Implications for Food Security



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Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development***

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Foreword

Regional trade initiatives in Eastern and Southern Africa have in the past encountered various kinds of difficulties but the countries have not been deterred from exploring new ways of fostering economic development through trade expansion. Despite trade promotions and market reforms which have to a large extent minimized exchange controls and commodity movement restrictions, inappropriate policies and other trading malpractices still inhibit formal trade linkages in the sub-region and tend to distort relative prices in the factor/product markets and as a result encourage all forms of unrecorded (informal) cross-border trade.

At the same time, the eastern and southern Africa region has, over the past few decades, experienced prolonged civil conflicts, droughts, famine and food insecurity in the face of increasing population growth rates and deteriorating real per capita incomes. These factors, together with unfavorable trade policies and malpractices, have generally undermined regional governments' food security goals.

The study by Chris Ackello-Ogutu and Protase Echessah uses innovative and practical border observation techniques in quantifying cross-border trade and examines in great detail not just how this trade is being carried out but also who is involved and its impact on food security. By so doing, the study makes a significant contribution to earlier efforts to authenticate the quantity of goods traded informally using the Kenya-Uganda border case study. The authors' way of data treatment as well as their handling of underlying issues and problems constraining formal cross-border trading is thorough and exhaustive. The constraints to formal cross-border trading revealed by the study demonstrate the gravity of the bottlenecks and the urgency with which Governments, at national and/or regional levels, must address this problem.

As the study points out, unrecorded cross-border trade is significant and vital to the region's economic development. It also points out that when the forces of supply and demand are left to operate without interference, the greater gains accruing in terms of regional food security and efficiency in

resource allocation are enormous. Thus, unofficial trade is a pointer to the comparative advantage existing in respective countries and to the vital food security role the private sector can play in moving commodities from one part of the region to another, often against serious barriers imposed by governments.

The achievement of food security is one of the region's key development challenges articulated by USAID and also represents a major component of various ongoing strategic initiatives. By emphasizing free trade and underscoring the importance of rational trade policies and removal of all trading malpractices, this study offers a new policy option that may guide efforts of USAID and other regional institutions and initiatives in addressing the challenges of assuring national and regional food security.

This report is a major eye opener on the subject of unrecorded cross-border trade in the region and should form the basis of future policy formulation and strategies on the subject. It is one in a series of studies on Africa's regional trade and comparative advantage, a joint activity of USAID Africa Bureau's Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE), and the Regional Economic Development Services Office for Eastern and Southern Africa (REDSO/ESA).

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Finally, the responsibility of interpretation of the data, analysis, conclusions, and any error(s) and/or omission(s) that may be detected in this report should be attributed solely to us.

Chris Ackello-Ogutu
Protase Echessah

Executive Summary

BACKGROUND AND OBJECTIVES OF THE STUDY

Kenya and Uganda are important trading partners, but formal trade links between them have been constrained by a myriad of factors which have spurred the growth of informal (unrecorded) trade. It is widely felt that unrecorded trade between Kenya and Uganda is substantial and vital to both countries. Despite trade promotion protocols and market reforms which, to a large extent, have eased exchange controls and commodity movement restrictions, high sales taxes and bureaucratic import/export procedures still inhibit formal trade between the two countries. In addition, inappropriate policy interventions in the factor and product markets tend to distort relative prices, thus encouraging informal cross-border trade.

Interest in cross-border trade has been overwhelming, but knowledge of its magnitude, determinants, and consequences remains inadequate, leading not only to undervaluation of figures in the national accounts, but also inhibiting formulation of appropriate policies and strategies to exploit its potential impact, particularly on food security. As part of the effort to begin to understand and quantify the role of unofficial trade in eastern and southern Africa, TechnoServe on behalf of USAID's Regional Economic Development Support Office (REDSO/ESA) in Nairobi, Kenya, and the Africa Bureau's Productive Sector Growth and Environment Division in the Office of Sustainable Development (AFR/SD/PSGE)-commissioned a survey of unofficial trade between Kenya and Uganda in August 1994. The principal objective of the study was to provide qualitative and quantitative information about informal cross-border trade and to assess its impact on food security.

A TECHNIQUE FOR BORDER MONITORING

Data were collected through border observation (monitoring) at a sample of sites selected on the basis of practical considerations such as volume of trade, security, communication, transport links, availability of supporting institutions, and personnel. The sites selected for intensive monitoring represented both inland and Lake Victoria routes. The monitoring took the form of a census, covering all the major agricultural and industrial commodities that crossed the border during 2 weeks randomly selected from each month over a period of 12 months. Estimated average monthly trade volumes derived from the observed figures were used to estimate the annual volume and value of unrecorded trade flows between Kenya and Uganda.

In addition to information derived from the border observation technique, one baseline survey was conducted midway through the monitoring period to provide information on trader characteristics, commodity prices, costs, exchange rates, sources of information, market functions, and origin/destination of goods. Descriptive statistics were used to evaluate the significance and implications of trade policies and other constraints faced by informal cross-border traders.

HOW INFORMAL CROSS-BORDER TRADE IS CONDUCTED

Those engaging in informal trade minimize their risks by holding small stocks of merchandise and

by diversifying the commodities they handle at any given time. They perform various marketing functions such as exchange, storage, transportation, processing, and grading, but specialization in these functions is minimal. Most of the transactions are done on a cash basis, with the Kenyan currency as the preferred method of payment. Due to insufficient working capital, trade is characterized by quick turnover of stocks. Trading is dominated by money speculation, except when Ugandan traders exchange food commodities for Kenya's industrial products.

The traders rely on hired transport and, generally, lack their own storage facilities. In most cases, the goods arrive at the border sites in hired trucks and are stored in rented stalls/shops while arrangements are made to smuggle the goods across the border, either during the day or at night. Traders hire porters to carry small quantities of their merchandise through footpaths. The major sources of marketing information are interpersonal communication, prevailing supply/demand conditions, experience with seasonality in production and supply, and the established print and electronic media.

Lack of working capital was cited by traders as the single largest barrier to starting and/or expanding an import/export business. Other constraints were high tax rates, institutional restrictions in the form of lengthy procedures involved in the issuance of licenses, limited credit facilities, harassment by public officials, poor infrastructure, and increased corruption at the border. These administrative and regulatory burdens inhibit traders' ability to adjust quickly to the volatile domestic and export market conditions.

VOLUME AND DIRECTION OF INFORMAL TRADE: FOOD SECURITY IMPLICATIONS

The results of the study indicate that informal cross-border trade activities between Kenya and Uganda involve an exchange of substantial quantities of agricultural and industrial goods.

Various categories of transporters and couriers serve a smaller group of entrepreneurs, while some public officials invariably combine their official duties with active participation in the informal trade. Rent-seeking practices among public officials at the major border crossing points and cumbersome import/export procedures encourage both large and small traders to pass their goods through undesignated routes.

The commodities monitored at the Kenya-Uganda border were classified into two broad categories: agricultural (mainly food items) and nonagricultural (manufactured goods and forest resources). The direction and composition of trade both confirm the common view that Kenya, in relation to her neighbors, has a comparative advantage in manufacturing and processing. During the survey period, Uganda informally exported to Kenya an estimated 84,250 metric tons (MT) of maize valued at about \$12.4 million.

Kenya produces about 200,000 MT of beans annually, but this falls short of consumption requirements. Part of the excess demand is met by imports from Uganda and Tanzania. During the survey period, Kenya imported an estimated 9,300 MT of beans that were not registered by the customs officials. These imports were valued at close to \$5 million, using an average price of \$520 per MT. About 13,000 MT of sorghum, *simsim*, *choroko*, millet, groundnuts, and rice, with a total value of \$5 million, were also imported from Uganda. In addition, Kenya also imported bananas and other fruits valued at more than \$0.5 million and roots/tubers estimated at about \$2 million.

The bulk of Kenya's exports of cereals to Uganda were in the form of wheat flour amounting to about 16,000 MT worth \$8 million. Kenya is generally a net importer of wheat, thus implying that her wheat flour exports to Uganda derive from value-added services in her milling sector. The same applies to bread and milk, whose values were estimated at \$2.4 and \$1.2 million, respectively, and maize flour and confectioneries, whose quantities were insignificant.

Sugar moved in both directions, but the trade

avored Kenya, which exported about 27,000 MT valued at \$20 million compared to imports from Uganda, which amounted to only 1,300 MT valued at just under \$1 million. The Lake trade routes handled the bulk of the sugar exports as one would expect since Kenyan sugar is produced in the area around Lake Victoria. More than 90% of the sugar from Uganda passed through Busia, suggesting that Uganda's unofficial sugar imports originated from the Jinja/Kakira area.

Another major food import from Uganda is fish which, during the 12-month monitoring period, was estimated at 92,000 MT valued at more than \$30 million. Fish trade around Lake Victoria has important socioeconomic implications. The monitoring exercise revealed that the bulk of the fish found on Kenya's beaches originated in Uganda and that the trade was closely linked to exports of Kenya's manufactured commodities to Uganda. Trade liberalization and consequent removal of restrictions on movement of goods within Kenya has caused the fishing industry to be infiltrated by large, well-organized up-country traders who exchange Kenya's manufactured products directly with Ugandan traders and fishermen. As a result, the smaller traders and fishermen in Kenya have become more vulnerable to food insecurity.

Uganda informally exports to Kenya charcoal and wood fuel valued at about \$3 million. Various kinds of timber (mostly hard woods with export restrictions) were also smuggled into Kenya, but the quantity and value of the transaction could not be established due to the irclandestine nature. Cross-border trade of these forest resources has important implications for food security, environment, and energy use in both Kenya and Uganda.

Major nonagricultural imports from Uganda included re-exports of textiles and bicycle/car parts valued at about \$2 million. Trade in spare parts, petroleum products, and electronic equipment was more vibrant in the 1980s, when Kenya's restrictive import policies and high taxes created huge cross-border price differentials. At the time of this study, the flow of these goods was predominantly in the direction of Uganda.

Petrol, cooking oils, fats, beer, and wine were the leading informal exports to Uganda, with estimated values of \$11.3 million, \$10.8 million, and \$6.0 million, respectively. Other items included soft drinks (\$5.1 million), cigarettes (\$3.7 million) toiletries (\$3.0 million), hardware (\$3.0 million), textiles (\$1.5 million), and salt (\$0.8 million). Although most of the trade in textiles involved used clothing popularly known in eastern and southern Africa as *mitumba*, Ugandan cotton farmers reportedly delivered their lint to Kenyan ginneries located close to the border. Our monitoring, however, did not register any such transactions since they took place at small trading centers along the open border.

Kenya's informal exports to Uganda were worth more than \$47 million in 1994-95, compared to Uganda's exports of only \$5.4 million indicating that trade balance in industrial manufactures favored Kenya. For the food commodities, estimates indicate that annual movement from Kenya to Uganda was worth more than \$37 million, while those from Uganda to Kenya were worth \$57 million. The total unrecorded food trade between the two countries was therefore \$94 million, with the trade balance falling in favor of Uganda. The total value of trade in food commodities was significantly higher than that of trade in industrial goods, and the direction of trade conformed to the theory of comparative advantage. The total annual value of unofficial trade (both imports and exports of agricultural and industrial goods) was estimated at more than \$146 million, with the overall balance of trade favoring Kenya.

According to the *Kenyan Economic Surveys* (various issues), the country's average annual trade (both imports and exports) for the period 1984 to 1994 was \$96 million, which was significantly less than the estimated informal trade for 1994-95. In other words, the unrecorded trade was more than 150% of the official trade. The unrecorded trade was about 60% of the \$247 million reported as the official total trade between Kenya and Uganda for the year 1994. Projections based on actual reported trade indicated that total trade between Kenya and Uganda would be about \$260 million for the year

1995. The estimates of the informal cross-border trade reported here suggest that over half of this total trade would not be registered, thus implying a serious omission in the calculation of both countries' gross domestic products. The unrecorded trade, as a proportion of total actual trade, is probably much higher than indicated here, due to the fact that the methodology used for estimating informal trade could not account for unrecording arising from misdeclarations, trade in contrabands, trade through border sites not sampled for monitoring, and some of the trade which took place at night.

DETERMINANTS OF TRADE

Policies aimed at promoting international or intraregional trade and weather conditions were found to be the prime determinants of the level and seasonality of informal cross-border trade, especially of food commodities. Whereas comparative advantage exists in the production of some commodities, trade in many of the commodities is driven by demand and supply factors. The gains from informal trade include job creation and provision of both agricultural and industrial goods that would otherwise be unavailable. Informal trade thus plays an important role in food security by moving food from surplus to deficit areas and by providing income to those involved in it. However, informal trade encourages official corruption and could be a source of revenue loss to the exchequer. In addition, due to the nature of informal trade, there is a low degree of specialization in traders' operations, and the transaction costs could be high. Other problems, including quality control and adherence to phytosanitary requirements, arise from poor handling during transportation and storage of goods. A common feature in the informal cross-border trade is the numerous number of times that the goods are shifted from one mode of transport and/or storage to another.

CONCLUSIONS AND POLICY CONCERNS FOR THE FUTURE

The study concludes that a large trade potential exists between Kenya and Uganda and that trade liberalization through regional cooperation initiatives will enhance the realization of this potential. More appropriate trade policies are needed. While policies are being considered, and to some extent implemented, emphasis should be given to the elimination of trade obstacles, such as nontariff and institutional barriers, which increase transaction costs for importers and exporters. The objective of maximizing revenue collection through high tariffs is sometimes considered by governments in a short-term perspective and overrides other important criteria, such as efficiency in production through increased trade. Concern over domestic food security is often used to justify import and export restrictions on maize and other staples, but this takes little account of the role of intraregional trade as a source of external markets and of stabilization of domestic food prices.

Trade liberalization will increase the access of small-scale producers and traders to adequate capital and new methods of risk management. An expanded role for the traders requires an expanded supply of working capital to finance purchases and inventories. For the producers, a significant supply response would require substantial investments in improved technologies, input supply systems, and supporting services. National governments, on the other hand, should enhance public confidence by reaffirming their resolve to leave trade to the private sector. They should refrain from internal controls on prices and grain movements and intervene only in special circumstances involving grave threats to national food security.

In summary, trade and food security are likely to be improved between Kenya and Uganda if the following are implemented:

- harmonization of domestic food policies, which may require governments foregoing some autonomy in their design and

- implementation;
- access of emergent small-scale producers and traders to adequate capital and new methods of risk management;
 - removal of trade constraints such as poor

- trade information, poor trade infrastructure, licensing, tariffs, quotas and administrative bottlenecks; and last, but by no means least,
- political commitment to all these initiatives.

Glossary of Acronyms and Abbreviations

AFR/SD/PSGE	Africa Bureau's Productive Sector Growth and Environment Division in the Office of Sustainable Development, USAID
COMESA	Common Market for Eastern and Southern Africa
GDP	Gross Domestic Product
EAC	East African Community
IMF	International Monetary Fund
FAO	Food and Agriculture Organization
forex	Foreign Exchange
ICBTS	Informal Cross-Border Trade Studies
IGADD	Inter-Governmental Authority on Drought and Development
IGAD	Inter-Governmental Authority on Development
NCPB	National Cereals and Produce Board
PFP	Policy Framework Paper
PTA	Preferential Trade Area (now COMESA)
REDSO/ESA	Regional Economic Development Support Office in Eastern and Southern Africa, USAID
SADCC	Southern Africa Development Coordination Conference (now SADC)
SADC	Southern Africa Development Community
SSA	Sub-Saharan Africa
SAPs	Structural Adjustment Programs
USAID	United States Agency for International Development

1. Introduction

Many countries in sub-Saharan Africa (SSA) registered a period of growth immediately after independence. After this initial period of growth, most economies in the region faltered then went into decline. Sub-Saharan Africa has witnessed a decade of falling per capita incomes, increasing hunger, and accelerating ecological degradation (World Bank, 1989). Africa's deepening crisis is characterized by weak agricultural growth, a decline in industrial output, poor export performance, debt burden that is increasing and deteriorating social indicators, institutions, and environment (World Bank, 1989). Famine is a common phenomenon in SSA and the immediate causes of it may be regional shortages of food or inaccessibility to available food due to political disturbances and/or massive income decline as a result of reduced employment and market disruptions. Agricultural output has grown annually by less than 1.5 percent on average since 1970, with food production rising more slowly than the average population growth rate of 3 percent per year. These trends pose a great threat to the region's food security.

Stagnating or declining trends in food production per capita and an increasing inability to meet the shortfalls with imports have created severe problems for a number of countries. Although there is a tendency to cite psychological, climatic, or other more or less immutable factors to explain food crisis in Africa, the problem lies in valid economic reasons (FAO, 1967; Braun, 1991; Ongaro, 1995). Natural calamities and ecological constraints, changing structures of economic production and exchange, demographic movements, and impact of changes in terms of trade all contribute to food crisis in Africa, but the major culprit is said to be the inappropriate food policies pursued by various governments. Food insecurity is thus a symptom of a much broader economic crisis.

Long-term food security requires sustained production increases and access to international markets. Trade and trade liberalization thus have important roles to play. Trade liberalization for agricultural products would contribute to greater price stability in international markets and would make it easier for low-income countries to import food when domestic production is adversely affected thus improving the security of food supplies. In theory therefore, if commodities were allowed to flow freely among nations, allocated only by a free market price, all nations could achieve a high degree of year-to-year stability of supplies without large reserve stocks. In such a free trade world, each nation could rely primarily on its trade opportunities, and financial reserves to offset fluctuations in its own production. However, most nations have policies to stabilize domestic food prices by insulating themselves whenever possible from adverse movements in the world market. The mechanisms to do this are: variable import levies and export tariffs; state trading organizations which vary the differential between internal and export prices; and other export and import control devices. Few nations operate without some protective policies. Nevertheless, the important lesson for developing countries is that improved opportunities for and capacity to trade can make an important contribution to food security.

Trade expansion among developing countries has gained in importance as a means of fostering economic development (Musonda, 1995). This has been recognized as a virtue and is entailed in structural adjustment policies being followed by SSA countries with a view to arresting two decades of economic deterioration. This deterioration has been attributed, among other things, to inappropriate trade and payment policies such as over-valued exchange rates and exchange controls, high tariffs, quantitative restrictions (import/export quotas, voluntary trade

restrictions, purchasing agreements, or just restrictions that prevent economies of scale being realized), distorted credit allocation, and heavy domestic market production. These result in a divergence between world prices and domestic prices leading to policy-induced distortions with considerable macroeconomic implications (World Bank, 1988b; World Bank, 1990).

Trade within sub-Saharan Africa not only remains woefully low in physical and value terms but is also fraught with selfish regulations and policies adopted by the incumbent governments. According to PTA (1994), very little trade goes on among member states. For example, in 1992 the value of total PTA exports was \$12,453 million, and only \$826 million (about 7%) was to member states. The total value of PTA imports was \$17,496 million of which \$826 million (5%) was from member states.

Various regional cooperation initiatives have been put in place to boost intra-Africa trade. Examples of such initiatives include: the East African Community (EAC); the Preferential Trade Area (PTA) for ESA Countries, now the Common Market for Eastern and Southern Africa (COMESA); the Southern African Development Coordination Conference (SADCC) that has been transformed since 1991 to Southern Africa Development Community (SADC)¹; and the Inter-Governmental Authority on Drought and Development (IGADD), which has been transformed into the Inter-Governmental Authority on Development (IGAD), since March 1996. Despite these efforts, there has been limited achievement of regionalism and market integration among SSA countries. A number of reasons have been put forward to explain this failure. In general, market integration has been hampered by the non-competitiveness of member states compared with third-country suppliers, the high cost of doing business, disparity in economic performance, political differences, unequal

distribution of benefits, divided loyalty of some countries under SADC and COMESA, the shortage of foreign exchange and credit because of distortions in macroeconomic policy, limited complementarity in production, and the failure to liberalize trade. The distortions have spurred the growth of Africa's parallel markets and informal cross-border trade.

