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MAIN REPORT**

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WORLD VISION INTERNATIONAL - MOZAMBIQUE

INFORMAL CROSS BORDER TRADE :

MOZAMBIQUE & NEIGHBORS



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Preface

This report was prepared to provide final results and findings of a study on Estimates of Informal Cross-Border Trade (ICBT) between Mozambique and her Neighbors. World Vision Relief and Development (WVRD) has implemented the study in Mozambique with partial funding provided by the USAID Mission to Mozambique. The study is part of a regional initiative coordinated and funded by 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).

This report was prepared by José Luís Macamo, financial economist, contracted by WVRD as a "study coordinator". A data programmer consultant, Mrs. Maria Teresa Alfaro, and a number of field supervisors, enumerators and assistants for data input have performed a crucial role in the implementation of the study.

When this report was finalized the data programmer consultant had prepared tables and graphs based on data obtained through border monitoring, covering a twelve month period from, extending from December 1995 to November 1996.

This report is divided into two volumes: Volume I contains the main report and Volume II contains the appendices. The main report is divided into 7 main parts, including an executive summary containing main findings and conclusions. The macroeconomic developments in Mozambique and the justification for conducting the present study are presented in Chapter 1. Chapter 2 summarizes the methodology of the study. In Chapter 3 general impressions on informal traders' profile are presented. Chapter 4 provides border monitoring results. Chapter 5 provides a discussion on the implications of ICBT in Mozambique. Chapter 6 summarizes the conclusions of the study and the implications of its results.

The study coordinator would like to express his gratitude to all officials and individuals who gave their kind support and valuable information which allowed the implementation of this study and facilitated the preparation of the present report. This report contains the views of the study coordinator which may not necessarily correspond with those of World Vision Relief and Development or any other organization.

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Glossary of Acronyms and Abbreviations

BM	<i>Banco de Moçambique</i> (Central Bank)
CT	Consumer Tax
DPC	Data Programming Consultant
ERP	Economic Rehabilitation Program
FAO	United Nations Organization for Food and Agriculture
GDP	Gross Domestic Product
GoM	The Government of Mozambique
ICBT	Informal Cross-Border Trade
ICM	<i>Instituto de Cereais de Moçambique</i>
ICT	Industrial Contribution Tax
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estatística</i>
MITT	Ministry of Industry, Trade and Tourism
RSA	South Africa (Republic of)
SAP	Structural Adjustment Program
SPSS	Statistical Package for the Social Sciences
SSA	Sub-Saharan Africa
TT	Turnover Tax
UNDP	United Nations Development Fund
USA	United States of America
USAID	United States Agency for International Development
WVRD	World Vision Relief and Development

Executive Summary

STRUCTURAL ADJUSTMENT AND ECONOMIC PROBLEMS

Despite the introduction of a relatively successful Economic and Social Rehabilitation Program (ESRP, the Mozambican version of IMF and World Bank funded Structural Adjustment Programs, SAP) in 1987, Mozambique still faces various socio-economic problems, including:

- an unstable GDP growth rate and GDP per capita after the first 3 years of ESRP ;
- the unstable condition of two digit inflation;
- until recently, a decline and stagnation of agricultural and industrial output and a poor commercial network;
- an unsatisfactory to moderate export performance;
- an increasing and unsustainable foreign debt;
- growing unemployment, declining incomes and increasing poverty; and
- unsustainable dependence on foreign aid.

However, the performance of the Mozambican economy in 1996 brought renewed hopes of stability, as inflation declined sharply from 54.1% in 1995 to 16.6% (World Bank, 1997). The exchange rate has been quite stable and the GDP grew at a rate of 6.4%.

POLICIES IMPACTING ON INFORMAL CROSS-BORDER TRADE (ICBT)

Apart from measures commonly undertaken in the context of structural adjustment programs (such as tight monetary and fiscal policies), in Mozambique there are no policies specifically designed to address trade issues. The Government of Mozambique approved its first agrarian policy in late 1995 but it is too soon to assess its impact on ICBT.

In the absence of sectoral trade policies, the government has been intervening in trade issues by setting up regulatory requirements to operate trade enterprises, by the creation of a government parastatal for grain marketing (ICM) and by setting of pan-territorial prices (which evolved from fixed to minimum and reference prices).

JUSTIFICATION FOR SURVEYING INFORMAL CROSS-BORDER TRADE

Official trade between Mozambique and the majority of her neighbors is insignificant compared with trade between Mozambique and the developed world. A number of constraints, including tariff and non-tariff barriers, contribute to this situation. The phenomenon of ICBT constitutes one of the main ways of overcoming formal barriers to regional trade. However, its magnitude and mode of functioning has never been documented. This lack of documentation leads to the recording of misleading figures in the national accounts and lack of a policy and strategy formulation tool to explore the potential impact of ICBT.

The overall objective of the study is to fill this gap by generating qualitative and quantitative information about ICBT and to evaluate its impact on national food security.

METHODOLOGY

Informal cross-border trade was assessed through observation of unrecorded goods crossing the 10 most active border sites with all immediate neighbors of Mozambique. It was undertaken over a period of twelve months (December 1995 to November 1996). Border monitoring was complemented with a baseline survey on the profile of informal traders undertaken in the period between January and March, 1996.

BASELINE SURVEY RESULTS

The profile of informal traders, obtained through a baseline survey mentioned above, can be summarized as follows:

- About 76% of the traders interviewed were residents of Mozambican border towns. Most (about 66%) were men. The majority (about 86%) of both gender were literate;
- About 53% of interviewed traders stated that they had their business registered but most (76%) of them did so after the end of the war in Mozambique;
- More than half of the traders interviewed mentioned that before conducting ICBT they were unemployed;
- About 55% of the informal traders had an initial investment

lower than US\$50 and only 57% had bank accounts;

- There were different categories among informal traders including retailers (about 59%), hawkers (about 23%) and wholesalers (about 10%);
- There was widespread use of small agents and transporters who specialized in methods of evading the customs system;
- The average mark-up obtained by informal traders allowed them to earn a monthly revenue more than four times the minimum salary paid by employers in the formal sector;
- Informal traders were, in general, price takers and most (about 59%) used word of mouth as their main source of business information;
- Marketing channels consisted of the formal commercial network of foreign (border) towns supplying the goods to Mozambican informal wholesalers and retailers who then provided the distribution to (in)formal retailers and consumers in Mozambique;
- Marketing functions included exchange functions (buying/selling), physical functions (mainly transportation) and facilitating functions (risk bearing/information) addressing possession, place and time dimensions;
- Most (91%) of traders stated that their transactions were on cash basis. The majority (70%) of the traders stated that they used foreign currencies from the immediate neighbors, obtained in the parallel market;
- About 39% of traders mentioned that they carried goods across the borders on their head or hands, bicycles and carts as their main means of transport whilst others mentioned the use of hired vehicular transport. Most (83%) of the traders used rudimentary storage facilities;
- The majority (80%) of the public officials were in favor of the formalization of ICBT, a few (about 6%) thought that ICBT should be stopped and others (9%) that ICBT should not be interfered with;
- Public officials' views on the implications of ICBT

included: customs and tax evasion (according to about 49% of respondents), retarding economic development (about 26%), stabilizing food security (14%) and providing employment and incomes at the cost of health and sanitary considerations (11%);

- About 37% of public officials viewed revenue maximization as the main priority of their institutions regarding ICBT and 23% considered diverse issues such as controlling the border movement and establishing informal markets as their main priorities. Free trade was not mentioned as a priority;
- The phenomenon of ICBT is seen by most (66%) of the interviewed public officials as having increased as compared to the 1980s. There were diverse views on the problems faced by formal traders including: unfair competition by informal traders (34% of respondents), barriers to trade (20%) and other issues such as lack of liquidity and transport (20%);
- The reasons for inaccurate trade figures recorded by customs officials were seen by public officials as including: the use of informal ways by informal traders (according to 34% of respondents), poor customs administration (17%) and lack of trained and trustworthy customs officials (17%);
- Public officials' opinions on the political and economic implications of ICBT were diverse and included: contribution to food security (18%), interdependence between border regions of neighbor countries (18%) and economic cooperation (6%) and a significant proportion of respondents (42%) viewed ICBT as combining positive aspects such as positive impact on employment, incomes and food supply and negative impact on formal trade and governmental revenues; and
- Public officials' opinions on the prospects of trade expansion between Mozambique and her immediate neighbors were dominated by the pessimism (49%) whilst 23% were optimistic.

BORDER MONITORING RESULTS

In the following text, imports mean imports to Mozambique, exports mean exports from Mozambique, ICBT balance means the ICBT balance for Mozambique, and the total value of trade means the sum of the figures on the value of both formal and informal trade. Reference year for formal trade data used in comparisons with informal trade was 1996.

Border monitoring results (covering 12 months) can be summarized as follows:

- **Mozambique and Swaziland**

- Major informal imports included: agricultural goods such as sugar, meat, peanuts and maize flour and, non-agricultural goods such as shoes, building materials, kitchenware, edible oils and margarine and beer. The main informal exports were limited to prawns and wood;
- Informal exports and imports amounted to about US\$ 31 million and US\$ 51 million, respectively, resulting in a negative trade balance of about US\$ 20 million; and
- In 1996, about 90% of the total value of trade between the two countries was unrecorded. Formal exports were less than one percent of informal exports and formal imports were about 20% of informal imports.

- **Mozambique and South Africa**

- Informal imports of all types of goods and particularly eggs, vegetables, Irish potatoes, fruit, beers, vehicle and bicycle parts, building materials, electrical goods, dominated ICBT relations between these two countries;
- Informal imports and exports amounted to about US\$ 32 million and about one million US\$, respectively, which resulted in a negative trade balance amounting to about US\$ 31 million; and
- Based on 1996 official figures and border monitoring results, ICBT represented about 10% of the total (formal and informal) trade between these two countries.

- **Mozambique and Zimbabwe**

- Informal imports of agricultural goods such as eggs, milk, sugar and fish as well as non-agricultural goods such as beers and sodas, textiles, cigarettes and wood from Zimbabwe to Mozambique, largely dominated ICBT relations between these two countries;
- Informal imports and exports amounted to about seven million and to only US\$ 406,000, respectively, which resulted in a negative trade balance of about seven million US\$; and
- Informal cross border trade represented about 16% of the total value of trade between these two countries.

- **Mozambique and Malawi**

- There were simultaneous informal imports and exports of a number of agricultural goods such as maize, beans, other grains and vegetables. There was also a predominance of imports of sugar and various non-agricultural goods such as beers and sodas, shoes, vehicle and bicycle parts and toiletries from Malawi and exports of salt to Malawi;
- Informal imports and exports amounted to about US\$ 2.8 million and about US\$ 1.4 million, respectively, which resulted in a negative trade balance of about US\$ 1.4 million (despite a positive ICBT balance of about US\$ 0.4 million in agricultural goods); and
- Informal cross border trade represented about 26% of the total value of trade between these two countries and about 54% of total exports were undertaken through ICBT.

- **Mozambique and Zambia**

- There were moderate informal imports of mangoes, meat, vegetables, shoes, electrical goods, vehicle and bicycle parts and informal exports were limited to maize, seeds and beans;
- Values of informal exports and imports were limited to about US\$ 217,000 and US\$ 417,000 respectively, which resulted in a negative trade balance of about US\$ 200,000;

and

- Informal cross border trade represented about 67% of the total value of trade between these two countries.
- **Mozambique and Tanzania**
- Informal exports to Tanzania, consisting of marine and agricultural products such as prawns, fish, vegetables, fruit and maize and informal imports of shoes, electrical goods, vehicle and bicycle parts, kitchenware and textiles, to Mozambique, dominated ICBT between these two countries;
- Informal exports and imports amounted to about US\$ 2.95 million and US\$ 4.64 million respectively, resulting in a negative trade balance of about US\$ 1.73 million (despite a positive ICBT balance of about US\$ 1.6 million in agricultural goods); and
- Informal cross border trade represented about 65% of the total value of trade between these two countries.

In summary, the results above show that Mozambique is dependent on her immediate neighbors in terms of ICBT but as one moves from the Southern to the Northern region there are decreasing imports of agricultural goods and increasing exports. Total informal exports from Mozambique to all her immediate neighbors amounted to US\$ 37 million and total informal imports amounted to about US\$ 98 million, resulting in a negative balance of about US\$ 61 million.

DETERMINANTS OF ICBT IN THE MOZAMBICAN CONTEXT

Following the introduction of the ERP and the end of the war a growing number of informal traders from different categories including wholesalers, retailers, hawkers/agents, transporters/couriers, public officials and consumers, have engaged in informal cross-border trade (ICBT) between Mozambique and her neighbors.

The most important determining factors of ICBT include an interaction and mutual reinforcement between a "cheap-labor-supply-push" and a "low-income-demand-pull. The former stems from a combination of increasing unemployment and the search for

alternative or complementary income earning opportunities. The latter results from an increasing number of poor consumers without purchasing power for goods offered by the formal sector compounded by suppressed demand in regions with poor commercial networks.

Further determining factors include: high customs duties coupled with weaknesses in customs administration. The former result in widespread attempts to beat the system. The latter is expressed in the charging of unofficial rents and harassment of informal traders. Social hardships caused by many years of war and disenchantment stemming from past and present economic performance are likely to affect public morality, including the attitude of public officials.

CONTRIBUTIONS AND IMPLICATIONS OF ICBT IN MOZAMBIQUE

In Mozambique, ICBT has positive and negative contributions.

Informal Cross-Border Trade has positive effects on:

- **Food security** - ICBT plays an important role in food availability (through informal imports and increased agricultural productivity driven by informal exports), adequacy of food supply (by driving food from surplus to deficit areas), food supply stability (by combination of ICBT and informal internal trade) and provision of access to supplies to all consumers (by selling goods at lower prices or undertaking bulk breaking of food commodities);
- **Employment, incomes and poverty alleviation** - ICBT provides an opportunity for a large number of unemployed people to earn an income more than four times the minimum salary; and
- **Complementing the commercial network and opening of new markets** - ICBT fills the gap left after the destruction of the commercial network during the war and contributes to the opening of new markets for domestic producers.

Negative effects include:

- **Customs and tax evasion** - the total revenue forgone in twelve months of border monitoring is estimated at about US\$ 25 million, which does not mean, however, that informal

traders obtain the goods on a 'duty free basis', since they are often charged unofficial rents;

- Lack of transparency in trade operations - reflected in the use of certain categories of informal traders by formal traders as intermediaries and the practice of charging unofficial rents to (in)formal traders; and
- Violation of health, sanitary and environmental requirements as fresh products are traded without sanitary control. Some forest resources (such as wood, fire-wood and charcoal) are informally exported without control.

Policy implications

With ICBT having positive and negative implications, the question is what policy options can the Government of Mozambique adopt in order to enhance the positive aspects of ICBT without facilitating its negative implications.

Repressing ICBT (by charging high customs duties to informal traders and allowing the continuation of the present status quo of police harassment and charging of unofficial rents) would be counterproductive to the positive aspects of ICBT for a number of reasons, including:

- An adverse affect on food security - resulting in inadequate and unstable food availability and supply by the feeble formal sector and, by curtailing access to food supplies to the majority of the consumers as prices would rise;
- A loss of an important source of employment and incomes - for people lacking employment in the formal sector; and
- Leaving the responsibility of circulation of food at the hands of the feeble formal sector - and this would lead to a loss of new markets for domestic producers.

Furthermore, repressing ICBT in any manner would hardly help to counteract the negative aspects of ICBT as it would:

- Lead to a low rate of adherence to the payment of customs duties by informal traders (specially if the costs of evasion through use of informal routes and payment of unofficial rates were lower than official rates) and would

require costly mechanisms to implement compared to its potential benefits;

- Reinforce lack of transparency in trade operations by encouraging the charging of unofficial rents by customs officials and stimulating smuggling; and
- Contribute to increased health and sanitary requirement violations and would stimulate negative environmental effects of ICBT as many informal traders would respond to repressive measures by using informal routes and switching to the trade of forest and other resources.

With repression being counterproductive, it seems clear that liberalization of ICBT in the manner summarized below is the only policy option for the Government of Mozambique to strengthen the positive implications of ICBT without stimulating or even eliminating some of its negative implications.

Liberalization of ICBT, in the context of this study, should be understood as a gradual introduction of customs and tax rates that are lower than the costs of evasion, including payment of unofficial rents. This would represent a sufficiently attractive incentive to informal traders to declare their goods, stimulated by the benefits of the availability of better roads, transport and foreign exchange at the border posts.

A follow up study to determine the level of customs duties and taxes in the context of liberalization is needed.

1. Introduction

MACROECONOMIC DEVELOPMENTS

Background: Economic Crisis and Structural Adjustment as the Main Response

Between the early and the mid 1980s, Mozambique was hit by a deep economic crisis characterized by macroeconomic imbalances and an inefficient and ineffective economic environment. Box 1.1 highlights the main symptoms of the crisis.

Oil price shocks, unfavorable terms of trade, de-stabilization and war and the pursuit of inappropriate economic policies are generally cited as the main cause of the crisis in that period.

The main response of the Government of Mozambique (GoM) to the crisis was the adoption of a macroeconomic stabilization and structural adjustment program in 1987 with the assistance of the IMF and the World Bank. Locally known as the Economic (and later also Social) Rehabilitation Program (ERP or ESRP), its objectives included, as in other countries, the reduction of the current account deficit, inflation and imbalances between government expenditures and revenues. Further objectives included the elimination of deficiencies in the microeconomic incentive structure such as distorted prices.

Another response to the crisis was a concerted effort to end the internal war which culminated in the signing of the peace

Box 1.1: The Economic Crisis in Mozambique before the Introduction of the SAP in 1987

Major characteristics of economic crisis of the early and mid 80s included:

- a 30% decline in overall production, with GDP in 1986 having fallen to around two thirds of its 1981 level;
- a general scarcity of consumer goods;
- a growing inflation in the order of 163% in 1987;
- a fall in exports by nearly 75% between 1981 and 1986;
- flourishing parallel markets where consumer goods were sold at prices ten times higher than official ones;
- an overvalued local currency and a general scarcity of foreign exchange which led to parallel exchange rates which in 1984 were 40 times higher than the official rates.

accord and the introduction of a multiparty democracy. This was a long process initiated with the adoption of a new constitution in 1990, the signing of a general peace agreement in 1992, the demobilization of 80,000 soldiers and the staging of presidential and parliamentary elections in 1994.

When the ESRP was launched in 1987, the Government of Mozambique presented it as a three-year program (1987-1989). The ESRP is now in its 10th year. Its main measures and resulting economic developments are outlined below.

Main Adjustment Measures and Macroeconomic Developments

The implementation of ERP in Mozambique has been gradual. Since the beginning of the program, a set of tight monetary and fiscal measures were set up in different phases. The initial measures included those shown in Box 1.2.

As shown below in Chart 1.1, on figures sourced from the World Bank and the GoM's Policy Framework Papers (except for 1994 and 1995 where INE figures were used in respect to actual GDP) the macroeconomic impact of the above measures was quite impressive during the first three years of the ERP but, at best, unstable in the subsequent period.

The encouraging results achieved at the beginning of the program were understood as a positive consequence of the liberalization of the economy and considerable flow of funds from international sources.

Two combined factors explain the poor performance of the Mozambican economy in 1992: a severe drought in the region in 1991-92 and the worsening of the war in the period preceding the

Box 1.2: Mozambique, initial adjustment measures

The following type of measures were adopted within the framework of the SAP:

- a gradual devaluation of the local currency and various reviews of the foreign exchange allocation systems;
- a gradual price reform leading to an almost total abolition of centrally fixed prices;
- a tightening of credit and the setting of close to real interest rates;
- a tax and duties reform, an elimination of the financing of the budget deficit by means of increased money supply and improvements in the composition of the budget;
- a gradual elimination of state enterprises' subsidies followed by a privatization process.

signing of the peace accord in late 1992. The main effect of these factors was an agricultural supply shock.

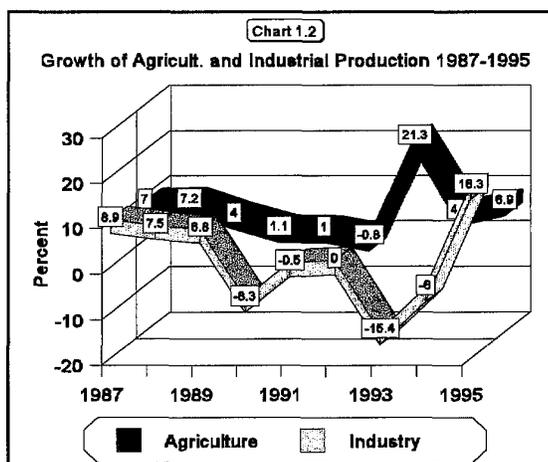
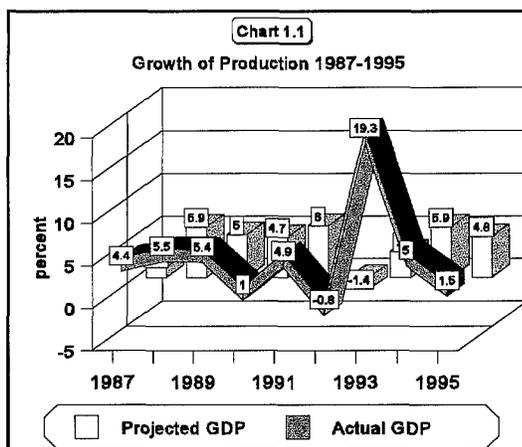
The real GDP growth rate of 19% achieved in 1993 reflected the end of the war, the resuming of agricultural production and rural trade and improved climatic conditions.

Agriculture and industry, showed an initial boost in the first two to three years of the ERP, followed by a period of sharp decline and stagnation until 1992. As Chart 1.2 shows, in 1993 agricultural production grew by 21.3% whilst industrial production declined to -15.4%.

