SD Publication Series
Office of Sustainable Development
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Estimates of Unrecorded Cross-Border Trade Between Mozambique and Her Neighbors

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World Vision International – Mozambique

Technical Paper No. 88
June 1999

USAID

This publication is part of the

Regional Trade Agenda Series

USAID / Africa Bureau
Office of Sustainable Development
Agriculture, Natural Resources and Rural Enterprise Division
Food Security and Productivity Unit
and
Regional Economic Development Support Office
Eastern and Southern Africa, Office of Agriculture and Natural Resources

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Implications for Food Security

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Publication services provided by **AMEX International, Inc.**
pursuant to the following USAID contract:

Project Title:	Policy, Analysis, Research, and Technical Support Project
Project Number:	698-0478
Contract Number:	AOT-C-00-96-90066-00

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Foreword

The key parameters of food insecurity which have been the focus of major efforts by USAID's regional trade analytic agenda for eastern and southern Africa region since 1994 include: efficiency in agricultural production; functioning networks for distribution of inputs and products; diversification of farm incomes; expansion and integration of regional markets; exploitation of existing comparative economic advantage; and, democratic governance and commitment to market reforms. There is a lot of interest and concern about the region's ability to sustain food security. The current events in Africa show that civil strife, which is one of the major causes of food insecurity, has gripped practically all the countries in the Great Lakes, the Horn of Africa and the southern countries. This is affecting food production adversely and is likely to increase the demand for humanitarian assistance whose volume and cost are already unacceptably high. It is significant to note that informal cross-border trade, a form of trade often neglected by the government authorities, is playing a key role in regional food security even in times of civil strife. It is also reassuring to note that informal cross-border trade may have important implications and lessons for export diversification and improved production efficiency at the grass-roots level provided the appropriate policies and infrastructure are in place.

The results of the study of informal trade between Mozambique and its neighboring countries reported here by Jose Macamo highlight how traders and consumers react and adapt their behavior to the economic metamorphosis and regional integration particularly in the Southern Africa Development Conference (SADC). The study amply demonstrates the need for a holistic approach to the issue of food security. The main reform issues for food security in Mozambique are: the poor infrastructure and road links between the northern and central provinces which have high agricultural potential and the food deficit south; structural adjustment programs which have apparently led to retrenchment and erosion of consumer purchasing power; a weak private sector kept out of the rural areas by poor infrastructure; and, neighboring countries enjoying superiority in industry and value-added production.

Food security is a serious problem in the center and north where despite progress in the rehabilitation of agricultural production, lack of storage facilities, grain milling capacity and market outlets threaten further gains and sustainability in productivity. Informal cross-border trade thus thrives but is being viewed by the government as an undesirable especially from the point of view of loss in tax revenues and opportunity to add value to agricultural exports to Malawi and Zimbabwe. In the south, the problem takes on a different dimension: that of increasing consumer purchasing power to afford the rising expenditures on imported food, particularly for the urban poor. The pressure to improve the balance of trade with South Africa and Swaziland and to better manage the food security strategy are critically vital as Mozambique embraces the principles of free trade under the auspices of SADC and the Common Market for Eastern and Southern Africa (COMESA). This study by Jose Luis Macamo provides us with a glimpse of what is ahead and why the formal sector has to learn fast to cope with liberalized regional markets. The government in turn has to learn to trust the market system and provide the requisite enabling environment. This will be the basis for a sustainable food security program and this is what USAID has been attempting to promote and strengthen both through institutional capacity building and networking as well as through policy oriented studies such as this.

By emphasizing free trade and underscoring the importance of rational trade polices and removal of all trading distortions, this study offers a new policy option that may guide efforts of USAID and other regional institutions and initiatives in addressing the

challenges of assuring national and regional food security.

This report is one in a series of studies on Africa's regional trade and comparative advantage, a joint activity of USAID Africa Bureau's Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE), and the Regional Economic Development Services Office for Eastern and Southern Africa (REDSO/ESA).

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Acknowledgments

This study was one in a series of Informal Cross-Border Trade (ICBT) Studies conducted in eastern and southern Africa (ESA). The study in Mozambique like the others, was funded by the USAID's Regional Development Support Office (REDSO/ESA) in Nairobi, Kenya through TechnoServe Inc., and coordinated by World Vision Relief and Development (WVRD).

The author is thankful to many individuals and institutions that contributed to the success of this study in one way or the other. Special mention goes to Chris Ackello-Ogutu and Protase Echessah for reviewing and editing the final report for the SD Publication Series and Mr. Pedro Bule of the Ministry of Planning and Finance in Mozambique. Thanks to the staff at TechnoServe Nairobi, Kenya, particularly Alex Kirui and Joe Mwangangi, for advancing the cause of this study. The helpful reactions and comments from U.S. Agency for International Development (USAID) are gratefully acknowledged. In this regard, Drs. Joe Carvalho and Brian D'Silva, both of USAID/REDSO/ESA in Nairobi, and Dr. Richard Newberg of USAID/Mozambique are singled out.

Lastly, the author is grateful to all the colleagues at WVRD for their patience and understanding and to the computer programming consultant, Mrs. Maria Teresa Alfaro, for her contribution in the preparation of this report. The crucial role played by a number of field supervisors, enumerators and assistants cannot be over-emphasized. Special thanks go to Mr. C. Isidoro for the numerous supervisory visits he made to the sites we monitored. The author is solely responsible for the views expressed in this report as well as for the errors and omissions that may exist herein.

Executive Summary

BACKGROUND: ECONOMIC PROBLEMS AND STRUCTURAL ADJUSTMENT

Despite the introduction of the relatively successful Economic and Social Rehabilitation Program (ESRP) sponsored by the IMF and World Bank under the Structural Adjustment Programs (SAPS) in 1987, Mozambique still faces numerous socio-economic problems. Among them are: an unstable GDP growth rate; the unstable condition of two digit inflation; 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; and growing **unemployment**.

Other than the economic rehabilitation measures undertaken under SAPS, there are no policies specifically designed to address trade issues in Mozambique. In the absence of sectoral trade policies, the government has been intervening in trade matters by setting up regulations governing enterprises involved in trade. The creation of a government parastatal for grain marketing (ICM) and the setting of pan-territorial prices (which evolved from fixed to minimum and reference prices) are some of the interventions. In late 1995, the government put in place its first agrarian policy, but it is too soon to assess its impact on regional trade.

[1] The statistics and other statements made in that paragraph refer only to the 1987 to 1995 period. The economy was reportedly making positive improvements in subsequent years, but the detailed figures were not available to the author at the time of writing this report.

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. However, there have been reports of increasing unofficial trade between Mozambique and her neighbors. A number of factors have contributed to this phenomenon of increased unofficial regional trade. These factors include tariff and non-tariff barriers. Informal cross-border trade (ICBT) has evolved over time and constitutes one of the main ways of overcoming barriers to formal regional trade. Although its existence is known, its magnitude and mode of functioning have never been documented. This lack of documentation leads to the recording of misleading figures in the national accounts. As a consequence of inappropriate trade statistics, wrong policies are pursued and poor regional trade strategies are formulated.

It was, therefore, found necessary to try and explore the extent to which informal cross-border trade was being carried out and the impact of this trade both nationally and regionally. The overall objective of the study was thus to fill this gap by generating qualitative and quantitative information about ICBT and to evaluate its impact on national and regional food security.

THE METHODOLOGY

Informal cross-border trade was assessed over a period of 12 months (December 1995 to November 1996) through observation of unrecorded goods crossing the 10 most active sites along Mozambique's

borders. Border monitoring was supplemented by a baseline survey of informal trade practitioners and the market functions they perform.

SUMMARY OF BASELINE SURVEY RESULTS

The results of the baseline survey which was carried out between January and March 1996 indicate that male adults dominated the informal cross-border trade between Mozambique and her neighbors. The majority of the traders were literate and resided in Mozambican border towns. Most of these traders lacked formal employment, were small scale traders and initially invested minimally using credit from informal sources.

Business transactions were carried out predominantly on a cash basis with currencies of Mozambique's trading partners being preferred. Although there were risks associated with using parallel money markets which were readily available at active border sites, obtaining foreign currency from official sources was cumbersome and had legal limitations. The demand for and supply of foreign exchange influenced the parallel market exchange rates. Information regarding exchange rates was mainly obtained from transporters and travelers.

The mode of transport depended on the volume of commodities and distances of haulage: the longer the distance, the more sophisticated the means of transport. Head/hand loads, hand carts and bicycle transportation were extensively used as means of crossing the border with a view to avoiding tariff costs. There was widespread use of small agents and transporters familiar with border areas and who specialized in methods of evading the customs system.

A common feature among most of the informal traders was dealing in a few commodities each time in order to avoid payment of customs duties as well as to reduce transport and storage costs. Usually, the small quantities of goods formed part of a larger consignment meant to be assembled after crossing the border. As a result, the number of people transporting goods across the border was larger than the number of traders themselves. Economies of scale were realized through group hire of transport.

Storage facilities were minimally used by informal traders. Typically, storage was only used when traders could not sell their goods on the same day. Storage was not used as a deliberate effort to speculate on prices. The majority of the traders used their own storage facilities which, in most cases, were rudimentary structures for multiple uses.

In addition, there was no systematic information generation and dissemination through formal channels for use by the informal traders. Word of mouth was the main mode of information generation and dissemination. However, some of the informal traders knew what to buy and sell based on past experience and were therefore able to react quickly to changes in demand and supply conditions.

SUMMARY OF BORDER MONITORING RESULTS

Goods informally exchanged along the borders of Mozambique were, for purposes of this study, basically of two types; agricultural commodities and non-agricultural goods. Examples of agricultural commodities include sugar, maize, prawns and fish, meat, peanuts, Irish potatoes, beans and vegetables. Among the non-agricultural goods traded are beer, shoes, wood products, building materials, bicycles, bicycle and car parts, and electrical goods.

The magnitude and direction of informal trade between Mozambique and her immediate neighbors was not uniform due to considerable differences in agro-climatic conditions between the northern and southern regions of Mozambique. These differences were also as a result of the comparative advantage as dictated by the level of production, commercialization network, storage and processing of food as well as differences in industrial capacity and infrastructural development.