THE PROBLEM

Concern about informal trade has gained precedence in the literature (World Bank, 1989; PTA, 1994; Musonda, 1995; Ongaro, 1995). Although informal trade comes in different forms or known by different names (e.g., illegal, unofficial, underground, parallel market activities, black market activities, over- and under-invoicing, smuggling or hoarding), it is characterized by not being entered in national accounts. This unrecording may therefore give wrong signals to policy makers. In Eastern and Southern Africa in particular, indications are that informal (unrecorded) trade is still extremely high. For example, it is estimated that 30,000 - 60,000 metric tons of maize is smuggled annually from Zambia to Zaire costing the former \$3 million and that much of the Malawian "surplus" maize in the early 1980s was Mozambican (Berg *et al.*, 1985). The Uganda Petroleum Dealers Association estimates that 25 percent of petroleum fuel (petrol, diesel and paraffin) consumed in Uganda is smuggled from Kenya, costing the Ugandan government about \$1.2 million annually (Kingsburry as quoted by Ackello-Ogutu, 1995). In Tanzania, the estimated size of the underground economy as a percentage of official GNP was 9.8% in 1978, 21.1% in 1979, 24.2% in 1982 and 31.4% in 1986 (Musonda, 1995).

Many studies have explored the reasons why informal trade is carried out. It has been pointed out that, in general, the restrictive policies followed in many countries create incentives for illegal trade. Restrictions such as import tariffs, quotas, exchange controls, state trading

¹ Member countries include Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe, Namibia, South Africa, and Mauritius.

monopolies, and export restrictions (such as declaration of the foreign exchange obtained and export licensing) create incentives to beat the system. High tariffs and export taxes encourage smuggling and misinvoicing of imports and exports, primarily as a means to evade taxes. This leads to understatement of the recorded trade. Overvalued domestic currencies resulting from exchange controls reduce export prices and therefore act as implicit taxes on exporters. Foreign exchange controls contribute to distortions of recorded trade by encouraging overinvoicing of imports and under-invoicing of exports as a means of capital flight. This overstates recorded imports and understates recorded exports. Smuggling has also been facilitated in the past by barter trade and by the semi-convertibility of currencies in border areas. Import licensing, often a response to an overvalued currency, restricts the supply of imports and raises their domestic price which in turn provides incentives for a parallel market in smuggled goods. Relative price differentials between countries and shortages in a particular country also encourage border trade.

Scarcity and shortages in some of the neighboring countries create effective demand and high profits thus making it extremely difficult to control smuggling. The other cause could be the uncoordinated and partial implementation of structural adjustment programs and half measures aimed at removal of formal trade barriers.

Some events in the history of SSA countries have prevented "normal trade" to take its course. For example, civil strife in Uganda from early 1970s until the mid-1980s, and civil war in Mozambique which was continuous for almost two decades, are some of the events. Another important factor is drought. It is well known that the individual main staple foodstuffs are differently prone to drought. As production patterns differ between countries and as the consumption patterns of cereals are more or less similar in the region, many a time, cross-border trade increases during drought to mitigate the effects of production shortfalls in the drought stricken countries.

Government taxation policies may contribute to illegal trade. When, for instance, a sales or value added tax is paid, supply and demand clear at the tax-paid price. Excess demand exists at pre-tax price, but it is illegal to offer goods at that price. If the risks of evading taxes are not prohibitive, supplies will meet that demand at a price that is less than the tax paid price.

Lack of information could be another barrier to increased trade. Asymmetric information could be an effective entry barrier, insulating the better informed from the rigors of competition by deterring new entrants (Mendoza and Rosegrant, 1992). And lastly, cross-border trade in some cases arises due to the introduction of pan-territorial and pan-seasonal pricing in a country. In effect, pan-territorial pricing "penalizes" areas with least transportation costs and "subsidizes" those with high transport costs.

Interest in cross-border trade between Kenya and Uganda has been overwhelming but inadequate knowledge of its magnitude not only leads to misleading figures in national accounts but also inhibits formulation of appropriate policies and strategies to exploit its potential impact particularly on national food security.

The exports to the PTA sub-region form a high proportion of Kenya's total exports to Africa. However, the share has declined moving from 95% in 1987 to 84% in 1991. The exports also form a significant proportion of Kenya's total exports, although the shares declined from 24% in 1988 to about 20% in 1991. The major markets for Kenyan exports are Uganda, Tanzania, Rwanda, Sudan, Zaire, Somalia, Burundi and Ethiopia. The share of exports to these markets in 1991 was 89%. Uganda (34%), Tanzania (17%), Rwanda (9%) and Sudan (9%) constituted 69% of the market. This indicates that there is a geographical concentration of exports within the sub-region, with Uganda buying the bulk of the Kenyan exports.

Kenya's imports from the sub-region represent a sizeable proportion of imports as a whole. This averaged 94% between 1987 and 1990 (except in 1989). The share dropped significantly to 78% in 1991. Kenya's import from the sub-region form a small share of the

total imports (2.7% to 2.9% between 1987 and 1990). Table 1.1 shows the value of Kenya's trade with Uganda from 1987 to 1991. From the

table, it is clear that the terms of trade favored Kenya during the period under review.

Table 1.1 Value of Kenyan Exports to and Imports from Uganda, 1987 – 1991 ('000 Kenya Pounds)

Year	Export	Import
1987	69,687	910
1988	83,696	1,266
1989	65,919	1,063
1990	64,043	1,314
1991	107,250	2,651

Source: Cross-border Initiative Workshop, 1992.

Although Kenya and Uganda are important trading partners, there still exist major constraints to formal trade linkages. It is widely felt that unrecorded trade between Kenya and Uganda is likely to be substantial and vital to the two countries but many questions remain unanswered: What are the commodities being traded and what are the quantities involved? Where does the comparative or competitive advantage lie with respect to the key commodities being traded, and what would be the net benefit to be gained from trade liberalization? As part of the effort to begin to understand and quantify the role of unofficial trade in Eastern and Southern Africa, TechnoServe on behalf of USAID's Regional Economic Development Support Office in Nairobi, Kenya (REDSO/ESA) and the Africa Bureau's Productive Sector Growth and Environment Division in the Office of Sustainable Development (AFR/SD/PSGE), commissioned a survey of unofficial trade between Kenya and Uganda in August 1994.

SURVEY OBJECTIVES

The broad objective of the survey was to provide qualitative and quantitative information about informal cross-border trade and to assess its impact on national food security. The questions raised above were addressed by fulfilling the following specific objectives:

- provide an overall analysis of how the informal traders overcome the major constraints facing formal traders such as mutually acceptable exchange rates, transportation, information, financing and means of balancing trade between Kenya and Uganda;
- provide estimates of the magnitude of unrecorded trade highlighting the most important commodities (and categories of commodities) being traded and the trade patterns;
- give a comparative analysis of recorded and unofficial (unrecorded) trade volumes highlighting the factors determining the disparity between the two;

- provide an overall assessment of the impact of informal cross-border trade on national food security and the effects of cross-border trade liberalization; and,
- recommend steps that should be taken to enhance trade between Kenya and Uganda.

2. Research Methodology²

Techniques for Quantifying Cross-Border Trade

USING SECONDARY DATA

The use of data recorded by the customs officials may reveal the extent of unofficial trade between Kenya and Uganda. For a given commodity, the official trade figures of the two countries hardly tally. For example, re-exports of sugar, rice and wheat flour from Kenya are illegally made to Uganda across the border at Busia and Malaba. Since the Uganda Revenue Authority mounts sporadic road blocks to check for tax payment, traders are accustomed to the idea and do pay the relevant taxes before transporting the smuggled goods to their final destinations. One would therefore expect to find records of such imports in Uganda. Records of the exported goods would not exist on the Kenyan side.

Even in cases where trade flows are recorded by both countries, the values may not correspond due to over-/under-invoicing or misdeclaration aimed at exploiting lower tax rates or avoiding them altogether. Further estimation problems arise when both countries do not have records of trade flows as in the case of contrabands. For example, petrol, cigarettes, wines, spirits and cosmetics originating from Kenya were being treated by the Ugandan authorities as contrabands. The traders would therefore avoid declaration of these goods in either country. Similarly, trade flows in basic foodstuffs such as bananas, maize, beans, fish, fruits and vegetables, seem to go on unhindered especially when the amounts involved are small (head loads). Records hardly exist for such trade and actual border monitoring (observation) may be the only option for quantification.

A TECHNIQUE FOR BORDER MONITORING

Both official and unofficial cross-border trade is concentrated in and around well-established towns and customs points along the border. The unofficial routes are usually around these stations rather than in the remote and porous frontier region. The border monitoring was therefore concentrated around the established crossing points. Site selection was on the basis of practical considerations such as volume of trade, security, communication, transport links and availability of supporting institutions and recruitable personnel. The sites selected for intensive monitoring were: Usenge (A and B), Uhanya, Nambo, Osieko, Goe, Nyenye, Marenga (A and B), Mulukoba, Magoye, Busia and Malaba. All the sites, except Busia and Malaba, cater for Lake Victoria routes (See Map on page 6). Unlike other crossing points, the absence of a natural barrier at Busia facilitates smuggling. The sites around Busia therefore handle a relatively larger proportion of informal trade between Kenya and Uganda. Lwakhakha, Suam and Chepkube which are important crossing points were omitted due to security reasons. The monitoring period coincided with the political tensions between Kenya and Uganda. At the same time, the Kenyan side of the border was experiencing ethnic tensions and clashes. Normal trade at these border sites was therefore seriously affected. Other sites such as Alupe, Adungosi, Kendu Bay, Homa Bay, Mbita Asembo Bay, Kisumu, Sio Port and Sigulu Islands were omitted either because they did not handle significant trade and/or because it was difficult to ascertain the destination of the goods without engaging the trader in a lengthy conversation.

² Details can be found in Ackello-Ogutu, *Methodologies for Estimating Informal Cross-Border Trade in Eastern and Southern Africa*, SD Publication Series, Technical Paper No. 29, August 1996.

Kenya-Uganda Cross-Border Monitoring Sites



OBSERVATION TIME FRAMEWORK

Border monitoring along the Kenya/Uganda border commenced in early August, 1994 and lasted for 12 calendar months. The sampling procedure can be characterized as a two-stage process initially involving selection of judgmental clusters consisting of relevant trade practitioners at the specified border towns. The next stage required specification of two weeks randomly selected from each of the twelve months. In the case of the Kenya/Uganda border where we commenced monitoring during the second week of August 1994, the chart presented on Table 2.1 applied.

The figures in the third column of the chart indicate the weeks of the month when monitoring actually took place; for instance, 8.2 and 8.4 mean that the second and fourth quarters (weeks) of August 1994 were monitored. The weeks of the month to be monitored were randomly selected with the restriction that each quarter of the month was sampled (observed) six times over the 12 months thus providing adequate data to account for trade variability within a month. The random selection of the quarters was meant to avoid the potential influence enumerators may have on the trading activities and routines of those being monitored as would most likely occur if observation was concentrated at the same sites over a long stretch of time. Posting of enumerators at one point over a long period of time would also expose them unduly to life threatening encounters with smugglers who may feel that their hours of operation were being curtailed.

Monitoring was done using a census approach during day time (or whenever business ordinarily took place) for all the days of the week thus giving a total of 168 days (12 months x 2 weeks x 7 days). The 12 months period was

deemed long enough to capture trade seasonality within the year. Although the non-randomized nature of the sampling procedure did not allow making of inferences based on probability theory, attempts were made to cover no less than 80% of the unrecorded trade taking into account observation time as well as site and commodity coverage. The proportion not covered was accounted for by trade on contrabands and goods that were not easily observable such as electronics, cigarettes, spirits, precious metals and other valuable natural resources. Similarly, any trade that took place at life-threatening hours (e.g. during the night) and places could not be covered with any degree of certainty.

The problem of missed trade is to be expected in this kind of survey but in this particular case, its impact was minimized in several ways. First, most of the commodities traded were readily identified and could be recorded with precision. For example, goods manufactured by the East Africa Industries are contained in easily identified packages. Second, recruitment of the enumerators was on the basis of their thorough knowledge of the informal trade activities and practices at the site. The experience, coupled with some probing and inducement of the traders ensured the reliability of the records. And third, the focus of the study was on the link between informal trade and food security. The common practice was that large quantities of food commodities were being traded during day time. In addition, people and food commodities moved freely between the two countries. Head and hand loads of any food commodity could be moved across the border without a formal license and without paying a customs duty. Indeed, many traders bought large quantities of merchandise and sub-divided them into smaller packages to take advantage of this loophole.

Table 2.1. Time Chart for Monitoring Kenya/Uganda Cross-Border Trade

Year	Calendar Month	Week of Month Monitored
1994	August (8)	8.2 and 8.4
..	September (9)	9.1 and 9.3
..	October (10)	10.2 and 10.3
..	November (11)	11.1 and 11.4
..	December (12)	12.1 and 12.3
1995	January (1)	1.2 and 1.4
..	February (2)	2.2 and 2.3
..	March (3)	3.1 and 3.4
..	April (4)	4.2 and 4.4
..	May (5)	5.1 and 5.3
..	June (6)	6.2 and 6.3
..	July (7)	7.1 and 7.4

The other potential problems concerned the possibility of misdeclarations and double counting of the traded commodities. The problem of double counting was avoided by conducting the monitoring exercise only from one side of the border: the Kenyan side. Enumerators and their supervisors, however, crossed over to Uganda occasionally to compile price data, trader profiles and other relevant secondary information. Misdeclarations, mainly by truck owners, were not adequately covered because it was not practical and feasible to do so. However, it must be reiterated that the study focussed on agricultural commodities which were traded quite

freely and openly during the daytime. Although the enumerators were instructed to work only during the day for safety reasons, it was still possible to account for night trade. Due to lack of adequate storage facilities at most of the border towns, goods intended for night trade were usually assembled near the crossing points during the day and were therefore registered by the enumerators.

The minor difficulties notwithstanding, the observational technique was found to be the most cost-effective way of gathering data under border region conditions which are generally far from ideal.

DATA REQUIREMENT

To meet the objectives of this study, data were collected from the following primary sources:

- **Data from Weekly Observation (Monitoring):** composition of the goods; quantity/volume of the goods; exchange rates; commodity prices; direction of trade; observable determinants of trade (e.g., weather and demand/supply changes); mode of transport; and packaging and popular units of measure. Details of the data collected are contained in appendix A.
- **Baseline Data:** trader characteristics; information sources; mode of communication; prices; costs; financing (sources and availability); contracts/payment methods; grading; storage; mode of transport; origin and destination of goods; and packaging materials. (See details in appendixes B and C).

The baseline information was obtained using structured questionnaires. A total of 143 traders and 22 public officials were interviewed. The baseline survey was not intended for hawkers, couriers, and consumers due to sampling and logistical reasons. It was proposed that only one baseline survey be conducted mid-way through the project on the assumption that baseline data were not likely to change significantly on a weekly basis. Their compilation only once allowed the enumerators adequate time to simply monitor (observe) movement of goods from one country to another without asking too many questions. The baseline survey also provided the opportunity for individuals-both traders and officials-to register their opinions and experiences on record.

DATA ANALYSIS

Analysis of data specifically highlights the

following points which follow directly from the stated objectives of the survey:

- Descriptive statistics are used to evaluate the significance and implications of trade policies and other constraints faced by informal cross-border traders. Baseline data are used to evaluate, for selected commodities, the marketing structure, functions performed and price formation.
- Quantification of trade (value terms) has been done using monthly data from cross-border trade monitoring for the stipulated period of 12 months. For a given month denoted by m , the data used for derivation of the monthly, and, ultimately, the annual trade volumes, for a given commodity can be denoted by $q_m = (q_{mwd})$ where $w = 1..2$ denotes the number of monitoring weeks of month m , and $d = 1..7$ stands for days. Assuming a thirty day month, the estimate of the average monthly trade q_m in physical units is derived from the daily trade average by multiplying by 30 viz:

$$\bar{q}_m = \frac{30}{14} \sum_{w=1}^2 \sum_{d=1}^7 q_{wd}$$

where the symbols are as explained in the text. The estimate for the annual trade volume Q is then given as:

$$Q = \sum_{m=1}^{12} \bar{q}_m$$

Given estimates for the average price for each month \bar{p}_m , the total valuation (with local currencies appropriately converted to US\$) for the annual trade is :

$$V = \sum_{m=1}^{12} \bar{q}_m \bar{p}_m$$

Trade balance between Kenya and Uganda was derived from an import-export matrix constructed using the above equation summed up for all the relevant commodities.

- We adopt FAO's definition of food security as the ability by all consumers to have both physical and economic means of access to basic food requirements at all times. Three important ingredients of food security are: ensuring adequacy of food supply; maintaining supply stability; and ensuring access to supplies for all consumers.

Obviously, an optimal mix of these

ingredients can only be achieved through appropriate policies on domestic production, trade, distribution, prices and incomes. Whereas data and time constraints hindered exhaustive treatment of these factors, the baseline data yielded qualified statements about the potential impact of cross-border trade on national food security and the effects of trade liberalization. In particular, analyses were undertaken to highlight the following: composition of exports and imports; food trade (staples) as proportion of total trade volume; and seasonality in local food production relative to cross-border supply availability.

3. Results and Discussion

THE ECONOMY OF THE KENYA/UGANDA BORDER REGIONS

The territorial boundaries of almost all the African countries have artificially partitioned the national economic, social, cultural and ethnic links that existed between communities, kingdoms and/or regions. These borders were arbitrarily drawn regardless of cultural cohesion of the countries in question and separated people of same ethnicity held together for centuries by their common heritage and language. This is the case on the Kenya/Uganda border and history must be put in perspective to understand the intricacies that are sometimes involved in the cross-border trade. In most cases, cross-border interactions have operated largely as “informal” or “illegal” activities.

There are a number of border towns between Kenya and Uganda. The major inland border sites include Busia, Malaba, Lwakhakha, Suam and Chepkube. Although these border towns appear neglected in their physical outlook, they are very active in terms of cross-border trade activities. The busiest centers are Busia and Malaba, where infrastructural facilities including roads, telecommunications, power lines and supporting institutions like banks, are well developed on both sides of the border. Customs officials are present and one often sees security personnel inspecting heavy merchandise and vehicles. Sometimes when the political atmosphere gets ruffled up, crossing these official points can be pretty cumbersome but informal trade seems to get invigorated during such periods. The most noticeable trade around Suam revolves around cereals and fuels, with beans, maize and groundnuts finding their way into Kenya. Ugandans in turn receive hybrid maize seed, sugar, fuel and occasionally maize from Kenya.

At the time of the survey, Lwakhakha was still closed to vehicles but there were no restrictions for human traffic that kept streaming across the bridge with the wares ranging from *matoke* (cooking bananas) to everything that can be obtained on the Kenyan side.

Malaba, is perhaps the busiest border post between the two countries for heavy commercial vehicles. Like Busia, it has a heavy human traffic which is perpetually milling back and forth across the frontier river with many of them transporting bananas from Uganda on hand carts, bicycles and pick-up trucks or simply balancing the heavy bunches on their shoulders or heads. Bananas aside, a wide range of electronic equipment and textiles are smuggled from Uganda, mainly along unofficial routes across the river. Occasionally, the smugglers, most of whom are young boys, are caught by policemen and either have to bribe their way through or forfeit the wares. From the Kenyan side, anything from cooking fats, to bread, salt, petroleum products and beer finds its way across the border.

Traffic on Lake Victoria is also important and some of the main landing points include Homa Bay, Kendu Bay, Mbita, Usenge Beach, Sio Port, Asembo Bay, Sigulu and Ssesse Islands. With the rekindling of the East African cooperation, trade between the two countries is expected to increase.