As already mentioned, the former resulted from a good agricultural year combined with a return of a massive number of Mozambican refugees. The latter decline reflected the tremendous liquidity problems faced by an industrial sector undergoing a privatization process.

Further measures introduced within the framework of the ERP, from early 1992, included, as Box 1.3 shows, new foreign exchange allocation mechanisms as well as restrictive credit policies.

A set of practical arrangements to ensure an efficient use of import support funds was introduced. Such arrangements included relegating to the *Banco de Moçambique* (BM, central bank) the crucial task of approving the use of foreign exchange, supplying it to commercial banks and requiring them to provide it only to importers with liquidity (through their own means or credit) for the payment of counterpart funds. Under this arrangement commercial banks were charged by BM for the total counterpart funds whenever import support funds are provided by the latter to the former and an import transaction is completed. The amount of counterpart funds charged was immediately



transferred to the Treasury as a contribution to the state budget.

The above system was acclaimed by importers of consumer goods looking for a quick return from their import transactions. Sectors with longer productive cycles and liquidity problems exacerbated by tight credit conditions, were facing considerable difficulties in taking advantage of the above system. This was the case for the formal sectors of agriculture and industry.

Box.1.3: Mozambique, further ERP measures

From 1992 ERP measures included:

- *a gradual elimination of systems of administrative allocation of import support funds culminating with the introduction of a "first come, first served" system and, more recently, the interbank system of allocation of foreign exchange;*
- *the unification of the official and the secondary markets for foreign exchange for untied import support funds subject to a negative list;*
- *the removal of individual credit ceilings on lending to agriculture, industry and trade to allow for a market based lending criteria seeking the attainment of positive interest rates;*
- *the reduction of the monetary financing of the state budget, maintaining higher tax and custom levels and improving collection coverage, eliminating subsidies to state enterprises and curtailing the demand through decreased real salaries*

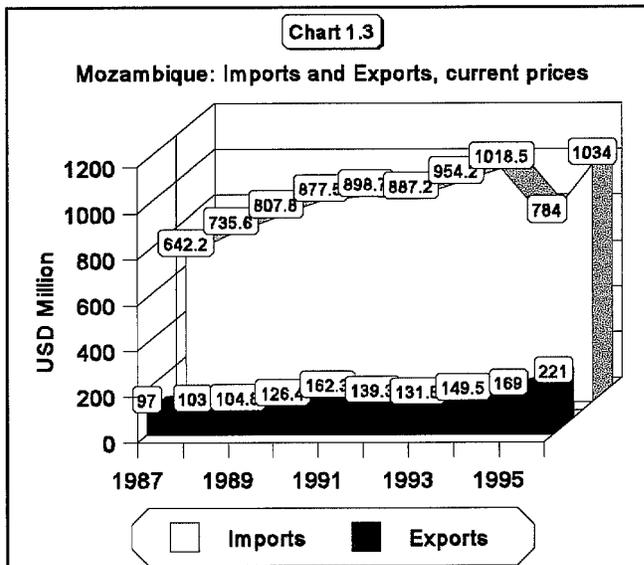
The tight monetary measures introduced under the ERP led to a deceleration of inflation from three digit levels in the pre-ERP period to two digit levels.

The contractionary fiscal and budgetary policies under the ERP allowed for an initial increase of government revenues in percentage of GDP until 1991 followed by a decrease to 18.3 in 1995. However, there was a tendency for increased total expenditures in percentage of GDP until 1990 which was reversed in the subsequent period, except in 1994 (due to special expenditures related to the peace process such as, demobilization of soldiers, resettlement, etc.). The government deficit before grants also increased until 1990 and fell afterwards except in 1994 for the same reason as mentioned in respect to total expenditures. The government deficit was largely financed through external grants which resulted in low levels of net credit to the government (less than 2% of GDP in 1996).

More recently, there were renewed hopes of macroeconomic stability, as inflation in 1996 was brought down from 54.1% in 1996 to 16.6% and the exchange rate of the Metical to the Dollar was quite stable.

The Response of the External and the Internal Sectors

Mozambique's traditional exports are dominated by a narrow range of commodities including: prawns, cashew nuts, cotton, sugar, copra, lobster, citrus, timber, tea and coal. The first three invariably account for more than 50% of the value of total exports. Other non-traditional exports are quite diverse and their share in the total value of exports increased between 1988 and 1991 from 12 to 32% and decreased in 1992 to 21% followed by increases to 27 and 31% in 1993 and 1994 but decrease again in 1995 to 23%.



After independence (1975), the highest value for Mozambican exports recorded by official statistics, was in 1981, totaling USD 281 million. The lowest was in 1985 with only USD 76.6 million.

The response of the external sector to ERP measures has been moderate to unsatisfactory. As Chart 1.3 shows, Mozambican formal exports of commodities have represented less than 15% of imports, on average, during the period between 1987-96, despite a slight improvement of export performance in the last two years. As a result, the country continues to be highly dependent on external aid to finance its imports. At this pace Mozambique's external debt, estimated at around USD 5.5 Billion at the end of 1995, can only increase.

The Government of Mozambique has been implementing various measures to enhance growth and achieve external viability, including: diversification of exports; rehabilitation of the Cahora Bassa dam and investments at Pande gas fields for export of electricity and gas, respectively; rehabilitation and privatization of the port and railway sectors; and increasing the level of retention of foreign exchange by exporting enterprises to 65%.

The above measures are being combined with a debt restructuring strategy with a view to controlling the growth of the external debt.

Internally the response to ERP measures by the productive and the commercial sectors has not been uniform. The introduction of ERP has brought both opportunities and threats to the formal sector of the economy. When a "first come, first served" system of access to foreign exchange was introduced, it was expected that this system would penalize the inefficient state enterprises and reward the private sector. In fact, a new opportunity for better access to foreign exchange was created for the private sector but at an increasing cost (counterpart funds) due to the devaluation of the Metical.

Commercial agriculture and industry are highly dependent on imported inputs which the devaluation, high customs duties and inflation have made expensive. Production costs became too high and output became, in most cases, not competitive. As a result these sectors face tremendous liquidity problems. The banking sector fails to provide a solution through credit given prohibitive interest rates even though they are not high enough to cope with inflation.

In contrast, the commercial sector, particularly that which imports and sells consumer goods, is engaging in a fierce competition against the productive sectors. In a highly inflationary economy, only fast cash return business activities are viable as opposed to longer term maturing ones. In the commercial sector the time span between the use of resources and the obtaining of revenue is shorter as compared with the productive sectors. Nevertheless this sector has to compete (and cooperate) with the informal sector which, as will be shown below, has been flourishing since the introduction of ERP.

Sectoral Policies and Issues Impacting on Informal Trade

Agricultural policies

The Government of Mozambique approved its agrarian policy (see Box 1.4), for the first time in late 1995.

Major problems facing the Mozambican agricultural sector were identified in the Agrarian Policy Paper as including: limited use of appropriate technologies; weak commercial networks; inadequate incentives to agricultural production; institutional weaknesses; insufficient public investment funds; growing inflation; preference given to transport and trade sectors by private investors; outdated land legislation; foreign dependence; small and open internal markets; inadequate roads; irregular rainfall; cyclic droughts and international rivers with no water.

Box 1.4: Mozambique, Agrarian Policy Paper

The Government of Mozambique's Agrarian Policy Paper is divided into five main parts:

- In part I a background to the agrarian policy formulation is presented;
- In part II an analysis of strengths, weaknesses, opportunities and threats facing the Mozambican agrarian sector is undertaken;
- The objectives of the agrarian policy are presented in part III;
- Part IV provides the strategies for the implementation of the agrarian policy; and
- Part V provides follow-up actions.

The Agrarian Policy Paper puts emphasis on :

- Food security;
- Sustainable economic development;
- Reduction of unemployment;
- Reduction of absolute poverty; and
- Small holder agriculture.

The paper summarized the objectives of the agrarian policy as follows:

'To develop agrarian activities aiming at the attainment of food security through diversified production of agricultural consumer goods, supply of agricultural commodities to the national industry and agricultural exports, based on a sustainable use of resources and without neglecting social equity considerations'¹.

A set of measures for achieving the above objective are contained in the Agrarian Policy Paper, including: promotion of a rational and efficient use of natural resources with the involvement of local authorities and communities; introduction of incentives for improving agrarian production capacity and productivity with a view of attaining food security; giving priority to family sector producers through establishment of different types of local organizations to support them and provision of improved

¹See The Government of Mozambique (1994) *Política Agrária e as respectivas Estratégias de Implementação (Agrarian Policy and Implementation Strategy)* Resolução no. 11/95 de 31 de Outubro.

seeds, agricultural inputs, agrarian extension and technical assistance ; liberalization of agricultural marketing; promotion of informal financial organizations and; support to the private sector engaged in production for export, through fiscal and financial incentives and facilitation of private investment.

It is too soon to assess the impact of the above measures on ICBT. However, it is likely that before the above policies and strategies show some impact on ICBT, the negative factors behind the adoption of these measures, coupled with the social effects of ERP (such as increasing unemployment and decreasing incomes), will continue to be an incentive for ICBT for the next few years.

Trade policies

In Mozambique there are no policies specifically designed to address trade issues. A first attempt to address these issues was made in 1994, through project MOZ/93/021 financed by UNDP and executed by the International Trade Center UNCTAD/GATT. Under this project, a draft report containing proposals for trade policies and strategies for the Government of Mozambique (GoM) was prepared for a discussion in a symposium attended by Mozambican public officials and the business community.

The above mentioned report briefly discussed various general problems affecting the trade sector, namely, growing smuggling of commodities, uncoordinated internal and regional policies, outdated legislation, obsolete companies, destruction of infrastructure, paucity of qualified personnel, inadequate financial sector, weak statistical base and weak legislation on land tenure.

Specific problems identified included a fragile commercial network, the dumping of food aid, the production of similar products in the region, organizational and institutional weaknesses, underutilization of transport corridors, trade barriers imposed by developed partners, exports limited to a narrow range of traditional commodities and limited information and knowledge of international markets.

Informal cross-border trade was not covered in this document. It was simply mentioned as an activity that should not be confused with illegal trade of contraband goods (smuggling) but understood as complementary to the rural commercial network.

A contact in the Ministry of Industry, Trade and Tourism

(MITT) revealed that in a symposium organized by this ministry, in late 1994, the above mentioned document was not approved because it did not show clearly how exports were to be increased. At this meeting it was also revealed that a group of senior government officials was appointed to draft a new trade policy. The policy has been re-drafted but not yet approved.

The absence of trade policies does not necessarily mean that GoM does not intervene in trade issues. In practice, it has been intervening in a number of ways including the setting-up of legal and regulatory requirements to operate trade enterprises, the creation of a Government parastatal for grain marketing and the setting of pan-territorial prices.

Legal and regulatory issues

Internal trade in Mozambique is regulated by Law No. 7/79 approved in 1979, in the context of an economy of allocation. This law was an attempt by GoM to control the activities of internal private traders. It requires them to be registered (for the award of a trading license) and established in specific areas according to the government priorities and plans. Private wholesale and retail traders at provincial and district levels needed to be designated by Ministry of Trade. The former were expected to be the suppliers of industrial consumer goods to the latter on a monopolistic basis, until the situation changed following the dynamics of the Economic Rehabilitation Program (ERP). Trading licenses are only awarded to applicants who submit a number of certificates, such as a Certificate of Literacy; a certificate of Clean Police Record; Certification of the Commercial and Property Registry; and a declaration that they are not civil servants.

The requirements to become a registered import trader are regulated by Law No 17/91. Applicants are also required to present a number of certificates to the MITT offices for the award of a status of a legal import trader, namely: a Certificate of Commercial Registry; a Trading License; Certification of Payment of Taxes; a Bank Statement showing the balance of the applicant's account; and a certification from the Customs Authorities.

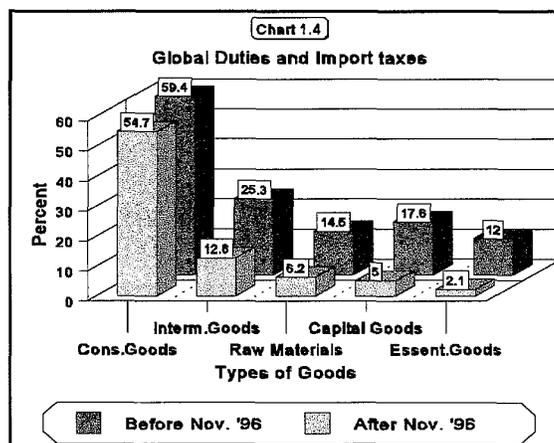
In practice, the above requirements mean that only legally established enterprises can apply for registration as importers. The above requirements are time consuming and hard for informal traders to comply with. In mid 1996, new heads of the customs

offices of the borders with Swaziland (Namaacha) and South Africa (Ressano Garcia) were appointed and instructed to enforce the requirement of import licenses to all informal traders crossing these border posts with an amount/value of goods exceeding the consumption needs of an average household. The targeted informal traders complained to the Directorate of Customs and were told that they should comply with licensing regulations. Apparently they set up an ad hoc commission to negotiate licenses with the MITT. According to information obtained from this Ministry, it was decided that they should apply for registration as regular importers.

For an informal trader, a major barrier to become a registered import/export operator is the requirement to have an import/export license whenever he or she crosses the border with goods purchased or to be sold abroad which implies time, money and paperwork. Furthermore, registration as an importer must be renewed every year, implying further expenditures and paperwork.

A second barrier is the requirement for the payment of customs duties and taxes on imports which are fairly high, following the tight fiscal policy in the context of the ERP. The Government of Mozambique has reduced the level of customs duties and taxes on imports from a global average level of 25% to 16% effective from the beginning of November 1996. It is too soon to assess its impact on the volume of (in)formal trade. As shown in chart 1.4, there have been different levels of reductions in duties and taxes with consumer goods continuing to carry the highest duties and taxes. Essential goods are those whose consumption is considered vital for any Mozambican household.

A third barrier to become a registered import/export operator are other taxes such as the Industrial Contribution Tax (ICT). The amount payable under ICT by legal importers corresponds to 45% of annual profits, to be paid in two annual installments, provisionally assessed in December of each year. This level of taxation is considered high by formal traders and a source of unfair competition in favor of informal trade.



The stringent requirements to become a formal importer and the implications of this status do not encourage informal traders to formally register. The legal requirements in force can only be accomplished by long established enterprises. New legislation is under preparation but it is unlikely to take into consideration informal traders. The only new category of trader to be introduced is one of a "broker", to be awarded to individuals without premises and acting as individual middlemen. Informal traders are expected to continue as such until formal trade takes over their activities. The governmental attitude will continue ranging between tolerance (Ministry of Trade) and hostility (customs offices) and there will be attempts to minimize the negative side of informal trade (health and hygiene issues, sale of stolen or forbidden goods, etc.) through inspection.

The government of Mozambique has recently contracted a foreign enterprise, Crown Agents, to manage and conduct a modernization of the Mozambican customs apparatus. Training of personnel and revenue maximization is the main aim of the contract, initiated in May 1997, and valid for three years. While it is too soon to assess the implications of this option on informal traders, it can be expected that hard times might be approaching.

Parastatals and pan-territorial prices

Further governmental attempts to control external trade in Mozambique included the creation of specialized parastatals which had almost exclusive rights of importing/exporting of commodities almost throughout the first decade of independence (1975). Most of them have been privatized in the context of the ERP.

The control of internal grain marketing was undertaken through AGRICOM. This parastatal was created with the intention of dealing with grain marketing and supply of farm inputs at wholesale level. It was equipped with storage facilities and a considerable fleet of transport. AGRICOM observed pan-territorial official fixed prices and applied official marketing margins, which was expected to contribute to price stabilization.

While AGRICOM had a relevant role in driving food from surplus to deficit regions, during the war years, it soon became a loss making company that only survived through Nordic aid and governmental soft loans and subsidies. The end of the war in 1992

and the subsequent decrease in donor support, showed AGRICOM's inability to perform its tasks at a self-sustainable level. In the face of this situation, GoM transformed AGRICOM into ICM (*Instituto de Cereais de Moçambique*) with the mandate of acting as a buyer of last resort, observing pan-territorial, fixed and official minimum prices, contributing to food security through adequate stock management and to price stabilization.

The transformation of AGRICOM into ICM included a transfer of all assets and only a minor part of the staff from the former to the latter. AGRICOM's liabilities were written off. Although the gigantism of AGRICOM was not replicated by ICM, this organization is confronted with severe liquidity problems. The solution to these problems is unlikely to come from donor or state budget sources. The banking system has equally been unwilling to provide a solution on cost recovery grounds. As a result, ICM'S role as buyer of last resort is quite limited, and competition from informal traders has increased.

The situation is made even worse by the government'S minimum price policy whose main assumption was the existence of a buyer of last resort. This policy was introduced to protect family producers but its blind application has had adverse effects. Its pan-territorial and pan-seasonal application has been an incentive to informal trade, in general, and informal cross-border trade in particular. Formal traders would find it risky to pay the official minimum price if they perceive that there are high transport and credit costs involved, distant market outlets and lack of clients for immediate deliveries. Informal traders intelligently explore the internal and external demand and manage the risk differently compared with formal traders, as will be shown later.

In 1966, following the privatization of the banking sector, causing credit restrictions, there was no guarantee of sufficient funds for ICM which put the policy of minimum prices in question. It was also realized that even if formal credit could cover all of ICM needs, repaying it at the then interest rates (more than 40%) would be very difficult for this organization. As a result the government recently decided to abolish minimum prices and adopt reference prices. There is probably no clear understanding of the difference between minimum and reference prices at local level.

Justification for Surveying Informal Cross-border Trade

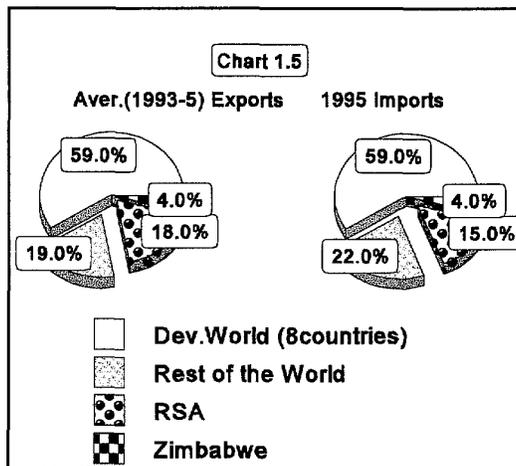
The problem

As in many countries in Sub-Saharan Africa, more than 50% of the total value of Mozambican official exports and imports are being directed to, or originate from less than 10 countries in the developed world. As shown below in Chart 1.5, South Africa is the only neighboring country with significant volume of formal trade with Mozambique. Zimbabwe is in second place and the other countries have negligible volumes of formal trade with Mozambique both in terms of exports and imports.

The low percentage share of official exports from Mozambique to neighboring countries (excluding RSA) results from a number of constraints to intra- regional trade common to most countries in the Southern Africa Development Community (SADC)².

Furthermore, the volume of imports from neighboring countries (excluding RSA) to Mozambique has been depressed as compared with imports from the developed world. This also mirrors various constraints facing the external trade sector of SADC countries.

Major constraints consist of tariff and non-tariff barriers to trade. The former are expressed by prohibitive import duties with a view to collect as much revenue as possible. The latter include complex import/export licensing regulations designed for established companies only.



Further constraints include inadequate knowledge and poor information on the availability of goods in the region, real or perceived low quality of goods and non-competitive prices and high vulnerability to dumping and export subsidies.

²Created in 1990 as Southern African Development Coordination Conference (SADCC) with Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe and Namibia as member countries.

Equally important, are problems related to the medium of exchange used in formal trade between Mozambique and her neighbors. The need for inputs imported from overseas to operate exporting industries requires payment in scarce foreign currency. Poor export performance forces most countries to rely on external aid in the form of import support funds. However, access to such funds is, in the case of Mozambique, time consuming and bureaucratic.

Informal cross-border trade is one of the main methods of overcoming formal barriers to trade. In Mozambique there is awareness of the existence of this phenomenon but its magnitude and mode of functioning has never been documented. A major effect of the lack of an accurate knowledge of the magnitude of informal cross-border trade is the recording of partial and incomplete figures in the national accounts. Another important effect is the absence of an essential policy and strategy formulation tool to explore the potential impact of ICBT with particular relevance to food security.

Important questions have gone unanswered (see Ackello Ogutu, C., 1995) as far as ICBT is concerned. For example, how vital is ICBT to Mozambique and neighboring countries? What are the traders' characteristics? What are the types, quantities and value of goods being traded? What comparative and competitive advantages with respect to key traded commodities are being exploited by informal cross-border traders? What would be the net benefit of trade liberalization? As part of the effort to begin to understand and quantify the role of unofficial trade in Eastern and Southern Africa, USAID through TechnoServe has commissioned a survey of unofficial trade between Mozambique and her neighbors.

Survey objectives

The overall objective of the survey was to generate qualitative and quantitative information about informal cross-border trade and to evaluate its impact on national food security. The survey addressed the questions above 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 countries;

- provide estimates of the magnitude of unrecorded trade highlighting the most important commodities (and categories of commodities) being traded and the trade patterns;
- make a comparative analysis of recorded and unofficial (unrecorded) trade volumes highlighting the factors determining the disparity between the two;
- make an aggregate analysis of the costs and benefits of informal trade showing who would gain and who would lose from trade liberalization;
- 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 which should be taken to enhance trade between Mozambique and her neighbors.

2. Methodology³

DEFINITIONS

The term Informal Cross-Border Trade (ICBT) in this study was applied mainly to un-recorded trade of easily observable goods passing *through* and in the *neighborhood* of the established customs points, along the borders between Mozambique and her neighbors.

For budgetary and sampling reasons, transactions along the open border outside the established roads and trading centers were not included in this study. It was assumed that such transactions are usually in the form of a rather balanced and insignificant barter system.