Informal trade between Mozambique and her neighbors was predominantly agricultural, with Mozambique being a net importer of both agricultural

and non-agricultural goods. A discussion of ICBT between Mozambique and specific trading partners follows.

Swaziland

Swaziland was by far the most important trading partner for Mozambique. Swaziland informally exported agricultural products estimated at US$32.2 million to Mozambique against imports valued at more than US$18 million. Mozambique's major informal agricultural imports from Swaziland were sugar (US$16.4 million), meat (US$6.8 million), peanuts (US$2.4 million) and maize flour (US$1.4 million). The demand for sugar outstrips supply in Mozambique mainly as a result of the civil war which ravaged the sugar industry. The same can be said of meat which is produced below consumption requirements. Maize flour has been an important informal import from Swaziland and, during the 1995/96 period, 3,900 metric tons of that commodity were imported. Agricultural exports to Swaziland were limited to prawns (US$15.3 million) and wood products (US$11.3 million).

Among the major non-agricultural goods imported from Swaziland were shoes (US$6 million), building materials (US$2.6 million), kitchenware (US$4.2 million), edible oils and margarine (US$1.2 million) and beer (US$2.8 million). The main informal, non-agricultural exports were limited to kitchenware, which has an insignificant value. Total value of trade in non-agricultural goods was US$31 million. Mozambique's overall informal exports and imports amounted to about US$31 million and US$51 million, respectively, with trade favoring Swaziland by about US$20 million.

In 1996, about 90 percent of the total value of trade (both formal and informal) between the two countries was unrecorded. Formal exports were less than one percent of informal exports and formal imports were about 20 percent of informal imports.

South Africa

South Africa was the most important trading partner of Mozambique after Swaziland. Trade in agricultural commodities moved in both directions but favored South Africa which exported goods worth US$18.8 million against imports valued at about US$1 million. Major informal imports of agricultural products into Mozambique included horticultural crops – vegetables, Irish potatoes and fruit – with a value of US$7.7 million, animal products – eggs and milk – valued at US$7.2 million and maize grain (US$1.4 million). There was considerable fluctuation in the volume of trade in agricultural commodities but there were no changes in the direction of trade.

Beer (US$3.7 million), vehicle and bicycle parts (US$1.4 million), building materials (US$1.3 million), and electrical and kitchenware (US$2.5 million) imports into Mozambique dominated trade in non-agricultural goods between the two countries. Insignificant quantities of clay and aluminum pots, wood and handicrafts were exported to South Africa. The total informal trade in non-agricultural commodities between the countries amounted to US$13.7 million, with imports from South Africa comprising US$13.3 million.

Overall informal imports and exports between the two countries amounted to about US$32 million and US$1 million, respectively, implying a negative trade balance for Mozambique. Based on 1996 official figures and border monitoring results, ICBT represented about 10 percent of the total (formal and informal) trade between these two countries.

Zimbabwe

As one moves from the south to the central region of Mozambique, a sharp decline in informal imports of agricultural goods is observed due to the relatively high potential in agricultural production in the central region compared with the southern region.

The major agricultural imports from Zimbabwe were eggs and milk (US$1 million), sugar (US$0.5 million) and fish (US$0.2 million). The main agricultural export to Zimbabwe was fish which has an insignificant value. The overall trade in agricultural commodities amounted to US$2.5 million with imports comprising US$2.4 million.

Trade in industrial products between the two countries was estimated at US$5.2 million with imports into Mozambique valued at US$4.9 million.

Major imports included beverages – beer and soft drinks – worth US$1.9 million, cigarettes (US$1.9 million) and textiles (US$0.7 million).

Unexpectedly, Mozambique imported large quantities of fish from Zimbabwe despite having a long coastline, with Sofala Bay being rich in fish resources. This has been attributed to the preoccupation of Mozambique with the exploitation of prawns for export. Poor infrastructure for preservation and domestic distribution were also constraints in the fish industry in Mozambique.

Overall informal trade between the two countries was approximated at US$7.7 million with imports into Mozambique accounting for US$7.3 million while exports comprised only US$0.4 million. This indicates a negative trade balance for Mozambique of US$6.9 million. Informal cross-border trade represented about 16 percent of the total value of trade between these two countries.

Malawi

Informal trade in agricultural goods with Malawi showed movement in both directions but trade favored Mozambique whose exports were estimated at more than US$1.2 million while its imports were valued at US$0.9 million. Major exports to Malawi were food grains – maize and beans – valued at US$0.8 million while imports involved small amounts of sugar, food grains and fruit.

Informal exports of maize grain from Mozambique to Malawi reflected Mozambique's comparative advantage in terms of production as determined by agro-climatic conditions. On the other hand, Malawi has comparative advantage in terms of storage and processing. Consequently, maize grain was being sold to Malawi immediately after harvesting but a small proportion of the same maize, in the form of both grain and flour, was re-imported into Mozambique in the pre-harvest period when maize stocks are exhausted. Although there was a high demand for food grains in the urban centers in the southern region, the supply from the northern region could not be effected due to transportation problems (availability, reliability and cost). The producers therefore found a foreign market (Malawi) to be more lucrative.

In regards to trade of non-agricultural goods, imports into Mozambique were largely soft drinks and beer (US$0.75 million), shoes (US$0.62 million) and vehicle and bicycle parts (US$0.16 million). Exports of non-agricultural goods were limited to vehicle and bicycle parts, electrical goods and wood, all in insignificant amounts. Except for wood, all these products were re-exports.

Informal trade between Mozambique and Malawi amounted to US$4.2 million with imports comprising 67 percent (US$2.8 million) of that trade. Overall informal trade balance favored Malawi by US$1.4 million. A comparative analysis of formal and informal trade shows that the latter represented about 26 percent of the total value of trade between these two countries, while informal exports comprised 54 percent of the total exports.

Zambia

Mozambique's trade with Zambia showed moderate informal imports of mangoes, meat, vegetables, shoes, electrical goods, vehicle and bicycle parts while informal exports to Zambia were limited to maize, seed and beans. Informal trade in agricultural products amounted to US$0.34 million with exports to Zambia comprising US$0.18 million of that trade. The value of non-agricultural goods was estimated at US$0.3 million out of which exports constituted US$0.04 million. The depressed trade with Zambia was due to the remoteness of the region neighboring Zambia, which has a small population.

Overall informal exports and imports were valued at over US$0.2 million and US$0.4 million, respectively, indicating a negative trade balance for Mozambique. Informal cross-border trade represented about 67 percent of the total value of trade between these two countries.

Tanzania

The scenario changes completely as one moves from southern to northern Mozambique regarding informal trade in agricultural commodities. Although food commodities moved in both directions, informal trade

in agricultural commodities was dominated by exports of prawns and fish (0.98 million), fruit and vegetable (US$0.46 million) and food grains (maize and beans) amounting to US$0.14 million), from Mozambique to Tanzania. Mozambique exported food products worth US$2.2 million while its imports were estimated at US$0.3 million.

The reasons for this scenario are the problems of road infrastructure on the Mozambican side compounded by the unreliable road and sea transport as well as the remoteness of major consumption centers in Mozambique with respect to agriculturally high potential areas in the northern parts of the country. These conditions entail high transportation costs.

Sugar and fish were the only food products exported from Tanzania to Mozambique, although in small quantities. Almost all the sugar exports from Tanzania to Mozambique are believed to have originated from Malawi. Other food imports comprised corn flour, rice and milk.

Trade in non-agricultural commodities between Mozambique and Tanzania was dominated by re-exports from a third country. Informal imports comprised shoes (US$1.7 million), electrical and kitchenware (US$1.3 million), and vehicle and bicycle parts (US$0.51 million). Others included textiles, cigarettes and soft drinks. On the other hand, the major non-agricultural exports to Tanzania were wood products. Informal trade in non-agricultural products was, however, in favor of Tanzania whose exports to Mozambique amounted to over US$4.3 million against imports valued at US$1 million.

Overall informal exports to Tanzania amounted to about US$2.95 million compared to imports valued at US$4.64 million. Informal cross-border trade represented about 65 percent of the total value of trade between these two countries.

In summary, the results show that Mozambique is dependent on her immediate neighbors for agricultural food products particularly in the southern part of the country. But as one moves to the northern region, there are decreasing imports of agricultural goods and increasing exports. It can be concluded that there was a predominance of imports of value-added goods into Mozambique, enormous imports of food commodities from the neighbors in the south and considerable exports of food commodities from the northern region to the neighbors. The total trade in agricultural commodities was estimated at over US$77 million with imports taking a larger proportion of about US$55 million. The value of informal trade in non-agricultural products was put at about US$58 million with imports comprising over US$43 million.

The total informal exports from Mozambique to all her immediate neighbors amounted to US$37 million while imports were valued at about US$98 million. The overall trade balance was thus negative for Mozambique by about US$61 million.

DETERMINANTS OF ICBT IN MOZAMBIQUE

A major feature of ICBT is that it is practiced by both small and large commercial traders, the latter usually capitalizing on the rent seeking habits of public officials in charge of immigration and customs at the border crossing points. The majority of the small ICBT practitioners were engaged in the business either because of the lack of a better alternative income source or were employed but needed additional income to push them through the hard economic times occasioned in part by the structural adjustment programs under the aegis of ERP. In spite of the steady recovery in many social and economic spheres following termination of the civil war in Mozambique, many people still remain vulnerable to poverty and food insecurity. Such people often end up engaging in petty trade in the urban centers or across the borders. These individuals are indeed indispensable to the growing number of consumers who satisfy their basic needs through the small packages brought closer to their homes by the informal traders. ICBT thus entails 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. This phenomenon is compounded in the northern provinces which lack adequate physical infrastructure and commercial networks. The active informal trade between these provinces and Malawi is, to a large extent, determined by these two factors as well as by the high demand for food commodities that now exists in that country.

Informal cross-border trade also reflects comparative advantage in terms of production, processing and storage of agricultural goods as well as in the industrial sector. The southern neighbors of Mozambique, namely, South Africa and Swaziland, have a comparative advantage in both agricultural and industrial manufacturing. These countries serve the food deficit region of southern Mozambique. In the northern region, Mozambique has a comparative advantage in maize production but not in 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.