In regions neighboring the inland border sites, agriculture is the predominant activity, accounting for over 75% of total employment. Most of the agricultural activities are subsistence in nature and sugar cane is the main cash crop found in the region. Thus, the main industries in the area are agro-based sugar industries which are not performing well due to the ailing nature of the sugar industry. In areas around the lake region, crop farming is practiced but is not a major cash income earner due to its

underdeveloped nature. Here, despite the fish economy being predominant, few of the local people are involved in the business thus causing a major food security concern. In the Lake region, where fishing is the predominant economy, few local people are involved in catching fish for sale or home consumption, which raises a major food security concern.

PROFILE OF INFORMAL TRADERS/PRACTITIONERS

Discussions with various government officials and traders during the baseline survey confirmed the existence of widespread unofficial/unrecorded trade in both agricultural and industrial products across the border. Many traders engage in informal trade because the official procedures are too rigid, long and bureaucratic thus increasing the costs of storage, food, accommodation and unofficial rents. Traders therefore avoid the costly official channels in favor of the unofficial means.

Cross-border trade was more or less similar in all the surveyed sites. However, there were some variations in trading practices and type of commodities traded. These similarities and variations will emerge clearly in the subsequent sections of this report.

Over 99% of the traders interviewed were adults, about 47% being female and 52% male. Children (below the age of 16 years) played a significant role in the informal trade as couriers but were not within our sampling frame for the baseline survey. At border crossing points, one often sees children carrying smaller parcels of commodities moving in either direction. The cross-border trade thus supports a relatively large number of young men and women who would otherwise be unemployed.

About 90% of the traders interviewed were residents of Kenyan border towns, with only 6% residing in nearby towns (20km and above from the border). The remaining 4% of the traders were residents of border and other towns in Uganda. The majority (89%) of these traders

were literate. It has been argued before (e.g., Hayami and Ruttan, 1985) that lack of education is the basis of conservatism, limitation of capacity to absorb risks, fear to invest in production resources and a general lack of information. The level of literacy also affects the functioning of a family, type of employment and occupation. Literate traders may be better placed to read market signals and probably have a higher probability of getting access to credit facilities necessary for expansion of their businesses.

Apart from traders, there are other market functionaries that have a direct or indirect influence on the cross-border trade. These include government ministries, donor-aided projects under government ministries, commercial firms and institutions, government parastatals, non-governmental organizations, financial institutions and cooperatives. These market functionaries have various roles to play ranging from overseeing cross-border trade to trade facilitation and trade promotion. About 69% of the officials interviewed were from government ministries, 12% were from government parastatals and 19% were from other organizations and institutions. In particular, these officials were involved in research work (10%), anti-smuggling (24%), issuing of import and export licences (10%) and revenue collection which occupied the majority (58%).

COMMODITIES TRADED

The main commodities passing through the Kenya/Uganda border as revealed by the present study can be categorized into **agricultural commodities** (maize, maize meal, sugar, milk, rice, wheat flour), **industrial goods** (cooking fats/oils, petroleum products), **water resources** (fish) and **forest resources** (charcoal and timber). Except for rice, all the exports (cooking fats/oils, wheat flour, petroleum products, milk, maize meal, sugar and bread) were locally produced in Kenya. All the agricultural commodities (unmilled maize, beans, groundnuts bananas and rice), charcoal and fish imports into

Kenya were all locally produced in Uganda except for industrial goods all of which were re-exports.

The import/export of these commodities has taken place for many years, much of it as unofficial petty trade. For instance, Kenya is a net importer of wheat and rice yet it exports these commodities unofficially to Uganda. This indicates lack of policy harmonization between the two countries and a high demand for these commodities in Uganda relative to the supply. Estimates of unofficial trade are given and discussed elsewhere in this report.

With the advent of trade liberalization, the prices of the traded commodities were being determined by the market forces of supply and demand. Because of the liberalization policy, prices are bound to differ significantly from one region (site) to another, and in a country as a whole. However, in the period preceding liberalization, the pan-territorial and pan-seasonal pricing policies were in place even for the seasonal agricultural commodities. With these kinds of policies, producer and consumer prices were set by the government. The policies thus gave producers some sort of assurance of a

market for their surplus produce, especially in the isolated remote areas away from the main internal markets and major transport routes. Under such conditions, prices failed to play their function of guiding resource allocation. At the time of the survey, the overall average buying and selling price per unit of the traded commodities were as shown in Table 3.1. These averages were derived from the prevailing cross-border prices at all the surveyed sites. Although bananas were popular with the smugglers on either side of the Kenya-Uganda border, the baseline survey did not capture trade in this commodity. The monitoring data, however, shows that bananas were among the agricultural food commodity imports from Uganda into Kenya, with prices averaging Ksh 11.40 per kg.

Since the objective of the present study was not to calculate the profitability of different marketing channels, no efforts were made to generate adequate data for such analysis. However, some costs associated with cross-border trade will be presented in a subsequent sub-section.

Table 3.1 Average Buying and Selling Price Per Unit of Commodity Trade d (Ksh)*

Commodity	Buying	Selling
Fish (kg)	36.2	47.5
Maize (kg)	7.8	8.7
Beans (kg)	20.4	22.7
Groundnuts (kg)	41.8	45.4
Charcoal (kg)	3.8	5.2
Rice (kg)	38.6	43.2
Cooking fats/oils (kg)	78.6	101.4
Wheat flour (kg)	23.0	25.8
Petroleum Products (lt)	60.0	66.0
Maize meal (kg)	18.8	25.5
Sugar (kg)	34.4	38.4
Bread (kg)	28.9	33.5

* Exchange Rate: 1 US\$ = 55 Ksh

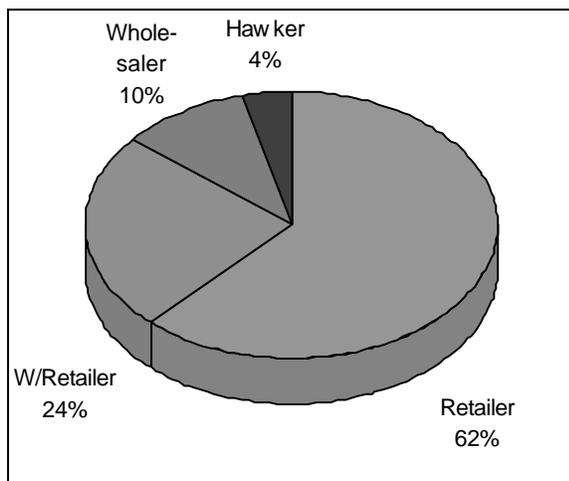
Source: Compiled From the Baseline Survey

BUSINESS CATEGORIES OF TRADERS AND SOURCES OF FINANCE

The majority (62%) of the traders interviewed were retailers, 24% were wholesalers/retailers, 10% were wholesalers and 4% were hawkers. Most of these traders were small in size with hardly any capital in terms of transport, storage facilities and money. They dealt in a variety of commodities, trading in any commodity that they could manage to acquire, with no special emphasis on any particular one. Such product diversification was undertaken in order to spread risks. Because of their small size nature, there was no potential for holding large stocks of merchandise.

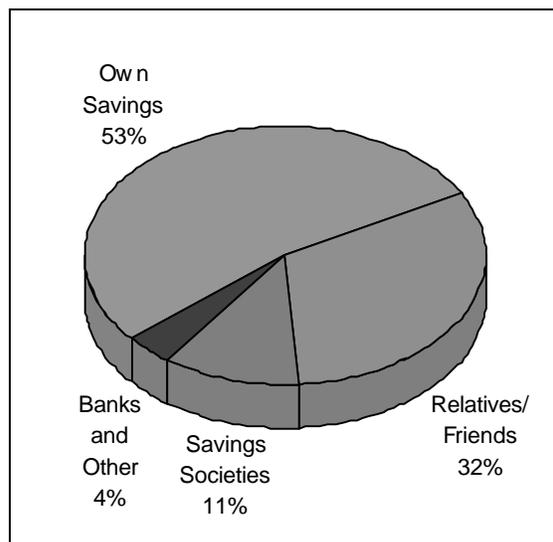
The survey results show that 30% of the traders had initial capital of Ksh 1000/= and below, 59% had over Ksh 1000/= but below Ksh 5000/=, and only 11% had initial capital over Ksh 5000/=. Only 58% of the traders had officially registered their business and the main reason given for not being registered was that the businesses were small. Other reasons included lack of money, and adequate operating premises. Others thought that it was not necessary to register the business.

Figure 3.1. Trader Categories



Although credit was cited as a critical constraint in the procurement and storage of the traded commodities, 86% of the traders interviewed were unable to source their finances from the formal financial institutions and had to rely on their own savings, informal money lenders, friends and relatives as illustrated in Figure 3.2. A smaller proportion of the traders mentioned that they had been able to obtain funds from savings societies and commercial banks. Since nearly half of the traders did not have bank accounts because of the high cost of operating one, ignorance and inaccessibility of banks, it is unlikely that these formal financial institutions constituted a viable source of finance for the informal traders. Lack of initial capital and shortage of operating funds was therefore acting as a major barrier to market entry and trade expansion.

Figure 3.2. Sources of Funds



Marketing Functions

Traders performed different marketing functions, and a marketing function is herein defined as a major specialized activity which is undertaken in order to accomplish a marketing process. Marketing functions can broadly be divided into three broad classes namely:

- (1) exchange functions — buying and selling functions;
- (2) physical functions — transportation, processing, and storage functions;
- (3) facilitating functions — standardization, risk bearing, financing, market intelligence and entrepreneurial functions. Some of these marketing functions are discussed below.

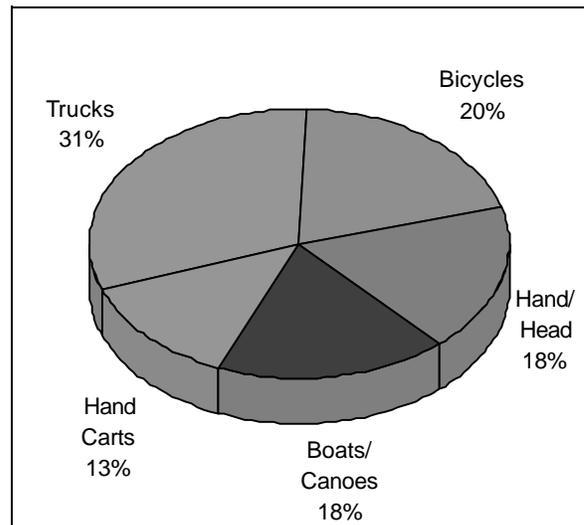
Exchange Functions

Exchange functions involve any activity which is concerned with the transfer of title to goods and therefore create possession utility. The search for sources of supplies, assembly of the products, purchase activities, physical display of the commodities, product promotion, or any decision a marketer takes in order to facilitate the sale of a product constitute exchange functions. For both imports and exports, over 90% of the traders dealt in cash and the Kenyan shilling, which exchanged on average for 100 Ugandan shillings, was the preferred currency. There was a thriving parallel market for money. Prices could therefore be quoted in either Kenya shillings or Uganda shillings. In some cases, barter trade was used in which the Uganda traders exchanged their agricultural commodities including fish, for Kenya's industrial products.

Storage

Storage involves either the holding of large quantities of raw materials in warehouses until they are needed for further processing, or the holding of the supply of finished products as the inventories of processors, manufacturers or merchant middlemen. About 76% of the traders used storage facilities of some sort. Of these, 27% owned the store(s) and 49% rented them. Others (24%) either did not require storage facilities (e.g., fishermen who disposed of their catch on the same day), or kept their ware in urban council markets, in which case they had to pay a fee for hiring security personnel. Others kept their merchandise in their business premises.

Figure 3.3. Means of Transportation



Transportation

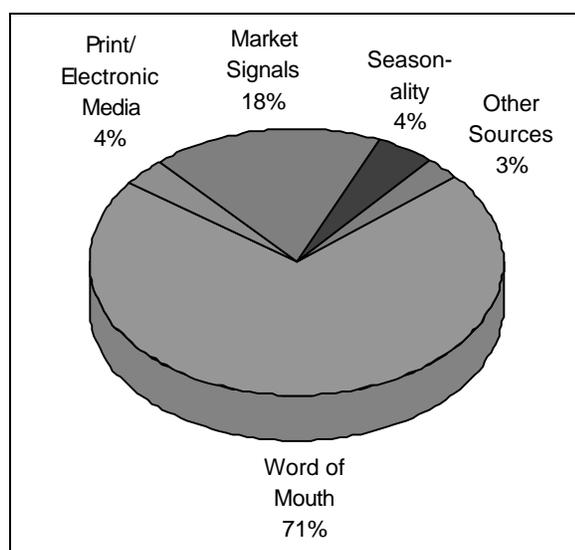
Transportation function enables goods to be available to the users where they are required and therefore creates place utility. When undertaken, it solves the problem of “where” in a marketing process. The bulk of the commodities were traded using road (81%) and lake (16%) routes while the popular means of transport were trucks, bicycles, boats and hand carts as shown in the chart below. On the inland routes, many traders hired couriers who carried the goods by hand and head across the border. Figure 3.3 depicts these proportions.

In most cases, when goods arrived at the border in hired trucks, the traders stored them in rented stalls/shops awaiting export. Arrangements were then made to smuggle the commodities across the border either during the day or at night. To facilitate this, traders hire porters to carry their merchandise through foot paths in small quantities. Due to lack of adequate personnel and financial resources, it was extremely difficult for government officials to apprehend traders who did not use the official channels; indeed in most cases, no effort was made to do so since customs and security personnel benefitted in one way or another from the informal trade.

Sorting, Grading and Processing

Sorting and grading are important activities in the marketing process because they ensure maintenance of a uniform measurement of size, color and quality. The majority (90%) of the traders interviewed undertook some form of sorting and grading with 7% undertaking re-processing and only 3% re-packaging their merchandise. Sorting and grading was done for agricultural commodities while processing was done mainly for fish (smoking and drying) and re-packaging for sugar.

Figure 3.4. Information Sources



Information Generation and Dissemination

An effective price mechanism is dependent on well informed buyers and sellers. Marketing intelligence function is thus critical to an effective economic system in general and a marketing system in particular. The survey results show that about 70% of the traders obtained this vital information by word of mouth through friends and business colleagues while the rest obtained information through other sources as shown in the chart.

OFFICIAL AND UNOFFICIAL COSTS AND BENEFITS OF INFORMAL TRADE

A detailed comparative analysis of the costs for the different market channels could not be undertaken in this study. We provide here only a very broad impression of the expenses incurred by the informal cross-border traders interviewed in the baseline survey. The following categories of costs were noted during the survey:

- i) transfer costs comprising handling, packaging and transportation;
- ii) storage and rental expenses;
- iii) hired labor;
- iv) accommodation and food costs; and,
- v) costs associated with the risks involved in operations of the business.

These are the expenses which prevailed at the time of the study. Those which could easily be quantified by the traders are given in Table 3.2.

There are some costs attributable to the risks involved in the operations of the business. These costs can be unnecessarily high because of accommodating various risks. In the current period of regulatory flux, traders complained of continued harassment from agents of economic police, who alleged that they (traders) were not meeting all the legal requirements of the trade. In addition, due to the nature of informal trade, traders were forced to ship their merchandise in small quantities in order to avoid detection by the authorities and minimize losses in case of confiscation. Similarly, storage facilities were dispersed to avoid detection; many traders rarely stored grain for more than a few weeks.

Due to the clandestine nature of the operation, and frequent shifting and handling of the goods, transaction costs are likely to be high. Transaction costs are the economic equivalent of friction in physical terms. They are the costs in exchange that do not directly benefit either of the parties to the transaction; they simply make it more difficult and less attractive. At the national

level, tax evasion by those participating in the informal trade costs governments money in terms of revenue loss. The case of uncollected revenue from smuggled fuel in Uganda is very devastating to her economy. At the same time, informal trade enhances corruption through the giving or receiving of bribes and this is an implicit cost to the whole society.

Informal cross-border trade can easily be a means of encouraging the dumping of inferior manufactured goods, and may harm the industry of the country receiving such goods. Questions relating to hygiene do also arise as most of the commodities are generally handled in an

unhealthy manner.

Although the study was not designed to evaluate the impact of informal trade on employment, it could be clearly seen that many people — men, women and children — were engaged in cross border trade directly as traders or indirectly as agents and transporters/couriers. These people would otherwise be unemployed. Consumers also benefit because informal trade supplies products across the border that would otherwise be unavailable thereby helping to lower and stabilize prices. Informal trade therefore contributes significantly to improving the food security situation around border regions.

Table 3.2 Average Annual Costs Incurred on Trade Transactions

Expense	Average Annual Cost (Dollars, in Millions) Number of Traders (%)	
Transportation	Below 100	49.0
	101 – 200	14.5
	201 – 300	5.7
	Over 300	30.8
Storage	Below 100	67.2
	101 – 200	8.2
	201 – 300	11.5
	Over 300	13.1
Rental	Below 100	30.5
	101 – 200	24.6
	201 – 300	9.3
	Over 300	35.6
Accommodation/Food	Below 100	5.1
	101 – 200	7.3
	201 – 300	3.6
	Over 300	84.1
Labor	Below 100	48.2
	101 – 200	13.2
	201 – 300	7.2
	Over 300	31.3
Other	Below 100	38.2
	101 – 200	11.4
	201 – 300	7.3
	Over 300	43.1

Source: Compiled from Questionnaire Responses.

Agricultural markets are important in technology adoption, and increases in production are likely to be sustained where there are sufficient market outlets, a role that informal trade plays. Thus, informal trade implies provision of supplies for importers and market availability for producers and/or exporters. Hence, there are no losers in the game, all the countries involved derive benefits.

Although risks inherent in informal trade could be high, it is apparent that the rewards in terms of employment and profit more than off-set the practitioners' opportunity costs. At most of the border sites, traders openly made what appeared to be standard payment to the security personnel manning the unofficial routes. Although such payments were illegal, they constituted extra income to these officials.

ESTIMATED VOLUME OF INFORMAL IMPORTS FROM UGANDA

The estimates of informal cross-border trade between Kenya and Uganda were derived from

the monitoring of a sample border sites over a period of 12 months. The border monitoring was carried out at the following sites: Usenge A, Usenge B, Uhanya, Nambo, Osieko, Goe, Nyenye, Marenga A, Marenga B, Mulukoba, Magoye, Busia and Malaba. The emphasis in subsequent discussion is on agricultural commodities due to the obvious links to food security. It must be noted that data was being monitored from the Kenyan side, hence "exports" refer to the flow of commodities from Kenya to Uganda and "imports" refer to the flow of commodities into Kenya, for a period covering August 1994 to July 1995.

The major agricultural food commodities that entered Kenya from Uganda (imports) were maize, beans, and fish. Sugar, root crops (tubers), bananas and other fruits were also imported. Other grains imported but in smaller quantities were sorghum, simsim, choroko, millet, groundnuts, and rice. These imports passed through virtually all the border points that were monitored during the period under review. We present below the statistics for these commodities and what they imply in terms of policy and food security.

Table 3.3 Quantity and Value of Maize Import by Site, August 1994 – July 1995

Sites	Quantity in '000 tons	Dollars, in Millions
Usenge A	4.49	0.75
Usenge B	7.47	1.39
Uhanya	0.60	0.11
Nambo	1.93	0.31
Osieko	1.74	0.30
Goe	0.50	0.08
Nyenye	4.66	0.89
Marenga A	3.29	0.48
Marenga B	7.89	1.28
Mulukoba	4.20	0.66
Magoye	2.31	0.39
Busia	42.60	5.51
Malaba	2.57	0.29
Total	84.25	12.44

Maize

Maize was found to be the major agricultural food commodity being imported from Uganda. Table 3.3 shows that at least 84 thousand tons of the commodity valued at \$12.4 million was informally imported from Uganda. The bulk of the imports came in through Busia (51%) and Lake Victoria routes (47%). Imports coming in through Busia were subsequently shipped away in large trucks to inland towns such as Bungoma, Kakamega, Nakuru, Nairobi and even as far as Nyeri according to the accounts given by the transporters. Maize imported through the lake ports appeared to be targeted predominantly for the local markets with small proportions reaching Kakamega, Kisumu and Kisii.