The emphasis was on the term un-recorded in order to include goods that were under-invoiced and goods that were misdeclared without necessarily including clandestine operations involving sophisticated secret deals involving formal importers, exporters, customs and other public officials.

Definitions of the informal sector usually adopt two approaches: the labor market approach and the sectoral approach. The former emphasizes the individuals involved in the activities and the latter stresses the activities (source). This study did not make any particular distinction in terms of the two approaches. As will be shown later, the methodology for this study was focused on the activities undertaken in the sector (particularly the type, quantity and value of the traded goods) and the characteristics of the individuals involved in such activities.

Goods have been classified into agricultural and non-agricultural. Agricultural goods included food products (cereal and pulses as well as marine and animal products), industrial crops and farm inputs grouped according to the possibility of being measured in tons. Non-Agricultural goods included manufactured goods, with the majority not measurable in tons but measured in value terms.

³ For details see Ackello-Ogutu, C., (1995) *Methodologies for Estimating Informal Cross-Border Trade in Eastern and Southern Africa*. SD Publication Series, Office of Sustainable Development Bureau for Africa, USAID, 1995.

INFORMAL TRADE PARTICIPANTS

Individuals involved in the ICBT between Mozambique and her neighbors and operating unofficially as informal cross-border traders included: traders, hawkers/agents, transporters, consumers and public officials. They can be briefly described as follows:

■ Traders

This group comprised registered wholesalers and retailers from both sides of the borders as well as informal cross border traders. Informal cross border traders were the majority in this group. Most of them were customers of registered wholesalers and retailers from the neighboring countries. They acted as informal wholesalers or informal retailers depending on various circumstances. Some of them were suppliers of registered wholesalers and retailers on both sides of the border, serving the border communities or more distant towns.

■ Hawkers/Agents

This was a heterogeneous group comprising unemployed and unskilled people⁴ as well as fairly organized specialists, running formal businesses and/or often with considerable skills. The former, known as *Mukero* operators at Namaacha and *Madjolidji* at Zóbue were more visible due to their high numbers.

■ Transporters

Transporters also formed numerous and heterogeneous group highly visible at the most active borders such as Namaacha, Ressano Garcia, and Zóbue. This group included lorry and pick up drivers, cyclists, cart pushers, carriers of hand/head luggage, and so on. There were variations in types and numbers of transporters among the borders, dictated by the distances to the supply and consumer centers, cargo weights and sometimes sex and age of the transporter. Most transporters were just couriers operating on behalf of big or small (in)formal traders and other transporters.

⁴ Unemployed and unskilled people are considered, in this report, from the point of view of lack of formal employment and schooling, respectively.

■ **Consumers**

Consumers were also seen crossing the border with what in customs terminology is termed hand/head luggage which is usually unrecorded. Residents from some border towns like Namaacha, within a radius of 30 km, were allowed to freely cross the border on four specific days of the week to buy and sell agricultural and consumer goods. It was also quite common to see wealthier consumers from larger cities, belonging to local and international elites crossing the borders for shopping on the other side, bringing the goods in their car boots and not declaring (or being required to declare) them at all.

■ **Public Officials**

This group included customs, immigration and police officers involved in ICBT themselves or charging unofficial rents to formal and informal traders. They were an important source of information and, contrary to what could have been expected, most of them maintained good collaboration with the enumerators employed in the context of this study.

It was quite common to find the same person belonging to more than one group and there was a strong interaction amongst all the groups. In most cases, informal traders were not observable at the border sites but only the small middlemen acting on their behalf. These were some of the reasons which made clear distinctions quite impossible.

TECHNIQUES FOR DATA COLLECTION

The methodology used for estimating ICBT between Mozambique and her neighbors included a technique for border monitoring (observation) and a one-time baseline survey.

The Technique for Border Monitoring

After reconnaissance visits to border regions, it was found that ICBT in Mozambique, like in many other African countries, was concentrated in and around established customs points in the vicinity of a number of border towns. Based on this fact, the following border sites were selected for regular border monitoring (border sites are indicated in the attached map of Mozambique):

Table 2.1: Border Posts Selected for Regular Border Monitoring

Border Post	Province	Border with
1. Namaacha	Maputo	Swaziland
2. Ressano Garcia	Maputo	Republic of South Africa
3. Machipanda	Manica	Zimbabwe
4. Cuchamano	Tete	Zimbabwe
5. Zóbue	Tete	Malawi
6. Calómue	Tete	Malawi
7. Dómue	Tete	Malawi
8. Cassacatiza	Tete	Zambia
9. Mandimba*	Niassa	Malawi
10. Mocímboa da Praia**	Cabo Delgado	Tanzania

* Selected after 3 months of border monitoring at Lupilichi (Niassa Province, border with Tanzania) having provided meager results.

** Not exactly a direct border post but the main point of destination/origin for informal traders sailing between Tanzania and Mozambique.

Obviously, more border sites exist in Mozambique but reconnaissance visits and secondary information accounted for less active informal trade compared to the selected border sites. Furthermore, there was a need to keep regular border monitoring as a manageable exercise in cost, logistics and safety terms. According to reconnaissance visits and information obtained from different sources, frontier sites such as Ponta do Ouro, Goba, Vila Eduardo Mondlane, Espungabera, Zumbo, Entre-Lagos and Namoto did not have a significant proportion of informal trade. It was assumed that informal trade at these points might represent less than 20% of the total volume of ICBT between Mozambique and her neighbors. For this reason, and taking into account that there were goods that could not be monitored for a number of reasons (including night trade, car boots that were not opened at border sites, use of informal routes by traders, and so on), it was also assumed that border monitoring could cover about 65 to 75% of the total volume of ICBT between Mozambique and her neighbors. The figures with regard to the value and quantity of ICBT, to be presented later in this report, were the figures recorded by the enumerators and referred to *visible* trade only.

Regular border monitoring was initiated on December 11, 1995 at all borders except at Mocímboa da Praia and Mandimba where monitoring commenced on January 8 and on April 22, 1996 respectively. Mandimba replaced a formerly selected border post, Lupilichi, which showed very low volumes of ICBT after three months of border monitoring⁵

⁵ Lupilichi is situated at the extreme Northwest side of the Niassa Province. This border site was initially selected because of the recent discovery of gold in that area resulting in active informal gold extraction undertaken mostly by Tanzanians and informally exported to Tanzania.

Border monitoring in this study entailed placing one or two enumerators (depending on the magnitude of ICBT) at strategic points of the above mentioned border sites with the task of observing and recording any un-recorded goods crossing the border posts in both directions, i.e. informal imports and exports. A total of 15 enumerators and four field supervisors were employed. They were selected on the basis of familiarity with the type of goods crossing the borders where they were placed. Thus, they did not need to establish a dialogue with the (informal) traders which could have intimidated traders and caused changes in their tactics to cross the borders. Enumerators simply tactfully observed, assessed and recorded the content, quantity and measure of the volumes of goods being informally imported or exported. They also recorded the type of transport used and the sex of the operators. They were instructed to record all types of goods crossing the borders un-recorded. A data programming consultant split them into agricultural and non-agricultural goods.

A time chart for border monitoring was originally adopted⁶, for a total observation period of 12 months, two weeks each month, randomly selected as follows:

Table 2.2: Time Chart for Monitoring Cross Border Trade

MONTH	DEC (12)	JAN (1)	FEB (2)	MAR (3)	APR (4)	MAY (5)	JUN (6)	JUL (7)	AUG (8)	SEP (9)	OCT 10	NOV1 1
MONIT WEEKS	12.2 12.3	1.2 1.3	2.1 2.4	3.1 3.3	4.2 4.4	5.2 5.3	6.1 6.4	7.2 7.3	8.1 8.4	9.2 9.4	10.2 10.4	11.1 11.4
DAYS/ WEEK	SEVEN (7) DAYS : MONDAY - SUNDAY											
TOTAL# OF DAYS	168											
TIME	DAY TIME											

Note: 12.2 refers to the second week (2) of Dec., (12), 1.3 to the third week (3) of Jan (1) and so on

This method allowed for the derivation of the monthly volume of trade by dividing the total volume of trade for the two weeks by 14⁷ and multiplying by 30. The annual volume of trade was derived by adding the monthly estimates.

⁶ The late start of regular border monitoring at Mocímboa da Praia and Mandimba (January and April 1996) required an extension of border monitoring at those places until December 1996.

⁷ This corresponds to the two weeks of border monitoring. Obviously, in a very few cases of enumerators being unable to complete two full weeks of border monitoring, this number was less than 14.

Baseline survey

Data on informal trader characteristics, marketing functions and other issues, was obtained through a baseline survey which complemented the data from the border monitoring exercise. Two structured questionnaires (one for informal and formal traders and the other for public officers) were administered in the period between January and March, 1996.

A total of 152 respondents were interviewed (using a structured questionnaires), with the distribution shown in Table 2.3 below.

All informal traders were interviewed at the border sites or at the informal market places located within walking distance from the border site. Formal traders were interviewed at border towns. Public officials were contacted at all levels (from district to national bodies related to cross-border trade) and included customs and immigration officials, the Ministry of Trade officials and officials of the Ministry of Agriculture.

Table 2.3: Type of People Interviewed

	B O R D E R P O S T S										TOTAL
	Nam	R.G.	Mach	Cuch	Zob	Cal	Dom	Cas	M.P	Lup	
Inf. Traders	12	4	12	11	10	1	5	5	3	3	66
Formal Traders	23	2	4	3	5	1	6	0	7	0	51
Sus-Total (TRADERS)	35	6	16	14	15	2	11	5	10	3	117
Public officials	3	1	6	4	4	3	3	1	7	3	35
TOTAL	38	7	22	18	19	5	14	5	17	6	152

Nam=Namaacha; R.G.=Ressano Garcia; Mach=Machipanda; Cuch=Cuchamano; Zob=Zóbue; Cal=Calómue; Dom=Dómue; M.P.=Mocímboa da Praia Lup=Lupilichi

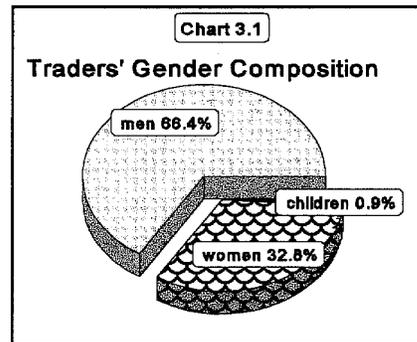
As the population of traders is unknown the sampling procedure consisted of a selection of judgmental clusters of respondents at specified border towns.

3. Profile of Informal Traders and General Impressions

GENERAL CHARACTERISTICS OF INFORMAL TRADERS

Visits to the different border posts for supervision of enumerators and the administration of two questionnaires (one to traders and the other to governmental officials) showed that there were many similarities but also some differences in the characteristics of informal traders along the Mozambican border posts. Characteristics common to many sites included gender composition, distance between border posts and place of residence and literacy level.

Although informal cross-border trade was an activity that involved all age categories, it was decided, for practical reasons, to limit the survey to adult traders. Out from a sample of 117 traders, as Chart 3.1 shows, the majority (about 66%) were men and about one third were women.



Data from border monitoring obtained from December 1995 to March 1996 revealed that ICBT between Mozambique and most of her neighbors was generally dominated by men (see Annex 3.1). Namaacha (border with Swaziland) was the only place where ICBT was dominated by women. Women's participation in ICBT was considerable at the border of Cassacatiza between Mozambique and Zambia but it did not exceed the participation of men. Women were also active in ICBT between Mozambique and Zimbabwe but again not as active as compared to men. Women appeared to involve their children less than 16 years to a considerable extent, particularly at the Cuchamano border with Zimbabwe.

As Chart 3.2 shows, most (about 76%) of the traders were residents of Mozambican border towns (BTs). The remainder were residents of foreign border towns (5%), people from other nearby local and foreign towns within a radius of 20 km (10%) and people from further places from both sides of the borders (10%).

Most (more than 86%) of respondents were literate. To address the literacy issue without offending respondents,

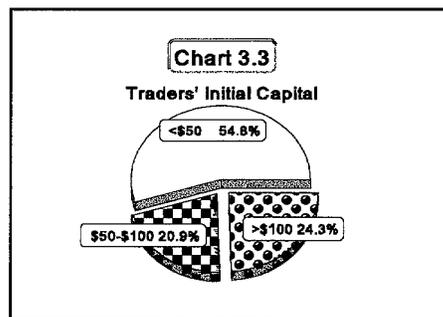
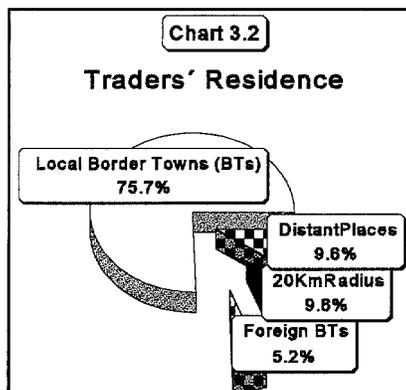
traders were asked whether they were able to write their own letters by themselves. Only 8% gave a negative answer to this question and about 6% did not respond. It can be concluded that most traders had at least one of the basic requirements to conduct business activities - literacy.

When asked whether their business was registered about one half (53%) of the traders gave a positive reply. Of this, the majority (76%) stated that they registered their business after the signature of the peace agreement in 1992. About 20% did so before the introduction of the Economic Rehabilitation Programme (ERP) in 1977. Some of them understood registration as limited to the daily payment of a symbolic toll at market places. Of those who were not registered, most (67%) replied that their activities were too small scaled to deserve registration. Only about 10% of this group explicitly mentioned complicated registration procedures as a cause for conducting cross border trade without a license.

Many traders were engaged in informal cross border trade as a response to unemployment. Their answers to a question about their former employment suggested that a considerable number of them came from the shrinking formal sector. More than 50% of respondents had been self employed, government employees or employed by private employers.

TRADER CHARACTERISTICS BY SIZE

Another common characteristic of informal cross border traders was that more than one half (about 55%) had only invested a small amount of initial capital in the activity, not exceeding US\$ 50. Traders who have made an initial investment of more than US\$ 50 but less than US\$ 100 and, traders who have invested more than US\$ 100 were less than 25% of each group. Chart 3.3 provides the percentage distribution of respondents of the questionnaire to traders according to levels of capital invested in the activity. Relatives and friends were important sources of initial



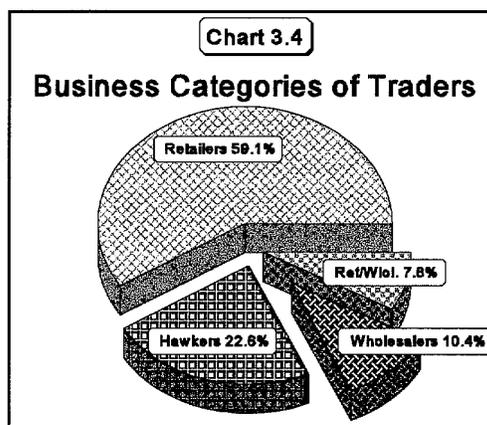
funding, having been mentioned by 24% of respondents. When asked to specify diverse sources of initial funds, the most frequently mentioned included: household income from agriculture, petty trade and or working for other informal or formal sectors. Banks and savings/credit societies were mentioned in only 2.6% of the cases each.

About 57% of the respondents stated that they had a bank account. Several reasons were given for not having a bank account with the most frequent response being "my business is too small..."

There were different business categories of traders among respondents, with most of them acting as retailers (59%) and hawkers (about 23%). Chart 3.4 shows the percentage distribution of traders by business categories.

Some informal traders often occupied different categories in response to the prevailing marketing conditions at any given time.

Some bigger informal traders used small traders as agents and transporters. The general strategy was to hire several people (including children) to cross the border and come back with small quantities of the same product(s). This strategy aimed to: divert the attention of customs officials, benefit from their administrative discretion in judging the quantities of goods not subject to the payment of custom duties and, at times, benefit from small traders' knowledge of informal crossing points in the vicinity of border posts. The latter service was in high demand in days of tight customs control. They often learned from previous experience at border sites. As a result, small quantities of goods, seen at the border posts, were simply a part of a larger consignment, ordered by fairly large (in)formal traders who might not be



Box 3.1 :Who is the trader?

During border monitoring through observation of traders crossing the border posts it was not easy to know who is the trader. Residents of border posts are quite often used as mere transporters by the truly informal traders who never appear in front of custom officials unless a confiscation of goods is imminent.

residents of the border town. The same method was used by informal traders running small informal shops selling beverages and foodstuffs to passers-by. At border sites with strongly active ICBT these types of informal shops (kiosks) mushroomed rapidly after the war.

The characteristics of informal traders in terms of size of business was highly influenced by various factors, including: the entry requirements in force in the foreign countries, the degree of control over imports and exports, the distances to the trading centers, the type of transport used, and so on. To give an example, Namaacha (border with Swaziland) and Ressano Garcia (border with the RSA) showed considerable differences. Small informal traders, carrying hand/head luggage, walking on foot were quite often used as agents or couriers by larger traders in Namaacha but were rarely seen at Ressano Garcia. Most informal trade at Ressano Garcia was conducted by South Africans of Mozambican origin and Mozambican immigrants returning home. There was extensive use of motor transport at Ressano Garcia, owned by informal traders or hired to informal transporters.

The main cost minimization strategy when crossing the border posts, used by informal traders, as far as payment of duties and confiscation in case of detection were concerned, was to deal with small quantities. It also eased transportation problems and posed no storage problems. Goods were meant to be immediately delivered to the customers (who often have ordered them or have a long established business relationship with the informal trader). It also facilitated storage at the residence of the informal trader or the residence of a third party. Cases of storage facilities owned or used by informal traders were limited to very rudimentary houses used for diverse purposes.

TRADER CHARACTERISTICS BY COMMODITY

In general, informal traders in Mozambique carried a very limited range of commodities, each time they crossed the border. For example, in March 1996, the ratio of commodities per trader, crossing any border post, was lower than two. Cases of informal traders seen crossing the border posts with more than one type of goods were less frequent compared to cases of informal traders carrying only one type of product.

For most of the traders, a deliberate strategy might be to cross the border with a small quantity of only one type of product each time in order to avoid the payment of customs duties

and overcome transportation and storage difficulties. Traders were asked to specify a maximum of three major goods of specialization and also average selling and buying prices of the goods and the results are presented below in Table 3.1.

Not surprisingly, Table 3.2 shows that selling prices were higher than buying prices and that makes clear that informal traders were profit oriented.

Experience gained during structured interviews revealed that some informal traders, particularly at the borders with Swaziland, South Africa, and Zimbabwe, were fairly specialized in commodities that were normally sold by grocer's shops and were of the same type. For example, they dealt with maize flour/sugar/rice, beer/sodas/wines or potatoes/onion/tomato. This behavior was also found at Zobue and Mandimba (borders with Malawi) but neither at the other borders with Malawi nor with the other countries.

Table 3.1: Major Goods Traded and Average Mark-up

COMMODITY (Unit)	AVERAGE BUYING PRICE (Mts/Unit)	AVERAGE SELLING PRICE (Mts/Unit)	Mark-up (%)
Maize flour (1 Kg)	5,827.92	7,000.00	20
Irish Potato(10 kg)	25,970.00	33,750.00	30
Sugar (1 Kg)	6,276.00	8,750.00	39
Rice (1 kg)	5,746.56	6,700.00	17
Cooking oil(0.75lt)	12,186.30	15,500.00	27
Cold drinks(24tins)	42,200.00	69,500.00	65
Beer(24 tins)	83,308.50	113,380.5	36
Average Mark-up			33

Source: Compiled and calculated from Questionnaire responses

One possible explanation for a differing behavior with respect to traders' specialization may relate to the destination of the goods. If the products were for urban consumption they might have been specifically ordered by a retailer and the informal trader was an informal wholesaler, agent, courier or transporter. If the products were for household consumption and the informal trader was one of the consumers, range of goods bought was wider. There was a higher degree of specialization at border posts located at international corridors and borders with a considerable density of formal shops than at borders serving local communities and with a lower or a nonexistent commercial network.

In summary, the basic characteristic of most informal traders was to deal with a few commodities each time, with the aim of preventing the payment of customs duties and reduce transport and storage costs. The types of goods varied according to their destination, sale or consumption.

COMPOSITION OF GOODS TRADED

The main products informally imported to and exported from Mozambique by most active border posts are summarized in Table 3.2 below.

As Table 3.2 shows, ICBT was principally concentrated in food products of agricultural origin. Maize flour and grain are the most commonly traded food products across all the different regions of Mozambique. Other commonly traded products were beverages and sugar.

The table was also based on regular reports and oral information received from enumerators and field supervisors and was confirmed by border monitoring results.

Table 3.2: Main Commodities Being Imported and Exported by Border Site

M O Z A M B	SWAZI- LAND	ZIMBABWE		M A L A W I			RSA	T A N - ZANIA	Z A M - BIA
	N a m a - a c h a	Machi- panda	Cuche- mano	Zobue	Calo- mue	Domue	Ressano Garcia	M. da Praia	Cassa- catiza
I M P O R T S	Maize flour Sugar Pea-nuts Meat Beer/Sod as	Eggs Milk Sugar Fish Beer/ Sodas Fabrics Cigaret	Maize Beer/ Sodas Corn flour Sugar	Beer/ Sodas Sugar Ferti- lizer	Maize Beer/ Sodas Fruit Vege- tables	Maize grain Beer/ Sodas Sugar	Eggs Maize Irish potato Onions Vegeta- bles Beer/ Sodas	shoes Sugar Texti- les/ cloth Elec- tronic Bikes	Fruit Meat Sodas Cigar- rets Vege- tables Shoes
E X P O R T S	Wood Fish/ praws 2hand cloth Alum. pots	Female Cloth Wood Wines	Char- coal Dried fish Fire wood Maize	Dried fish Salt Soap	Maize Beans Irish potato Vege- tables Fruit	Maize Beans Salt Vege- tables	Clay/ Alumin pots Female Cloth Handi- crafts	PrawnsFis h Sea cucum- Shells Veget. Fruit	Maize grain Seeds Salt Handi- crafts Wines

Source: Compiled from Questionnaire responses

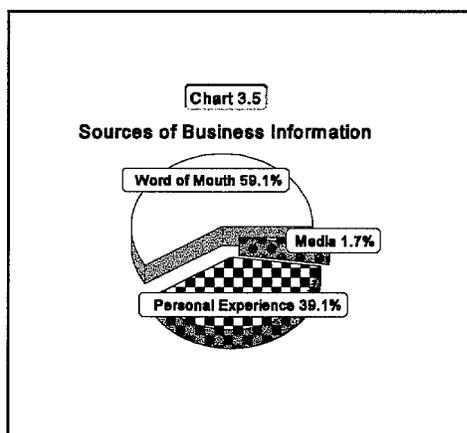
PRICES, INFORMATION FLOWS AND SERVICES AND OVERCOMING BARRIERS TO TRADE

In general, informal traders were price takers. There was no indication of organizations within the groups of informal traders capable of negotiating prices. Most informal traders stated that they obtain price data from their colleagues or directly from suppliers and customers.