Other factors influencing ICBT are high customs duties coupled with weaknesses in customs administration. The former results in widespread attempts to beat the system while 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.

Lastly, this form of trade 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.

CONTRIBUTIONS AND IMPLICATIONS OF ICBT IN MOZAMBIQUE

Food security: Informal cross-border trade 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 a combination of ICBT and informal internal trade) and provides accessibility to supplies by all consumers (by providing goods at lower prices or undertaking bulk breaking of food commodities into appropriate packages).

Employment, incomes and poverty alleviation: ICBT provides an opportunity for a large num ber of unemployed people to earn an income more than four times the minimum salary in the formal sector.

Complementing the commercial network and opening of new markets: ICBT fills the gap left after the destruction of the commercial network during the civil war and contributes to the opening of new markets for domestic products.

Customs and tax evasion: The total revenue forgone in the 12 months of border monitoring is estimated at about US$25 million, which does not mean, however, that informal traders obtain goods on a 'duty free basis,' since they are often charged unofficial rents.

Lack of transparency in trade operations: This is 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.

Violation of health, sanitary and environmental requirements: Uncontrolled trade in perishable goods and their mishandling by unqualified market intermediaries not only leads to loss in quality and

wastage but may also pose health risks to consumers. Some forest resources (such as wood, firewood and charcoal) were informally exported without control and concern about environmental consequences.

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:

Adverse effect on food security: The consequence may be inadequate and unstable food availability, thus denying access to the majority of consumers who cannot rely on the feeble formal sector.

A loss of an important source of employment and income: These may seriously affect those without formal employment and will aggravate the food insecurity situation.

Responsibility of food distribution left to a weak formal sector: This may lead to loss of new markets for domestic products.

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

(i) lead to a low rate of adherence to the payment of customs duties by informal traders (especially 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;

(ii) reinforce lack of transparency in trade operations by encouraging the charging of unofficial rents by customs officials and stimulating smuggling; and

(iii) 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, liberalization of ICBT should be effected by 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 especially if such policy actions are supported by improved infrastructure (particularly road networks) and availability of foreign exchange at the border posts.

The determination of appropriate levels of customs or tax rates applicable to informal traders should be a subject of a follow-up study. Such a study should ideally be comprehensive enough and be based on comparative analysis of tariff rates officially payable and the cost of evading such tariffs. Any proposed new tariff rates should be based on a cost-recovery principle. The adherence of informal traders to new rates and the attitude of customs officials should be carefully monitored.

Glossary of Acronyms and Abbreviations

BM	*Banco de Moçambique* (Central Bank)
CT	Consumer Tax
DPC	Data Programming Consultant
ERP	Economic Rehabilitation Program
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GoM	The Government of Mozambique
ICBT	Informal Cross-Border Trade
ICM	*Instituto de Cereais de Moçambique*
ICT	Industrial Contribution Tax
IMF	International Monetary Fund
INE	*Instituto Nacional de Estatística*
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

1. Introduction

BACKGROUND: ECONOMIC CRISIS AND STRUCTURAL ADJUSTMENT

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, destabilization effects of the civil 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 Programs (SAPS) in 1987 with the assistance of the International Monetary Fund (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. Other objectives of SAPS 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 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.

Box 1.1: The Economic Crisis in Mozambique Before the Introduction of SAPS in 1987

Major characteristics of the economic crisis of the early and mid-1980s included:

- a 30 percent 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 to the order of 163 percent in 1987;
- a fall in exports by nearly 75 percent between 1981 and 1986;
- flourishing parallel markets where consumer goods were sold at prices ten times higher than official markets;
- 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.

MAIN ADJUSTMENT MEASURES AND MACROECONOMIC DEVELOPMENTS

The main macro-economic measures undertaken are shown in Box 1.2. The impact of these measures was quite impressive during the first three years of the ERP but, at best, unstable in the subsequent period as shown in Chart 1.1 [2].

The encouraging results achieved at the beginning of the program were attributed to 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

[2] The figures used in the chart were sourced from the World Bank and the GoM´s Policy Framework Papers (except for 1994 and 1995 where *Instituto Nacional de Estatistica*, INE, figures were used with respect to actual GDP).

Box 1.2: Mozambique, Initial Adjustment Measures

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

- a gradual devaluation[3] 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.

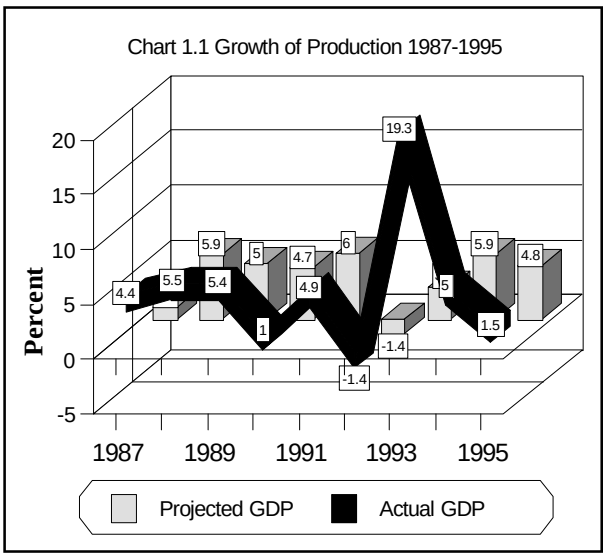
1991/92 and the worsening of the war in the period preceding the signing of the peace accord in late 1992. The main effect of these factors was an agricultural supply shock.

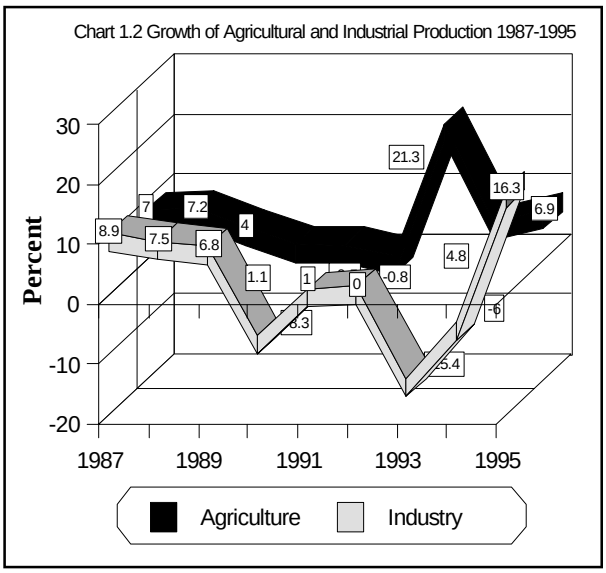
The real GDP growth rate of 19 percent achieved in 1993 reflected the end of the war, the resuming of agricultural production and rural trade and improved climatic conditions.

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 percent while industrial production declined to -15.4 percent. 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.





[3] Until 1989 accumulated devaluations were of the order of 1492 percent and were followed by successive low scale devaluations up to the present tendency for a more stable exchange rate.

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 in 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

Under this arrangement commercial banks were charged by BM for the total counterpart funds whenever import support funds were provided by the latter to the former and an import transaction was completed. The amount of counterpart funds charged was immediately transferred to the Treasury as a contribution to the state budget.

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 as percentage of GDP until 1990 but the trend was reversed afterwards, except in 1994 (due to special expenditures related to the peace process such as demobilization of soldiers, resettlement, etc.) The government deficit also increased until 1990 and fell thereafter except in 1994 for same reasons as mentioned with 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 percent of GDP in 1996).

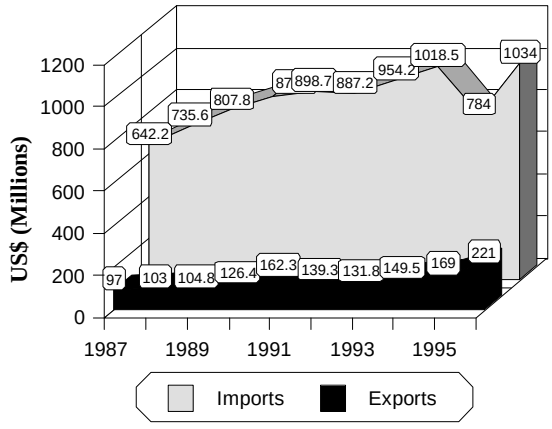
More recently, there were renewed hopes of macroeconomic stability, as inflation in 1996 was brought down from 54.1 percent in 1996 to 16.6 percent and the exchange rate of the Metical to the Dollar was quite stable.

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 percent 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 percent and decreased in 1992 to 21 percent followed by increases to 27 and 31 percent in 1993 and 1994 but decreased again in 1995 to 23 percent.

After independence (1975), the highest value for Mozambican exports recorded by official statistics,

Chart 1.3. Imports and Exports, Current Prices



was in 1981, totaling US$281 million. The lowest was in 1985 with only US$76.6 million.

The response of the external sector to ERP measures has been moderate to unsatisfactory. As Chart 1.3 shows, during the period between 1987 and 1996, Mozambican formal exports have represented, on average, less than 15 percent of imports. 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 US$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 Cabora 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 percent.

Internally, productive and commercial sector response to ERP measures 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 the 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. The 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 for 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.

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. [4]

Several measures for achieving the above objective are outlined in the Agrarian Policy Paper: promotion of a rational and efficient use of natural resources with the involvement of local authorities

[4] See 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.

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 under taken;
- 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.

and commu nities; 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 provide improved seed, agricultural inputs, agrarian extension and technical assistance; liberalization of agri cultural 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 informal cross-border trade (ICBT). However, it is likely that before the above policies and strategies show some impact on ICBT, the negative factors behind their adoption, and 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 polices 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 draft 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, 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 [5].

The absence of trade policies does not necessarily mean that the 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

[5] 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 a group of senior government officials were appointed to draft a new trade policy. The policy has been re-drafted but not yet approved.

regulatory requirements to operate trade enterprises, the creation of a government parastatal for grain marketing and the setting of pan-territorial prices.