Official sources indicate that between 1983 and 1993, Kenya imported from Uganda only an annual average of 5,500 MT of maize per year (*UN Trade Statistics*, 1996). The annual value of the official imports averaged less than \$3 million. The unofficial records from our survey suggest that the annual value of maize imports from Uganda exceeded \$12 million. Although the unrecorded maize imports from Uganda accounted for less than 3% of Kenya's national production, they amounted to over one quarter of the quantity handled by the

National Cereals and Produce Board during the same period.

Seasonality in Maize Trade and Possible Determinants

Apart from policies pursued by the Governments of Kenya and Uganda, trade in agricultural commodities (inclusive of maize) is also influenced by production patterns in both countries. In most areas surrounding Lake Victoria, some parts of Eastern and Western Uganda, and Western parts of Kenya, there is a bi-modal rainfall regime which makes it possible to have two harvests of maize: one between June and August and the other between November and January. In the unimodal rainfall system, covering some parts of Eastern and most of the Northern region of Uganda, and some parts of Rift Valley in Kenya, there is only one season for which harvesting takes place between July and December. Trade trends in agricultural commodities tend to follow these production seasonalities. Table 3.4 shows monthly quantities of maize imports and mean monthly prices. A graphical presentation of the same information is given in Figures 3.5 and 3.6.

Table 3.4 Monthly Quantity and Average Price of Imported Maize, August 1994 – July 1995

Month	Quantity ('000 tons)	Price (Ksh/kg)
January	13.59	7.61
February	14.29	8.14
March	3.71	9.50
April	5.72	9.09
May	4.26	10.00
June	6.18	8.70
July	4.70	7.60
August	4.58	7.80
September	6.10	7.70
October	8.36	7.70
November	6.51	5.84
December	6.24	7.69
Total	84.25	8.11

Figure 3.5. Maize Imports by Month

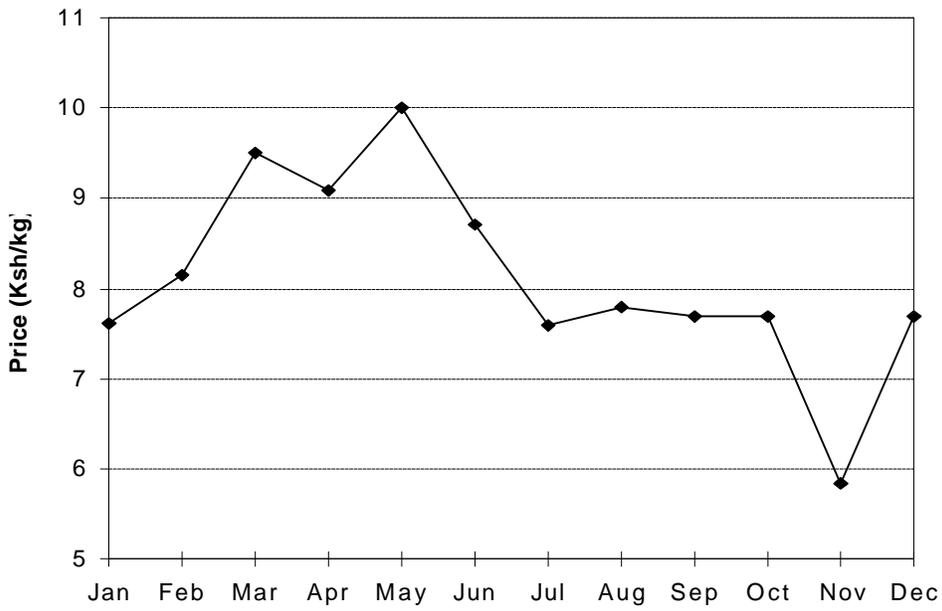
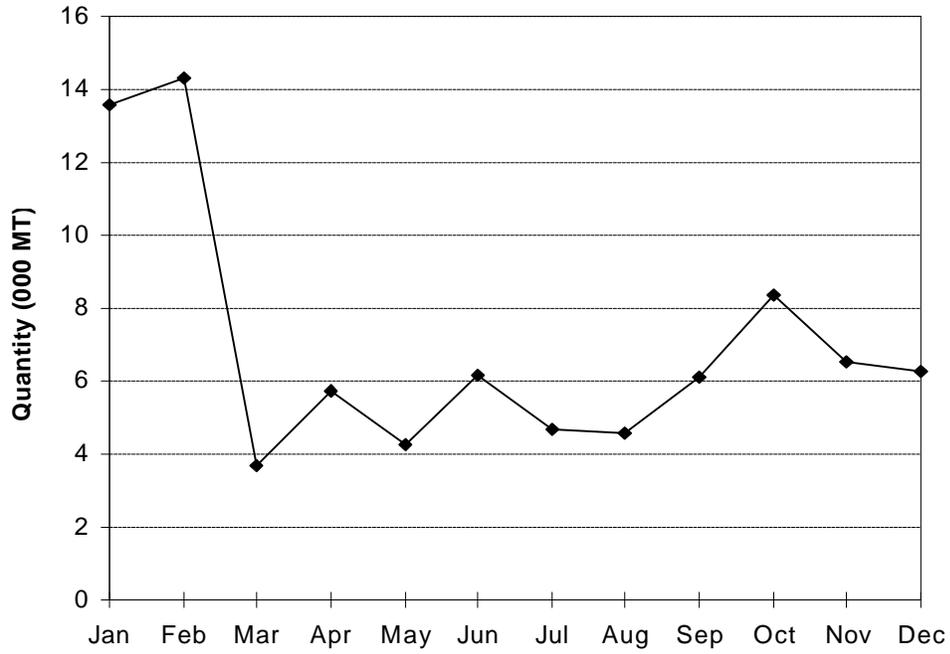


Figure 3.6. Mean Prices for Maize Imports Beans

Beans were the second most important food commodity being imported from Uganda. Table 3.5 shows that over 9 thousand MT of beans valued at about \$5.4 million was informally imported into Kenya. The average annual value of the official imports for the period 1983 – 1993 was \$300,000, or 1500 MT.

Kenya's production of beans for the year 1994/95 was 200,000 metric tons (Kenya, 1995). Informal trade in beans thus constituted about 4.5% of the annual national production. Production and supply patterns for beans tend to

follow those of maize and are all weather-determined. The average price for beans was highest around April and May, and lowest in November. Table 3.6 shows monthly quantities of beans import and mean monthly prices and the same information is presented graphically in Figures 3.7 and 3.8.

Both Kenya and Uganda have some competitive advantage in beans export in the regional market but Kenya's local demand for beans outstrips its domestic supply. This deficit is normally met by imports from Uganda and Tanzania.

Table 3.5 Quantity and Value of Beans Import by Site, August 1994 – July 1995

Site	Quantity ('000 tons)	Value (Dollars, in Millions)
Usenge A	0.11	0.08
Usenge B	1.14	0.82
Uhanya	0.03	0.01
Nambo	0.31	0.14
Osieko	0.02	0.01
Goe	0.01	0.00
Nyenye	1.68	1.08
Marenga A	0.12	0.09
Marenga B	0.84	0.47
Mulukoba	0.70	0.45
Magoye	0.74	0.52
Busia	3.08	1.51
Malaba	0.49	0.19
Total	9.27	5.37

Table 3.6 Quantity and Average Prices of Imported Beans, August 1994 – July 1995

Month	Quantity in '000 tons	Price in Ksh/kg
January	0.79	28.50
February	0.29	30.95
March	0.28	29.97
April	0.52	38.78
May	1.01	38.40
June	1.83	26.10
July	1.82	28.00
August	0.74	29.00
September	1.34	29.80
October	0.16	22.44
November	0.12	19.49
December	0.38	25.35
Total	9.28	28.90*

* Overall Average Price

Exchange Rate: 1 US\$ = 55 Ksh

Sugar

The movement of sugar was in both directions but the net flow was towards Uganda. Kenya's sugar imports from Uganda were estimated at over 1,300 metric tons valued at just below \$1 million. Most of the sugar imports passed through the inland routes of Busia and Malaba (Table 3.7).

Sugar imports were only recorded in four out of the twelve months monitored with the peak

being registered around November. The average import price per kilogram of sugar was Ksh 37.1 (Table 3.8). Under normal circumstances, seasonality in sugar production is not marked, unless the factories close down for routine maintenance or due to break downs. Both Kenya and Uganda are not self sufficient in sugar but the sugar deficit situation is worse in Uganda than in Kenya. Uganda is yet to re-establish its pre-civil strife sugar production capacity.

Figure 3.7. Beans Imported by Month

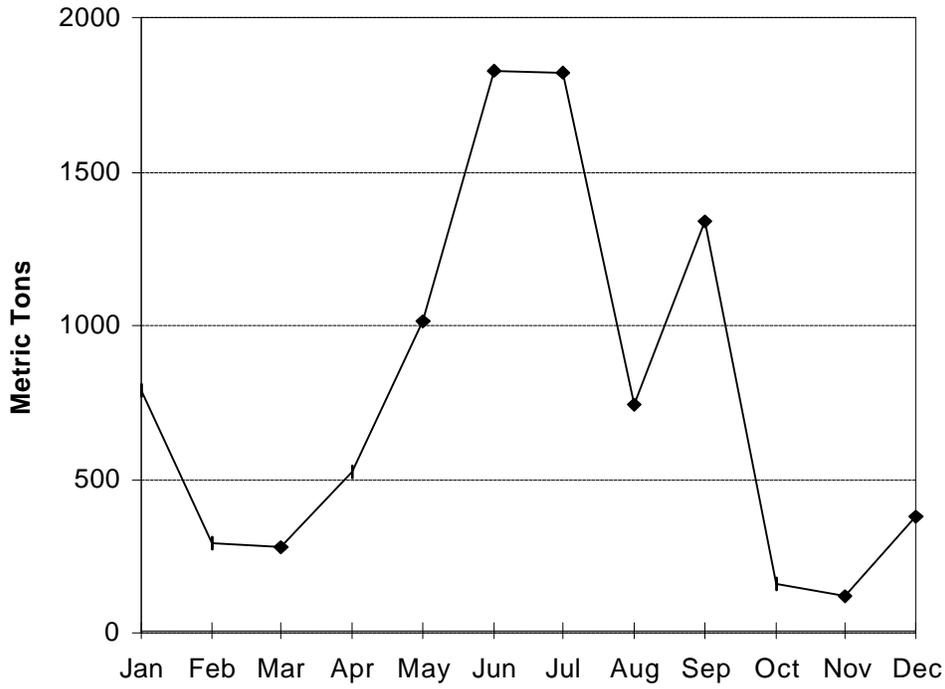
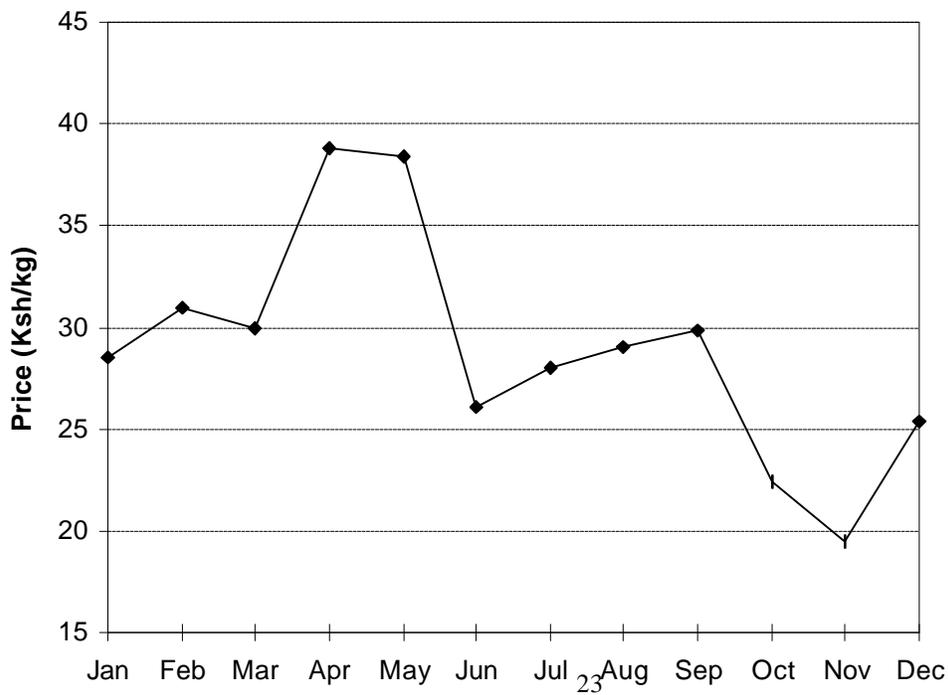


Figure 3.8. Mean Prices for Bean Imports



**Table 3.7 Quantity and Value of Sugar Imported by Site,
August 1994 – July 1995**

Site	Quantity ('000 Tons)	Value (Dollars, in Millions)
Usenge A	---	---
Usenge B	---	---
Uhanya	0.002	2
Nambo	---	---
Osieko	---	---
Goe	0.012	9
Nyenye	---	---
Marenga A	---	---
Marenga B	---	---
Mulukoba	---	---
Magoye	---	---
Busia	1.109	796
Malaba	0.186	136
Total	1.309	943

**Table 3.8 Quantity and Average Prices of Imported Sugar,
August 1994 – July 1995**

Month	Quantity ('000 tons)	Price (Ksh/kg)
January	---	---
February	---	---
March	---	---
April	---	---
May	0.002	40.0
June	---	---
July	---	---
August	---	---
September	---	---
October	0.26	37.4
November	0.87	36.8
December	0.18	37.0
Total	1.31	37.1*

* Overall Average Price

Table 3.9 Quantity and Value of Other Grains * Imported by Site, August 1994 – July 1995.

Site	Quantity (Metric tons)	Value (Dollars, in Millions)
Usenge A	40	20
Usenge B	170	50
Uhanya	9	4
Nambo	--	--
Osieko	4	1
Goe	3	1
Nyenye	1050	510
Marenga A	310	100
Marenga B	250	50
Mulukoba	730	150
Magoye	930	250
Busia	8230	3480
Malaba	940	310
Total	12,670	4,930

* Other Grains include Sorghum, Simsim, Choroko, Millet, Groundnuts and Rice.

Other Grains

Other grains include sorghum, simsim, choroko, millet, groundnuts and rice. During the monitoring period, informal trade flow was in both directions, although Kenya was a net importer. In physical terms, about 12,700 metric tons valued at close to \$5 million of other grains entered Kenya from Uganda informally as shown (Table 3.9). The level of informal trade in these grains was lower than that of maize in both physical and value terms, but higher than that of beans in physical terms. These grains withstand the conditions of on-farm storage better than maize. Producers therefore tend to store them for longer periods either for home consumption or for sale during the dry seasons. Variability in market supply, and hence prices, therefore tends to be low; one finds them in the market places in

small amounts throughout the year with peak supply preceding or coinciding with the harvest season for maize.

Other Agricultural Commodities

Other agricultural food commodities that entered Kenya from Uganda through informal trading were bananas and other fruits (pineapples, oranges, lemon and passion), root crops/tubers (cassava, Irish potatoes, sweet potatoes and yams) and other miscellaneous commodities (tomatoes, eggs, onions, tea, cabbages and poultry). Their gross value was about \$3 million with roots/tubers accounting for \$1.85 million as shown in Table 3.10. Of the total value of fruits averaging \$0.54 million, bananas contributed about 62% (\$0.34 million).

Table 3.10 Value of Other Agricultural Commodities Imported by Site, August 1994 – July 1995

Site	Value of Commodities (Dollars, in Millions)		
	Bananas/Other Fruits	Roots/Tubers	Miscellaneous*
Usenge A	1	20	--
Usenge B	--	120	1
Uhanya	--	30	--
Nambo	--	30	--
Osieko	--	190	--
Goe	1	30	3
Nyenye	--	130	2
Marenga A	--	60	1
Marenga B	20	270	40
Mulukoba	20	140	70
Magoye	--	200	--
Busia	280	610	270
Malaba	220	20	100
Total	540	1,850	490

* Tomatoes, Eggs, Onions, Tea, Cabbages, Poultry and Banana Trees.

Fish and Fish Products

Fish was one of the major commodities traded informally along the Kenya Uganda border with the net trade flowing into Kenya. Approximately 90 thousand metric tons of different fish species valued at about \$30 million were imported into Kenya from Uganda during the period under review (Table 3.11). Statistics on the total catch and imports are not reliable but overall, fish harvest has been on the decline forcing most of Kenya's 35 registered fish processing companies to operate below their capacities. United Nations figures indicate that an annual average of only 100 MT was imported from Uganda between 1983 and 1993. Kenyan records show that the total national catch was about 200,000 MT in 1995. The indications are therefore that the value of fish trade is grossly understated in Kenya's national accounts despite the vital role it plays in terms of employment and nutrition for both animals and humans. Indeed, the entire lake region economy and food security hinges fundamentally on maize and fish due to the scarcity of other alternative sources of food and employment.

The bulk of the fish imports came in through Busia and the lake ports and Figures 3.5 and 3.6 do

not suggest that there is a strong seasonality; the monthly import figure centers around 90,000 MT. There are well organized agents and businessmen who regularly collect fish from the lake. These buyers supply large urban centers such as Nairobi and Kisumu where fish processing plants are located. Variability in imports (Table 3.12) is most likely determined by demand and availability of fish. The survey did not gather information on these factors as this would have necessitated interviews with Uganda fishermen and fish processors in Kenya. It has been established that Kenya now exports large quantities of fish and fish products to Europe and the United States thereby earning the much needed foreign exchange. It is estimated that in 1995, fish companies processed 15,000 tons of fillet, out of which 95 percent was exported (Daily Nation, August 13, 1996). The fish trade, however, has important socio-economic policy implications which we shall discuss in the next sub-section.

Industrial Goods and Forest Resources

Although data for industrial products show movement in both ways, indications are that most of these products flow from Kenya to Uganda. In

value terms, Kenya's import of industrial goods, including forest resources, were worth over US\$ 5.4 million. The major imports into Kenya were charcoal (forest resource), toiletries, textiles, hardware items, car parts and electronics. Charcoal was the main import in value terms (Table 3.13). All the industrial goods were re-exports originating from a third country.

Kenya's relatively developed industrial capacity

makes it a major exporter of industrial goods to her neighbors. The observed trade trend with Uganda in these commodities was therefore consistent with Kenya's comparative advantage. The level of trade activity in these goods was principally dictated by demand factors in the respective countries and, unlike in the case of agricultural commodities, there were no significant seasonal variations in supply.