Most (59%) of the traders interviewed stated that the information on the types and prices of goods traded was circulated by word of mouth from friends, relatives or business colleagues. As Chart 3.5 shows, a number (39%) of traders have also mentioned that they use their personal experience to select what to buy and sell. Quite often goods were informally imported or exported by informal traders at customers' request.

Some informal traders at the border with Swaziland, principally women, were engaged in barter trade. They exchanged baskets (hand woven) textiles (some of them re-exports) and aluminum pots (made by Mozambican artisans, from scrap materials and stolen electricity transmission wires), in varying quantities, for plastic goods for household use, such as buckets and basins. There was no evidence of similar operations at the other borders.

As already mentioned, many informal traders were using other informal traders as agents and/or as transporters. The general strategy was to hire or use several people to cross the border and come back with small quantities of the same product(s). The smaller the quantities of goods passed each time the higher the probability of not paying customs duties and even unofficial rents. The attention of customs personnel was more concentrated on large volumes of merchandise. Hiring couriers was sometimes a way of benefiting from border residents' familiarization with the border environment, including their ties with border officials, their knowledge of informal routes at the vicinity of border posts and of acceptable levels of unofficial rents. In



general, the use of informal agents/transporters entailed low transaction costs compared to the level of customs duties avoided. For example, a case containing 24 tins of beer can be head/bicycle transported at a rate of less than one \$US which, in general, means the evasion of payment of seven to ten \$US of official customs duties and taxes. Many informal traders said that, when detected, they had to pay a maximum of 50% of official customs duties and taxes, in the form of unofficial rents charged by customs and security officials.

The above method seems to be the main way used by traders to avoid tariff barriers. Usually, the small quantities of goods per trader, seen crossing the border posts, formed part of a larger consignment to be assembled elsewhere. As a result, the number of people crossing the border with goods for trade was larger than the number of traders.

MARKETING CHANNELS

Suppliers of goods informally imported to Mozambique included REGISTERED WHOLESALERS and RETAILERS from the neighboring countries. Most of them were strategically located at border towns. Their number and level of stocks in places like Lomaasha (Swaziland), Chaponda (Malawi) Catete (Zambia) suggested that they were mainly suppliers of consumer goods targeting the consumers in Mozambique and only residually to their own communities. PRIVATE FARMERS from South Africa played an important role in supplying agricultural commodities such as potatoes, vegetables, tubers and fruit to informal traders. There were cases where goods imported by informal traders were purchased at distant places such as Manzini (Swaziland), Johannesburg and Zanzibar.

The link between informal traders importing commodities from neighboring countries to Mozambique and final consumers in Mozambique was provided by a chain of market participants. In general, informal traders involved in food imports acted as INFORMAL RETAILERS but some of them also acted as INFORMAL WHOLESALERS. A number of them re-sold the goods at INFORMAL MARKET PLACES, at border towns, to other informal traders (wholesalers or retailers). A considerable number re-sold the goods to INFORMAL and FORMAL RETAILERS at major urban centers served by international corridors. There were cases of contracts between informal importers and formal retailers and restaurants from major towns for a regular supply of consumer goods, including sugar, flour, peanuts, beer, soda and toiletries.

Direct sales by informal importers to consumers generally occurred when wholesalers and retailers were not available or not willing to purchase the goods from informal importers. Informal importers and informal wholesalers often stated that the goods were ordered and therefore could not be re-sold on a retail basis. Most border towns and some urban centers had informal wholesale markets where informal retailers obtained the supplies.

Most informal retail markets were open every day until late in the evening and did not observe a fixed time table. This allowed consumers to buy essential goods outside of normal working hours and days observed by formal traders. While flexible working hours may represent the informal business owners' competitive advantage, they quite often entailed an exploitative use of labor employed in the informal sector.

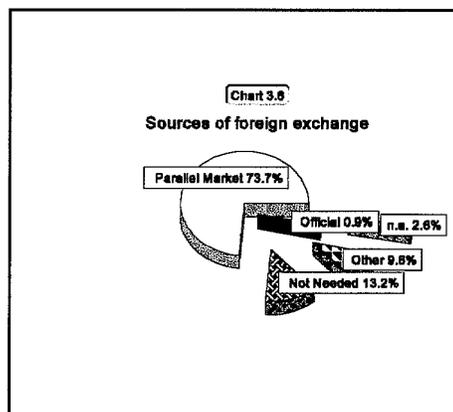
Suppliers of goods informally exported to neighboring countries included FAMILY SECTOR FARMERS, FISHERMEN AND ARTISANS. Almost all informal exports of agricultural goods took place at the borders with Malawi, Zambia and Tanzania.

In cases where the market places were located at a short distance (such as borders with Malawi and Zambia), farmers seemed to directly export their surplus production without participation of middlemen. In case of considerable distances (such as at the border with Tanzania) a division of labor between producers, traders and transporters occurred. Generally exporters who purchase the goods for export from distant places group-hired transport to move the goods to the border posts. There was little information on the marketing channels after crossing the border to foreign countries.

MEDIUM OF EXCHANGE AND EXCHANGE RATES

In general, the currencies used in informal import-export transactions between Mozambique and her neighbors were the currencies of the neighboring exporting countries. A few exceptions included an extensive use of the Rand in Swaziland and the acceptability of the Mozambican currency (Metical, plural *Meticais*) at the border with Zambia.

As Chart 3.6 shows, most (about 74%) of traders obtained foreign exchange from the parallel market. Foreign currency was readily available at every active border. Informal money exchangers proliferated at all borders offering attractive rates and a quick service which did not entail paperwork. Mozambican informal money exchangers obtained the hard currency from foreign informal money exchangers, drivers, travelers and informal exporters.



One risk associated with dealing with informal money exchangers was receiving fake notes. However, obtaining foreign exchange from official sources was seen as time consuming and entailing paper work, rigid timetables, legal limits, and so on. It also exposed the informal trader to formal organizations to which they were averse. Exports undertaken by farmers seemed to be motivated by attractive prices and availability of agricultural inputs and consumer goods in the importing country rather than the need for hard currency as such. Hard currency can be obtained at any border provided one has *Meticais* to exchange.

Informal traders stated that information on exchange rates was provided by transporters and travelers and confirmed by informal money exchangers. The demand for and the supply of foreign exchange for cross border trade influenced the parallel exchange rates. The local currency showed slight appreciations and depreciations according to the availability of goods at the border towns. When goods were in excess supply and informal imports slowed down the demand for foreign currency decreased and the Metical depreciated. When there was a shortage of goods and informal imports increased, the demand for foreign currency rose and the Metical appreciated.

In large towns like Maputo with a high number of people holding foreign currency (workers from international organizations, immigrants and their relatives, informal traders) there was slight appreciation of the Metical in the vicinity and during the weekends and slight depreciations in the beginning and the middle of the week. This occurred because people spent more over the weekends, demanding more *Meticais* in exchange for their \$US and South African Rands.

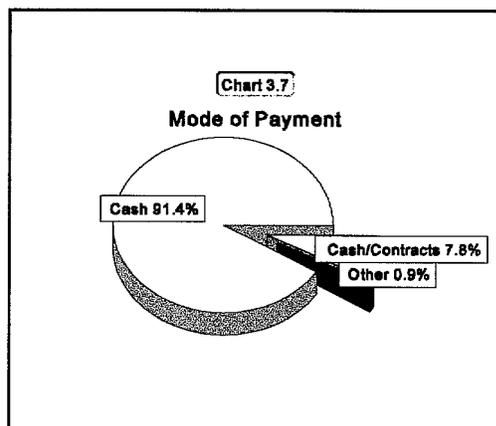
DESCRIPTION OF MARKETING FUNCTIONS

The main marketing functions undertaken by informal traders included:

- exchange functions (buying and selling commodities);
- physical functions mainly consisting of transportation, bulk breaking (see page 31) and storage of commodities; and
- facilitating functions (risk bearing, information generation and dissemination)

Most informal traders were actively involved in exchange functions consisting of buying and selling commodities. These functions involved finding or being a supplier, finding a buyer and transferring the ownership of commodities. It was a stage of addressing possession dimensions and creating possession utility. In other words, this phase addressed the issue of: *who is selling what and who needs to buy what.*

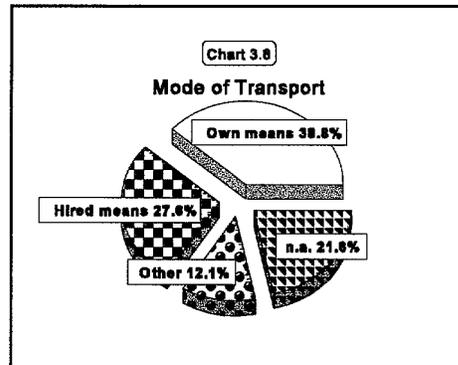
The main mode of payment used in ICBT between Mozambique and her neighbors was cash in neighbors' currencies. This was true in respect to about 91% of respondents, as shown in Chart 3.7. It was also true as far as both buying and selling was concerned. Contractual arrangements, including credit, were discouraged by the lack of legal status of informal traders, the ease of entry and exit that the activity entailed and the low volume of goods per informal trader. Credit arrangements only occurred in combination with cash terms, but to a limited extent. Suppliers of agricultural goods in South Africa discouraged credit by charging exploitative interest rates to informal traders who demanded it. As already mentioned, some informal traders, at the border with Swaziland, were involved in barter transactions. This sort of transactions accounted for 'other' modes of payment and, as shown in the chart above, were quite insignificant.



Suppliers and consumers of goods in the ICBT sector were separated by distance, time, documentation and in most cases visa requirements. This separation imposed physical functions such as

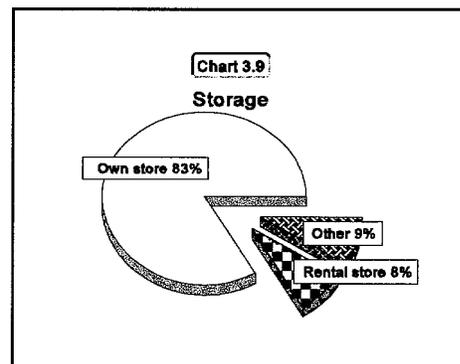
transportation and storage of commodities, addressing place and time dimensions and therefore creating, respectively, place and time utilities. In other words transportation determined the issue of "where to buy and where to sell" whilst storage determines the issue of "when to sell."

About 39% of traders claimed to have their own means of transporting goods across the border which included mainly head/hand, bicycles and carts. The low volume of commodities per trader allowed for easy transportation by any means according to availability and distance between supplier and consumer centers. As previously mentioned, head, hand and bicycle transportation are extensively used often as a means of crossing the border "unnoticed" to avoid tariff costs. Bicycle transport was extensively used at the borders with Malawi and to a lesser extent at the Border with Zambia. Motor transport dominated at the border with South Africa followed by the border of Cuchamano with Zimbabwe. This confirmed the relationship between the type of transport and the distance to the trading centers: the longer the distance, the more sophisticated the transport.



At certain borders, groups of informal traders hired vehicles which unloaded the goods at no-man's land. Afterwards, the same or another group of informal traders crossed the border several times with small quantities of goods. There was an assembly place from where the goods were transported again by vehicles hired by the group. Economies of scale were ensured through group hire of transport means.

Storage determined time dimensions to a very limited extent and was often a consequence of inability to sell all the goods on the same day that traders crossed the border rather than a deliberate search for price opportunities. Most (83%) of the traders interviewed stated that they used their own storage and only a small number hired storage facilities from third parties. Moreover, the types of storage conditions in question were,



in most cases, very rudimentary houses used for diverse purposes.

One important physical function undertaken by informal traders was bulk breaking of merchandise. Bulk breaking served the purpose of matching the purchasing power of poor consumers by making goods available in affordable quantities. In fact, any informal market place in Mozambique exhibited goods in non-standard quantities and measures. For example, small tins, of different sizes, replaced bags of standard weights; bar soap of one kg was cut into very small pieces each weighing a few grams and; contents of jerry cans were divided into small units such as glasses and very small bottles. In most cases, standard weights and other measures were replaced by bundles.

Informal traders faced a number of risks including: a possible confiscation of goods (in case of bringing quantities liable to the payment of custom duties and not having money to pay them), increased tax barriers against their activity (following revenue maximization strategies pursued by the customs authorities), police harassment, charging of unofficial rents and rejection of their goods on price and quality grounds. As previously mentioned, informal traders were using a number of strategies to minimize risks, including: the (apparent) dealing with small quantities, the use of residents of border posts as couriers and the establishment of un-written arrangements and secret deals with customs officials and long lasting relations with customers.

In general, there was no systematic information generation and dissemination through formal channels for use by informal traders. An exception was the publication of official exchange rates in local newspapers which in reality only could be bought at major urban centers. Word of mouth was the main vehicle of information generation and dissemination among informal traders. Most of the traders interviewed mentioned that they knew what to buy and sell based on experience. They stated that they were able to react quickly to changes in demand and supply conditions of particular products according to seasonality and their past experience.

COSTS AND REVENUES OF INFORMAL CROSS BORDER TRADE

Although this study did not set out to assess the profitability of informal trade, by asking traders to estimate their average

annual trade expenditures, a percentage distribution on costs incurred on trade transactions was compiled and is shown below in Table 3.3.

It is clear from Table 3.3 whilst the lowest were related to storage and housing that the highest quantifiable costs were related to food and transport.

Table 3.3: Percentage of Traders by Annual Costs of Trade Transactions

Type of Expense	% of traders by average annual cost of		
	<\$US150	\$US150 - \$US300	>\$US300
Food	12.9	7.8	79.3
Transport	37.1	12.1	50.8
Rent/Housing	90.5	3.5	6.0
Storage	100.0	0.0	0.0
Other	70.0	10.0	20.0

Source: Compiled From Questionnaire Responses

There were also costs that could not be easily quantified. Most of those costs were associated with the risks of conducting business informally. Such risks included possible confiscation of goods on days of tight control by customs and immigration officials. Such control was seen by traders as serving to both revenue and bribery maximization for customs officials. It was also seen as harassment, forcing traders to counteract by the previously stated means of contracting several small agents to cross the border with small quantities of goods.

By asking informal traders about the average value of their imports and by applying the 33% mark-up (drawn from the Table 3.3 above) the following table was obtained:

Table 3.4: Estimate of Average Revenues of Informal Traders

Period	Average value of imports	Estim.Revenue w/33% Mark-up	Meticals
			Periodic Margin
Weekly	1 042 933.12	1 387 101.00	344 167.88
Fortnightly	2 490 873.85	3 312 862.10	821 988.25
Monthly	4 561 469.23	6 066 754.08	1 505 284.85

Source: Computed on the basis of questionnaire answers

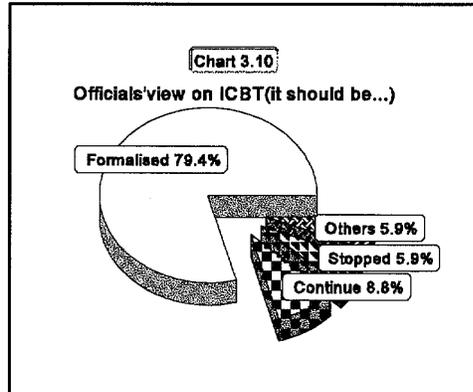
With the minimum monthly salary earned in the formal sector being 316 000 Mt, it could be inferred from the above table that the

average monthly revenue of an informal trader, importing goods from the neighboring countries into Mozambique, was more than four times higher than of those working in the formal sector and earning the minimum salary. With the cost of basket of essential goods to cover the monthly needs of a five person Mozambican family being estimated by unions at 750 000,00 Mt (about \$US 67), it can be concluded that informal traders were being able to meet their basic needs whilst people employed in the formal sector and earning salaries at the vicinity of the minimum salary, were not.

When asked about the type of assistance they would like to receive from government most of the interviewed traders mentioned foreign exchange (44.8%) and transport availability (22.4%). About 20.7% of traders referred to diverse needs, including access to credit, low customs duties, more employment opportunities, improved market facilities, decreased prices of goods and elimination of police harassment.

INFORMAL TRADE AS PERCEIVED BY PUBLIC OFFICIALS

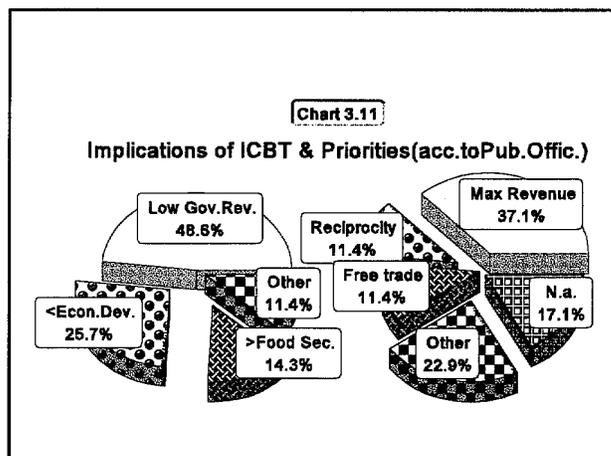
Within the framework of the baseline survey, 35 public officials, representing ministries (80.0%), parastatals (1.0%) and other institutions, were interviewed to obtain their views on the ongoing Informal Cross Border Trade (ICBT) between Mozambique and her neighbors. The relation between the respondent's organizations and both formal and informal trade included: provision of security(46%), facilitation of the functioning of trade (20%) and other activities viewing mainly to ensure revenue collection. As Chart 3.10 shows, most (79.4%) of the public officials interviewed were of the opinion that ICBT should be formalized, meaning graduated into registered activities. Only 6% (or two) of the respondents were of the opinion that ICBT should be stopped whilst 9% (3 people) were of the opinion that ICBT should be continued as it is now.



When asked about the implications of ICBT, about 49% of the officials answered that it (ICBT) contributed to a low rate of revenue collection by Customs authorities and, about 26% were of the opinion that ICBT was retarding economic development. Only about 14% felt that ICBT had a stabilizing effect on food

security. Others (about 11%) were of the opinion that it provided employment, it supplied essential goods at accessible quantities and prices, but it did not observe health and hygiene standards.

Public officials' views on the implications of ICBT seemed to be influenced by the priorities set by their organizations. On the institutions' priorities with regard to ICBT, about 37% of respondents mentioned maximization of revenue collection and 23% referred to a number of issues, including patrolling the movement of people and goods, selecting places to be used by informal traders as market places, etc. Issues such as promotion of free trade and policy reciprocity seemed to be receiving a low priority. Chart 3.11 shows public officials' view on the implications of ICBT and priorities set by their institutions.

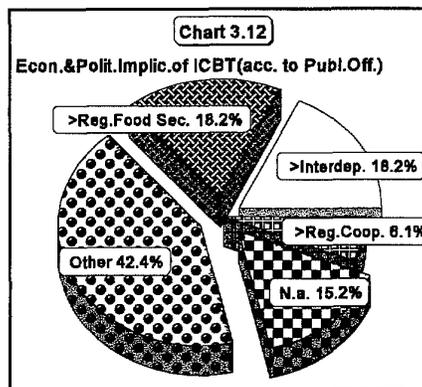


Most (66%) of public officials interviewed felt that ICBT in Mozambique was increasing relative to that in the 1980s whilst 14% were of the opinion that it was declining. An increase makes sense as the end of the war and the strengthening of political and economic reforms have been an incentive to the movement of people and goods.

Public officials presented several views on the problems being faced by formal traders, including: unfair competition (34%) caused by informal traders; high tariff and non-tariff barriers to trade (20%); and other issues (20%) such as lack of liquidity and high transport costs.

Public officials' opinions on reasons for the inability of border officials to monitor and keep accurate records on goods entering or leaving Mozambique, were varied. The main opinions included: the use of informal routes (34%) by informal traders, poor customs' administration (17%) and lack of trained and trustworthy personnel (17%).

As Chart 3.12 shows, there were several views among public officials on the political and economic implications of ICBT. Some felt that ICBT contributed to improved regional food security (18%), interdependence (18%) and it was a form of economic cooperation (6.1%). The category "others" (42%) presented varied views such as, a positive impact on employment and food supply and negative impact on formal trade and state revenues.



Prospects for trade expansion with neighboring countries were seen by about 49% of the officials as discouraging whilst 23% felt that prospects are hopeful. There seemed to be a common view that the actual level of informal imports will decline as internal supply of local goods increases. It was also believed that exports of grain will decrease as the internal commercial network is being expanded.

4. Border Monitoring Results

This Chapter contains border monitoring results covering a period of twelve months (December 1995 to November 1996)⁸.