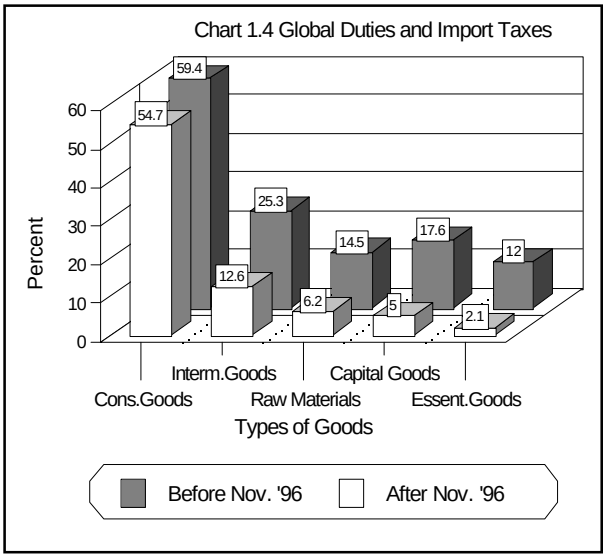
Legal and Regulatory Issues

Internal trade in Mozambique is regulated by Law No. 7/79 approved in 1979. This law was an attempt by the 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 to attain the 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.

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 requires time, money and paperwork. Furthermore, registration as an importer must be renewed every year, requiring further expenditures and paperwork.

A second barrier following the tight fiscal policy in the context of the ERP is the required payment of customs duties and taxes on imports which are viewed by small traders to be fairly high. The Government of



Mozambique has reduced the level of customs duties and taxes on imports from a global average level of 25 percent to 16 percent, 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.

Other taxes such as the industrial contribution tax (ICT) also create barriers for traders wishing to become import/export dealers. The amount payable under ICT by legal importers corresponds to 45 percent 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 is seen as 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 premits and acting as individual middle men. Informal traders are expected

to continue as such until formal trade takes over their activities. The government's attitude will continue ranging from tolerance (Ministry of Trade) to hostility (Customs) 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, which was initiated in May 1997 and will be 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 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.

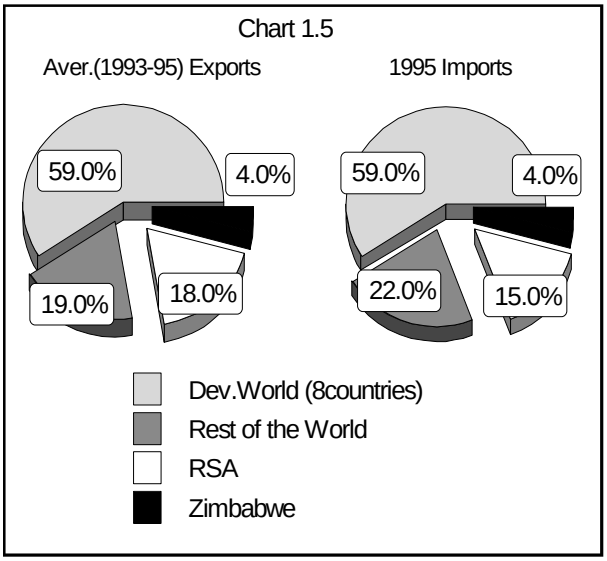
The control of internal grain marketing was undertaken through AGRICOM. This parastatal was created with the intention of dealing with grain marketing and supply of farm inputs at the wholesale level. It was equipped with storage facilities and a considerable fleet of transport. AGRICOM observed pan-territorial 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 years of the civil war, it soon began to operate at a loss. The only company only survived through Nordic aid and government 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; and, contributing to food security through adequate stock management and 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. Although AGRICOM's liabilities were written off, this has not helped ICM, which continues to face serious liquidity problems. The solution to this liquidity problem 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 has been made even worse by the government's minimum price policy, which was created to provide 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 1996, 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's needs, repaying it at the then interest rates (more than 40 percent) would have been 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 the local level.



JUSTIFICATION FOR SURVEYING INFORMAL CROSS-BORDER TRADE

The Problem

As in many countries in sub-Saharan Africa, more than 50 percent 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 in Chart 1.5, South Africa is the only neighboring country with a 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) [6].

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

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

Equally important are problems related to the medium of exchange used in formal trade between Mozambique and her neighbors. The imported inputs required by exporting industries demand 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 barriers to formal trade. In Mozambique, the existence of this trade is acknowledged but its magnitude and mode of functioning has never been documented. The lack of accurate knowledge about the magnitude of informal cross-border trade has resulted in 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, 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

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

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 raised 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;
- provide an overall assessment of the impact of informal cross-border trade on national food security; and
- recommend steps which should be taken to en hance trade between Mozambique and her neighbors .

2. Methodology[7]

DEFINITIONS

Informal Cross-Border Trade and Traded Commodities

The term informal cross-border trade in this study was applied mainly to unrecorded 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 balanced and insignificant barter system. The emphasis was on the term unrecorded in order to include goods that were under-invoiced and goods that were misdeclared without necessarily including clandestine operations involving sophisticated secret deals with 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 quantity but measured in value terms.

Informal Trade Participants

Individuals involved in the ICBT between Mozambique and her neighbors 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 people [8] as well as fairly organized specialists, running formal businesses 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 trucks drivers, cyclists, cart pushers, carriers of hand/head luggage,

[7] For details see Ackello-Ogutu, C. (1995) *Methodologies for Estimating Informal Cross-Border Trade in Eastern and Southern Africa.* SD Publication Series, Technical Paper No. 29, Office of Sustainable Development Bureau for Africa, USAID, 1995.

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

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.

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 elite groups 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 also an important source of information and, contrary to what could have been expected, most of them cooperated with the enumerators.

It was quite common to find the same person belonging to more than one group and there was a strong interaction among all the groups. In most cases, informal traders were not observable at the border sites but only the small middle men 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 was border monitoring (observation) supplemented by a one-time baseline survey.

The TechniqueFor Border Monitoring

After reconnaissance visits to border regions, it was found that ICBT in Mozambique, like in many African countries, was concentrated in and around established customs points in the vicinity of a number of border towns. Based on this fact, the border sites, shown in Table 2.1, were selected for regular border monitoring. These border sites are indicated on 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	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 sites exist along Mozambican borders, but reconnaissance visits and secondary information revealed that those selected were the most active ones. 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 percent 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 percent of the total volume of ICBT between Mozambique and her neighbors. The volume of ICBT to be presented later in this report refers to the visible trade only as recorded by the enumerators.

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 monitoring. [9]

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 value 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.

[9] 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.

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)	NOV (11)
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.

Table 2.3. Categories of People Interviewed											
Border Posts	**Nam**	**R.G.**	**Mach**	**Cuch**	**Zob**	**Cal**	**Dom**	**Cas**	**M.P**	**Lup**	**Total**
Informal 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

A time chart for border monitoring of two weeks randomly selected from each month for a total observation period of 12 months, is as shown in Table 2.2. [10]

This method allowed for the derivation of the monthly volume of trade by dividing the total volume of trade for the two weeks by 14 and multiplying by 30.[11] The annual volume of trade was derived by adding the monthly estimates.

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 with the distribution shown in Table 2.3 were interviewed.

[10] 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.

[11] 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.

3. Profile of Informal Traders and General Impressions

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 the 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.

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

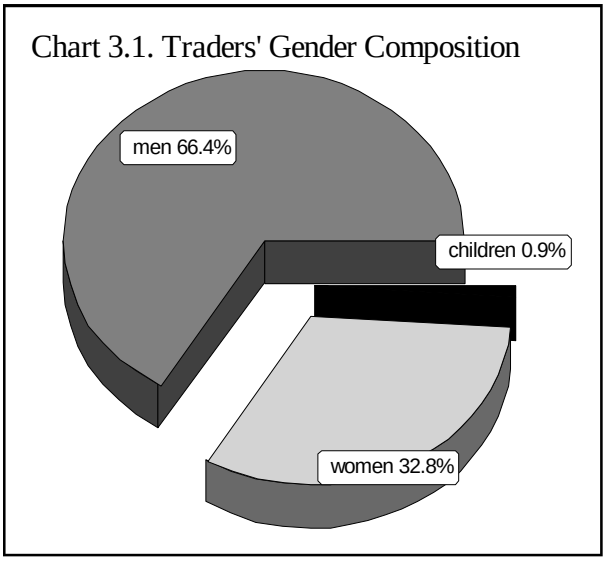
GENERAL CHARACTERISTICS OF INFORMAL TRADERS

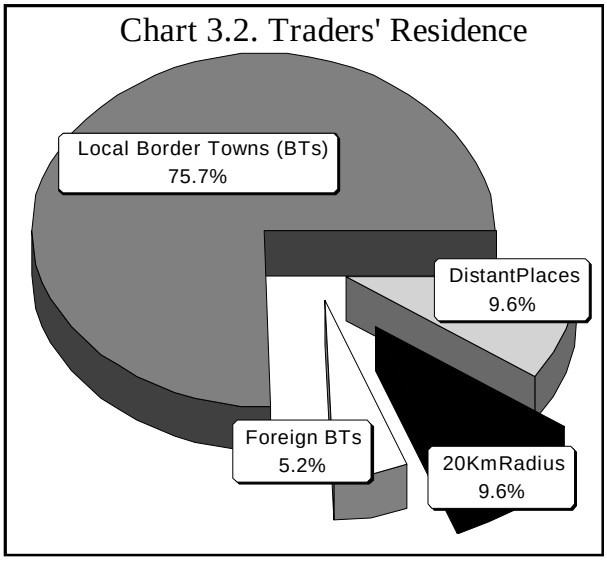
The results of border monitoring and a baseline survey show that there were not only many similarities but also some differences in the characteristics of informal traders along the Mozambican borders. The similarities included gender composition of the traders, distance from places of residence to the border posts and literacy levels.

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

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. Namaacha (border with Swaziland) was the only place where ICBT was dominated by women. Women's participation in ICBT was also considerable at Cassacatiza (border between Mozambique and Zambia) as well as Mozambique-Zimbabwe border but in both cases, their participation did not exceed that of men. Women appeared to involve their children below the age of 16 years, particularly at the Cuchamano border with Zimbabwe.