Table 3.11 Quantity and Value of Fish Imported by Site, 8/1994 – 7/1995

Sites	Quantity ('000 tons)	Value (Dollars, in Millions)
Usenge A	9.17	1.20
Usenge B	0.45	0.06
Uhanya	8.41	2.03
Nambo	2.32	1.18
Osieko	2.41	1.30
Goe	4.51	0.54
Nyenye	1.33	0.91
Marenga A	3.60	1.27
Marenga B	11.04	5.79
Mulukoba	5.94	0.26
Magoye	5.14	0.19
Busia	33.81	15.25
Malaba	1.58	0.20
Total	89.78	30.18

Table 3.12 Monthly Quantity and Average Price per Unit of Fish Import, August 1994 – July 1995

Month	Quantity in '000 tons	Price in Ksh/kg
January	8.00	24.90
February	8.25	27.14
March	7.12	25.85
April	12.72	25.32
May	4.70	27.80
June	9.01	32.60
July	8.73	28.60
August	9.43	30.60
September	6.49	30.80
October	6.84	22.74
November	8.14	19.52
December	2.74	22.54
Total	92.17	26.53*

* Overall Average Price

Figure 3.9. Fish Imports by Month

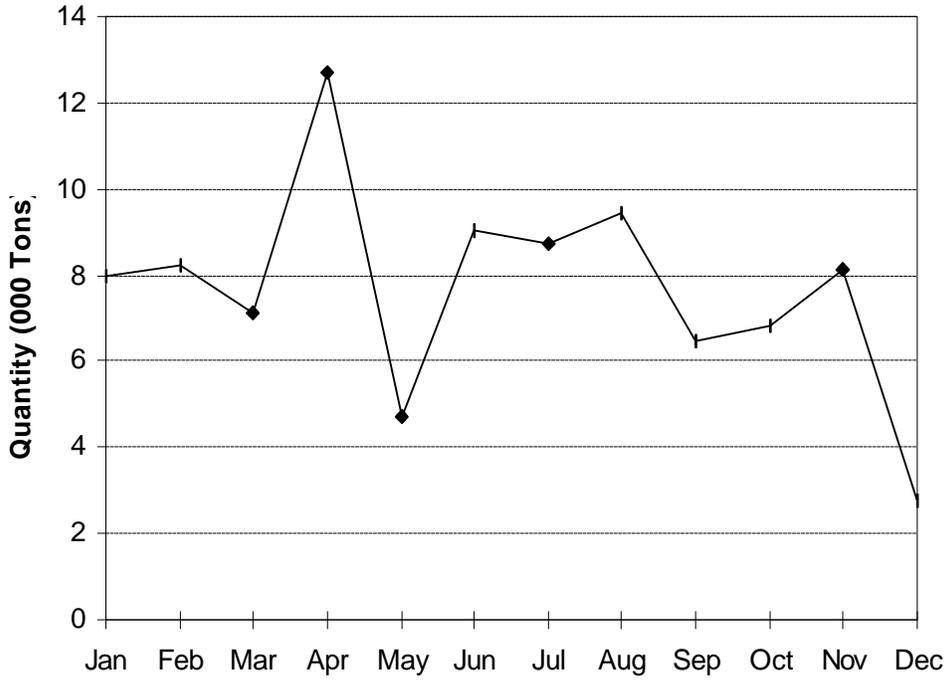
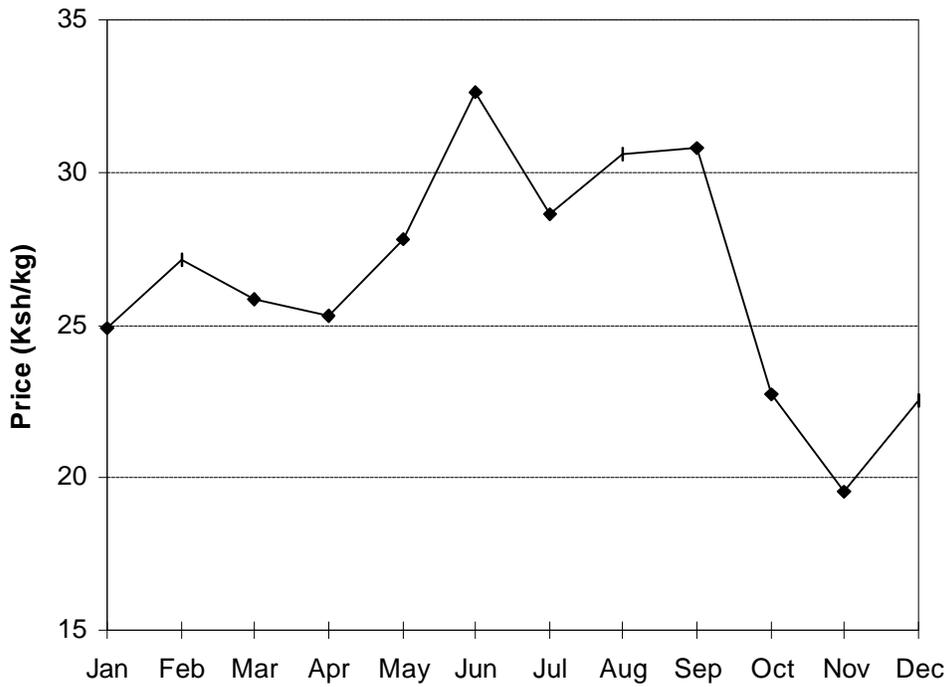


Figure 3.10. Mean Prices for Fish Imports



ESTIMATED VOLUME OF INFORMAL EXPORTS TO UGANDA

Wheat Flour and Bread

About 16 thousand metric tons of wheat flour with an estimated value of US\$ 8 million was smuggled into Uganda from Kenya. Bread was also popular with the smugglers and about US\$ 2.4 million worth of the commodity was exported to Uganda (Table 3.14).

The production pattern of wheat follows the pattern of other cereals already discussed. Kenya's domestic wheat harvests start around August, and keep the mills busy for about six months. After February, the mills depend on imports. Looking at the informal trade, the pattern of the quantity of wheat flour exported shows the highest activity in April and October (Table 3.15 and Figure 3.11). The price of wheat remained fairly constant during the period.

Table 3.13. Total Value (Dollars, in Millions) of Industrial Goods Imported by Site, August 1994 – July 1995

Site	Charcoal	Toiletry	Textiles	Bicycle Parts	Hardware Items	Other*
Usenge A	0.23	0.000	0.01	0.02	0.0008	0.08
Usenge B	0.11	--	0.33	0.07	--	0.07
Uhanya	0.09	--	0.03	0.01	0.002	0.02
Nambo	0.17	--	---	0.01	--	--
Osieko	0.07	--	0.01	0.02	0.002	--
Goe	0.37	--	0.00	0.03	--	--
Nyenye	0.21	0.006	0.20	0.08	--	0.02
Marenga A	0.30	0.001	0.09	0.05	0.001	0.02
Marenga B	0.44	0.001	0.03	0.07	0.005	0.02
Mulukoba	0.56	0.006	0.46	0.19	0.003	0.03
Magoye	0.22	0.003	0.03	0.03	--	0.08
Busia	0.02	0.010	0.01	0.02	--	0.02
Malaba	---	0.180	0.02	0.05	0.050	0.15
Total Value	2.76	0.21	1.22	0.65	0.06	0.51

* Electronics, Car-parts, Mats, Dry cells and Shoes

Table 3.14 Quantity and Value of Wheat Flour and Bread Export by Site, August 1994 – July 1995

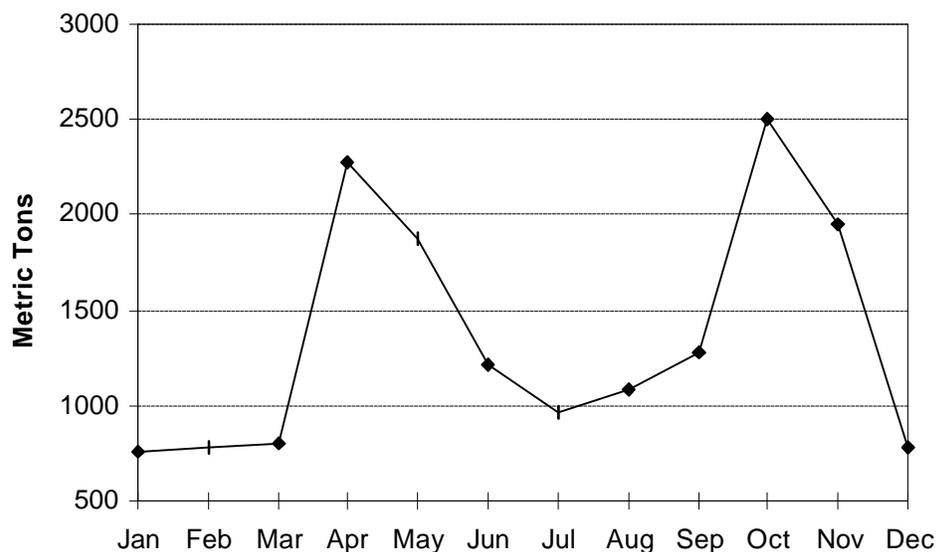
Site	(’000 tons)	Wheat Flour (Dollars, in Millions)	Bread (Dollars, in Millions)
Usenge A	1.33	0.66	0.03
Usenge B	1.71	0.88	0.15
Uhanya	0.33	0.17	0.14
Nambo	0.22	0.11	0.01
Osieko	0.28	0.15	0.02
Goe	0.11	0.06	0.01
Nyenye	0.66	0.35	0.07
Marenga A	0.84	0.43	0.13
Marenga B	1.67	0.84	0.48
Mulukoba	0.55	0.28	0.09
Magoye	0.25	0.12	0.05
Busia	6.84	3.48	1.10
Malaba	1.11	0.55	0.09
Total	15.91	8.08	2.37

Table 3.15 Monthly Quantity and Average Price per Unit of Wheat Flour Export, August 1994 – July 1995

Month	Quantity in ’000 tons	Price in Ksh/kg
January	0.76	25.50
February	0.78	25.72
March	0.80	25.72
April	2.27	25.82
May	1.87	25.90
June	1.21	25.80
July	0.96	25.50
August	1.08	25.60
September	1.28	25.50
October	2.50	25.69
November	1.95	25.59
December	0.78	25.07
Total	16.25	25.62*

* Overall Average Price

Figure 3.11. Wheat Exports by Month



Sugar

About 27,000 MT of sugar valued at \$20 million were informally exported to Uganda. More than 83% of the exported sugar went through the Lake routes, as most of the Kenyan sugar is produced in the region around Lake Victoria (Table 3.16).

Sugar exports were registered over the entire period of monitoring, with two peaks recorded around May and September but showing no strong seasonality (Table 3.17 and Figure 3.12). The overall average price of sugar recorded for exports was Ksh 37.8 per kilogram, with minimal variations (Table 3.17).

Table 3.16 Unofficial Quantity and Value of Sugar Export by Site, August 1994 – July 1995

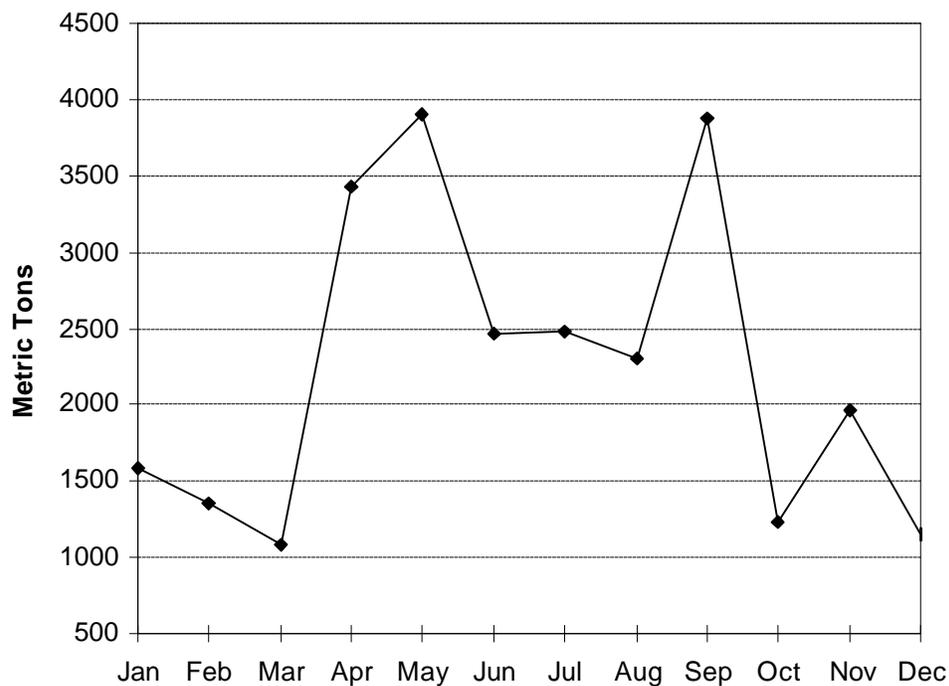
Site	'000 Tons	Dollars, in Millions
Usenge A	1.43	1.06
Usenge B	7.09	5.19
Uhanya	1.97	1.45
Nambo	0.32	0.25
Osieko	0.35	0.27
Goe	0.19	0.14
Nyenye	3.33	2.55
Marenga A	2.65	1.86
Marenga B	3.03	2.21
Mulukoba	1.03	0.78
Magoye	1.01	0.77
Busia	4.37	3.27
Malaba	0.08	0.05
Total	26.85	19.85

Table 3.17 Monthly Quantity and Average Price per Unit of Sugar Export, August 1994 – July 1995

Month	'000 tons	Price in Ksh/kg
January	1.59	37.0
February	1.36	36.4
March	1.08	37.3
April	3.43	37.9
May	3.91	38.4
June	2.46	39.2
July	2.48	39.2
August	2.30	38.4
September	3.88	37.4
October	1.23	37.7
November	1.97	37.8
December	1.15	37.1
Total	26.82	37.8*

* Overall Average Price

Figure 3.12. Sugar Exports by Month



Other Grains

Small quantities of other grains were also exported to Uganda. These included sorghum, simsim, choroko, millet, groundnuts, rice and hybrid maize seed. About 5,500 MT, whose value was estimated at over \$3.6 million, were exported. (Table 3.18). All the hybrid maize seed was informally traded through the border town of Malaba, because of its proximity to Kitale, where the seed is produced. The value of the hybrid maize seed was estimated at about \$9,000.

Other agricultural food commodity exports from Kenya included milk, maize meal, fruits, roots/tubers and other miscellaneous commodities. Their total value was estimated at about \$3 million.

Industrial Goods

Kenya exported industrial goods to Uganda worth over \$47 million over 1994/95 period. The main commodities smuggled into Uganda were washing detergents, cooking oil and fats, margarine, butter, and other processed household commodities. Petroleum products, cement, textiles, hardware, soft drinks, beer and wines, and cigarettes were also popular items exchanged informally between Kenya and Uganda. Major exports to Uganda in value terms were petroleum products, cooking fats, beer and wines, soft drinks and cigarettes in that order (Tables 3.19a and 3.19b). Kenya has a comparative advantage in the production of industrial goods because of her relatively developed industrial sector and activity in the illegal trade in these commodities will depend on the relative scarcity in Uganda.

Table 3.18 Unofficial Quantity and Value of Other Grains * Export by Site, August 1994 – July 1995.

Site	'000 tons	Value (Dollars, in Millions)
Usenge A	0.08	0.05
Usenge B	0.43	0.28
Uhanya	0.03	0.04
Nambo	---	---
Osieko	---	---
Goe	---	---
Nyenye	0.63	0.50
Marenga A	---	---
Marenga B	0.22	0.13
Mulukoba	0.06	0.02
Magoye	0.10	0.08
Busia	3.84	2.45
Malaba	0.10	0.06
Total	5.50	3.62

* Other grains include sorghum, simsim, choroko, millet, groundnuts, and rice.

Table 3.19a Total Value (Dollars, in Millions) of Industrial Goods Export by Site, August 1994 – July 1995

Site	Cooking Fats	Toiletries	Petroleum Products	Beer & Wines	Soft Drinks	Hardware
Usenge A	0.13	0.02	0.75	0.09	0.16	0.11
Usenge B	1.56	1.83	2.58	0.68	0.49	0.54
Uhanya	0.71	0.23	1.47	0.48	0.49	0.22
Nambo	0.14	0.04	0.26	0.15	0.12	0.11
Osieko	0.28	0.29	1.12	0.33	0.23	0.32
Goe	0.002	0.003	0.10	0.06	0.01	0.02
Nyenye	0.23	0.16	0.69		0.21	0.29
						0.24
Marenga A	0.35	0.20	0.94	0.47	0.25	0.23
Marenga B	0.27	0.17	1.86	1.33	0.58	0.34
Mulukoba	0.40	0.17	0.93	0.28	0.15	0.21
Magoye	0.18	0.11	0.19	0.17	0.08	0.21
Busia	5.80	0.68	0.30	1.63	1.97	--
Malaba	0.74	0.29	0.09	0.10	0.27	0.34
Total Value	10.79	4.20	11.28	5.98	5.09	2.89

Table 3.19b Total Value (Dollars, in Millions) of Industrial Goods Export by Site, August 1994 – July 1995

Site	Cigarettes	Textile	Salt	Biscuits	Bicycle Parts	Other*
Usenge A	1.57	0.03	0.02	0.01	0.001	0.001
Usenge B	1.55	0.52	0.01	0.09	0.001	0.050
Uhanya	0.04	0.08	0.03	0.03	0.000	0.130
Nambo	---	0.01	---	---	---	0.008
Osieko	0.48	0.10	0.05	0.06	---	0.015
Goe	---	---	---	---	0.003	---
Nyenye	0.00	0.35	0.02	0.01	0.001	0.110
Marenga A	0.02	0.12	0.02	0.02	0.008	0.050
Marenga B	---	0.07	0.01	---	0.020	0.220
Mulukoba	0.01	0.14	0.01	0.01	0.010	0.030
Magoye	---	0.05	0.01	---	0.004	0.002
Busia	---	0.02	0.61	0.15	0.010	0.006
Malaba	---	0.01	0.05	0.03	0.001	0.011
Total Value	3.67	1.50	0.84	0.41	0.060	0.630

* Electronics, Car-parts, Insecticides, Mats, Dry cells and Shoes

FOOD SECURITY AND POLICY IMPLICATIONS

In this section we discuss the implications of informal cross-border trade of selected commodities. The exposition has a Kenyan bias but we are confident that there are important lessons for Uganda's policy makers.

Maize, Beans and Bananas

Kenya is mainly an importer of maize from Uganda and only in special circumstances does the country export cereals as was observed along the common border late 1995 and early 1996, when large consignments of maize were being delivered to Uganda through unofficial channels. This phenomenon was apparently caused by heavy purchases of Ugandan maize by relief organizations serving southern Sudan, Rwanda, and Somalia. Relative scarcities, and hence higher commodity prices, are thus the major determinants of the observed pattern of food commodity flows.

Informal imports of maize and beans constitute relatively small proportions of Kenya's production and consumption requirements. However, the significance of the unofficial imports should not be viewed only in terms of physical proportions but also in terms of the timing of the imports and their potential impact on prices in the food deficit parts of western Kenya and on employment. Around the lake region, agriculture is underdeveloped. Despite the bimodal rainfall pattern prevailing in the area, self-sufficiency in food crops is rarely achieved. Trade with Uganda therefore acts as the cheapest alternative for food in the periods preceding harvest. Although maize could be sourced in the areas around Bungoma, Kitale and Eldoret which are generally surplus producers of the commodity, trade with Uganda appears more attractive not just because of the cultural links between Ugandans and the peoples of the lake region but also because of the desire to exchange Kenyan manufactures principally for maize and fish. This trade, as already noted, is occasionally

in the form of a barter system.

There are other determinants of the thriving trade in food commodities witnessed in recent times across the Kenya-Uganda border. Maize is by far the most important cereal crop in Kenya, and is the main staple food in most parts of the country while in Uganda, bananas (*Matoke*), finger millet and sorghum are the main staples. Studies (e.g., Odhiambo *et al.*, 1995) have shown that compared to Uganda, Kenya has no comparative advantage in maize production. Indeed, for the past 6 years or so, net production of maize in Kenya has fallen short of consumption requirements, necessitating imports in each year except 1995/96. Poor weather conditions are obviously a cause of production shortfalls but low producer prices, late payment to farmers, inadequate and expensive inputs, variable seed quality, and conflicting policy signals all took their toll.