Detailed border monitoring results are provided in the Volume II of this report, consisting of three main annexes:

- Volume II, Annex I contains charts showing trade balances on total and monthly quantities of agricultural products by trading partner and by border site;
- Volume II, Annex II contains charts showing trade balances on total and monthly value of agricultural products by trading partner and by border site;
- Volume II, Annex III contains charts showing trade balances on total and monthly value of non-agricultural products by trading partner and by border site

More than 600 charts have been prepared in order to accommodate different needs of the readers.

Conversion of quantities to value terms was based on prices collected by enumerators, at border sites, i.e., the prices paid by informal traders to import the goods or received by informal traders when exporting the goods, at selected border sites. Prices of the most frequently traded goods, identified after the initial months of border monitoring, were collected on a fortnightly basis. These prices were also used to update the minimum reference price lists used by Customs for valuation of goods not subject to pre-shipment inspection. The result were average prices taking into account different origins and destinations of goods and different periods of the year.

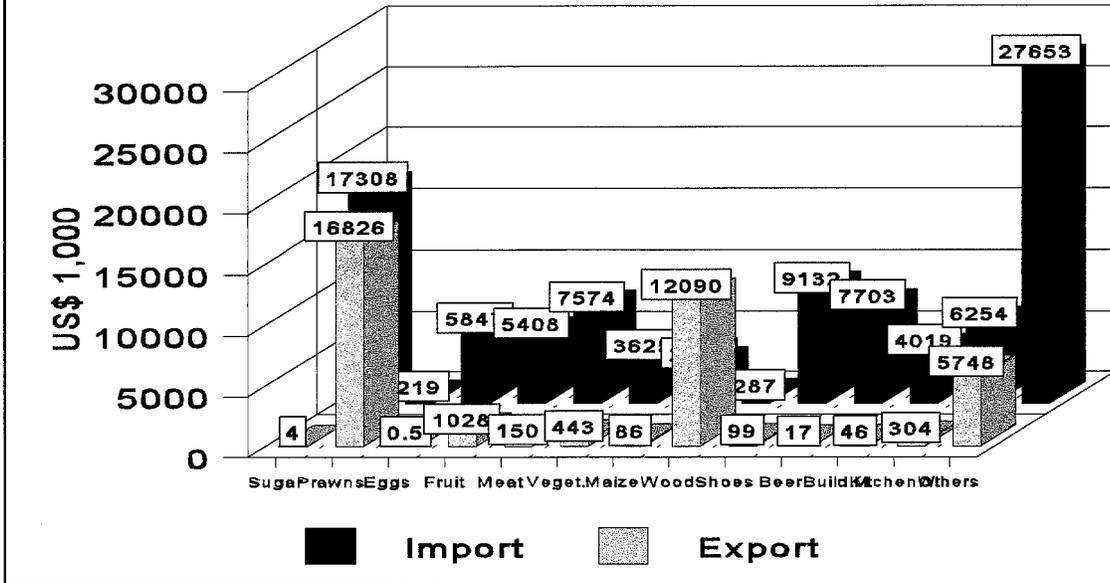
This chapter provides an analysis of the output of border monitoring and summarizes the charts contained in Volume II which should be referred to for details.

OVERALL BALANCE OF INFORMAL TRADE BETWEEN MOZAMBIQUE AND NEIGHBORS

Data on the value of informal imports and exports of agricultural and non-agricultural products, covering the period from December

⁸ A workshop of experts was held in the beginning of June 1997 to discuss the preliminary findings of this study. The outcome of the discussion was incorporated in this report.

**Chart 4.1 Inf. Trade: Mozambique & Neighbors
Value of Main Imp. and Exp. (Dec/95-Nov/96)**



1995 to November 1996, shown in Chart 4.1 below confirmed that Mozambique is a net informal importer of both agricultural and non agricultural goods.

This chart, the subsequent charts and all the charts contained in Volume II were prepared on the basis of the records from enumerators only. It is assumed that such records represent 65 to 75% of the total volume of ICBT between Mozambique and her neighbors for reasons already explained in Sub-section 2.3.1.

As shown in Chart 4.1, a good deal of informal trade between Mozambique and her neighboring countries was concentrated on agricultural food commodities.

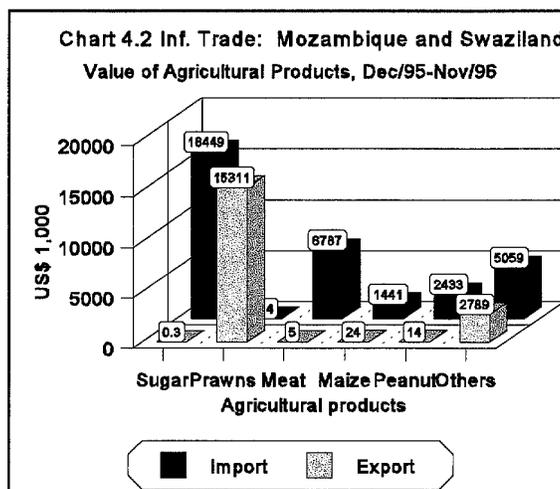
The value and direction of trade between Mozambique and her immediate neighbors was not uniform. This was due to the considerable differences in terms of agro-climatic conditions between the South and the North of Mozambique. It was also a result of differences in terms of comparative advantage for production, commercialization, storage and processing of food as well as differences in industrial capacity and infrastructure. In the following section, balances of informal trade between Mozambique and each immediate neighbor are presented and a comparison between formal and informal trade is made.

BALANCES OF INFORMAL TRADE BY TRADING PARTNER

Mozambique and Swaziland

Agricultural Products

In the period under border monitoring, Swaziland was the main informal cross-border trading partner of Mozambique in respect to agricultural products. Informal trade was dominated by imports of sugar, meat, peanuts and maize flour from Swaziland to Mozambique and exports of prawns⁹ and fish from Mozambique to Swaziland. Chart 4.2 presents a balance of the value of informal imports and exports of agricultural goods from and to Swaziland for a twelve month period, extending from December 1995 to November 1996.



The flow of sugar from Swaziland into Mozambique reflects that the Mozambican sugar industry cannot meet local demand. The largest sugar mills were destroyed during the war and those that survived are in need of expensive rehabilitation. In Swaziland, sugar is one of the main exports and therefore produced at a surplus by a relatively modern sector. A good deal of the demand for informal imports of sugar, in Mozambique, comes from retail grocers from the outskirts of Maputo, and other towns, and from informal brewers of traditional beverages. The population living in the outskirts of Maputo have a long tradition of consuming bread, tea, sugar and traditional alcoholic beverages.

For similar reasons (mainly war), Mozambique produces much less meat than Swaziland. As a result, meat was flowing from

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Refrigerated trucks with large quantities of prawns were seen in certain months of 1996, crossing the border without declaring their cargo to custom officials. While this was not systematic and assumed the characteristics of illegal trade, it was after discussion and under the concept of informal trade considered also as un-recorded trade that it was decided to include the cargo of refrigerated trucks

Swaziland into Mozambique, where demand is quite high, especially in large urban centers like Maputo (78 km from the border with Swaziland). The infrastructure for meat conservation and sale (number of cold stores and butcheries), established on the Swaziland side of the border reveals a deliberate intention to target Mozambique via informal cross border trade. Vehicles hired by informal traders, with detachable chairs to hide large quantities of meat and other products were numerous in front of butcheries on the Swaziland side of the border.

Peanuts are in high demand in the South of Mozambique, for their use at household level as ingredients of popular traditional dishes, such as chicken, beef, fish and cabbage curries. Their production in the arid Southern region does not fully meet the demand. One of the reasons for this is the low agro-climatic suitability of the Southern region of Mozambique for cultivation of peanuts and cereals in general. The North of Mozambique is much better endowed in terms of agro-climatic conditions and, as a result, that region produces peanuts at a surplus. High internal transport costs (resulting from huge distances and poor infrastructure) make it more competitive to import peanuts from nearby Swaziland (and South Africa) as compared to domestic supplies from the far North of Mozambique.

Maize flour has also been an important informal import from Swaziland into Mozambique. It is estimated that a total of about 3,900 tons of maize flour were imported by informal traders in the period from December 1995 to November 1996. The bulk of these imports from Swaziland took place in the months of February, March and April 1996. This is the the middle of the period preceding the maize harvesting season in the Center and North of Mozambique. Imports during and after the harvesting period were probably determined by high supplies from the Central and Northern region. Informal cross border traders frequently transform to internal traders, during times of high supply, moving agricultural surplus from the Central and Northern regions of Mozambique to the Southern region.

The quantities of agricultural products informally traded between Mozambique and Swaziland, covering a twelve month period, are shown in Volume II, Annex I to this report. The Annex also provides monthly quantities and value of informal trade between the two countries¹⁰. There were considerable fluctuations in

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In fact, as already mentioned, the Annex contains the output of border

volume of trade but no changes of direction were registered. The reasons for fluctuation could not be explored in depth but one can presume the influence of the agricultural calendar, apparent tolerance of informal trade mixed with harassment of traders and restrictions imposed by recently nominated customs officers.

Non-Agricultural Products

Informal cross border trade of non-agricultural products, between Mozambique and Swaziland, was dominated by more value added goods being imported into Mozambique. Such goods, as shown in Chart 4.3, included: shoes, building materials, kitchenware, oils and margarine and beer. Wood was the only non-food product that was exported from Mozambique to Swaziland in large quantities. Nevertheless, wood exports were not regular, having occurred occasionally in large quantities during February and August 1996, transported in huge trucks that did not stop at the Mozambican side of the border to declare their content, i.e. there was no official record at all. Apart from wood, exports of other non-agricultural goods from Mozambique to Swaziland were dominated by handicrafts and women's clothing (*Capulanas*).

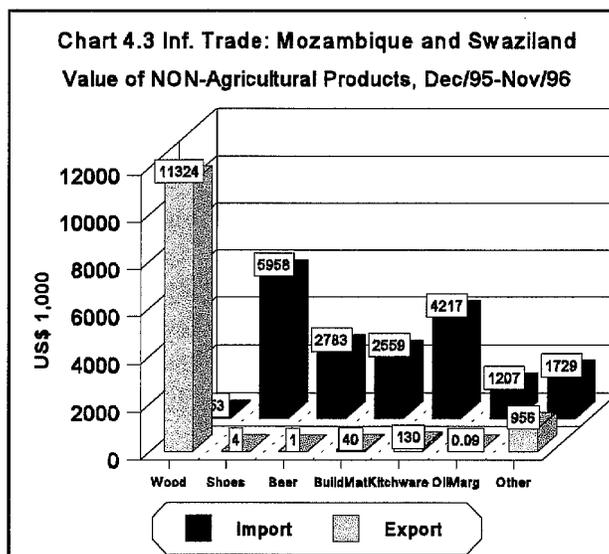


Chart 4.3 reflects differences in industrial and commercial capacity between the two countries, with comparative advantage being in favor of Swaziland. A good deal of non-agricultural goods informally imported from Swaziland were simply re-exports of goods from South Africa and other countries. However, even this aspect reflects a better business environment in Swaziland, particularly during the war in Mozambique. It is perhaps not surprising that the largest South African wholesalers and retailers have branches in Swaziland but not in Mozambique.

monitoring covering the six immediate neighbors of Mozambique and ten border posts. It provides a good number of charts containing global (nine month) and monthly data on informal imports and exports.

Trade Balances

Mozambique had a negative informal trade balance with Swaziland with respect to both agricultural and non-agricultural goods as shown in the following table, covering the period from December 1995 to November 1996:

Table 4.1: Balance of Informal Trade Mozambique - Swaziland

S\$ 1,000

Type of Commodities	Exports to Swaziland	Imports from Swaziland	Trade Balance
Agricultural Goods	18 144	32 183	-14 039
Non-Agricultural. Goods	12 455	18 506	-6 051
Total	30 599	50 689	-20 090

Comparison of Value of Formal and Informal Trade with Swaziland

Using official data¹¹ covering a period of twelve months (January to December 1996), the following comparison can be established with the twelve month (December 1995 to November 1996) data obtained from border monitoring:

Table 4.2: Comparison of Formal and Informal Trade with Swaziland

US\$ 1,000

Type of Activity	Formal Trade Jan-Dec, 1996	Informal Trade Dec'95-Nov'96	Total Trade	Share of Inf.Trade
Exports to Swaziland	103	30 599	30 702	99.66%
Imports from Swaziland	10 000	50 689	60 689	83.52%
Total	10 103	81 288	91 391	88.95%

This table shows the importance of informal cross border trade between Mozambique and Swaziland. In fact about 90% of the total trade (formal and informal) was informal, which in this report means that it was not recorded by the customs authorities. Formal exports were less than one percent of informal exports and formal imports were about 20% of informal imports. Facilitation of movement of inhabitants of both sides of the border, allowing them to cross the border, four times a week, without visa requirements, might have contributed, to a

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Official figures pertaining to 1996 (to be published shortly) were kindly provided by Mr. Camilo Amade from INE (National Institute for Statistics). This source will be used throughout this report as the official source of twelve month figures on formal trade for comparison with twelve month border monitoring results.

large extent, to the predominance of informal trade as compared to formal trade at the border with Swaziland.

The share of informal trade can be presumed to have been much larger if one takes into consideration that:

- for financial and safety reasons, border monitoring was conducted at one (official) crossing point only (Namaacha), during the day time; and
- the methodology used did not allow the monitoring of under declarations, mis-specifications, under-recording and any other forms of unrecorded trade.

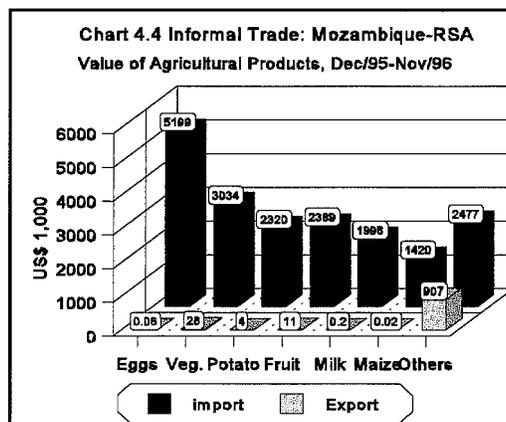
Nevertheless, it is estimated that the border monitoring conducted at Namaacha, covered between 70 and 80% of informal cross border trade between Mozambique and Swaziland since a number of less important crossing points (suchn as Goba) were not monitored.

Mozambique and South Africa

Agricultural Products

After Swaziland, South Africa was the second largest informal cross-border trading partner of Mozambique on agricultural products. Informal trade on these products was concentrated on imports of eggs, vegetables, potato, fruit and other products, including cereals, from South Africa into Mozambique.

The balance of informal trade between Mozambique and South Africa on agricultural goods covering a period of twelve months, extending from December 1995 to November 1996 is shown in Chart 4.4.



The flow of eggs, vegetables, Irish potatoes, fruit and milk from South Africa into Mozambique aimed, primarily, at supplying retailers from large market places of the downtown part of Maputo and restaurants. While these products are produced in Mozambique, South Africa has an advantage due to her level of

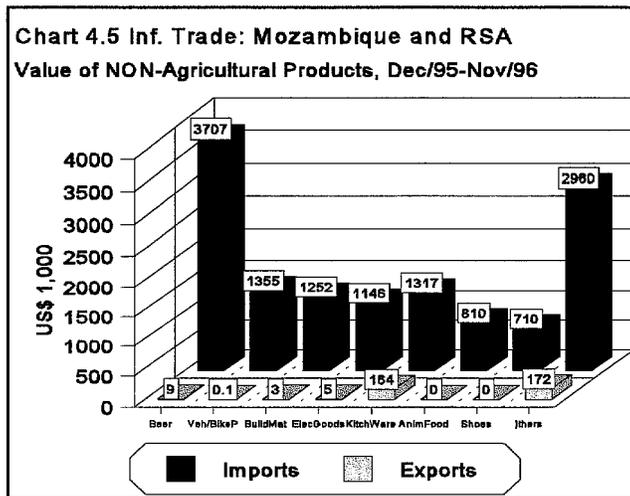
production, the location of production centers, the level of technology, the productivity and the costs of production. In recent years, Mozambican vegetable producers from Maputo province discovered that it was cheaper to import vegetables from South Africa rather than producing them locally. High costs of credit, supply instability and high costs of agricultural inputs in Mozambique, are additional factors in favor of South Africa.

Maize flour, despite its high weight and low value, was one of the main food products informally imported from South Africa into Mozambique in large quantities (more than 4,000 tons in twelve months). Similar to the Mozambique-Swaziland border, the bulk of maize flour import took place during the growth and the pre-harvest period in Mozambique (December to March). When the harvest season begins in the Central and Northern regions of Mozambique, in the end of April, many informal traders switch from cross border trade to informal internal trade.

Further details on the quantities of agricultural products informally traded between Mozambique and South Africa, between the period extending from December 1995 to November 1996, are shown in Volume II, Annex I to this report. Volume II also provides monthly quantities and value of informal trade between the two countries. There were considerable fluctuations in the volume of trade but no changes of direction have occurred. There are probably various reasons contributing to fluctuation of informal trade, including: the agricultural calendar and the frequent changes between tolerance and repression of informal traders by customs authorities.

Non-Agricultural Products

Similar to Swaziland, ICBT between Mozambique and South Africa was also concentrated on imports of value added goods into Mozambique. As Chart 4.5 shows, the bulk of such goods included: beer, vehicle and bicycle parts, building materials, electrical goods, kitchenware, animal food and shoes. Other main non-agricultural imports



included toiletries, spirits and wine, cold drinks, oil and margarine and clothing.

The only non-agricultural goods that were informally exported from Mozambique to South Africa in the period under consideration (Dec/ 95 - Nov/96) were clay and aluminum pots (artesanally made), female clothing, wood and handicrafts.

Chart 4.5 reflects the large difference between South Africa and Mozambique in terms of the industrialization and commercial network. Southern Mozambique is largely dependent on South Africa. For further details on informal trade of non-agricultural goods between Mozambique and South Africa, refer to Volume II Annex III.

Trade Balances

The dependence of Mozambique on South Africa regarding both agricultural and non-agricultural goods can be further illustrated by the following table covering the period from December 1995 to November 1996:

Table 4.3 Balance of Informal Trade Mozambique - RSA

US\$ 1,000

Type of Commodities	Exports to South Africa	Imports from South Africa	Trade Balance
Agricultural Goods	951	18 835	-17 884
Non-Agricultural Goods	352	13 257	-12 905
Total	1 303	32 092	-30 789

A positive informal trade balance in favor of South Africa, amounting to approximately US\$ 31 million is shown in the above table. This trade balance is to a large extent explained by the huge difference between Mozambique and South Africa in terms of levels of agricultural and non-agricultural production as well as poor infrastructure to move agricultural goods from the Northern to the Southern region of Mozambique.

Comparison Between Formal and Informal Trade With South Africa

Although the value of ICBT between Mozambique and South Africa was substantial (about US\$ 33 million) in twelve months (December 1995 to November 1996), it represented a smaller share in the total (formal and informal) trade between these two countries. As Table 4.4 shows, of the total trade with South Africa, at

least 10% of it was unrecorded. This percentage is even smaller as far as total exports are concerned (about 3%) and a little higher in respect to total imports (about 11%).

A major reason for a different share of ICBT in total trade between Mozambique and South Africa, as compared to trade with Swaziland, was the fact that a good deal of Mozambican formal imports and exports are undertaken with South Africa as was

Table 4.4 Comparison of Formal and Informal Trade with South Africa

US\$ 1,000

Type of Activity	Formal Trade Jan-Dec, 1996	Informal trade Dec'95-Dec'96	Total Trade	Share of Informal Trade
Exports to South Africa	43 800	1 303	45 103	2.89%
Imports from South Africa	255 000	32 092	287 092	11.18%
Total	298 800	33 395	332 195	10.05%

already shown in Chart 1.5. Another reason was that there are no mechanisms to facilitate the inhabitants on both sides of the border to trade with each other as there is with Swaziland. Visa requirements to enter South Africa are difficult to comply with and this situation has been aggravated by the introduction of a visa fee, initially payable in United States currency (US\$30.00) and after many protests payable in South African currency (ZAR 140.00).

Mozambique and Zimbabwe

Agricultural Products

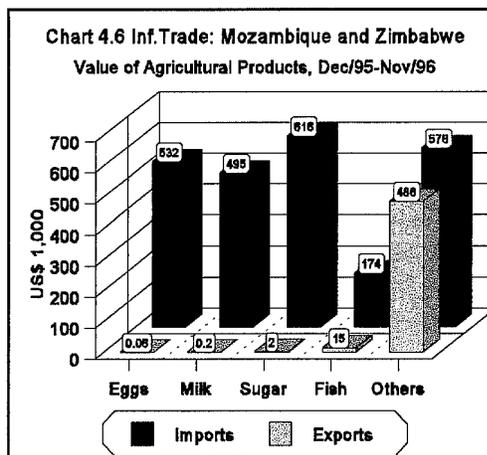
As one moves to the Central region of Mozambique, a sharp decline of informal imports of agricultural products was observed. This was the case at the Mozambique-Zimbabwe borders. At the borders with Swaziland and South Africa, certain goods were traded in the magnitude of millions of US\$ whereas at the Mozambique-Zimbabwe borders they were lower by one order of magnitude¹² as shown in Chart 4.6. This difference results from a better agricultural

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In fact it is the Machipanda border that contributes with the larger portion of imports of agricultural goods from Zimbabwe into Mozambique (hundreds of thousands of US\$ for some products) whilst the other border (Cuchamano) contributes with a few tens of thousands of US\$ for some products. For details see Volume II, Annexes I and II.

potential in the Central region of Mozambique as compared to the Southern region.

Eggs and milk were widely informally imported from Zimbabwe into Mozambique to supply provincial and district capitals along the Beira corridor where these goods were in high demand and in most cases in short supply. At the Machipanda border, the collection point of these goods was the *Mercado das Mangueiras* (Mango Tree Market), an informal market place at the roadside, where different categories of informal traders (re)sold all types of goods.