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





Most (over 86 percent) of respondents were literate. To address the literacy issue without offending the respondents, traders were asked whether they were able to write their own letters by themselves. Only 8 percent gave a negative answer to this question and about 6 percent 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 businesses were registered, about a half (53 percent) of the traders gave a positive reply. Of this, the majority (76 percent) stated that they registered their businesses after the peace agreement was signed in 1992. About 20 percent did so before the introduction of the Economic Rehabilitation Programme (ERP) in 1977. Some of them understood registration to mean the daily payment of a symbolic toll at market places. Of those who were not registered, most (67 percent) replied that their trading activities were too small to be registered. About 10 percent of unregistered group explicitly mentioned complicated registration procedures as a reason for their involvement in the informal cross-border trade.

Many traders got involved in informal cross-border trading activities as a response to unemployment occasioned by the shrinking formal sector. The restructuring of the economy meant that some workers were to be retrenched. More than 50 percent of respondents had either been self-employed, government employees or were employees of the private sector.

TRADER CHARACTERISTICS BY CATEGORY AND SIZE

Another common characteristic of informal cross-border traders was that more than one-half (about 55 percent) had only invested a small amount of money (not exceeding US$50) as initial capital in the activity. Traders who had made an initial investment of between US$50 and US$100 and those who had invested more than US$100, each comprised less than 25 percent of the sample. Chart 3.3 provides the percentage distribution of respondents according to the levels of capital invested in the activity.

Informal credit sources, consisting of relatives and friends, were important sources of initial funding, having been mentioned by 24 percent of respondents. Other important sources of initial funds included household income from agriculture, petty trade and/or working in either the formal or informal sector.

About 57 percent 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."

Traders were categorized into wholesalers, retailers, wholesalers cum retailers and hawkers. The predominant category was that of retailers constituting about 59 percent of the sample, followed by hawkers (23 percent). Chart 3.4 shows the percentage

Chart 3.3. Traders' Initial Capital

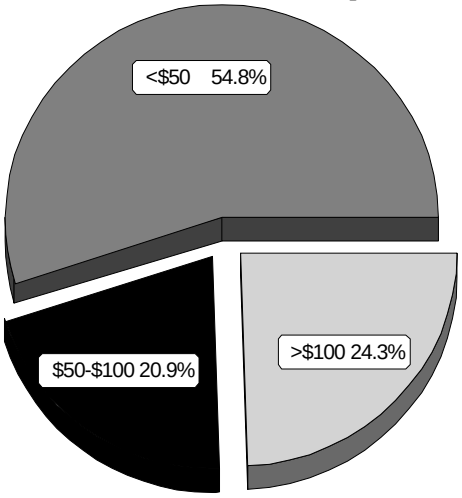
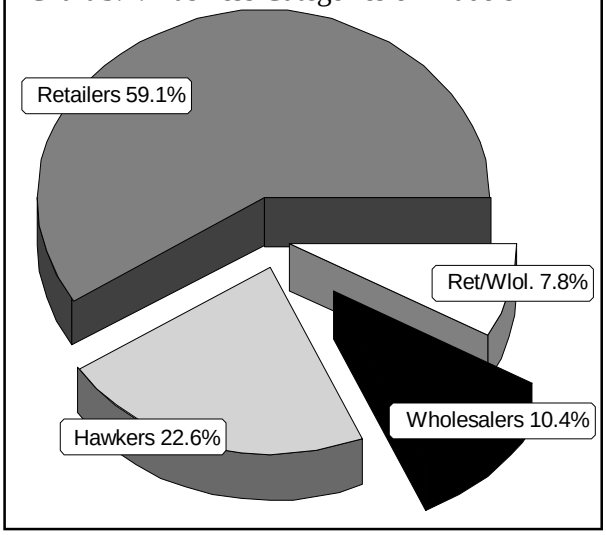


Chart 3.4. Business Categories of Traders



Box 3.1. Who is the trader?

During border monitoring, it was not easy to differentiate between the actual traders (those who own the goods) and non-traders (those hired as couriers). More often, residents of border areas are used as transporters by those actually involved in informal cross-border trade. Owners of goods only appear when confiscation of their merchandise by the customs officials is imminent .

distribution of traders by business categories. Some informal traders often changed categories depending on the prevailing market conditions at any given time.

Some bigger informal traders used smaller ones as agents and transporters. The general strategy was to hire several people (including children) to transport the goods across the border and return with small quantities of other product(s). This strategy aimed to: divert the attention of customs officials; benefit from customs officials' administrative discretion in judging the quantities of goods not subject to the payment of customs duties; and, at times, benefit from small traders' familiarity with informal crossing points in the vicinity of border posts. The latter service was in high demand in days of tight customs control. As a result, small quantities of goods, seen at the border posts were simply part of a larger consignment ordered by fairly large (in)formal traders who might not be residents of the border town. The same method was used by informal traders running small informal shops particularly those selling beverages and foodstuffs to passers-by. At active border sites, these types of informal shops (kiosks) mushroomed rapidly after the war.

The traders' business size was influenced by various factors among them the entry requirements in a partner trading country, the degree of import/export controls, distances to the trading centers and the type of transport used. 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 were often used as agents or couriers by larger traders in Namaacha but were rarely seen at Ressano Garcia. Most of the 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, either owned or hired by the informal traders.

Traders dealt with small quantities of items when crossing the border to evade payment of customs duties and to minimize losses in case of confiscation. Other than being a cost/risk minimization strategy, small quantities also eased problems of transportation and storage. Goods were meant for immediate delivery to the customers (who often had either ordered them or had a long established business relationship with the informal trader). Prompt delivery 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 rudimentary structures 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 have been to cross the border with small quantities of only one type of the 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. The results are presented in Table 3.1. Not surprisingly, the table shows that selling prices were higher than buying prices and that makes it clear that informal traders are profit oriented.

Baseline survey results revealed that some informal traders, particularly those at the border with Swaziland, South Africa, and Zimbabwe, were fairly specialized in commodities that were being sold by

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	113,380.50	36
Average Mark-up			33

Source: Compiled and calculated from questionnaire responses

grocery stores. For example, informal traders specialized in a combination of the following goods: maize flour/sugar/rice; beer/sodas/wines; or potatoes/onions/ tomatoes. This behavior was also found at Zobue and Mandimba (borders with Malawi).

It is likely that informal traders specialized in a particular commodity or a combination of commodities depending on the destination of goods. For instance, if goods were for urban consumption, they would be specifically ordered by a retailer and the informal trader would be an informal wholesaler, agent, and trans porter. On the other hand, if goods were meant for household consumption and the informal trader was one of the consumers, the 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 nonexisting commercial network.

In summary, a common feature among most of the informal traders was to deal with a few commodities each time. The aim was to avoid the payment of customs duties and to reduce transport and storage costs. The types of goods varied according to their destination, whether they were for resale in inland towns or meant for immediate consumption.

COMPOSITION OF GOODS TRADED

The main products informally imported into or exported from Mozambique through the most active border sites are summarized in Table 3.2. The table shows that ICBT was principally concentrated in food products of agricultural origin. Maize grain and flour were the most commonly traded food products across all the different regions of Mozambique. Other commonly traded products were beverages and sugar.

MARKETING CHANNELS

Suppliers of goods informally imported into 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) and 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.

Table 3.2. Main Commodities Traded by Border Site									
MOZAMB	SWAZI-LAND	ZIMBABWE		MALAWI			RSA	TAN-ZANIA	ZAMBIA
	Nama-acha	Machi-panda	Cuche-mano	Zobue	Calo-mue	Domue	Ressano Garcia	M. da Praia	Cassa-catiza
IMPORTS	Maize flour Sugar Peanuts Meat Beer/ Sodas	Eggs Milk Sugar Fish Beer/ Sodas Fabrics Ciga-rettes	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 potatoes Onions Vege-tables Beer/ Sodas	Shoes Sugar Textiles/ cloth Elect-ronics Bikes	Fruit Meat Sodas Cigarettes Vege-tables Shoes
EXPORTS	Wood Fish/ Prawns 2hand clothing Alum. pots	Female Cloth Wood Wines	Char-coal Dried fish Fire-wood Maize	Dried fish Salt Soap	Maize Beans Irish potatoes Vege-tables Fruit	Maize Beans Salt Vege-tables	Clay/ Alum. pots Female cloths Handi-crafts	Prawns Fish Sea cucumber Shells Vege-tables Fruit	Maize grain Seeds Salt Handi-crafts Wines

Source: Compiled from questionnaire responses.

The link between informal traders importing commodities and the 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 contractual agreements between informal importers on the one hand and the formal retailers and restaurants from major towns on the other hand for a regular supply of consumer goods, including sugar, flour, peanuts, beer, soda and toiletries.

Direct sales by informal importers to consumers generally took place when wholesalers and retailers were either not available or were unwilling to purchase the goods from informal importers. Informal importers and informal wholesalers often stated that the goods were on order 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 timetable. 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.

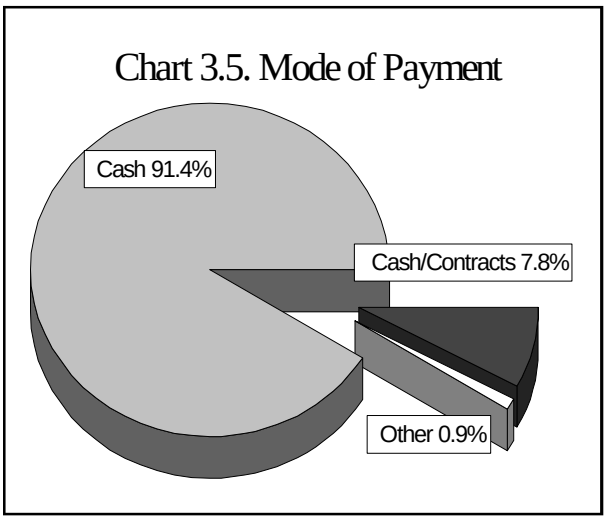
Suppliers of goods informally exported to neighboring countries included farmers fishermen and artisans. Almost all informal exports of agricultural goods

took place at the borders with Malawi, Zambia and Tanzania. In cases where the market places were located at short distances from the border posts (as was the case along the border with Malawi and Zambia), farmers seemed to directly export their surplus production without participation of middle men. In case of considerable distances (such as to the border with Tanzania) a division of labor between producers, traders and transporters occurred. Generally, exporters who purchased 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.