Until December 1993, Kenya had strict regulatory policies on foodstuffs, mainly maize and beans. Prices of these commodities were controlled and their movement within the country restricted in the midst of severe shortages in the market. Direct government regulation and fixing of pan-territorial and pan-seasonal prices by the appointed monopoly parastatal (NCPB) often suppressed the farm-gate prices far below levels that would have prevailed in the case of a free market. These policies often discouraged farmers from maize production. With the advent of Structural Adjustment Programs (SAPS), and the subsequent market liberalization, the marketing of cereals was freed of most of the government restrictions. According to the Policy Framework Paper (1996 - 1998), the government intends to transform NCPB into a commercially viable entity free to make independent commercial decisions. Specific duties on imports of cereals will also be abolished and replaced with anti-dumping duties consistent with World Trade Organization requirements. The effects of these policy reforms are already being felt. The removal of movement restrictions on maize, for example, implies that millers in Kisumu and Nakuru can be supplied with maize originating from Uganda. If there are official maize import

restrictions (as often happens when a bumper crop is expected), chances are that the maize will still be supplied through informal/unofficial means. One important consequence of these food imports is that the private sector, not the government, plays a major role in moving food to the deficit areas or wherever it is demanded. The response to the market signals is usually faster and more efficient than under a government bureaucracy, particularly in times of civil strife or shortfalls in production caused by intemperate weather.

The other consequence of informal food imports is that they stabilize food supply. Commodity supply stability is an important parameter in the food security equation. In the past, border communities relied on their own traditional coping mechanisms in order to minimize their vulnerability to food insecurity. With the more liberalized trade regimes that are now evolving, food availability and supply stability are no longer major concerns but rather the ability of consumers to get access to the food. Our investigations show that the vulnerability of the border communities in particular is likely to be exacerbated by cross-border trade liberalization unless policy efforts are directed immediately toward facilitation of effective participation by small scale traders.

Food imports from Uganda are balanced by exports of Kenyan manufactures which are handled predominantly by heavy bulk traders and transporters; the numerous practitioners, men, women and children, seen at the border towns merely act as minor facilitators and couriers who add little value to the goods they handle. As already noted, the insecurity of the informal border trade is such that goods are rarely stored for more than one night. Nor is there any degree of sophistication in grading, processing or re-packaging of the goods. Policy areas worth exploring, for both Kenyan and Ugandan governments, relate to credit facilities and infrastructural development. These aspects tend to be neglected in locations such as border regions which are usually far removed from the centers of political power. The distribution of food imports among the border sites clearly

indicate that towns that are best served with infrastructure (roads, electricity, banks, telephones, hotels, etc.) handle the largest amounts of goods. This is because goods are most effectively brought to the border sites in heavy trucks before they are broken down into head and hand loads and passed across the border.

In terms of long-term strategy, we are talking about ensuring that income distribution problems do not perpetuate poverty which is often a major threat to food security. The engagement of numerous border town dwellers in petty export/import trade may be due to retrenchment from formal civil service and private sector employment in the wake of SAPS (in Mozambique, the ICBT studies there show that this is the case). It is imperative therefore that this form of new employment is fostered and made more viable in terms of sustainability of incomes. This would have profound food security benefits. Further efforts should go into more detailed studies of the employment and income effects of informal cross-border trade which our survey, by design, did not address.

Wheat Flour, Bread and Sugar

Kenya has been a net importer of wheat for the last twenty years and is likely to remain so for the foreseeable future as the population continues to grow faster than the domestic wheat production. Kenya's wheat production has relied on the notion that economies of scale accrue to large scale farms. But production has stagnated due to the pressure on land arising from the increasing population leading to sub-division of large scale farms, and competition from other enterprises which intensified when government controls made wheat production unprofitable. The observed patterns in wheat flour and bread exports to Uganda underscore the fact that Uganda's own production and milling of wheat do not match the capacities in Kenya. There are also indications that increases in per capita incomes in Uganda are changing dietary patterns and preferences in favor of wheat. This opportunity should be exploited by Kenyan

producers and exporters. On the part of the Kenyan government, it would make sense to ensure that both production and import policies for wheat are harmonized. This would significantly reduce variability in supplies to consumers in both Kenya and Uganda.

Kenya is said to have low capacity utilization of its milling facilities, implying high processing costs. Relaxation of restrictions on trade in wheat and wheat products will extend wheat sales and increase capacity utilization. Increased capacity utilization will reduce wheat product prices thereby benefitting producers, millers and consumers. There is thus no justification for using illegal channels to export Kenyan wheat flour and bread to Uganda.

Exports of sugar to Uganda may, at first glance, defy economic logic. Due to a combination of inexplicable policies on domestic production, pricing and commercial imports, and a rather curious regularity of breakdowns at the major sugar processing plants in Kenya, there is always an excess demand for this commodity. Elsewhere, it has been reported that the demand for sugar in Kenya has been increasing but the domestic production has been decreasing (Ongaro, 1995). Yet our figures show that Kenya informally exported \$20 million worth of sugar to Uganda in 1994/95. Uganda has yet to re-establish its original production capacity for sugar. This, coupled with the need to balance trade, especially along the routes where a barter exchange for fish appears to be the *modus operandi*, may explain the clandestine trade in sugar. It is worth noting that the sugar exported to Uganda did not all originate from Kenya; some of the sugar came in bags clearly marked "relief food: not for sale". Trade in relief food is not uncommon phenomenon along the borders of countries in eastern and southern Africa and underscores the fact that such assistance alone cannot reach the core of the region's food security problem, especially where the assistance does not reach the intended group and/or if it is exchanged for goods and services with no positive impact on the food security status of the vulnerable groups.

Fish and Fish Products

Fish meat is an important substitute as a source of animal protein because of its relative cheapness particularly in communities living around the lake region. Informal imports of fish constitute a high percentage of Kenya's national output as already noted in a previous sub-section. This may come as a surprise to many who may have thought that fish landed at beaches such as Port Victoria, Usenge, Kisumu and Homa Bay come from Kenyan fishermen. Our baseline survey established that the bulk of the fish landed on these beaches is bought from Ugandan fishermen and that the Kenyans do not own boats powerful enough to carry the return cargo of Kenyan manufactures required by Ugandan traders in exchange for the maize, beans, fish and charcoal which were found to be the major imports from Uganda. There are Kenyan entrepreneurs in lake transport, but the business has a high degree of concentration. At Usenge, for example, there was only one Kenyan individual owning boats suitable for long distance hauling of cargo. There were also theories that Kenyan fishermen were unable to supply adequate amounts of fish because of i) the relatively small proportion of the lake in Kenya's territory, ii) low investment in modern fishing equipment, and iii) poor infrastructure. It is also possible that better prices (increased demand of fish in Kenya) offered by Kenyan fish exporters attracts plenty of supplies from Uganda.

In terms of marketing, the fish trade was dominated by agents of large wholesalers, processors and exporters. Small traditional fish mongers have therefore been marginalized. The climatic conditions in the lake region and a historical neglect of agriculture reduce the prospects of attaining food security through production by poor households. Since regulations which used to restrict internal movement of staples such as maize have now been abolished, it is not uncommon to find upcountry Kenyan traders bartering goods such as cooking oils and sodas for fish and maize. The vital role of fish in the lake region and the sheer large number of people who appear to be involved in the fish

trade may actually conceal serious unemployment and vulnerability to food insecurity among the local residents. It is therefore necessary for policies to be pursued which will promote participation of local residents in the fish trade. Efforts must be made to discourage these people from the notion that since they live around the lake, fish must be their sole source of food and income. The vast amounts of water in Lake Victoria can be used for agricultural purposes: this is a prospect which, in the long run, must be explored vigorously. If the fish resources in the Kenyan waters have to be exploited optimally then the authorities ought to look into the following problems often cited by the traders as the major handicaps: high cost of credit, inadequate marketing facilities, poor infrastructure, lack of managerial support for fish cooperatives, and last but by no means least, lack of political will to push for projects based on water and fish resources. Kenya's Economic Survey for 1996 laments that the biggest problem in the fish sub-sector is the inability to optimally exploit fish resources. But it offers no viable options that would withstand the uncertainties of liberalized markets surrounding the fish industry.

AGGREGATE TRADE FIGURES AND BALANCE OF TRADE

Direction of Trade and Mode of Transport Used

The flow and direction of trade in both value and quantity terms are depicted in Appendix Figures

A3.13a, A3.13b, A3.14a, and A3.14b, whereas Figures A3.15 and A3.16 show the quantity of food imported/exported by mode of transport. The latter two show that the main mode of transportation was by road except for fish, sugar, and beans, which were transported mainly through the lake.

Estimates of Total Unofficial Trade and Balance of Trade

On the basis of the values of the informally traded goods already discussed, we estimate the annual movement of agricultural food commodities from Kenya to Uganda at \$37 million, and those from Uganda to Kenya, including fish, at about \$57 million. Thus the total annual value of unrecorded trade in agricultural commodities between the two countries in 1994/95 was about \$94 million. Kenya was therefore a net importer of food commodities by \$20 million (Table 3.20).

Kenya's exports of industrial goods to Uganda were worth \$47.3 million, while its imports were estimated at \$5.4 million, thus making Uganda a net importer of industrial goods by about \$42 million. Informal trade in industrial products between the two countries was thus estimated at \$53 million (Table 3.20). The total annual value of unofficial trade (both imports and exports of agricultural and industrial goods) is therefore estimated at more than \$146 million. The figures show that informal trade was in favor of Kenya by over \$22 million.

Table 3.20 Aggregate Unofficial Trade Figures (Dollars, in Millions) Between Kenya and Uganda

Commodity Category	Imports	Exports	Total
Agricultural Goods	56.7	37.0	93.7
Industrial Goods	5.4	47.3	52.7
Total Annual	62.1	84.3	146.4

Source: Survey Results, 1994/95.

Official Trade Figures: Comparison with Unrecorded Trade

Table 3.21 shows the total value of exports (Kenya to Uganda) and imports (Uganda to Kenya) for the period 1984 – 1994.

The table shows that the average values of exports and imports for that period were US\$

93.9 million and US\$ 2.4 million, respectively. The balance of recorded trade for that period was thus in favor of Kenya. Table 3.22 demonstrates the variability of the average traded quantities of some selected commodities while Table 3.23 shows the average trade values for the same commodities.

Table 3.21 Total Value of Kenya's Exports to and Imports from Uganda: 1984 – 1994 (Dollars, in Millions)

Year	Export	Import
1984	85.65	1.46
1985	86.08	3.17
1986	90.55	2.69
1987	84.37	1.10
1988	90.00	1.37
1989	61.03	0.98
1990	53.19	1.08
1991	76.24	1.89
1992	67.82	4.29
1993	95.65	4.69
1994	242.76	4.14
Total	1033.34	26.86
Average	93.94	2.44

Source: Kenya, Economic Survey, Various Issues

Table 3.22 Variability of Kenya's Trade with Uganda: Selected Commodities (1983 – 1993)

Commodity	Exports	Coefficient of Variation (%)	Imports	Coefficient of Variation (%)
Milk	196.4	123.3	----	----
Fish	2.3	24.7	98.7	69.9
Wheat	5333.0	139.7	2241.0	----
Rice	187.5	140.7	----	----
Maize	2218.0	108.1	5511.0	54.1
Other Cereals	153.5	113.4	12.0	----
Wheat Flour	1707.0	172.7	----	----
Confectionery	259.9	70.8	----	----
Sugar (refined)	2.0	70.8	----	----
Tea	17.3	109.4	1078.8	45.3
Beer	3395.5	160.6	----	----
Beans (Soya)	----	----	1451.5	52.8
Bananas	----	----	131.6	105.8

Source: Calculated from United Nations Trade Statistics, 1996.

Table 3.23 Average Value of Kenya's Exports to and Imports from Uganda: 1983 – 1993 (Dollars, in Millions)

Commodity	Exports	Imports
Milk	213.3	----
Fish	11.0	80.7
Wheat	387.3	140.0
Rice	104.5	----
Maize	353.8	2843.5
Other Cereals	89.0	12.0
Wheat Flour	367.7	----
Confectionery	291.3	----
Sugar (refined)	2.5	----
Tea	29.2	1368.3
Beer	1314.6	----
Beans (Soya)	----	323.0
Bananas	----	7.1

Source: Calculated from United Nations Trade Statistics, 1996.

Tables 3.22 and 3.23 reveal that Kenya was a net importer of agricultural commodities from Uganda, whereas Uganda was a net importer of industrial household goods for the period 1983 – 1993. The Major official exports from Kenya to Uganda included milk, wheat flour, beer and confectioneries, while the major official imports from Uganda were fish, maize, beans and bananas. The coefficients of variation (Table 3.22) reveal that Uganda was a relatively stable exporter of the respective commodities to Kenya, while Kenya's exports to Uganda were erratic. For the entire period under review, there was a high variation in the import/export figures of respective commodities implying that availability of these commodities in the two countries was

unstable. The implication of the instability in trade between the two countries is that no country can rely on the other for the deliveries of these commodities. These supply uncertainties are further exacerbated by bureaucratic delays at the official border points. These problems seriously impede formalized trade and instead encourage illegal trade and rent seeking practices among public officials.

The statistics in the above tables indicate that the official trade between Kenya and Uganda may be no more than 66% of the unofficial trade between the two countries. Put differently, unofficial trade was about 152% of the average official trade for the period.

4. Conclusions and Recommendations

Summary of the Findings

The main findings of the study are as follows:

- 1) Informal cross-border trade activities between Kenya and Uganda are significant and involve movement of large amounts of both agricultural and industrial goods.
- 2) There are various categories of market functionaries that are directly or indirectly involved in informal cross-border trade. These are the merchant middlemen (traders) and officials drawn from the government ministries, parastatals and other organizations. The officials play important roles, among them overseeing cross-border trade, provision of security, trade facilitation and promotion.
- 3) There was a high degree of concentration in the import/export trade and that the majority of the traders were small scale in size and characterized by lack of potential for holding large stocks of merchandise. As a way of minimizing risks, most of the traders diversified the commodities they dealt in. Traders identified lack of working capital as the single largest barrier to entry into business and also cited it as the largest constraint to expanding their businesses. Other constraints were high tax rates, institutional restrictions in the form of lengthy procedures involved in the issuance of licenses, and limited credit facilities. These administrative and regulatory burdens continue to inhibit traders' ability to adjust quickly to changing and volatile market conditions.
- 4) Traders perform different marketing functions among them exchange, storage, transportation, processing and grading. A few traders owned trucks and storage facilities. Traders had developed little specialization in these functions. Major ways of transporting informal goods across the border were by road, water and railway. The predominant means of transport was by trucks, bicycles, hand/head carriage, hand carts, boats and canoes. Major sources of marketing information were by word of mouth, the prevailing supply/demand situation, experience with seasonality in production and hence the supply, and the established media (print and electronic);
- 5) Most of the transactions were done on a cash basis and the Kenyan currency was preferred in those transactions. Due to insufficient working capital, the trading sector thrived on a 'hand-to-mouth' basis, quickly turning over stocks to avoid running out of funds. Trading was dominated by money speculation. Occasionally, barter trade was used, with the Ugandan traders exchanging their agricultural commodities for Kenya's industrial products;
- 6) Kenya was mainly an importer of foodstuffs (mainly maize and beans) from Uganda, and in return it exported mainly industrial goods (processed consumer goods, petroleum products, soft drinks, and beer and wine) to Uganda. All Uganda's industrial goods exports to Kenya were re-exports;
- 7) Gains from informal trade include provision of both agricultural and industrial goods that would otherwise be unavailable. There was potential for job creation but policy makers have to be cautious about widespread poverty

and increasing disparities in access to working capital which may minimize the gains from trade liberalization.

- 8) Informal trade plays an important food security role in moving food from surplus to deficit areas and provides income to those involved in it. In the process, prices are stabilized. Price stability is believed to be advantageous to society because: farmers receive relatively higher prices in the immediate post-harvest period when they often need to satisfy cash needs and to repay production loans. This leads to more use of purchased inputs and mechanization services and higher overall output; and consumers in urban areas, who typically spend a large proportion of their household budget on staple foods, will not require to frequently adjust their expenditures.
- 9) Informal trade provides market outlets for exporters. However, it encourages official corruption and could be a source of revenue loss to the exchequer. In addition, due to the nature of the informal trade, there is low degree of specialization in traders' operations, and that the transaction costs could also be high. Other more explicit costs to informal trading include transportation, storage and accommodation;
- 10) Considering the annual average of the formal trade figures for 1983 to 1993 period, formal trade between Kenya and Uganda may account for less than 12% of the total trade between the two countries. Our survey procedures may have underestimated the volume of informal trade for the following reasons: trade occurring at night may not have been effectively covered; the porous nature of the Kenya/Uganda border; failure to monitor all the cross-border sites; and the inability to cover 100% of the trade in all the monitored sites.
- 11) There exists a high variation in the official export/import statistics with respect to the traded commodities. The instability in

production is translated into supply and demand instability and suggests that trade (import/export) between Kenya and Uganda in these commodities is unreliable and possibly may not be guaranteed. There is also a high inter-annual variation in trade between the two countries and that this variation seems to be positively correlated, that is, the level of both imports and exports tend to fluctuate in the same direction over the years.

- 12) Informal trade constituted about 2.6%, 4.5% and 8% of Kenya's national production figures for maize, beans and wheat flour, respectively. Informal trade constituted only about 2% of Kenya's national maize requirements, but the proportion could be higher if the comparison is with respect to the requirements for the immediate border regions alone. In terms of Kenya's officially marketed figures for maize, informal trade contributes about 57.8% but this reflected the diminishing role of NCPB.
- 13) Policies towards the international or intra-regional trade and weather, more than any other factor, were the prime determinants of the level and variability in informal cross-border trade activities in food commodities. Whereas comparative advantage exists in production of some commodities that are traded, trade in most of the commodities depends on the demand factors of the importing country. For industrial goods, the trade trend reflects the supply and demand in the importing country but the need to balance trade with food commodities played a critical role; Kenyan industrial goods were on certain occasions bartered for Ugandan food stuff.
- 14) There exists a large trade potential between Kenya and Uganda. Trade liberalization through regional cooperation initiative will enhance the realization of this potential. However, if liberalization is to lead to improved performance, the governments of the two countries must provide the enabling environment that will facilitate a larger role

to be played by the private sector. This study confirms that the private sector can handle huge volumes of food commodities bearing significant implications to food security despite implicit and explicit interference from official policies.

CONCLUSIONS

This study has confirmed the significance of the informal trade activities at the Kenya/Uganda border. The important question to ask is how this trade impacts on food security situation in the region. The other question relates to the implications of trade liberalization.

The volume of informal trade between Kenya and Uganda is enormous, and plays an exceedingly vital role, albeit without any official recognition, in the economies of the two countries. The magnitude of the informal trade figures reported in this study suggests that there are important complementarities in the regional economies than has been acknowledged. To realize the full potential of trade liberalization (implying a reduced public sector role), all the trade barriers must be removed and trade made less risky. This way, traders will reach more customers and producer prices will be reduced. Also, since informal trade was found to be greater than the formal trade, implications could be that contributions of the informal sector to GDP and employment have to be revised in view of these findings. The present study did not evaluate the impact on employment and income but the potential contribution of informal trade to employment for the border communities was highly evident. Although the rapid growth of informal trade in the 1980s may have subsequently declined, it continues nevertheless to constitute an important part of the economy as real wages continue to decline and prospects for formal employment dwindle.

Despite its inefficiency, the study shows that informal food trade along the borders is an important economic activity, providing income for agricultural producers and fishermen in Uganda, but also makes positive food

contributions to Kenya's food security and employment in the informal sector. It also points out the nimbleness with which people along the border take advantage of policy and institutional inefficiencies, relative supply scarcities, and hence price differences to make a profit. The ingenuity and proliferation of informal traders indicates that, as much as both economies have liberalized, there is still a long way to travel before trade between the two countries can be considered relatively hassle-free. But most significantly, the findings show that a tangible opportunity presents itself for Kenya and Uganda to arrive at bilateral agricultural trade agreements that will enhance food trade.

The underlying policy issue is that Kenya currently is not in a position to feed itself without trade. Whether the grain trade is in the form of formal imports through the port of Mombasa, or the more informal cross-border maize flows through Busia and Malaba, it is vital to Kenya's food supplies and, therefore, to food security. Given the current state of technology and farm productivity, there is no alternative to trade.