There were also considerable informal imports of sugar from Zimbabwe, mainly via Machipanda. This situation reflected the under utilization (less than 35%) of the only sugar mill in operation in Central Mozambique (Mafambisse) after the war, as well as the problems of quality, color and packing of sugar in Mozambique, a poor commercialization network and a price structure in favor of imports.

Enumerators were quite surprised to observe considerable quantities of fish being informally imported from Zimbabwe into Mozambique. Most of this fish consisted of re-exports of Namibian fish (black mackerel). While Mozambique has about 3,000 km of coastline, and Sofala Bay is rich in fish resources, the exploitation of its potential is concentrated on prawns for exports to developed world and does not fully satisfy local demand. Infrastructure for conservation and domestic distribution of fish (cold stores, cold trucks, etc.) are rather poor, which results in informal imports of frozen fish.

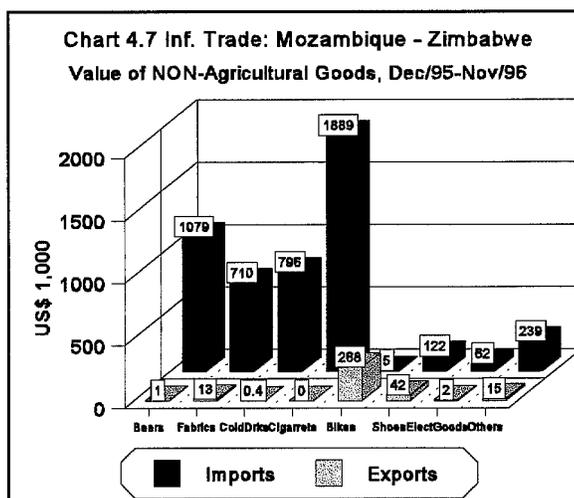
A number of charts on monthly quantities and value of informal trade of agricultural goods between Mozambique and Zimbabwe were included in Volume II Annexes I and II to this report. There was considerable fluctuation of trade for similar reasons as was observed at the border with Swaziland and South Africa, which was influenced by a number of factors, including: the agricultural calendar and attitudes of customs agents towards traders.

Non-Agricultural Products

Informal trade between Mozambique and Zimbabwe, of non-agricultural products, followed the general pattern with more value-added goods being imported into Mozambique. The majority of these goods are shown in Chart 4.7 and consisted of beer, fabrics, cold drinks and cigarettes. Other goods imported from Zimbabwe included vehicles and bicycle parts, wood, shoes, electrical goods, kitchen ware, fertilizers, oil and margarine and wine.

As Chart 4.7 shows, informal exports of non-agricultural goods from Mozambique to Zimbabwe were limited to very small quantities of female clothing (*capulanas*), some wood, wines (re-exports) and charcoal.

Differences in industrial capacity, in favor of Zimbabwe, was probably the main determinant of the flow of non-agricultural goods from Zimbabwe into Mozambique. It should be noted, however, that in terms of volume, the value of non-agricultural goods informally imported from Zimbabwe was much lower relative to the two main Southern Borders, i.e. Namaacha (border with Swaziland) and Ressano Garcia (border with South Africa).



Trade Balances

Mozambique had a negative informal trade balance with Zimbabwe, as is shown in the following table:

Table 4.5 Balance of Informal Trade Mozambique - Zimbabwe

US\$ 1,000

Type of Commodities	Exports to Zimbabwe	Imports from Zimbabwe	Trade Balance
Agric. Goods	66	2 393	- 2 327
Non-Agric. Goods	340	4 902	- 4 562
Total	406	7 295	- 6 889

One reason for low exports of agricultural goods from Mozambique to Zimbabwe was related to lack of demand due to higher agricultural production in Zimbabwe. The existence of a large market for agricultural goods in the Southern region, coupled with a poor formal commercial network to transport food from the Central-Northern region to the Southern region created an opportunity for highly active informal traders to move food from the Central region to the South of Mozambique rather than across the border.

Comparison Between Formal and Informal Trade with Zimbabwe

Informal cross border trade between Mozambique and Zimbabwe represented about 16% of the total (formal and informal) trade between these two countries. This proportion was lower compared to informal trade with Swaziland (about 90%) but slightly higher than the share of informal trade with South Africa (about 11%).

As informal exports to Zimbabwe were insignificant, in practice, only informal imports contributed to total informal trade with Zimbabwe. The reasons for a low share of informal trade with Zimbabwe included: the absence of trade facilitation mechanisms, strict visa requirements for the circulation of traders and the availability of similar agricultural goods on both sides of the border region.

Table 4.6: Comparison of Formal and Informal Trade with Zimbabwe

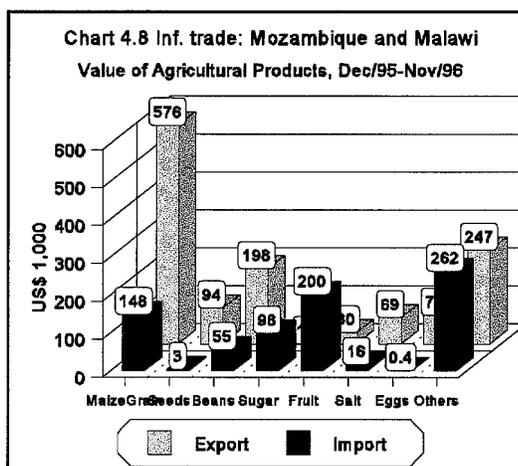
US\$ 1,000

Type of Activity	Formal Trade Jan-Sept, 1996	Informal trade Dec'95-Nov'96	Total Trade	Share of Inf. Trade
Exports to Zimbabwe	9 800	406	10 206	3.98%
Imports from Zimbabwe	29 700	7 295	36 995	19.72%
Total	39 500	7 701	47 201	16.32%

Mozambique and Malawi

Agricultural Products

As one moves further North, the picture regarding ICBT on food and agricultural products was completely different. In the case of the borders with Malawi, as Chart 4.8 shows, there were considerable informal exports of maize grain, beans and other agricultural goods, such as seeds, salt, meat, fish and vegetables to Malawi. There were also significant informal imports of fruit, sugar and other products such as seeds, vegetables, meat and fish into Mozambique.



Informal exports of maize grain from Mozambique to Malawi reflected Mozambique's comparative advantage in terms of production due to highly suitable agro-climatic conditions. This advantage was offset by the comparative disadvantage in terms of storage, processing and commercialization of maize and other grains. As a consequence, Mozambicans sold their maize grain on the Malawian side, directly after harvesting season, and a lower proportion of the same maize, in the form of grain and flour, was re-imported to Mozambique in the pre-harvest period when maize stocks were exhausted in Mozambique.

For similar reasons beans were informally exported from Mozambique to Malawi. Many Mozambicans said that they sold their beans to Malawi because there was no demand for them on the Mozambican side of the border. However, there was a very high demand in the urban centers in the Southern region, not adequately met by supplies from the Northern region, due to transport problems (availability, reliability and cost).

Sugar was one of the main informal imports from Malawi into Mozambique. As previously noted, this was due to the lack of capacity of the Mozambican sugar industry (low production, distant location of the only two operational factories, non-competitive prices and poor commercialization network) to meet domestic demand.

One special feature of informal cross border trade between Mozambique and Malawi was the presence of imports and exports of the same products (except for salt and sugar). Another exclusive characteristic was linked to fluctuation and temporary changes in the direction of trade (i.e. increases and decreases of volume and changes from export to import of the same commodity and vice versa). These two characteristics are interdependent and explained by a number of factors, including the following:

- different patterns of price fluctuations between border towns from the two sides of the Mozambique-Malawi border.

For example, decreasing domestic prices of maize grain during the harvest period in Mozambique, reflecting high supply and poor market conditions, coincided with higher or more stable prices in Malawi (where supply was lower and market conditions were better) which encouraged exports from Mozambique to Malawi.

- temporary shortages and prices fluctuations of consumer goods;

For example, at most border posts with Malawi, Mozambicans exported maize grain to Malawi with a view of purchasing sugar, which was expensive and in short supply on the Mozambican side due to low production and distant location of the nearest sugar mill in operation in Mozambique, resulting in irregular sugar supply. Malawians also exported maize to Mozambique to buy salt which was a rare commodity in that landlocked country relying on imported salt.

- unavailability of processing equipment¹³ or different prices for this service (at different border towns from both sides of the border);

For example, in April 1976 at Mandimba, in Mozambique, milling services were reported to be three times more expensive than at Chaponda in Malawi. Thus maize was being exported to Malawi where it could be milled more cheaply. Breakdowns of milling equipment also caused fluctuations and changes in the direction of trade.

- availability of market places where competition results in lower prices and improved quality.

For example, the existence of marketing places open on specific days of the week at Dedza in Malawi resulted in higher exports of vegetables and maize from Mozambique to Malawi on specific days.

Other reasons for fluctuations of informal trade in general

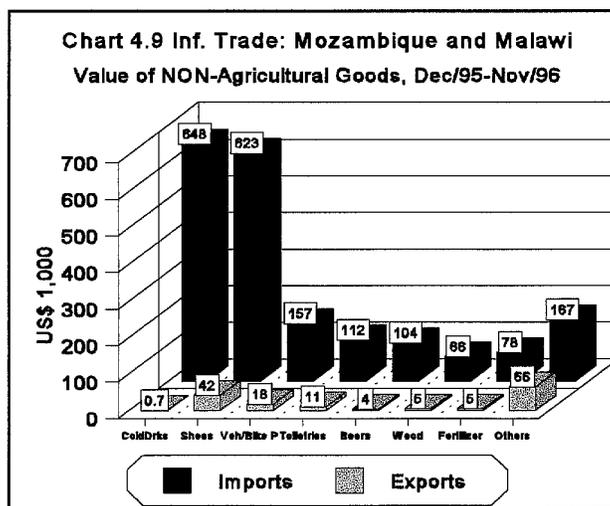
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This was quite evident during the initial period of border monitoring at, for example, Cuchamano (border with Zimbabwe) where there were no maize mills and this service was only provided at the Zimbabwean side of the border. When a Zimbabwean entrepreneur installed a maize mill at the Mozambican side, local border exports of maize to Zimbabwe, to pay milling services, decreased sharply.

were related to the agricultural calendar. The arrival of international grants and the tightening of revenue collection by customs authorities have also played an important role in trade fluctuations.

Non-Agricultural Products

With regard to non-agricultural products, the same trade pattern of the predominance of imports of value-added goods was also observed at the borders with Malawi. As Chart 4.9 shows, major imports included cold drinks, shoes, vehicle and bicycle parts, hygienic products, beer, wood and fertilizers. Imports in the category 'Others' included bicycles, kitchenware and electrical goods.



Exports of non-agricultural products to Malawi were limited to shoes, electrical goods, vehicle and bicycle parts, and wood, all of them of a limited amount. Most of these goods, excluding wood, were re-exports.

The geographic situation of Malawi, makes its urban centers nearer to remote areas on the Central-Northern side of Mozambique. As a result, large parts of border regions of the Mozambican provinces of Tete, Zambezia and Niassa rely on Malawi for their supplies of a good deal of the non-agricultural products. These goods are exchanged with agricultural products from Mozambique as the main means to balance trade.

Trade Balances

Mozambique had a positive informal trade balance with Malawi in respect to food and agricultural goods and a negative balance with regard to non-agricultural goods. Overall, the informal trade balance between Mozambique and Malawi favored Malawi. This situation can be illustrated by the following table:

Table 4.7 Balance of Informal Trade Mozambique - Malawi

US\$ 1,000

Type of Goods	Exports to Malawi	Imports from Malawi	Trade balance
Agricultural Goods	1 216	857	359
Non-agricult. Goods	151	1 955	-1 804
Total	1 367	2 812	-1 445

The figures shown in the table above can be explained by agro-climatic conditions in favor of Mozambique and infra-structural and locational conditions in favor of Malawi.

Comparison Between Formal and Informal Trade with Malawi

As Table 4.8 shows, informal cross border trade between Mozambique and Malawi amounted to about four million US\$. This amount represented about 20% of the total (informal and formal trade) between the two countries during twelve months. Table 4.8 also shows that informal exports represented about one half of total (formal and informal) exports and informal imports represented less than one quarter of total imports.

Table 4.8 Comparison of Formal and Informal Trade with Malawi

US\$ 1,000

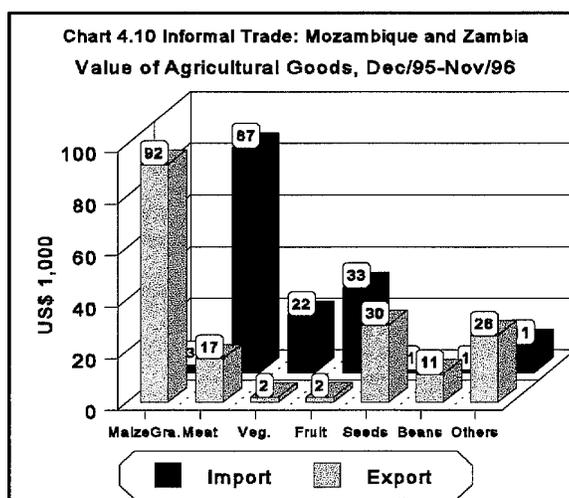
Type of Activity	Formal Trade Jan-Dec, 1996	Informal trade Dec' 95-Nov' 96	Total Trade	Share of Inf. Trade
Exports to Malawi	1 400	1 367	2 767	49.40%
Imports from Malawi	10 700	2 812	13 512	20.81%
Total	12 100	4 179	16 279	25.67%

In addition to the difficulties in trading Mozambican agricultural production within Mozambique, the characteristics of the Malawi-Mozambique borders and the absence of strict regulations on the circulation of people and goods between the two countries resulted in a ICBT representing a large proportion in total trade.

Mozambique and Zambia

Agricultural Products

Informal cross border trade between Mozambique and Zambia was quite depressed compared with other immediate neighbors of Mozambique. This situation was partly due to the characteristics of the Mozambican side of the border (Cassacatiza) which is rather remote and has a low population density. Furthermore, that region was strongly affected by the war which resulted in the destruction of its infrastructure (schools and health centers and shops). Catete, on the Zambian side, had about ten shops which were selling and buying a little of everything. One was quite surprised to be able to pay for cold drinks at Catete using Mozambican currency (it was virtually the only foreign border post where this possibility was open to Mozambicans).



Despite the low volume and value of informal transactions of agricultural products, one could observe, as Chart 4.10 shows, a concentration on exports of maize grain, seeds, beans and other products (such as salt, maize flour, fish and peanuts) and so on) and on imports of fruit (mainly mangoes), meat and vegetables.

Most of the maize grain informally exported to Zambia, in the initial months of border monitoring (Dec. 95 to March 96), was carried by Zambian laborers who had been working on Mozambican farms and were paid through maize grain. In the subsequent period, informal exports of maize grain, by Mozambicans, occurred with a view to purchasing non-agricultural goods at the Zambian side.

Seeds donated to Mozambican farmers who recently returned to their homelands were traded across the border to Zambia which is a clear indication of suppressed demand for seeds on the Zambian side.

Beans produced at the Mozambican side only found a market on the Zambian side. As mentioned earlier, this region is very remote and, as most households produced beans (and maize) they found it difficult to trade among themselves and only manage to exchange their produce at the other side of the border.

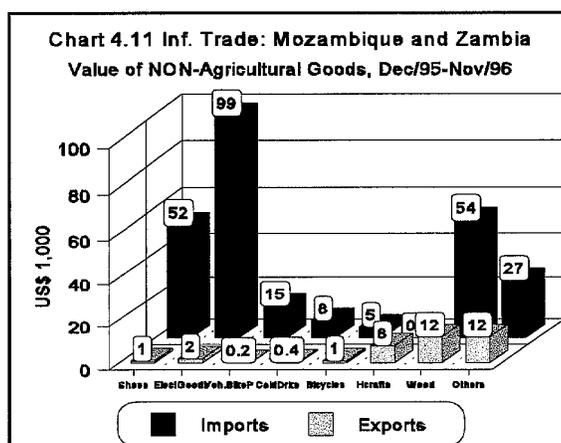
There are plenty of mango trees on the Zambian side of the border and a good deal of mangoes were being informally traded on the Mozambican side, making-up most of the fruit shown in Chart 4.10. Meat was one of the main products informally traded between Mozambique and Zambia. While goats were the main type of meat informally imported into Mozambique, live chickens were the main exports to Zambia. This situation might have changed as Mozambican households were re-stocking with goats, following peace in Mozambique.

Non-Agricultural Products

Informal cross-border trade of non-agricultural products, between Mozambique and Zambia, was dominated by imports of small quantities of shoes, electrical goods, bicycles and bicycle parts, and cold drinks, from Zambia into Mozambique. There were other imports of smaller quantities of fabrics, beer, cigarettes, toiletries, petrol and spirits. Some of these goods were actually re-exports of Malawian and South African goods. Chart 4.11 illustrates the type and value of some of the goods in question.

Informal exports of non-agricultural products from Mozambique to Zambia were negligible and limited to small quantities of handicrafts, wine, fertilizer and beer. Most of these products, except handicrafts, were re-exports.

There appears to have been a low volume of trade of non-agricultural goods between Mozambique and Zambia. Moreover, ICBT between these two countries seemed to be confined to border communities. While the road linking Cassacatiza to Tete and Beira is a tarmac road, in good condition, there seemed to be very low volume of



traffic to and from Zambia.

Trade Balances

As table 4.9 shows, Mozambique had a slightly positive informal trade balance with Zambia with regards to agricultural goods but a negative balance with respect to non-agricultural goods. Overall, the informal trade balance between Mozambique and Zambia favored Zambia.

Table 4.9: Balance of Informal Trade Mozambique - Zambia US\$ 1,000

Type of Commodities	Exports to Zambia	Imports from Zambia	Trade Balance
Agricultural Goods	181	157	24
Non-Agricult. Goods	36	260	-224
Total	217	417	-200

Most of the negative informal trade balance for agricultural products resulted from considerable quantities of mangoes whose valuation benefited from the average price of fruit, taking into account the high average fruit price which was influenced by the price of high quality fruit imported from South Africa to Maputo.

Comparison Between Formal and Informal Trade with Zambia

Although not significant in absolute terms compared to other borders, ICBT between Mozambique and Zambia represented about 67% of the total trade. As table 4.10 shows, informal exports and imports were about two times formal exports and imports.

Table 4.10: Comparison of Formal and Informal Trade with Zambia US\$ 1,000

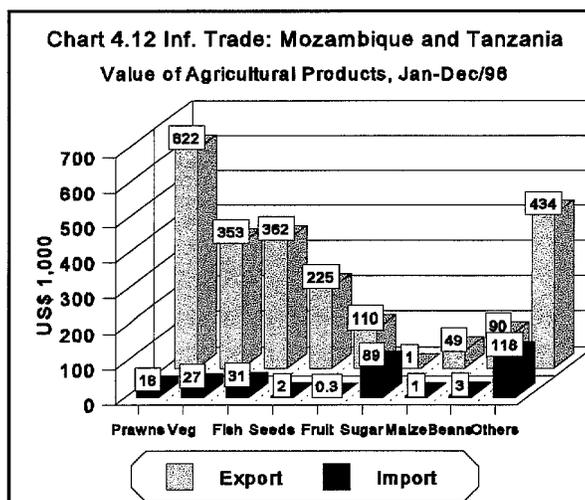
Type of Activity	Formal Trade Jan-Dec, 1996	Informal trade Dec'95-Nov'96	Total Trade	Share of Inf. Trade
Exports to Zambia	106	217	323	67.18%
Imports from Zambia	207	417	624	66.83%
Total	313	634	947	66.95%

* January to December 1996, a figure kindly provided by Mr. Camilo Amade from INE (National Institute of Statistics). It is assumed that the nine month figure is similar to this one.

Mozambique and Tanzania

Agricultural Products

In the extreme Northern region of Mozambique, one continued to observe a contrasting picture to that seen in the Southern region, as far as ICBT on agricultural products was concerned. Informal food trade between Mozambique and Tanzania, monitored from Mocimboa da Praia, was dominated by exports from Mozambique to Tanzania.



Mocimboa da Praia is located in the Mozambican province of Cabo Delgado. This is a port¹⁴ of departure and destination of artisanal boats sailing to and from Tanzania. Most passengers transported by such boats were informal traders with various commodities for sale in Tanzania or in Mozambique. The main types of food products informally exported from Mozambique to Tanzania, as Chart 4.12 shows, included: prawns, vegetables, fish, seeds, fruit, beans and maize grain. Exports in the 'other' category included a number of products such as meat, rice, peanuts, milk, maize grain and seeds. Informal imports of food and agricultural goods from Tanzania into Mozambique were limited to sugar and a few other goods such as corn flour, rice and milk.

Major reasons for the flow of food and agricultural goods from Mozambique to Tanzania are accounted for by very poor road conditions on the Mozambican side. This is aggravated by the lack of reliable road and sea transport and location of Mozambican consumer centers in places with alternative and cheaper sources of supply of the same goods produced at the border region. The sailing conditions to Tanzania (bays, archipelagos, etc.) are calmer for artisanal boats as compared to sailing down South.

Informal imports of sugar from Tanzania to Mozambique, unloaded at the coast of Cabo Delgado represented an interesting

¹⁴The fact that sea traffic depends on tides, facilitated the work of the enumerators.

case. Almost all sugar unloaded at Mocimboa da Praia was Malawian sugar. It was informally imported to Tanzania and then informally re-exported to Mozambique. The effects of this triangular trade could not be analyzed but it is believed that inefficiencies resulting from long distances and high transport costs might have a negative impact on prices.