MARKETING FUNCTIONS

The main marketing functions undertaken by informal traders included:

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



Exchange Functions

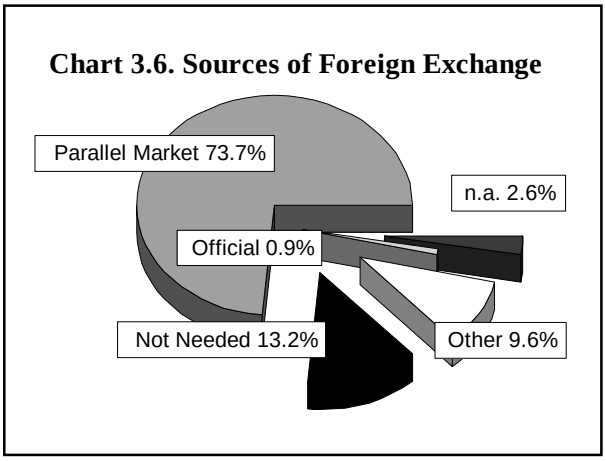
Most informal traders were actively involved in exchange functions consisting of buying and selling of commodities. These functions involved finding or being a supplier, finding a buyer and transferring the ownership of commodities. It was a stage of addressing possession dimensions and creating possession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

Transactions were carried out mainly on a cash basis. This was true with respect to about 91 percent of respondents, as shown in Chart 3.5. Contractual arrangements and use of credit were hampered 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. A combination of cash and credit arrangements was used to a limited extent. Suppliers of agricultural goods in South Africa discouraged the use of credit by charging informal traders exploitative interest rates.

However, 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 electric wires), for household plastic goods such as buckets and basins. There was no evidence of similar operations at the other borders. Barter transactions accounted for 'other' modes of payment and, as shown in Chart 3.5, were quite insignificant.

In general, the currencies used in informal import-export transactions between Mozambique and her neighbors were the currencies of the neighboring trading partners. A few exceptions included 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 percent) of the traders obtained foreign exchange from the parallel market. Foreign currency was readily available at every active border posts. 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 counterfeit 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 traders to formal organizations to which they were averse. Farmers involved in the export trade 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. Hard currency could be obtained at any border provided one had 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 market 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.

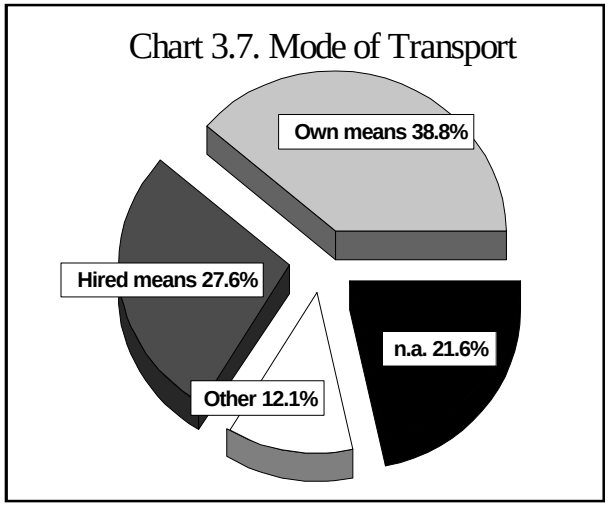
In the vicinity of large towns like Maputo with a high number of people holding foreign currency (for example workers from international organizations, immigrants and their relatives, and informal traders), there was slight appreciation of the Metical during the weekends compared to the early parts of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

Physical Functions

Suppliers and consumers of goods in the ICBT sector were separated by distance and time (documentation and in most cases visa requirements). Therefore, physical functions addressing spatial and time dimensions had to be undertaken solving the question of "where" and "when" in the marketing process. Transportation determines the issue of "where to buy and where to sell" while storage determines the issue of "when to sell."

Transportation

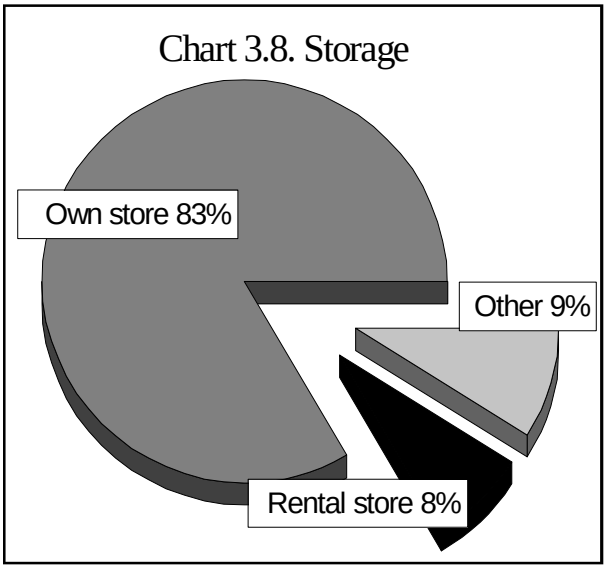
About 39 percent of traders (Chart 3.7) claimed to have their own means of transporting goods across the border which included mainly head/hand, bicycles and carts. The mode of transport depended on volume of commodities and distances of haulage. As previously mentioned, head, hand and bicycle transportation 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 with Zimbabwe at Cuchamano. 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 in no-man's land. Afterwards, the same or another group of informal traders crossed the border several times with small quantities of goods. Goods were re-assembled and transported again further inland using hired vehicles. Economies of scale were realized through group hire of transport means.

Many informal traders also used their colleagues as agents and/or as transporters. The general strategy was to hire or use several people to ferry goods across the border and return with small quantities of other 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. Informal traders hired border residents and thus exploited their familiarity with the border environment as well as their friendly ties with border officials and knowledge of informal routes in the vicinity of border posts. In general, the use of informal agents/transporters entailed lower transaction costs compared to the level of customs duties avoided. A good example is a case of beer containing 24 tins which could be head/bicycle transported at a rate of less than US$1. Whereas, such a case would attract US$7 to 10 in the form of customs duties and taxes. Many informal traders observed that when nabbed, they pay a maximum of 50 percent of official customs duties and taxes in the form of unofficial rents to customs and security officials.



The method of transporting small quantities of goods across the border was meant to avoid tariff barriers. Usually, the small quantities of goods formed part of a larger consignment to be assembled elsewhere. As a result, the number of people transporting goods across the border was larger than the number of traders.

Storage

Storage function was undertaken 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 deliberately search for price opportunities. Most (83 percent) 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 facilities in question were, in most cases, very rudimentary houses used for diverse purposes.

Bulk Breaking

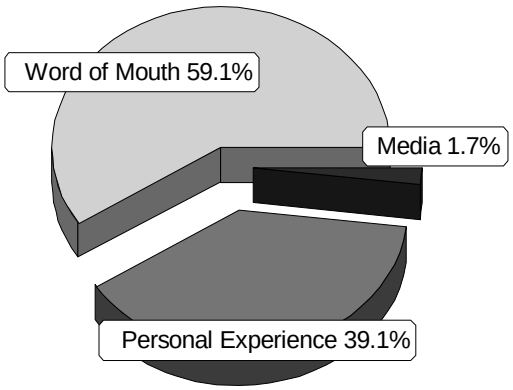
The other important physical function undertaken by informal traders was bulk breaking of merchandise. Bulk breaking served the purpose of matching the purchasing power of poor consumers by making goods available in affordable quantities. Many informal market places in Mozambique exhibited goods in non-standard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

Facilitating Functions

Risk Bearing

Informal traders faced a number of risks. The first risk relates to the possibility of having goods confiscated. The second risk was concerned with increased tax barriers against their activity (following revenue

Chart 3.9. Sources of Business Information



maximization strategies pursued by the customs authorities). The third risk relates to police harassment and payment of unofficial charges in the form of unofficial rents to the public officials. Lastly, the possibility of rejecting goods on price and quality grounds posed a major risk. These risks were minimized through the following ways: dealing with small quantities; the use of border residents as couriers, establishing verbal arrangements and secret deals with customs officials; and having long lasting relations with customers.

Information Generation and Dissemination

In general, informal traders were price takers. There was no indication of organizations within the groups of informal traders capable of negotiating prices. Most (59 percent) 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 3.9 shows, a number of traders (39 percent) also mentioned that they use their personal experience to select what to buy and sell. Quite often, goods were imported or exported by informal traders at customers' request.

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 of costs incurred on trade transactions was compiled and is shown in Table 3.3. It is clear from the table that the lowest costs were related to storage and housing while the highest quantifiable costs were related to food and transport.

Table 3.3. Annual Costs of Trade Transactions

Type of Expense	Percentage of Traders by Average Annual Cost		
	<US$150	US$150 to US$300	>US$300
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

Table 3.4 Estimates of Informal Traders' Average Revenues

Period	Average Value of Imports (Meticais)	Estim.Revenue w/33% Mark-up (Meticais)	Periodic Margin (Meticais)
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.

There were also costs that could not be easily quantified. Most of these costs were associated with the risks of conducting business informally. Such risks have already been addressed under a section on facilitating functions.

By asking informal traders about the average value of their imports and by applying the 33 percent mark-up (drawn from the Table 3.3), it was possible to estimate the average annual revenues accrued by informal traders, as Table 3.4 reveals.

With the minimum monthly salary earned in the formal sector being 316,000 Mt, it could be inferred from Table 3.4 that the average monthly revenue of an informal trader was more than four times higher than that of those working in the formal sector and earning the minimum salary. With the cost of a basket of essential goods to cover the monthly needs of a five person Mozambican family being estimated by unions at 750,000 Mt (about US$67), it can be concluded that informal traders were being able to meet their basic needs while people employed in the formal sector and earning salaries in the vicinity of the minimum salary were not.

INTERVENTIONS REQUIRED BY INFORMAL TRADERS

When asked about the type of assistance they would like to receive from the government, most of the traders interviewed mentioned foreign exchange (45 percent) and transport availability (22 percent). About 21 percent of traders referred to diverse needs, including access to credit, low customs duties, more employment opportunities, improved market facilities, reduced 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 percent), parastatals (1.0 percent) and other institutions, were interviewed to obtain their views on the ongoing ICBT between Mozambique and her neighbors. Most of the officials interviewed were involved in the provision of security (46 percent), facilitation of cross-border trade (20 percent) and other activities such as ensuring revenue collection. As Chart 3.10 shows, most (79

Chart 3.10. Officials' views on ICBT (it should be..)