There is need to create more appropriate instruments and arrangements for trade. While this point is currently being considered and to some extent implemented under the auspices of regional initiatives such as COMESA, SADC, IGAD and the recently revived East African Community- more emphasis is needed, especially to eliminate non-tariff and other institutional obstacles to trade. Although revenue is important, it is sometimes considered in a short-term perspective and overrides other important criteria such as efficiency in production through increased trade. Concerns over domestic food security are sometimes used to justify restrictions, but this takes little account of the role of intra-regional trade in stabilizing food prices. Moreover, such policies discourage exports at times of grain surplus and reduce the incentive to hold stocks for sale in neighboring countries.

Free-market reform is a necessary but not sufficient condition for discouraging informal trade. First, the habit of exchanging goods informally developed by the communities living

along the common border for centuries will die hard. This can be demonstrated by the failure of governments to enforce highly restrictive policies toward private grain exports. Second, differences in the implementation of trade liberalization policies and regional protocols could enhance informal trade. Third, there will always be artificial trade barriers that come into play at border sites to create opportunities for extra earnings. All these issues must be put in perspective when formulating policies towards cross-border trade.

With regard to government trading, some governments use Food Security Reserves to prevent famine conditions or extreme price fluctuations. It is recommended that government interventions be kept as small as possible consistent with this objective. Where possible, prices should be stabilized by opening up the market to international or intra-regional trade. The problem with large reserves is that government operations are invariably subsidized in one way or another and, if reserves are operated at high levels, and they tend to crowd out private traders who have to pay full costs of storage. Governments can also take steps which will enhance public confidence that consistent support will be forthcoming. For instance, a government can produce a policy statement reaffirming its resolve to leave normal trade to the private sector, to refrain from internal controls on prices and grain movements, and to intervene only in special circumstances involving grave threats to food security but in ways which do not create disincentives to private production and trade.

The informal cross-border trade results corroborate comparative advantage studies done in East Africa. However, important policy issues arise with regard to Uganda: if trade was completely liberalized with the removal of both tariff and non-tariff barriers, what will be the impact on Uganda's infant industries? The question of winners and losers under regional trade liberalization was not adequately addressed by this study, but further research is imperative to determine who the winners and losers would be. It is only then that possible remedies, if any, may

be discussed.

With trade liberalization taking place, perhaps the most important area of concern for governments will be to ensure that emergent small-scale farmers and traders have access to adequate capital and to new methods of risk management. An expanded role for the traders will necessitate an expanded supply of working capital to finance purchases and inventories. Farmers' capacity to respond will depend on the rainfall and soil conditions facing them, the level of farm technology, and the level of institutional support services available (agricultural research, extension, rural infrastructure and credit facilities). Others include the size of farm's labor force, and availability of cash income from non-farm activities to help finance input purchases. Therefore endowing semi-equipped and non-equipped farmers with the capacity to produce reliable marketable surplus of agricultural food crops would entail improving the farmers' access to input markets, credit, and a reliable cash crop to help amortize the investment in agricultural equipment. Hence, to obtain a significant supply response would require substantial investments in improving technologies, the input supply system and supporting services available to the producers.

The justification for regional cooperation generally is to promote economic growth through increased level of trade. In the food and agricultural sector, as yet, regional trade is not well-developed between Kenya and Uganda. The high level of informal trade activities relative to the formal trade attests to this fact. There is a market for staple food commodities such as maize and for processed items between Kenya and Uganda, but to a large extent, the gains from the formal trade are yet to be realized. Experience from other regions of the world (e.g., South East Asia) suggests that trade in the agricultural sector is the most complicated area of all to manage. Food commodities, especially for special items such as maize, beans, wheat, rice, and cooking bananas, are politically very sensitive and is difficult selling the idea of exchanging a current situation of self-sufficiency for the, as yet unrealized, gains from increased

trade and dependency on imports.

Analysis of official statistics shows trade between Kenya and Uganda to be unstable. The high inter-annual variation seem to be positively correlated. Where inter-annual variation is not positively correlated between countries, or at best is actually negatively correlated, then potential exists for regional action to stabilize key outcomes such as expenditures, food consumption and investment. Regional financing facility may thus be necessary to enable each country get access to food imports in years when drought threatens national supply levels. This may, however, be difficult because the political problems of greater regional cooperation are substantial.

Both countries should set up monitoring mechanisms for the control of the environment in matters of: exploitation of water resources of Lake Victoria particularly the harvesting of fish; deforestation while cutting trees for charcoal and timber; and industrial effluence and air pollution.

Compounding the farm-level food and agricultural production problems are serious inadequacies in the food distribution system. Trade in food commodities between Kenya and Uganda is presently restricted by poor trade information (market condition, accessibility to markets), poor trade infrastructure (roads, railways, communications, finances), regulations (eg health and sanitary), licensing, tariffs, quotas and administrative bottlenecks (delays, road blocks, harassment, corruption). These barriers raise the prices of food traded and reduce the quantities, both for the formal food trade and informal trade. Overvalued exchange rates and rigid formalities in obtaining relevant trade documents are further disincentives to trading formally. These constraints to trade should be eliminated. Information dissemination will be critical to this process. Information dissemination is likely to shorten the time lag between conception of ideas and their implementation on the ground.

Exploitation of the potential benefits of agricultural food trade is not only a question of economics, it is a challenging political task as well. The partner countries will need to have a

strong political will and unity and, countries must also be prepared to give up some autonomy in designing and implementing their domestic food policies-perhaps the most important and most difficult pre-condition. Nevertheless, an internal trade policy reform may become more effective if similar action were carried out simultaneously in a partner country.

Finally, informal trade should be liberalized and formalized because most of the border regions in the producing countries are located long distances from manufacturing and consuming centers, and major points of entry/exit thus making transport costs high relative to neighboring foreign areas. It should also be pointed out that when a decision has to be taken on food export, there are usually very specific marketing issues which have to be considered apart from food availability reports and the food balance sheet. These issues include the particular marketing environment of the relevant commodity in a region. This implies that banning all food crop exports nationally and preventing normal border trade to take place in all regions, can have negative economic implications to the population in border regions. Such restrictions should be applied on regional basis so as to permit border regions to continue with their normal trading activities even during such situations.

ASPECTS RECOMMENDED FOR FURTHER RESEARCH

1. The focus of the study on estimation of trade between Kenya and Uganda left many issues uncovered. The level of income accruing from unrecorded trade needs to be estimated at the household level thus enabling the assessment of its impact.
2. The costs of trade in the official and unofficial trade channels need to be compared. This may indicate the likely impact if there were to be , for example, a lowering of trade tariffs. This would also

determine: to what extent duty should be reduced to shift trade from informal to formal trade channels.

3. What would be the cost of alternative sources of food commodities (i.e. the opportunity cost of alternative sources) other than the present trading partner since the emphasis is being laid on food security? The answer will also have implications on the computation of revenue loss to the government.
4. It may be important to ascertain the magnitude of formal trade between the two countries in the pre- and post-liberalization periods to ascertain the proportion of informal trade that has shifted to formal trade. Also, has internal/domestic trade

liberalization led to an increase in informal trade across the border? Is the present environment more conducive to cross-border trade than the past (pre-liberalization era)?

5. More policy oriented research based on practical realities of Africa in general and Kenya and Uganda in particular, is needed with regard to regional cooperation initiatives and the existence of complementary activities. The extent to which these initiatives conflict with traditional trade links with the former colonial powers should also be assessed.
6. Question of who loses and who benefits under regional trade liberalization needs further investigation.

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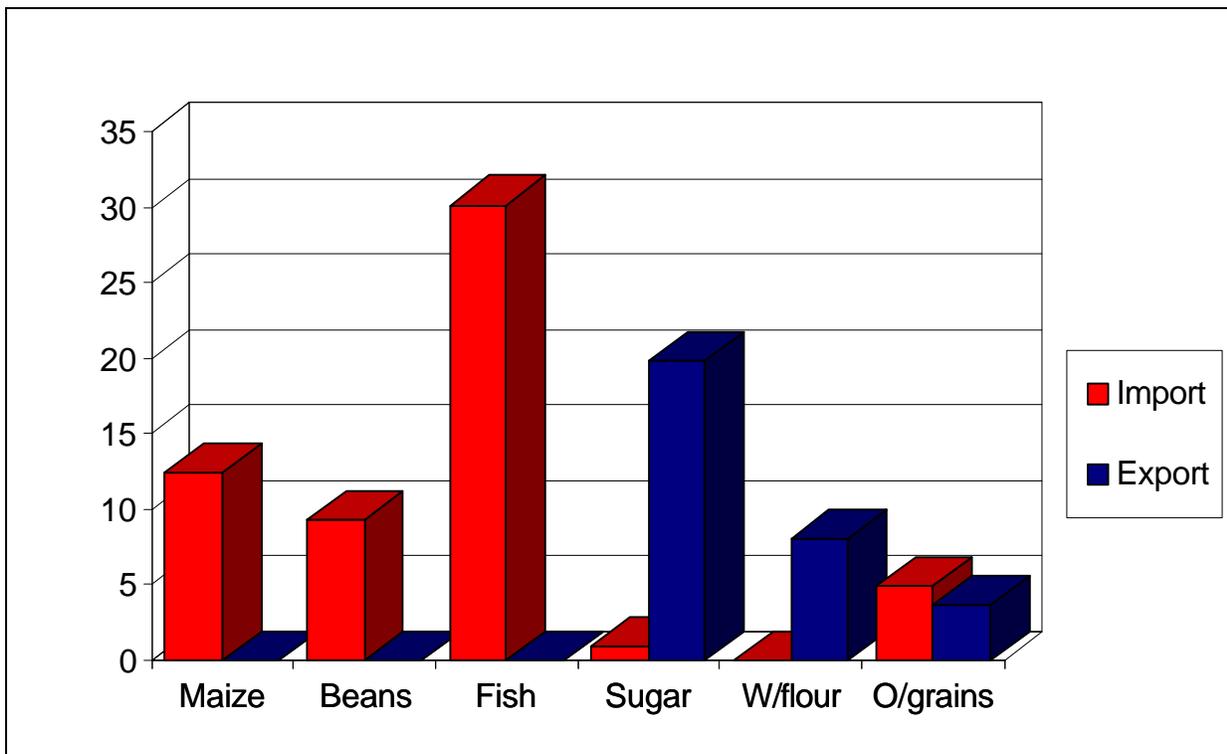
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Appendixes

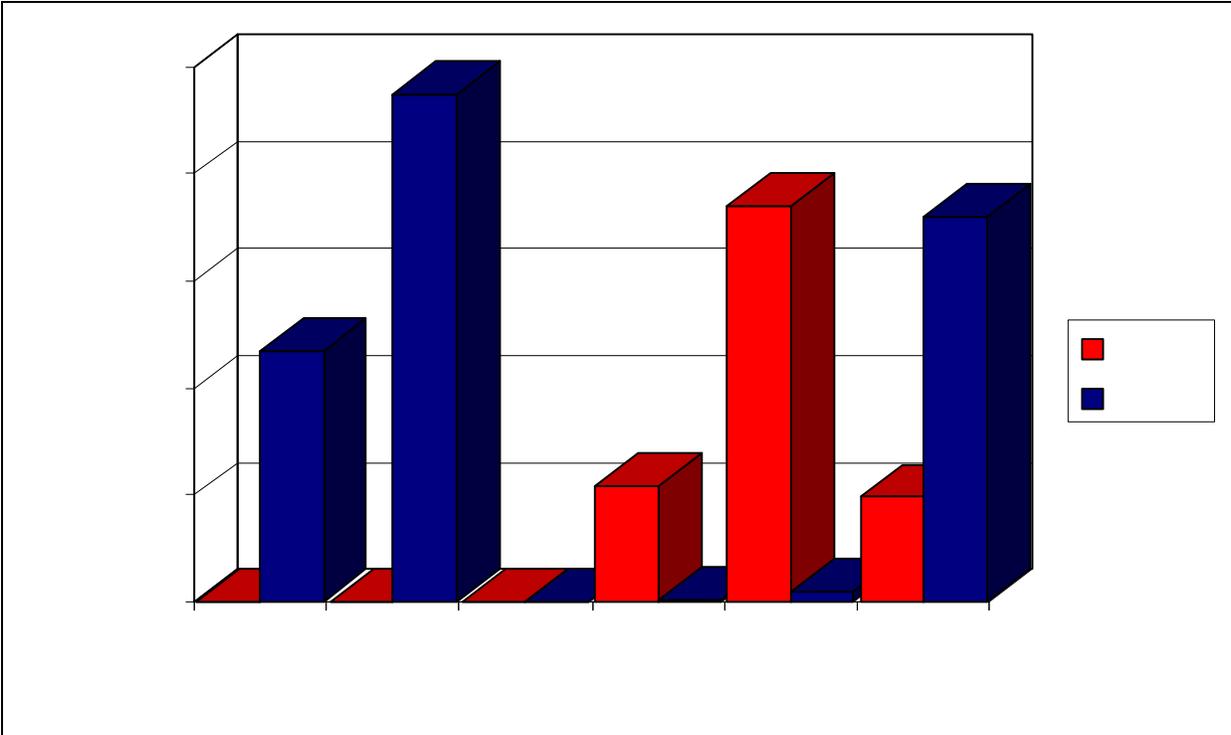
Appendix A: Direction of Trade and Mode of Transport Used

Figure 3.13a. Value of Food by Trade Direction



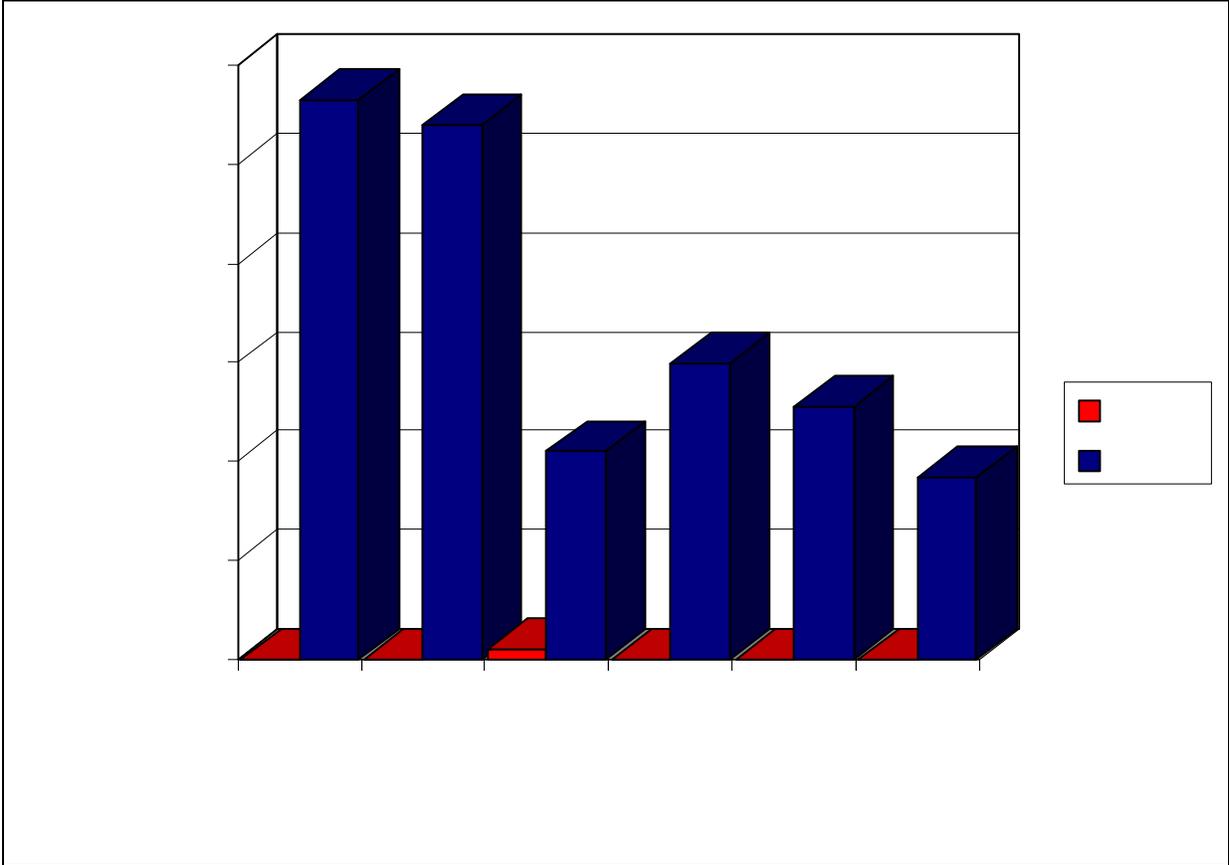
Other grains include Sorghum, Simsim, Choroko, Millet, Groundnuts, and Rice.

Figure 3.13b. Value of Food by Trade Direction



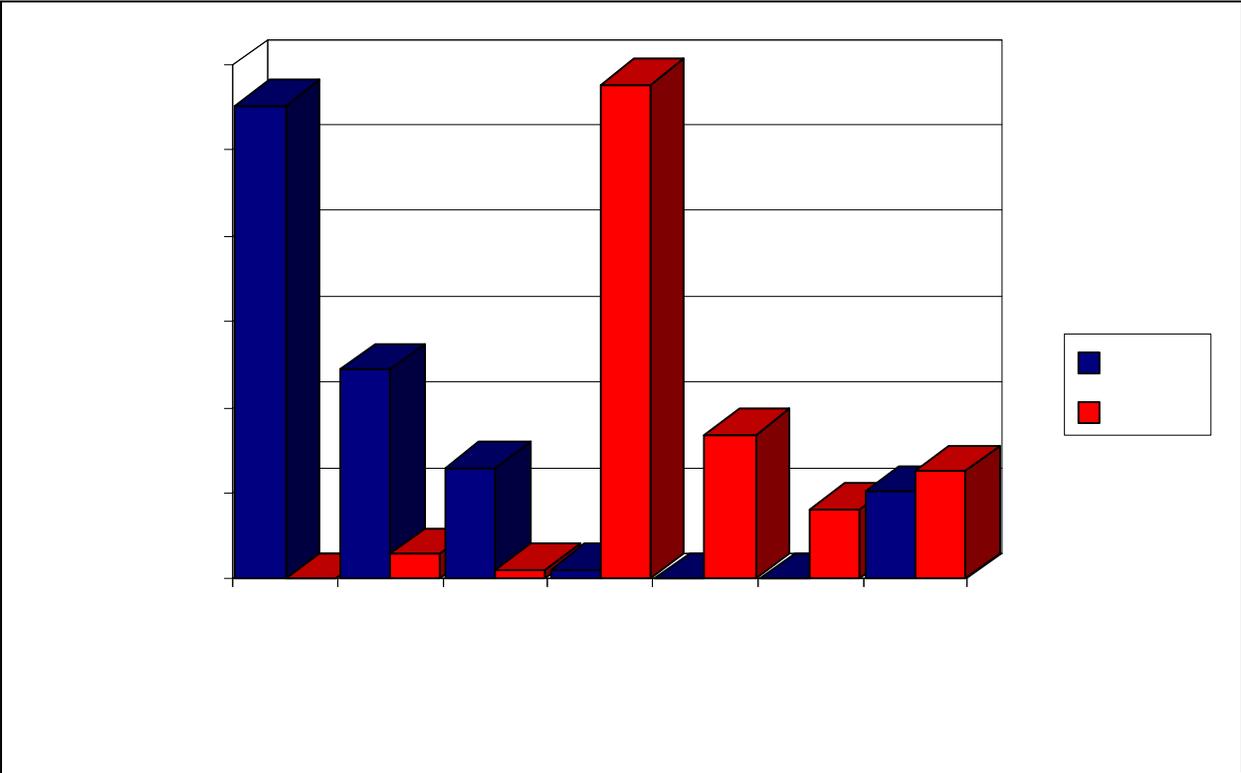
Other refers to eggs, onions, tea, cabbage, chicken, and banana trees.