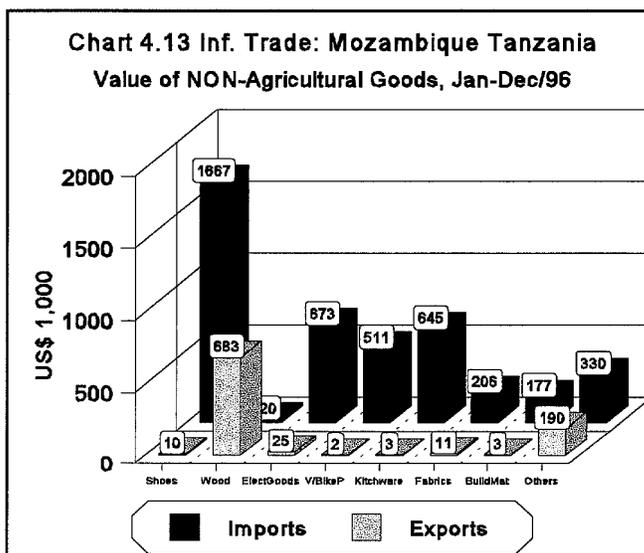
Corn flour and rice informally imported from Tanzania to Mozambique were of Tanzanian origin whilst condensed milk was a re-export. The remoteness of Mocimboa da Praia opened possibilities for considerable informal trade with Tanzania at the expense of trade with the rest of Mozambique.

Non-agricultural Products

Informal cross border trade between Mozambique and Tanzania, in the field of non-agricultural products was very active and followed the general rule of informal import of value-added goods into Mozambique and export of goods with very low value added to Tanzania. As Chart 4.13 shows, informal imports of non-agricultural goods from Tanzania into Mozambique was dominated by shoes, electric goods, vehicle and bicycle parts, fabrics, and bicycles. Informal imports in the category 'Others' included building materials, cigarettes and cold drinks. Informal exports of non-food products to Tanzania were dominated by wood but also include a few other goods such as handicrafts.

Most of the non-agricultural goods being informally imported from Tanzania to Mozambique were re-exports. They originated from The Middle-East and South-East Asia.

Poor road conditions on the Mozambican side, high cost of transport equipment and prohibitive interest rates were some of the factors contributing to high cost of the same goods when acquired through official channels in Mozambique. For example, traveling by a land cruiser from Pemba, the Provincial capital



of Cabo Delgado, to Mocimboa da Praia (366Km), took at least eight hours, which means that a truck full of merchandise (usually an old, poorly maintained truck) takes much longer.

Trade Balances

As Table 4.11 shows, Mozambique had a positive informal trade balance with Tanzania, with respect to agricultural products but there was a negative informal trade balance with respect to non-agricultural goods.

Table 4.11: Balance of Informal Trade Mozambique - Tanzania

US\$ 1,000

Type of Commodities	Exports to Tanzania	Imports from Tanzania	Trade Balance
Agricultural Goods	2 021	288	1 733
Non-Agricultural Goods	929	4355	-3 426
Total	2 950	4 643	-1 693

The figures in this table show interdependence between the Mozambique-Tanzania border region where Mozambican agricultural products were exchanged with 'Tanzanian' non-agricultural goods. Difficult access to the market in the Mozambican side, due to poor infrastructure, might greatly contribute to the volume of transactions.

Comparison Between Formal and Informal Trade with Tanzania

A comparison between ICBT and formal trade between Mozambique and Tanzania showed that ICBT represented about 65% of the total (informal and formal) trade between the two countries, during twelve months. As table 4.12 shows, informal exports represented about 43 % of the total export trade with Tanzania whilst informal imports represented about 99%.

Table 4.12: Comparison of Formal and Informal Trade with Tanzania

US\$ 1,000

Type of Activity	Formal Trade Jan-Dec, 1996	Informal trade Jan'95-Dec'96	Total Trade	Share of Inf. Trade
Exports to Tanzania	3 956	2 950	6 906	42.72%
Imports from Tanzania	54	4 643	4 697	98.85%
Total	4 010	7 593	11 603	65.44%

This table shows the extent to which informal trade with Tanzania is important and that informal trade represented about two times of formal trade.

SUMMARY OF MOZAMBIQUE'S INFORMAL TRADE WITH NEIGHBORS

Informal Cross Border trade is large business. Based on border monitoring undertaken within the framework of this study it was estimated that the total annual value of ICBT between Mozambique and her immediate neighbors, in the period between December 1995 and November 1996 amounted to about to US\$ 135 million. As Table 4.13 shows, of this amount about US\$ 37 million were informal exports from Mozambique to her neighbors and about US\$ 98 million were informal imports into Mozambique.

Table 4.13: Estimated Value of Mozambique's Informal Trade with Neighbors and Overall Trade Balance Dec.'95-Nov.'96

US\$ 1000

NEIGHBORS	MOZAMB. EXPOTRS	MOZANB. IMPORTS	TOTAL INF. TRADE	INF. TRADE BALANCE
SWAZILAND	30 599	50 689	81 288	-20 090
SOUTH AFRICA	1 303	32 092	33 395	-30 789
ZIMBABWE	406	7 295	7 701	-6 889
MALAWI	1 367	2 812	4 179	-1 445
ZAMBIA	217	417	634	-200
TANZANIA	2 950	4 643	7 593	-1 693
TOTAL	36 842	97 948	134 790	-61 106

Table 4.13 also shows that Mozambique had a negative informal trade balance in the above mentioned period, amounting to about US\$ 61 million.

The highest volumes of trade were concentrated in the Southern Region, bordered by Swaziland and South Africa. It was also in this region where the largest trade deficits were recorded. The lowest volume of trade and the smallest trade deficits were registered with Zambia.

The substantial volumes of trade in the Southern region reflect, as already mentioned, higher demand for food and industrial products of good quality and lower internal supply, due to climatic reasons and poor industrial performance. Remoteness, low population density and lower demand for food at

the border region between Mozambique and Zambia explain depressed informal trade volume and a negligible trade deficit. Supply driven informal exports of food to Malawi and Tanzania accounted for a lower trade deficit with those countries as compared to the trade deficit with Zimbabwe.

5. Discussion on Implications of ICBT in Mozambique

DETERMINANTS OF ICBT IN THE MOZAMBICAN CONTEXT

Informal Cross Border trade (ICBT), as defined for the purpose of this study, is one of the informal economic activities that has been flourishing after the introduction of the ERP. The most important factors contributing for this phenomenon is the interaction and mutual reinforcement between the so called "labor-supply-push" and "low-income-demand-pull".

Within the context of Mozambique today, what is referred to as the "labor-supply-push" is characterized by:

- high unemployment, resulting in an increasing cheap labor supply; and
- the search for alternative or complementary income earning opportunities as a result of eroded income levels, decreases of the labor force in productive enterprises and lack of skills to enter into the shrinking formal sector.

The "demand pull" has the following features:

- the existence of large numbers of poor consumers without ability or willingness to pay for basic consumer goods in terms of prices, quality and quantities offered in the formal sector; and
- the existence of suppressed demand for goods normally offered by the commercial network as a consequence of the inexistence (in most border/rural regions) and/or inefficiency of formal suppliers who quite often face tremendous liquidity problems.

At the heart of the so called "supply push" and "demand pull" is the social impact of the ESRP compounded by the effects of the recently terminated war and the peace process in Mozambique.

The privatization of state enterprises, following ESRP, is having adverse effects on employment. Unions estimate that about 90,000 workers have been considered excess labor and lost their jobs since the privatization process was initiated (Castelo Branco, 1995). They also estimate that more than a hundred privatized firms have been paralyzed, semi-paralyzed or even closed.

The above situation contributes to increased poverty. A 1995 government report says 60% of the population is poor¹⁴. Poverty results in inexpensive labor and creates a growing number of consumers who satisfy their basic needs in the informal sector.

The introduction of the ERP has brought considerable hardships to the majority of the Mozambican population. As GDP real growth rates averaged 2.3 percent in the last 5 years (excluding 1993, see Table 1), this rate is lower than the population growth rate (2.7 percent) which means that the GDP per capita is decreasing.

The emphasis placed on curtailed demand rather than expanded output is having a negative impact on incomes. Real salaries have persistently been decreasing and prices have been increasing as a result of inflation and currency devaluations. The minimum monthly salary at the time of drafting this report was equivalent to US\$ 19 whilst the cost of a basket of essential consumer goods to cover the needs of a five person family¹⁵ was equivalent to US\$ 67 which means that the minimum salary covers only 28% of the basket. Under this circumstance, it comes as no surprise that some people earning amounts in the vicinity of minimum salaries leave the formal sector to run informal businesses. Some people prefer to be employed in the formal sector for social status, employment security, a few benefits and some opportunities while at the same time also running informal activities.

Of no less importance, are the effects of the recently terminated war, namely, the migration many people from the country side to the main towns in search of safety, the destruction of agro-industrial enterprises and of 60 to 70% of the commercial network¹⁶ in rural areas. These factors have increased unemployment and left ICBT as one of the few and most important sources of income for many people.

The peace process, involving the demobilization of 80,000

¹⁴ See GoM-*Unidade de Apoio a Pobreza MPF*, 1995

¹⁵ The average number of people in a Mozambican family

¹⁶ It is estimated that there were 6.000 retailer shops in Mozambique in the 70s (Addison and Macdonald, 1995 cited by Coulter). This number decreased sharply after the exodus of the Portuguese settlers after independence. It decreased further as a consequence of the war to 3650 shops in 1981 and 1703 in 1989 (Levi et. al., 1990, cited by Coulter, 1995).

soldiers coupled with restoration of safety in the use of road transport has significantly contributed to more active ICBT.

This form of trade between Mozambique and her neighbors can also be seen as a response to unfavorable agricultural and macro-economic policies such as the enforcement of minimal producer prices on the Mozambican side and uncoordinated price, tax and customs reforms within the region.

Informal cross border trade also reflects comparative advantage in terms of production, processing and trade of agricultural goods and industrial products in favor of the Southern neighbors of Mozambique, namely South Africa and Swaziland. These countries serve the food deficit region of Mozambique, in the Southern region. In the Northern region, Mozambique has comparative advantage in terms of maize production but not in terms of storage, processing and trade. This is reflected, for example in the movement of maize grain from Mozambique to Malawi and maize flour from Malawi to Mozambique. Even in places where there is some trade and milling capacity, price differentials for milling services in neighboring border towns such as Mandimba (Mozambique) and Chaponde (Malawi) provide an incentive for informal exports of maize grain to Malawi and imports of maize flour to Mozambique as milling is cheaper on the Malawian side.

Of crucial importance are the high tariffs applied in the context of a tight fiscal policy. Traders try by all means to beat the system. Poor custom administration resulting from lack of trained, motivated and trustworthy personnel largely contributes to unrecorded trade. Many customs officials complain about meager salaries, lack of accommodation at border posts and frequent transfers. Some of them might even obtain accommodation and food from informal traders. A number of them might induce formal and informal traders to evade custom duties and pay unofficial rents (in cash and/or in kind). Quite often when inducement is not accepted harassment follows. Social hardships caused by many years of war and disenchantment stemming from past and present economic performance are probably affecting public morality. A number of public officials might charge unofficial rents in order to augment a meager salary but, some use it to buy luxury durable goods for their own use or to be re-sold. Some of the hard facts that one witnesses at the border posts seem illogical to outsiders but, highly logical to those engaged in them.

IMPLICATIONS OF INFORMAL CROSS BORDER TRADE IN MOZAMBIQUE

Like any other informal activity, ICBT has positive and negative implications. Positive implications include a contribution to food security, a positive effect on employment, incomes and poverty alleviation, a complementary role to the formal commercial network and a contribution to the opening of new markets for domestic producers. Negative implications include potential losses of tax revenues, possible promotion of illegal trade and corruption, health and sanitary requirements violation and, to some extent, a negative environmental impact.

Within the context of this study it is not possible to explore all the implications of ICBT. However some of the major issues are discussed below.

Positive implications of informal cross border trade

Implications on Food Security

The main objective of this study was to provide an overall assessment of the impact of ICBT on national food security and, the effects of ICBT liberalization (or repression).

Food security, as defined by FAO, encompasses the ability by all consumers to have both physical and economic means of access to food requirements at all times. The most important ingredients of food security include (i) ensuring adequacy of food supply, (ii) maintaining supply stability and, (iii) ensuring access to supplies for all consumers.

Taking into consideration the above definition, the implications of ICBT on food security can be assessed by looking for answers to the following three main questions:

- Does ICBT in Mozambique contribute to the adequacy of food supply?
- Does ICBT contribute to maintaining food supply stability in Mozambique?
- Is ICBT helping Mozambicans to ensure access to food supplies?

The answer to the first question requires, as a first step, information on the share of food in the overall estimates of the value of informal trade between Mozambique and her neighbors. The following table shows a breakdown of the output of border

monitoring into agricultural and non-agricultural products:

Table 5.1: Share of Agricultural Products in ICBT US\$1,000

Type of products	Informal exports to neighbors	Informal imports from neighbors	Total
Agricultural	22 579	54 713	77 292
Non-agricultural.	14 263	43 235	57 499
Total	36 842	97 948	134 791
Agric. Share	61.11%	55.86%	57.34%

Table 5.1 shows that about 57% of the products handled by informal traders are of agricultural origin. Since all agricultural products are food products and, part of non-agricultural products, such as oil and margarine and cold drinks, are also food products, the actual share of food products is actually higher than the percentage shown by the table above. Table 5.1 also shows that more than 60% of the total informal exports or imports refer to agricultural products.

As border monitoring has confirmed, the bulk of informal imports of food products occur over the Southern borders of Mozambique: Swaziland and South Africa. By contrast, the Central-Northern regions, present diminishing food imports, and increasing exports. This behavior of ICBT is determined by the considerable differences in the potential for food production between the South and the Central-Northern regions of Mozambique. The Southern region is prone to drought whilst the Central-Northern region has a better agricultural potential. As a result of these natural conditions, food deficits traditionally occur in the Southern region whilst the Central-Northern region traditionally produces food at surplus.

In Mozambique, the type of marketing functions undertaken within the context of ICBT, consisting mainly of exchange functions (buying and selling of food) and physical functions (bulk-breaking, assembly and transportation of food), result in food being moved from the surplus to the deficit areas. In the Southern region, characterized by food deficit (which for a number of reasons cannot be cost-effective and regularly addressed through supplies from the Center-Northern region), ICBT is concentrated on imports of food from Southern immediate neighbors (Swaziland and South Africa). In the Central-Northern region, where food is produced at surplus but under very poor infrastructural conditions, ICBT is dominated by exports of food to immediate Northern neighbors, such as Malawi and Tanzania.

Informal imports of food fill the food gap un-met by local production, food aid and formal imports. Taking the example of grain, a combination of data from different sources (such as the Ministry of Industry, Commerce and Tourism, the Ministry of Agriculture, FAO and W.P.) was summarized by MOA/MSU as follows:

**Table 5.2: Grain Availability in Mozambique, by Source
(Excl. ICBT), 1989/90- 1996/97**

1,000MTon

Market. Year April- March	P r o d u c t i o n				F o o d A I D				Comm. Cereal Import *	Total Avail. (excl. ICBT)
	Maize	Rice	Sorgh/ Millet	Total	Maize	Wheat	Rice	Total		
1989/90	330	95	177	602	289	109	72	470	0	1,072
1990/91	452	96	181	730	424	116	48	588	0	1,318
1991/92	327	56	155	538	472	123	59	654	0	1,192
1992/93	133	33	71	237	680	48	62	790	70	1,096
1993/94	533	49	165	747	285	57	29	371	87	1,204
1994/95	527	97	193	817	265	103	50	418	105	1,340
1995/96	734	76	279	1,089	136	74	24	234	154	1,476
1996/97	1,043	180	308	1,531	17		15	32	100	1,663

*Primarily rice and wheat flour and not including informal trade due to lack of records

Border monitoring results covering the period from December 1995 to November 1996, account for total imports of grain of 13 610 tons. These imports represent 44 and 14% of total food aid and of formal imports, respectively in the marketing year of 1996/97. Therefore, there is no doubt that ICBT supplies considerable amounts of grain to the country, ensuring the adequacy of food supply.

Informal exports of grain from Mozambique to her Northern neighbors (Tanzania and Malawi) can, at first glance, be regarded as a threat to internal food security. However, these exports provide an incentive for surplus production for export. This requires productivity which ends up contributing for an adequate internal food supply. Under the present situation of poor infrastructure, resulting in high transport cost to link the Northern region of Mozambique to the Southern region, it is more competitive to import grain from Swaziland and South Africa to supply the Southern region (mainly out of the harvesting season in the Northern region) than to rely on internal supplies from the remote areas of the North. Possible restrictions to informal exports of grain from the Northern region to immediate neighbors would only lead to the rotting of agricultural produce and

decreased productivity in the long run. Such an occurrence could definitely endanger food security.

To answer the question on whether ICBT contributes positively to food supply stability, one should remember that many ICBT operators combine ICBT activities with internal informal trade in grain, particularly during the harvesting season. Thus ICBT operators play a positive role on food supply stability by participating in the different directions of the flux of grain.

In fact, the fluxes of grain take four main directions: from the Central-Northern region to the Southern region (mainly during harvest when producer prices are low which compensates transport cost), from the inlands of the Central-Northern region to the coast (following the corridors to the Mozambican harbors), from the Northern regions to Malawi and Tanzania and from the Southern neighbors into the Southern region of Mozambique.

The flux of grain from Mozambique to Malawi and vice versa is a good example of how ICBT is used to achieve food supply stability. This movement occurs in both directions during the harvesting season and from Malawi to Mozambique during the pre-harvest period, in most cases in the form of flour. If Malawi had not her storage and processing capacity and the marketing problems prevailing in Mozambique, food supply stability would be at risk. Therefore, informal cross border traders are playing a positive role for the attainment of food supply stability by leading the movement of grain and flour between Malawi and Mozambique, in both directions.

The survey on informal cross border traders showed that bulk breaking of food products is undertaken as one of the main ways to reach poor consumers. Visits to any informal market places, show that food products are sold in quantities that result in affordable price for the poor consumer, contrary to the standard measures and prices observed by formal traders. While this may not always mean a lower price in relative terms to standard measures, it might satisfy the strategy of the poor consumer who generally purchase small quantities in accord with a limited cash availability, a search of a greater range of products and a more efficient use of each product. In other words, a poor consumer might only be able and willing to buy, each time, 1/10 of a liter of cooking oil, sold by an informal trader, at a price that multiplied by 10 is higher than the price of one liter of the same cooking oil sold by a formal trader. Thus, it is the ability

to either offer lower prices or smaller quantities that makes ICBT capable of providing access to supplies to all consumers.

A good number of informal traders are engaged in this activity to feed their families. In a sense they undertake ICBT in order to ensure their own food security.

In summary, ICBT has a positive contribution to food security, as seen from, the point of view of adequacy and stability of food supply and also from the perspective of access to supplies. The policy implications of this conclusion will be discussed later in this chapter.

Implications on Employment, Incomes and Poverty Alleviation

Although this study did not set out to assess the number of people employed in ICBT, there is a huge number of individuals of both sexes engaged in this activity. This stems from the general characteristics of the ICBT sector in Mozambique.

The informal cross border trade sector in Mozambique is ubiquitous. There is a large number of diverse categories of informal traders as defined in 2.2, in varying proportions, at any border post. During the first six months of border monitoring there were a total of 72,200 cases of informal trading at all border covered by this study, except Mandimba. It was also found that about 40% of the total cases of trading occurred at the border with Swaziland (78 km from Maputo, the capital of Mozambique, with more the 1.5 million. inhabitants).

Another reason ICBT attracts a huge number of people is the ease of entry, as there is an absence of any type of registration requirements to join this sector and the attitude of the Mozambican authorities lies between tolerance by design and police harassment by default. The low amount of initial capital required is another reason that accounts for a large number of people engaged in ICBT.

Equally important, is the fact that ICBT is in general labor intensive. A great deal of ICBT operations, including transportation to cross the border without need to declare the goods, relies on human labor force.

All the above mentioned characteristics of ICBT in Mozambique reveal a positive impact on employment. As the baseline survey on informal traders has shown, many people are

engaged in this activity in response to unemployment. Most of them had been previously employed by the shrinking formal sector.

One of the most important implications of ICBT is in relation to income. The monthly net income obtained by informal traders has been estimated to be on average, equivalent to more than four times the minimum salary paid by formal employers. Furthermore, the average income earned by informal traders is about two times the cost of a basket of essential goods for a family of five people whilst the minimum salary only covers about 40%. As a result, many people either switch from formal employment to ICBT or combine the two. Others are even unwilling to join the formal sector or they only join it for status only.

Informal cross border trade plays a positive role on poverty alleviation by providing employment and incomes. This role is particularly important, if it is considered that official sources put more than two thirds of the Mozambican population in absolute poverty. It could be argued that ICBT might not be the best way to address the poverty alleviation issues but, it is definitely one of the forms that people find extremely easy to adopt.

Complementary Role to the Formal Commercial Network and a Contribution to the Opening of New Markets for Domestic Producers

With 60 to 70% of the commercial network having been destroyed during the war, informal traders are playing an important role in the circulation of goods from surplus areas to deficit areas.

During supervision visits to border regions, it was found that, in a good number of cases, formal retail shops were nonexistent, closed or offering a very limited range of goods. Lack of liquidity and difficulties in accessing credit were the main problems mentioned by formal shop owners. Thus, supply of goods to family sector farmers and commercialization of their agricultural produce is constrained.

Informal cross border traders serving rural areas can be said to play a positive role in the supply of agricultural inputs and industrial consumer goods to farmers and in the commercialization of their production. By so doing, they contribute to the opening of new markets to domestic producers who, in the present situation of Mozambique, would probably not find a buyer or a place to sell their production.

Negative implications of informal cross border trade

Potential losses of tax revenues

One of the controversial issues in respect to negative effects of informal cross border trade is related to the revenue forgone in the form of customs duties and tax evasion. In Mozambique this issue is raised in respect to imports only, as exports do not attract duties.