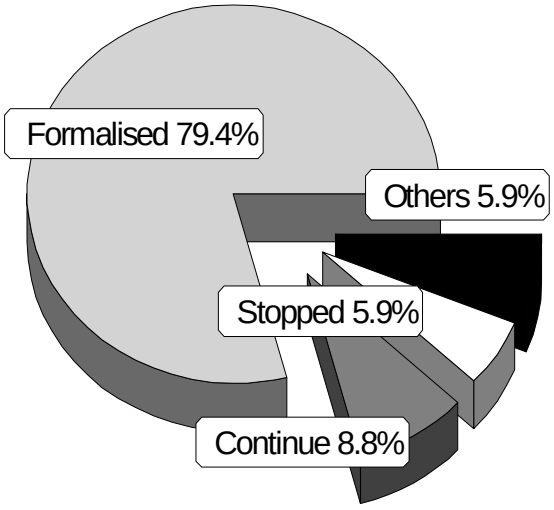


Chart 3.11. Implications of ICBT

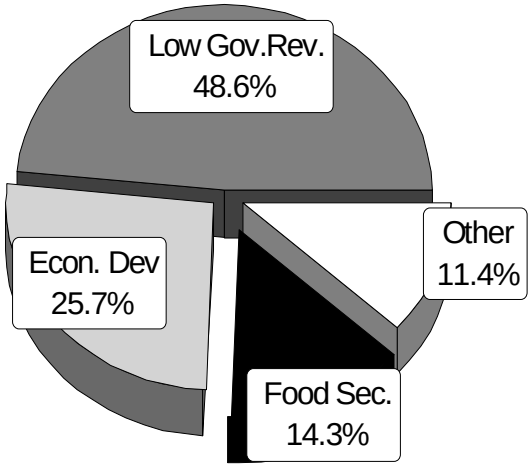


Chart 3.12. Priorities of Public Institutions

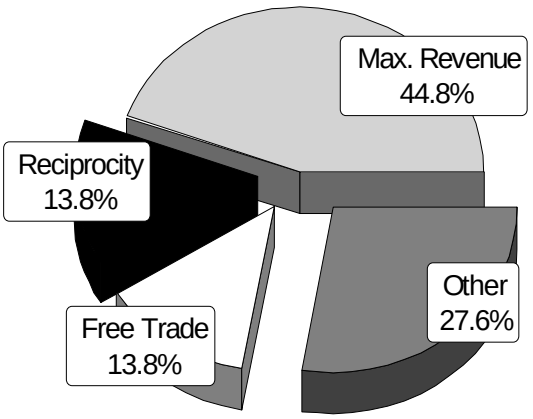
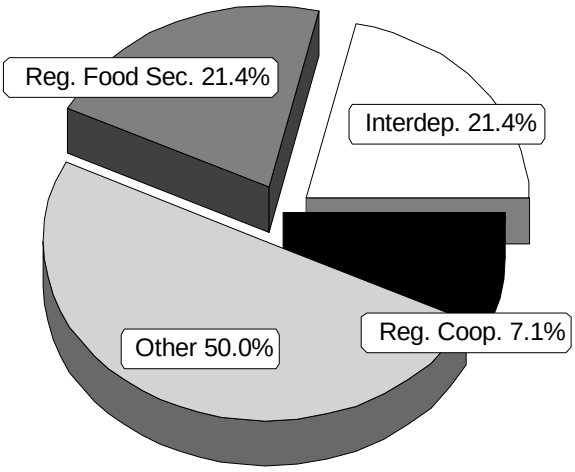


Chart 3.13. Econ. & Polit. Implic. of ICBT



percent) of the public officials interviewed were of the opinion that ICBT should be formalized, meaning transform ICBT into a registered activities. Only 6 percent of the respondents were of the opinion that ICBT should be stopped whereas 9 percent were of the opinion that ICBT should continue as at present.

When asked about the implications of ICBT, about 49 percent of the officials answered that it (ICBT) contributed to a low rate of revenue collection by Customs authorities and, about 26 percent were of the opinion that ICBT was retarding economic development. Only about 14 percent felt that ICBT had a stabilizing effect on food security. Others (about 11 percent) were of the opinion that it provided employ ment and 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. About 45 percent of the respondents mentioned maximization of revenue collection and 28 percent referred to a number of issues, including patrolling the movement of people and goods and selecting places to be used by informal traders as market places. Issues such as promotion of free trade and policy reciprocity seemed to be receiving low priority. Chart 3.11 shows public officials' view on the implications of ICBT while Chart 3.12 shows priorities set by the public institutions.

Most (66 percent) of public officials interviewed felt that ICBT activities in Mozambique have increased relative to the 1980s. Whereas, 14 percent were of the opinion that it was declining. The view that ICBT has increased makes sense as the end of the war and the strengthening of political and economic reforms had a positive influence on the movement of both people and goods. The officials presented several views on the problems being faced by formal traders. These are: unfair competition (34 percent) posed by informal traders; high tariff and non-tariff barriers to trade (20 percent); and other issues (20 percent) such as lack of liquidity and high transport costs. Their 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 reasons being: the use of informal routes by informal traders (34 percent); poor customs' administration (17 percent); and luck of trained and trustworthy personnel (17 percent).

As Chart 3.13 shows, there were several views among public officials on the political and economic implications of ICBT. Some felt that ICBT contributes to improved regional food security while others thought that ICBT demonstrates the interdependence of states. Others believed that it was a form of economic cooperation. About 50 percent of the sample observed that ICBT has a positive impact on employment while at the same time having a negative impact on formal trade and state revenues.

About half (49 percent) of the officials considered prospects for trade expansion with neighboring

countries to be bleak. While 23 percent felt that the 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 expands.

4. Border Monitoring Results

OVERVIEW

This chapter covers border monitoring results for the period December 1995 to November 1996 [12]. It provides estimates of unrecorded cross-border trade between Mozambique and her neighbors in both quantity and value terms.

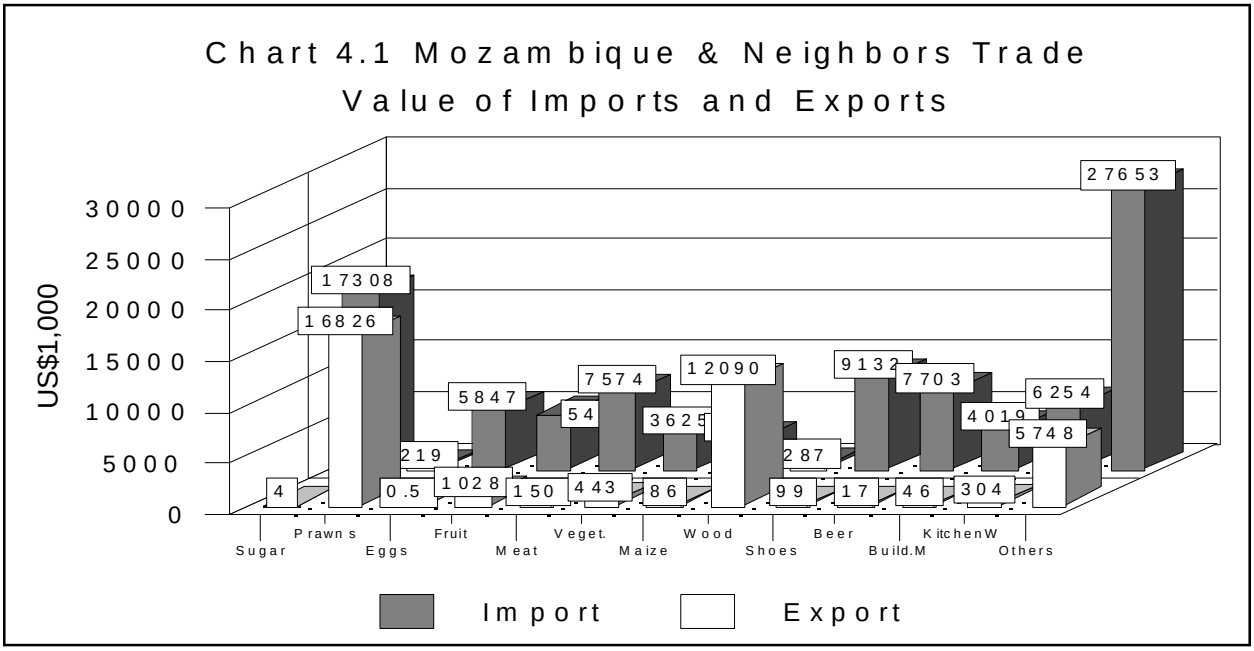
The valuation of commodities was based on prices collected at border sites, i.e., the prices paid by informal traders to import goods or prices received by informal traders when exporting goods at selected border sites. Prices of the most frequently traded goods, identified after the initial months of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

In the following sections, imports refer to the movement of commodities into Mozambique while exports refer to the movement of goods from Mozambique to the neighboring trading partners. On the other hand, the total value of trade is the sum of the value of both formal and informal trade. The reference year for formal trade data used in comparisons with informal trade was 1996.

Data on the value of informal imports and exports shown in Chart 4.1 confirm that Mozambique is a net informal importer of both agricultural and non-agricultural goods. The chart also shows that a significant volume of informal trade between Mozambique and her neighboring countries was concentrated on agricultural food commodities.

The magnitude and direction of trade between Mozambique and her immediate neighbors was not uniform. This was due to the considerable differences in agro-climatic conditions between the south and the north of Mozambique. It was also as a result of

[12] 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.



differences in comparative advantage dictated by the level of production, commercialization, storage and processing of food as well as differences in industrial capacity and infrastructural development.

In the following section, estimates of the magnitude of informal trade between Mozambique and her neighbors are presented showing ICBT balances as well as giving a comparison between formal and informal trade.