Figure 3.14a. Value of Industrial Goods Traded



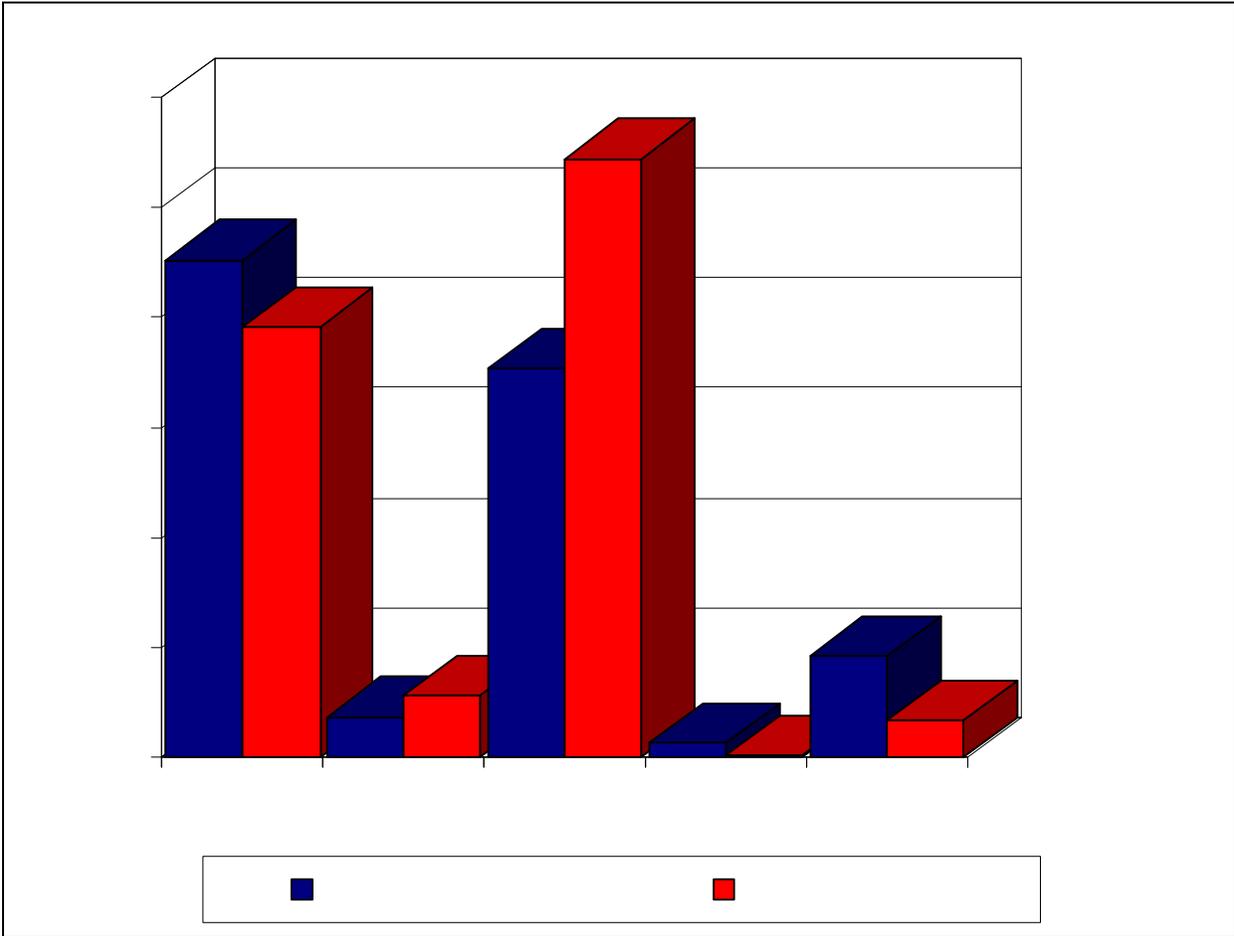
Pet pdts = Petroleum; C/fats = Cooking fats; and S/drinks = Soft drinks.

Figure 3.14b. Value of Industrial Goods Traded



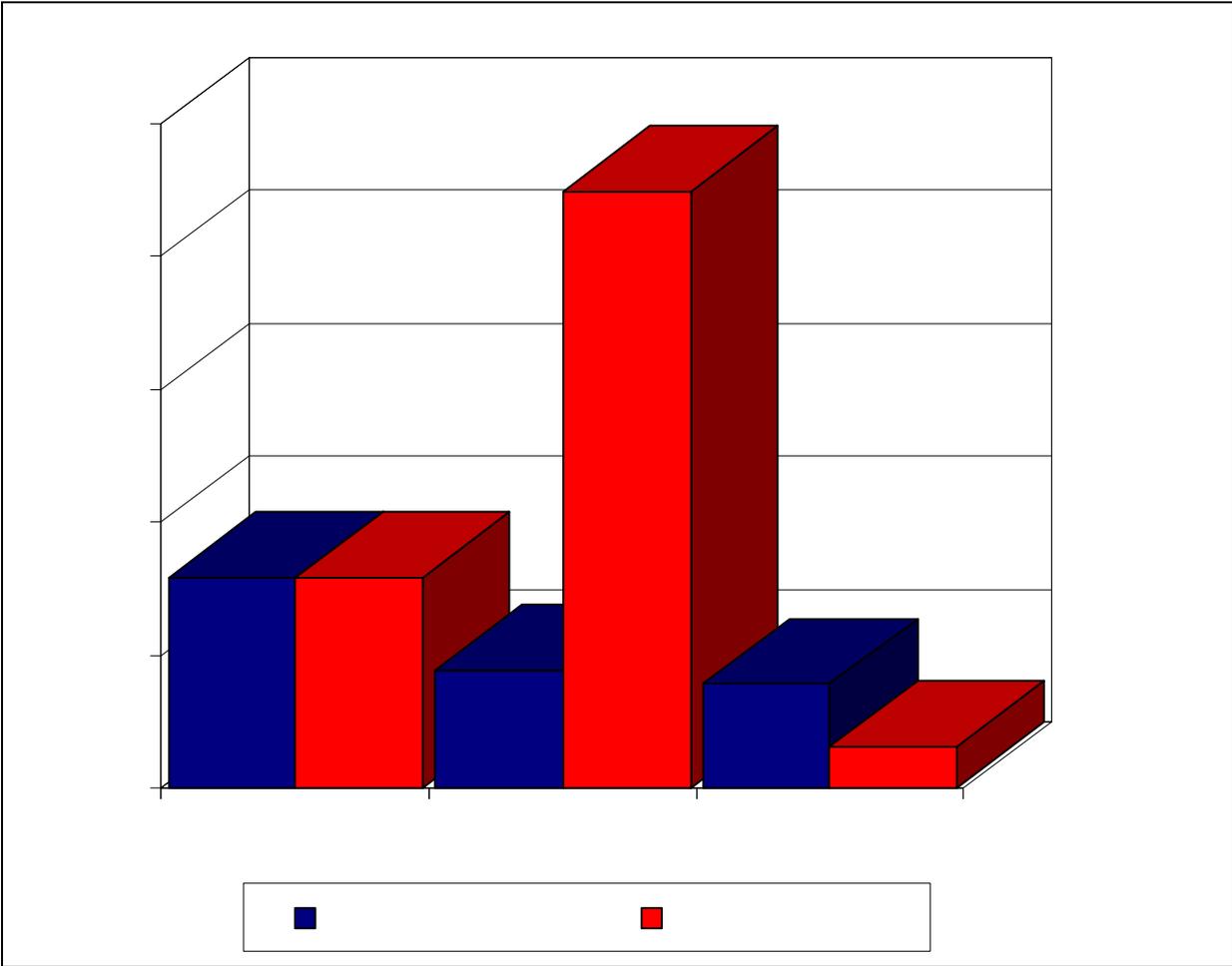
Other refers to electronics, car parts, dry cells, mats, insecticides, and shoes.
B/parts = bicycle parts; Charc = Charcoal; Bisc = Biscuits.

Figure 3.15. Food Imports by Transport Mode



O/grains refers to Sorghum, Simsim, Choroko, Millet, and Rice.

Figure 3.16. Food Imports by Transport Mode



Appendix B: Survey Instruments

Appendix B1 Baseline Survey: Kenya-Uganda Border

QUESTIONNAIRE I: FORMAL/INFORMAL BUSINESSMEN/WOMEN BORDER

General Instruction: Circle the relevant code(s)/Fill the blank spaces

1. Form identification
 - 01 Name of interviewer.....
 - 02 Border Site.....and Date of interview.....
 - 03 Country of Operation
 - 04 Cross-border Country.....

2. Nature of the respondent
 - 01 Boy below 16 years
 - 02 Girl below 16 years
 - 03 Adult man 16 years and above
 - 04 Adult female 16 years and above

3. Resident of:
 - 01 Border Town (Local)
 - 02 Border Town (Foreign)
 - 03 Other Nearby Town (local/foreign within 10km)
 - 04 Other residence

4. Literate:
 - 01 Yes
 - 02 No

5. Business category of respondent:
 - 01 Retailer
 - 02 Wholesaler
 - 03 Retailer/wholesaler
 - 04 Hawker
 - 05 Other

6. What are the major goods of specialisation (specify Max of three):
 - 01-----
 - 02-----
 - 03-----

7. Average unit selling prices of the goods/commodities mentioned above this year
 - 01----- (specify currency):
 - 02-----
 - 03-----

8. Average unit buying prices of the goods/commodities mentioned above this year
 01 ----- (specify currency):
 02 -----
 03 -----
9. Where do you store your goods?
 01 Own store
 02 Rental store
 03 Other (specify) -----
10. Source of initial funding:
 01 Bank
 02 Savings and Credit Society
 03 Relative or friend
 04 Own Savings
 05 Other (specify)
 98 No response
11. How do you get market information; for example on what to buy and sell?
 01 From the established media (Radio, Newspaper, T.V.s)
 02 By word of mouth from friends/relatives/business colleagues
 03 Other (specify) -----
12. What is the mode of payment for export goods
 01 Cash terms
 02 Credit arrangements
 03 Barter arrangements
 04 Combinations of above(specify)-----
13. What is the mode of payment for imported goods?
 01 Cash terms
 02 Credit arrangements
 03 Barter arrangements
 04 Combinations of above(specify) -----
14. Ways of obtaining foreign exchange:
 01 Official
 02 Parallel Market
 03 Other (specify) -----
 04 Foreign currency not required
 98 No response

Using the key provided below, indicate your average annual expenditure on the items listed from 15 to 20.
 (Leave out what is irrelevant to you).

Code	US\$	Local Currency	
01	-	Below 50	-
02		50 – 100	-
03		101 – 150	-
04		151 – 200	-
05		201 – 250	-
07		above 250	-

- 15. Rent.....
- 16. Processing and packaging.....
- 17. Taxes/duty/commissions/licences
- 18. Storage of goods
- 19. Transportation of traded goods.....
- 20. Hired labor.....
- 21. What kind of duty/tax do you pay to export goods?
 - 01 Sales
 - 02 Export tax/duty
 - 03 Excise duty
 - 04 Other (specify)
- 22. What kind of duty/tax do you pay to import goods?
 - 01 Sales
 - 02 Import Tax
 - 03 Excise duty
 - 04 Other (specify)
- 23. Estimated quantity of goods exported:

specify good and units:	1) -----	2) -----	3) -----
01 past one month	-----	-----	-----
02 past six months	-----	-----	-----
03 past one year	-----	-----	-----

What is the mode of transporting goods across the border?

- 24. OWN MEANS:
 - 01 Head/Hand
 - 02 Bicycle
 - 03 Push Cart
 - 04 Vehicle
 - 05 Boat
 - 06 Other(specify).....

- 25. HIRED MEANS:
 - 01 Head/Hand
 - 02 Bicycle
 - 03 Push Cart
 - 04 Vehicle
 - 05 Boat
 - 06 Other(specify).....

Origin of three most commonly traded commodities for export :

- 26. Commodity (specify) -----
 - 01 Locally produced
 - 02 Imported from third country

- 27. Commodity (specify) -----
 - 01 Locally produced
 - 02 Imported from third country

- 28. Commodity (specify) -----
 - 01 Locally produced
 - 02 Imported from third country

29. Estimated quantity of the three goods commonly imported:

- specify good and units: 1) ----- 2) ----- 3) -----
- 01 past one month -----
 - 02 past six months -----
 - 03 past one year -----

Origin of three most commonly imported commodities :

- 30. Commodity (specify) -----:
 - 01 Locally produced by cross-border country
 - 02 Originally imported from other country

- 31. Commodity (specify) -----:
 - 01 Locally produced by cross-border country
 - 02 Originally from other country

32. Commodity(specify) -----:
 01 Locally produced by cross-border country
 02 Originally from other country
33. Your views on present liberalization of trade:
 01 Like it
 02 Dislike it
 03 Indifferent
 99 Do not know
34. Problems being faced by traders involved in formal trade:
 01 Tariff and Non-Tariff barriers (taxes, licensing system, health and safety regulations)
 02 Lack of or distorted forms of foreign exchange rates
 03 Long and cumbersome documentation procedures
 04 Competition from unofficial traders
 05 Other
35. Assistance required from government:
 01 Foreign exchange availability
 02 Transport availability
 03 Removal of road blocks
 04 Improved roads
 05 Storage facilities at the border
 06 Credit facilities
 07 Other (specify) -----
36. Give any general comments he/she may have on informal cross border trade at that border (summarize comments in a few key words): -----

QUESTIONNAIRE II: PUBLIC OFFICIALS AND REPRESENTATIVES OF PARASTATALS
AND TRADE ORGANIZATIONS

General Instruction: Circle the relevant code(s)/Fill the blank spaces.

- 1 Form Identification:
 - 01 Name of Interviewer.....
 - 02 Border Site..... and Date of interview.....
 - 03 Country of Operation.....
 - 04 Cross-border Country.....

2. Respondent represents:
 - 01 Parastatal
 - 02 Ministry
 - 03 Other (specify)

3. Designation of the Official and Address/Phone -----

4. Work done by the organization towards formalising trade at border:
 - 01 Research work
 - 02 Apprehending smugglers (security)
 - 03 Issuing Import and Export licenses
 - 04 Collecting revenue
 - 05 Others (Specify) -----

5. What roles are you likely to play as trade liberalization continues?
 - 01 Providing security
 - 02 Revenue collection
 - 03 Researching on economic opportunities
 - 04 Other (Specify) -----

6. Implications of informal trade:
 - 01 Stabilizing food security situation around the border
 - 02 Retarding economic development
 - 03 Continuous low rate of revenue collection by Customs authorities
 - 04 Other (Specify) -----

7. Difficulties hindering officials from keeping records of commodities leaving or entering the country:
 - 01 Use of informal routes
 - 02 Poor administration
 - 03 Lack of trained and trustworthy personnel
 - 04 Poor motivation of personnel
 - 05 Other (Specify) -----

8. Most common means of transporting informal trade goods:
 - 01 Road
 - 02 Railway
 - 03 Air
 - 04 Water
 - 05 Hand/Head
 - 06 Other (Specify) -----

9. Storage of informally traded goods:
 - 01 Private sector
 - 02 Individual houses/shops
 - 03 Government storage facilities
 - 04 Others (Specify) -----

10. What are the future plans, especially under liberalization, concerning storage?
 - 01 Establish Government storage facilities
 - 02 Private storage facilities
 - 03 Other (Specify) -----
 - 98 No response

11. Relative to the 1980s, is informal trade increasing or declining?
 - 01 Increasing
 - 02 Declining
 - 03 The same
 - 99 Do not know

12. Common medium of exchange in informal trade:
 - 01 Money
 - 02 Barter
 - 03 Others
 - 99 Do not know

13. Prospects for trade expansion with neighboring country:
 - 01 Hopeful
 - 02 Not encouraging
 - 03 Others (specify) -----
 - 99 Do not know

14. What are your institution's priorities with regard to cross-border trade?
 - 01 Collect as much revenue as possible

- 02 Reciprocity on policy from other states
 - 03 Promote free trade
 - 04 Others (specify) -----
 - 99 Do not know
15. What are the political and economic implications of informal cross-border trade?
- 01 Interdependence of the states
 - 02 Economic cooperation
 - 03 Improved regional food security
 - 04 Other (specify) -----
 - 98 No response
16. Your view on the ongoing informal/unofficial trade at the border:
- 01 Should be stopped
 - 02 Should continue
 - 03 Should be formalised
 - 04 Other (specify) -----
17. Other general comments on informal cross-border trade at the border(summarize in a few key words) -----
-

Appendix C: Data Monitoring Sheet

UNOFFICIAL CROSS-BORDER TRADE MONITORING DATA SHEET														PAGE 1 OF 2							
Name of Monitor _____														Trading Station _____ Day of the Week _____				Market Day in _____			
Date _____																					
A. AGRICULTURAL	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Unit Prices, Ksh/Ushs Per						
A.1 Food and Beverage															Kg	Bag					
1.Maize - Kg, Bag															Kg	Bag					
2.Beans - Kg, Bag															Kg	Bag					
3.Fish - Kg, Basket															Kg	Basket					
4.Cassava - Kg, Basket															Kg	Basket					
5.Wheat Flour - Kg, Bale, Bag															Kg	Bag	Bale				
6.Sugar - Kg, Bag															Kg	Bag					
7.Rice - Kg, Bale, Bag															Kg	Bag					
8.Bread - Loaf, Crate															Loaf	Crate					
9.Juice - Bottles, Crate, Carton, Litre															Bottle	Crate	Carton	Litre			
10.Sodas - Bottles, Crate, Carton, Litre															Bottle	Crate	Carton	Litre			
A.2 Raw Materials																					
11.																					
12.																					
13.																					
14.																					
15.																					
16.																					
17.																					
18.																					
19.																					
20.																					

**UNOFFICIAL CROSSBORDER TRADE
MONITORING TABLE**

PAGE 2 OF 2

Trading Station _____ Day of the Week _____

Market Day in _____

Name of Monitor _____

Date _____

B. INDUSTRIAL GOODS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Unit Prices, Ksh/Ushs per		
21.Cooking Oils - Carton, kg, Litres															Kg	Carton	Litres
22.Cooking Fats - Carton, Kg, Litre															Kg	Carton	
23.Margarines - Carton, Kg															Kg	Carton	Pieces
24.Soaps - Bars, Dozen, Piece															Bar	Dozen	Tube
25.Toothpastes - Piece, Box															Kg	Carton	
26.Toothbrushes - Piece, Box															Box	Piece	Litre
27.Detergents - Litres, Bottles, Carton															Bottle	Carton	
28.Toilet Paper - Roll, Bale															Bale	Roll	
29.Other Toiletry -																	
30.Petrol - Litre															Litre		
31.Petroleum Oils - Litres															Litre		
32.Wines and Spirits - Litre, Carton															Litre	Carton	
33.Textiles (a) Yarn - Metre, Roll															Metre	Roll	
34.Textiles (b) Made															No.		
35.Textiles (c) Made															No.		
36.Textiles (d) Made															No.		
37.Motor Vehicle (a) Tyres - No.															No.		
38.Motor Vehicle (b) Tubes - No.															No.		
39.Motor Vehicle (c) Batteries - No.															No.		
40.Motor Vehicle (d) Parts - No.															No.		
41.Bicycle (a) Tyres - No.															No.		
42.Bicycle (b) Tubes - No.															No.		
43.Bicycle (c) Parts - No.															No.		

Daily Value Ksh/Ushs 1 2 3 4 5 6 7 Abbreviations

8 9 10 11 12 13 14 Kg - K Loaf - Lo Litre - L Pieces - Pe Jerrican - J1 (5L)

15 16 17 18 19 20 21 Bag - B Crate - C Bar - Br Roll - Rl Jerrican - J2 (20L)

22 23 24 25 26 27 28 Basket - Ba Bottle - Bo Dozen - Dz Metre - M

29 30 31 32 33 34 Bale - Bale Carton - Cl Box - Bx Shoes - PR

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