In order to estimate the revenue forgone due to ICBT, the output of border monitoring is presented in Table 5.3 below. Goods are split into agricultural and non-agricultural goods. The most traded goods are indicated and those traded less frequently are grouped together under the category of 'Others'. By applying the percentage of duties and taxes in force during the border monitoring period and before November 1996 (rates a), and the current rates (rates b), the following figures were obtained:

Table 5.3: Informal Cross Border Trade in Mozambique: Missed Revenues

US\$ 1,000

Type of goods inform. Imported	Value	Duty/Tax Rate (a)	Duty/Tax Rate (b)	Missed Revenue (a)	Missed Revenue (b)
Sugar	17308	5%	12.5%	865	2163.5
Eggs	5847	35%	35%	2046	2046
Meat	7574	35%	35%	2651	2651
Vegetables	3625	35%	35%	1269	1269
Others	20359	26%	16%	5293	3257
Sub-total Agricultural.	54713			12125	11387
Shoes	9132	55%	35%	5023	3196
Vehic/Bicycle parts	2148	80%	12.5%	1718	269
Building Materials	4019	12.5%	12.5%	502	502
Beer	7703	110%	90%	8473	6933
Others	20233	26%	16%	5261	3237
Sub-total Non-Agricultural.	43235			20978	14137
Grand Total	97948			33103	25524

a) before reduction of duty/tax rates in November 1996 b) after November 1996

Table 5.3 shows that, in theory, the total revenue forgone in twelve months of border monitoring could be estimated at about US\$ 33 million according to 1996 rates or to about US\$ 26

million according to the new rates, in force from November 1996.

It should be noted, however, that duties and tax evasion does not necessarily mean that informal traders obtain the goods on a total 'duty free' basis. A good deal of them referred to the payment of unofficial rents to customs officials to an amount estimated to be of about 50% of the official duties and taxes. This can be partly understood as one of the consequences of the high level of import duties and taxes.

In fact, it was in recognition of the high level of customs duties and taxes on imports that the Government introduced a reduction from a global average level of 26% to 16%. However, the implementation of the new rates was initiated in November 1996 and it is still too soon to assess its impact on imports.

Facilitation of Illegal Trade and Promotion of Corruption

One of the negative aspects of ICBT is related to the potential for facilitation of trade in illegal goods and promotion of corruption.

While illegal trade and corruption were outside the scope of this study and the methodology was only applicable for monitoring visible goods crossing the border unrecorded and surveying informal traders, it was noticed that ICBT operators are sometimes used as facilitators of illegal trade. Their familiarization with the border routine, their knowledge of informal ways around the borders and their interaction with border officers may be used as informal services rendered to smugglers.

One of the pressures against widespread illegality and corruption has been the need for increased governmental revenue. In general, customs officers at border posts assume that they recognize the different categories of active informal traders crossing the borders and their importing or exporting habits. When under pressure from the central office, to deliver more and more revenues, they concentrate their collecting efforts in frequent border users while the infrequent ones are harassed less.

Health and Sanitary Requirements Violation and Negative Environmental Impact

Finally, one of the major areas of concern in respect to negative implications of ICBT is related to lack of compliance with health and sanitary requirements. This impact is quite visible as far as fresh products such as meat are concerned. The way they are packed, transported and handled expose such goods to contamination, putting consumers at risk.

Informal exports of forest resources can represent a serious threat to the environment. There were cases of wood, fire-wood and charcoal that were seen crossing some of the borders un-recorded although there are no signs of an alarming situation.

Policy Implications

At the beginning of this sub-chapter it was mentioned that ICBT in Mozambique has positive effects on:

- food security;
- employment, incomes and poverty alleviation;
- complementing the commercial network and opening of new markets.

It was also mentioned that ICBT has negative effects on:

- revenue collection
- transparency in trade operations
- health, sanitary and environmental requirements

Taking into consideration the above, the policy implications of ICBT can be assessed by looking into the following two main questions:

- ◆ What would be the consequences of repression of ICBT on the positive effects of this form of trade?
- ◆ What would be the consequences of repression of ICBT on the negative effects of this form of trade?

Repressing ICBT is, in this study, defined as charging high customs and tax rates to informal traders. In the present socio-economic situation in Mozambique, repression of ICBT will lead to a decrease in food availability. This might happen through decreased informal imports as informal traders might react by

passing smaller and smaller quantities of goods, hiring a higher number of transporters to cross the border as consumers, using informal routes and so on. It might also result in decreased agricultural production for informal export, leading to decreased productivity in the Northern regions of Mozambique, served by poor commercial networks and infrastructural conditions. As productivity would decrease, less food would be available for both self consumption and internal sale.

Repression of ICBT might force a proportion of informal traders to participate in the internal flux of grain, extending their operations to the post harvest season when prices reach the peak. The external flux would be weaker or unable to contribute to food supply stability.

Another area of concern in respect to possible repression of ICBT is related to the effect of this measure on the consumers. Decreased availability of informal food imports would lead to a rise in prices of food and a decreased access of poor consumers to food. The situation would be particularly severe in the Southern region where normally there is a food deficit.

In short, repressing ICBT would have negative consequences for food security, by affecting the adequacy and the consistent availability of food supply and access to food to the majority of the consumers - the poor.

The effects of repressing ICBT would not be limited to threatening food security. Increased unemployment and lower incomes would be another consequence of repression. Residents of border regions, without formal employment, without access to land and without access to school would be the first to suffer. Once subject to repression, many traders would lose an important source of income and would be unable to meet their basic needs.

In the present situation of a weak commercial network, repressing ICBT would decrease the circulation of goods. The formal commercial network has not been able to undertake agricultural marketing at a satisfactory level. Once repressed, informal traders, particularly in rural areas, would face difficulties in complementing the role of formal traders. Furthermore, their contribution to the opening of new markets for domestic producers would be curtailed.

In respect to the consequences of repressing ICBT, on negative effects, it is worth mentioning that generally, the main

objective of repression is to increase revenue collection. The main issue is to what extent will informal traders adhere to the payment of high customs duties knowing that the cost of evasion through adoption of new strategies are probably much lower even with the payment of unofficial rents. There are places where repression would simply be symbolic due to the characteristics of the borders themselves. For example, at the border with Malawi, there are long portions where the border is just a road with the left side being Mozambique and the right being Malawi. These are cases where the cost of repression would probably be much higher than the amount of revenue collected, as informal traders would have countless informal routes to cross the borders.

Repression as a means to eliminate corruption would be counterproductive. High customs and tax rates, coupled with repression of ICBT, would be an incentive to corruption. Customs officials, especially if they continue to receive low salaries, could suggest to informal traders *'are you going to pay all that? Pay us a breakfast and go...'*

Repression of informal traders would also not contribute to the observation of health and sanitary requirements. It might even be the case that these problems will be worse, as more goods will have to be smuggled, longer distances to consumer centers will have to be covered, more goods will have to be stored under poor conditions, and so on. Negative effects to the environment will continue or even be aggravated as informal traders unable to trade in other things might switch to more durable goods such as wood, fire-wood and coal.

In summary, repression of ICBT will worsen the situation with regard to food security, employment, incomes and poverty alleviation. It would leave formal traders with tremendous problems in handling all the agricultural output of the country. Its basic objective, to increase revenue, would hardly be met and other negative effects of ICBT would not be eliminated.

If repression does not maintain the positive aspects of ICBT and does not eliminate its negative aspects, what policy measures or options should be perused? This study contends that, although a part of ICBT activities might be illegal, the ICBT sub-sector as such currently represents one of the main mechanisms for exchanging goods and services at the border regions. This report argues that, given that the positive aspects of ICBT outweigh its negative aspects and, given that it provides a valuable economic

service and employs a considerable number of people, a case can be made in favor of adjusting the law to reflect practice.

Further, the report recommends that an environment that facilitates the movement of goods and services, especially, the movement of food from surplus to food deficit areas should be encouraged. A mechanism that enables informal traders' continued participation in the economy including levying appropriate charges and liberalization of ICBT is recommended.

Charging informal traders a tax rate that is lower than the cost of evading it, would probably encourage them to approach the border officials to declare their goods, attracted by the opportunity of using a good road, having access to transport and gaining the status of a legal trader. This could be the first step for liberalization of ICBT.

Liberalization of ICBT, in the context of this study, is understood as the opposite of repression of ICBT. In other words, liberalization of ICBT would involve charging low customs and tax rates to informal traders with the view to collect their part of the contribution to the costs of the functioning of border facilities.

A follow up study should determine the appropriate rate payable by informal traders. Such study would include detailed figures on the cost of evading the present rates in order to estimate rates to be proposed. A gradual adherence could be expected, especially if courtesy would replace harassment by customs officials.

One important gain from liberalization would be that more informal traders declaring their goods at the border posts which would result in more accurate figures on trade in the national statistics and would allow for a better understanding of the phenomenon of ICBT for policy formulation.

6. SUMMARY OF CONCLUSIONS AND IMPLICATIONS

6.1 THE RESULTS OF THE BASELINE SURVEY

The results of the analysis of data obtained through structured questionnaires on ICBT, administered to informal and formal traders and public officials, can be summarized as follows:

- As a generalization informal cross border traders were residents of Mozambican border towns (76%), were men (66%) and were literate (86%);
- Many informal cross border traders had not registered their business as they considered it to be a small scale activity. The majority (76%) of those who had registered their business did so after the end of the war in Mozambique;
- More than 50% of traders stated that they had been self employed or Government and private sector employees, having joined ICBT sector in response to growing unemployment;
- About one half (55%) of informal cross border traders invested less than US\$50 as initial capital, obtained from household incomes and or informal lending arrangements and only 57% of interviewed traders had bank accounts;
- Business categories of informal traders included informal retailers (about 59%), hawkers (about 23%) and wholesalers (about 10%), with most hiring a number of small agents and transporters to cross the borders with small quantities of goods;
- The main strategy used by informal traders to overcome barriers to trade was to employ small agents and transporters specialized in trying to beat the system (asking for or accepting the payment of unofficial rents to customs officials, hiding the goods, benefiting from administrative discretion or tolerance of customs officials or simply being exempt from duties);
- Informal traders were profit oriented, with their average mark-up being in the order of 33% over buying prices, which

allowed for an average monthly revenue more than four times the minimum salary paid to formal employees;

- In general, informal traders were price takers and most (about 59%) obtained business information through word of mouth;
- Marketing channels within ICBT comprised formal traders from foreign (border) towns selling the goods to informal wholesalers and retailers who re-sold them to (in)formal retailers (in most cases adequately divided for ease of access by poor consumers);
- Marketing functions within ICBT included exchange functions (buying and selling), physical functions (mainly transportation) and facilitating functions (risk bearing, information) thus addressing possession, place and time dimensions;
- Most (91%) of the informal traders paid their imports in cash, using currencies from immediate neighbors, obtained in the parallel market (in more than 70% of the cases) and obtaining exchange rate information from transporters and travelers;
- A large number of traders (about 39%) used their own means of transport to cross the borders (consisting basically of head/hand, bicycles and carts) or hire vehicles. Most (83%) of the traders used their own storage which was rudimentary in nature;
- Most (about 80%) of the public officials interviewed were of the opinion that ICBT should be formalized, meaning graduated into registered activities. Only 6% (or two) of the public officials were of the opinion that ICBT should be stopped whilst 9% were of the opinion that ICBT should continue as it is;
- Public officials had various opinions regarding the implications of ICBT including a possible contribution to a low rate of revenue collection by Customs (about 49% of respondents), retarding economic development (26%), stabilizing food security (14%) and provision of employment and essential goods at accessible quantities and prices while not observing health and hygiene standards (11%);

- Revenue maximization was seen by a good number (about 37%) of public officials as the main priority of their institutions regarding ICBT. Other issues included patrolling the movement of people and goods, establishing informal market places, and so on (23%). Free trade was not referred to;
- Most (66%) of the public officials were of the opinion that ICBT had increased as compared to the 1980s. There were differing views regarding problems faced by formal traders including unfair competition provided by informal traders (according to 34% of respondents), high tariff and non-tariff barriers to trade (20%) and other issues such as liquidity and transport problems (20%);
- Border officials were seen as unable to keep accurate trade data due for a number of reasons including, according to public officials, the use of informal routes by (in)formal traders (34%) poor customs' administration (17%) and lack of trained and trustworthy personnel (17%);
- There were varied opinions on the political and economic implications of ICBT, including a contribution to improved regional food security (18%) and regional interdependence (18%) and economic cooperation (6%). Other (42%) opinions included positive impact on employment and food supply and negative impact on formal trade and state revenues; and
- A good deal of public officials (49%) were pessimistic on the prospects of trade expansion between Mozambique and her immediate neighbors whilst some of them (23%) were optimistic.

BORDER MONITORING RESULTS

The results of the analysis of data obtained through the monitoring of unrecorded goods crossing the borders between Mozambique and her immediate neighbors, confirmed that Mozambique is, overall, a net informal importer of both agricultural and non-agricultural goods.

Further results of border monitoring undertaken within the framework of this study, can be summarized as follows:

- **Informal cross border trade between Mozambique and Swaziland**

- Informal cross border trade between Mozambique and Swaziland was dominated by imports of agricultural goods such as sugar, meat, peanuts and maize flour, and non agricultural goods such as shoes, building materials, kitchenware, edible oils and margarine and beer from Swaziland to Mozambique;
- Prawns and wood were the main informal exports from Mozambique to Swaziland;
- Total informal exports from Mozambique to Swaziland amounted to about US\$ 31 million and imports amounted to about US\$ 51 million which results in a negative ICBT balance amounting to US\$ 20 million; and
- A comparison between formal and informal trade showed that about 90% of the total (formal and informal) value of trade between the two countries is unrecorded. Informal exports are more than 300 times formal exports and informal imports are five times formal imports.

- **Informal cross border trade between Mozambique and South Africa**

- Informal cross border trade between these two countries consisted essentially of imports of many types of agricultural and non-agricultural goods from South Africa to Mozambique, with the main ones including eggs, vegetables, Irish potatoes, fruit as well as beer, vehicle and bicycle parts, building materials and electrical goods;
- Total informal imports from South Africa to Mozambique amounted to about US\$ 32 million whilst exports amounted to about one million US\$ which resulted in a negative ICBT balance with South Africa with regard to both agricultural and non-agricultural goods, amounting to about US\$ 31 million; and
- Informal cross border trade between Mozambique and South Africa represented about 10% of the total (formal and informal) value of trade between these two countries.

- **Informal cross border trade between Mozambique and Zimbabwe**

- Informal cross border trade between these two countries was largely dominated by imports of agricultural goods such as eggs, milk, sugar and fish as well as non-agricultural goods such as beers and sodas, fabrics, cigarettes and wood from Zimbabwe to Mozambique;
- Total informal imports from Zimbabwe to Mozambique amounted to about seven million US\$ whilst exports were limited to only US\$ 406,000 which results in a negative ICBT balance with Zimbabwe in regard to both agricultural and non-agricultural goods, amounting to about seven million US\$; and
- Informal cross border trade between Mozambique and Zimbabwe represents about 16% of the total (formal and informal) value of trade between these two countries.

- **Informal cross border trade between Mozambique and Malawi**

- Informal cross border trade between these two countries was characterized by simultaneous informal imports and exports of the same agricultural products (except for salt and sugar) including maize, beans, seeds and vegetables and the imports of non-agricultural goods such as beers and sodas, shoes, vehicle and bicycle parts and toiletries, from Malawi into Mozambique;
- Total informal imports from Malawi to Mozambique amounted to about 2.8 million US\$ whilst exports were of the order of US\$ 1.4 million which results in a negative ICBT balance with Malawi of about US\$ 1.4 million (despite a positive informal trade balance of about US\$ 0.4 million with regard to agricultural goods); and
- Informal cross border trade between Mozambique and Malawi represented about 26% of the total (formal and informal) value of trade between these two countries and about one half of total exports were undertaken informally.

- **Informal cross border trade between Mozambique and Zambia**

- Informal cross border trade between these two countries is quite depressed and concentrated on informal imports of

mangoes, meat, vegetables, shoes, electrical goods, vehicle and bicycle parts from Zambia to Mozambique and exports of maize, seeds and beans to Zambia;

- Total informal exports from Mozambique to Zambia amounted to about US\$ 217,000 whilst imports were US\$ 417,000 which results in a negative ICBT balance with Zambia of about US\$ 200,000 in respect to both agricultural and non-agricultural goods; and
- Informal cross border trade between Mozambique and Zambia represented about 67% of the total (formal and informal) value of trade between these two countries.
- **Informal cross border trade between Mozambique and Tanzania**
- Informal cross border trade between these two countries is quite active and dominated by informal exports of marine and agricultural products such as prawns, fish, vegetables, fruit and maize from Mozambique to Tanzania and by informal imports including shoes, electrical goods, vehicle and bicycle parts, kitchenware and textiles, from Tanzania to Mozambique;
- Total informal exports from Mozambique to Tanzania amounted to about US\$ 2.95 million whilst imports were US\$ 4.64 million, leaving a negative ICBT balance of about US\$ 1.69 million (despite a positive informal trade balance of about US\$ 1.73 million regarding agricultural goods);
- Informal cross border trade between Mozambique and Tanzania represented about 65 of the total (formal and informal) value of trade between these two countries.

In summary, the results above show the following characteristics of ICBT between Mozambique and her immediate neighbors: the predominance of imports of value added goods into Mozambique, high imports of food from immediate neighbors in the Southern region and considerable exports of food from the Northern region to its neighbors. Total informal exports from Mozambique to all her immediate neighbors amounted to US\$ 37 million and total informal imports amounted to about US\$ 98 million, resulting in a negative balance of about US\$ 61 million.

IMPLICATIONS OF ICBT IN MOZAMBIQUE

Informal cross border trade between Mozambique and her neighbors has positive and negative implications.

Positive implications of ICBT include the contribution to:

- **Food Security**
 - More than 60% of informal exports and more than 55% of informal imports consist of food (informal exports contribute to increased external market driven agricultural productivity and imports contribute to the availability of food);
 - Informal cross border trade drives food from surplus areas to deficit areas, thus contributing to adequacy of food supply;
 - Informal traders are engaged in both cross border trade and internal informal trade which contributes to food supply stability; and
 - Informal traders sell goods at lower prices or undertake bulk breaking of commodities in order to ensure access to supplies for all consumers.
- **Employment, Incomes and Poverty Alleviation**
 - More than 50% of informal traders interviewed had been unemployed before engaging in ICBT; and
 - Average monthly income of informal traders is more than four times the minimum salary.
- **Complementing the Formal Commercial Network and Opening of New Markets**
 - With 60 to 70% of the formal commercial network having been destroyed during the war, informal traders are playing an important role to ensure circulation of goods; and
 - Informal exports contribute to the identification and opening of new markets for domestic producers.

Negative implications of ICBT include the contribution to:

- **Potential Losses of Tax Revenue**

- It was estimated that the total revenue forgone in nine months of border monitoring amounted to about US\$ 25 million; and
- In practice, however, tax evasion by informal traders is not equivalent to importing goods on a 'duty free basis' as most of them are charged unofficial rents.

- **Facilitation of Illegal Trade and Promotion of Corruption**

- During border monitoring enumerators referred to the existence of transporters who did not even stop at the border to declare their cargo; and
- Informal traders also mentioned the practice of mutual inducement for non-payment of customs duties and harassment of informal traders if they refused to cooperate.

- **Health and Sanitary Requirements Violation and Negative Environmental Impact**

- Contamination of fresh products such as meat is quite common within ICBT; and
- There are cases of informal exports of forest resources such as wood, fire-wood and charcoal.

POLICY IMPLICATIONS

There are two major options for the Government of Mozambique concerning the ICBT sector: repression or liberalization.

Repression would have negative implications on the positive aspects of ICBT.

- One major implication of repressing ICBT in Mozambique would be decreased food security. Repressing ICBT would affect the adequacy and the availability of food supply and would also curtail access to food supplies for poor consumers;

- Another implication of a repressive policy on ICBT would be increased unemployment and decreased incomes as it was shown in the baseline survey that most informal traders are former employees of the shrinking formal sector and earn more than four times the minimal salary;
- A further implication of repressing ICBT would be a decrease of the circulation of goods, leaving the weak commercial network unable to ensure the commercialization of agricultural surplus and the provision of adequate incentive goods to farmers. Furthermore, the contribution of ICBT to the development of new markets would be curtailed;

It should not be taken for granted that repression would have significant impact on the negative aspects of ICBT.

- Factors leading to ineffectiveness of repression for increased revenue collection include evasion of payment of customs duties by informal traders (especially when the costs of evasion through use of informal routes and payment of unofficial rates are lower than official rents) and high costs of controlling repression itself (especially in case of open borders);
- Repression would also be ineffective for the elimination of corruption as high customs and tax rates would be an incentive to the charging of unofficial rents; and
- By leading to an increased use of informal routes to escape from the payment of customs duties, repression can contribute to increased violation of health and sanitary requirements and might not help to curtail the negative environmental effects of ICBT.

With repression being ineffective in maintaining food security, employment, incomes and poverty alleviation and leaving formal traders with tremendous problems in handling all the agricultural output of the country, there are sufficient reasons for adopting of a different type of trade policy. A further reason would be the ineffectiveness of repression in respect to the elimination of the negative effects of ICBT.

A trade policy that could be adopted is liberalization of ICBT. In the context of the present study, liberalization of ICBT should be understood as facilitating the movement of informal

traders and their goods inside and outside the country and charging them customs and or tax rates that are lower than the costs of evading the official rates. Such rates should be lower enough to encourage informal traders to declare their goods at border posts, attracted by the availability of transport, good roads crossing border posts and hard currency. The introduction of such rates should be gradual.

The determination of appropriate levels of customs or tax rates applicable to informal traders should be subject to a follow-up study. Such a study should ideally be comprehensive and be based on comparative customs costs and rates officially payable with the costs of evading customs related tariffs. Any proposed new rate should be based on a cost-recovery principle, in respect to the functioning of the customs facilities. The adherence of informal traders to new rates and the attitude of customs officials should be carefully monitored.

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