Estimates of Informal Trade by Trading Partner

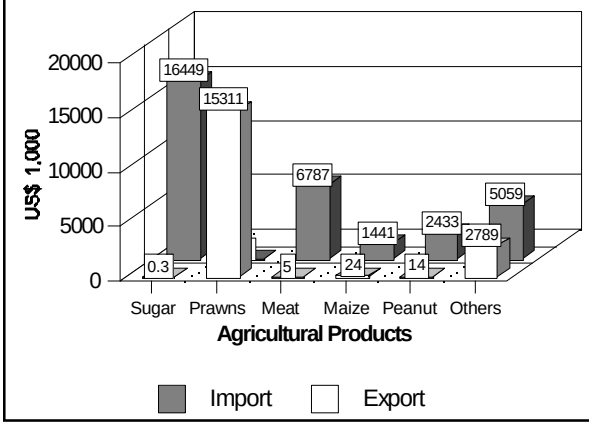
Swaziland

Agricultural Products

During the period of border monitoring, Swaziland was the main informal cross-border trading partner of Mozambique with respect to agricultural products. Informal trade was dominated by imports of sugar, meat, peanuts and maize into Mozambique and exports of prawns[13] and fish to Swaziland as shown in Chart 4.2.

The flow of sugar from Swaziland into Mozambique reflects the fact that the Mozambican sugar industry cannot meet local demands. 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 is produced at a surplus by a relatively modern sector. The high demand for sugar in Mozambique emanates from consumers in and outside of Maputo as well as 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.

Chart 4.2 Mozambique/Swaziland Trade
Value of Agricultural Products, 1995/96



For similar reasons (mainly war), Mozambique produces much less meat than Swaziland. As a result, trade in meat was in the direction of Mozambique, where the demand is quite high, especially in large urban centers like Maputo which is only 78 km from the border with Swaziland. The infrastructure for meat conservation and sale (cold storage facilities and butcheries) established in Swaziland along its border with Mozambique reveals a deliberate intention to target consumers in Mozambique. Vehicles with detachable chairs to hide large quantities of meat and other products were readily available for hire around butcheries in Swaziland.

Peanuts are in high demand in southern Mozambique for their use at household level as ingredients in 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 condition of the southern region of Mozambique, which is unsuitable for cultivation of peanuts. The north of Mozambique is much better endowed in terms of agro-climatic conditions and, as a result, produces peanuts at a surplus. High internal transport costs (resulting from huge distances and poor infrastructure), however, 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

[13] Refrigerated trucks with large quantities of prawns were seen during certain months of 1996, crossing the border without declaring their cargo to custom officials. This cargo was also considered as un-recorded trade.

imports from Swaziland took place in the months of February, March and April 1996. This is the middle of the period preceding the maize harvesting season in the central and northern part 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 into 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 the major agricultural commodities informally traded and trade seasonality between Mozambique and her trading partners are shown in appendixes 1, 2 and 3. There were considerable fluctuations in the volume of trade but no changes of direction were registered. The reasons for fluctuation could not be explored in depth but one can presume that it is due to the influence of the agricultural calendar and the variability in the success of restrictions imposed by the 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 moving 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. These consignments were transported in huge trucks that did not stop at the Mozambican side of the border to declare their content and were thus entered in our books as unrecorded exports. Apart from wood, exports of other non-agricultural goods from Mozambique to Swaziland were dominated by handicrafts and women's clothing (Capulanas).

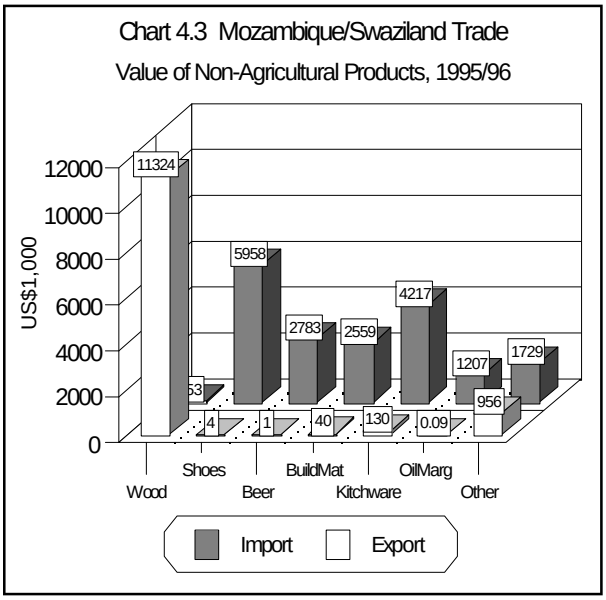


Chart 4.3 reflects differences in industrial and commercial capacity between the two countries, with comparative advantage being in favor of Swaziland. Substantial amounts of non-agricultural goods informally imported from Swaziland were simply re-exports originating from South Africa and other countries.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

Balance of Informal Trade between Mozambique and Swaziland

The balance of trade favored Swaziland with respect to both agricultural and non-agricultural goods as shown in the following Table 4.1, covering the period from December 1995 to November 1996.

Comparison of Formal and Informal Trade Values

Table 4.2 gives a comparison of the official data [14] covering a period of twelve months (January to December 1996), with the ICBT data for the period December 1995 to November 1996.

About 90 percent of the total trade (formal and informal) was informal. Formal exports were less than one percent of informal exports and formal imports were about 20 percent of informal imports.

[14] Official figures pertaining to 1996 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 months figures on formal trade for comparison with twelve months border monitoring results.

Table 4.1. Balance of Informal Trade Between Mozambique and Swaziland (Thousand US$)

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

Table 4.2. Comparison of Formal and Informal Trade with Swaziland (Thousand US$)

Type of Activity	Formal Trade 1996	Informal Trade 1995/96	Total Trade	Share of Informal Trade
Exports to Swaziland	103	30,599	30,702	99.66 percent
Imports from Swaziland	10,000	50,689	60,689	83.52 percent
Total	10,103	81,288	91,391	88.95 percent

Facilitation of movement of people along the border, for example allowing them to cross the border four times a week and removal of visa requirements, might have contributed to the predominance of informal trade as compared to formal trade at the border with Swaziland.

The share of informal trade could have been larger if one takes the following into consideration: (i) for financial and safety reasons, border monitoring was conducted at one (official) crossing point only (Namaacha), during the day time; and (ii) 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 percent of informal cross-border trade between Mozambique and Swaziland.

South Africa

Agricultural Products

After Swaziland, South Africa was the second largest informal cross-border trading partner of Mozambique in agricultural products. Informal trade in these products was dominated by imports of eggs, vegetables, potatoes, fruit and other products, including cereals. The informal trade in agricultural goods covering a period of twelve months between Mozambique and South Africa is shown in Chart 4.4.

Imports of eggs, vegetables, Irish potatoes, fruit and milk from South Africa ended up with restaurants and retailers from large market places of downtown Maputo. While these products are also produced in Mozambique, South Africa has a comparative advantage due to her advanced technology in production implying higher output and low costs of production. In recent years, Mozambican vegetable producers, particularly those from the Maputo province, discovered that it was cheaper to import vegetables from

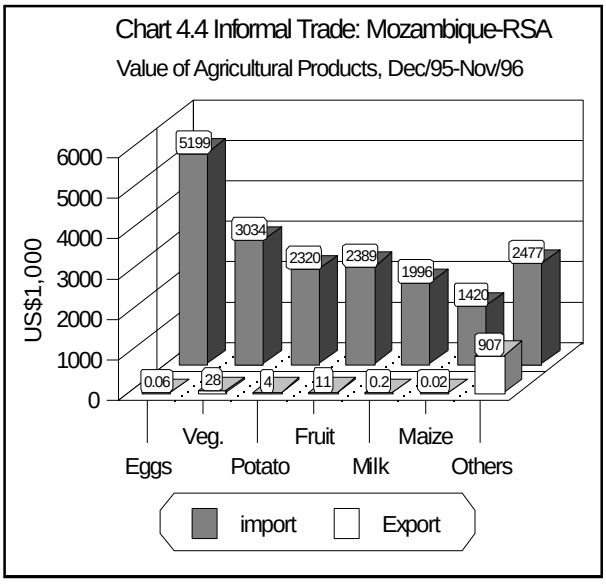


Table 4.3. Balance of Informal Trade Between Mozambique and South Africa (Thousand US$)

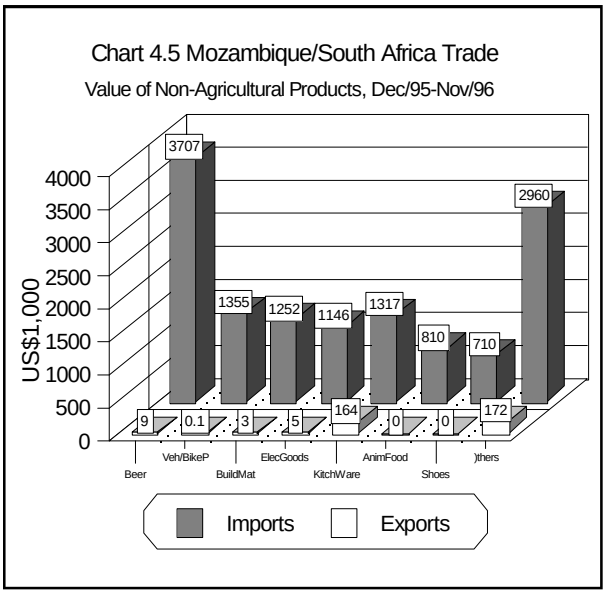
Type of Commodity	Exports to South Africa	Imports from South Africa	Trade Balance
Agricultural Goods	951	18 ,835	-17,884
Non-Agricultural Goods	352	13 ,257	-12,905
Total	1,303	32, 092	-30,789

South Africa rather than producing them locally. Vegetable production in Mozambique is constrained by high costs of credit, supply instability and high costs of agricultural inputs.

Despite its high bulk to value ratio, maize flour was one of the main food products informally imported from South Africa in large quantities (more than 4,000 tons in 12 months). Just like the informal cross-border trade along 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 harvesting begins in the central and northern regions of Mozambique towards the end of April, many informal traders switch from cross-border trade to informal internal trade.

Non-Agricultural Products

Similar to Swaziland, ICBT between Mozambique and South Africa was dominated by 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 feeds 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 were clay and aluminum pots (artisan-made), female clothing, wood and handicrafts.

Chart 4.5 reflects the large differences between South Africa and Mozambique in terms of industrialization and South Africa's commercial network. Southern Mozambique is largely dependent on South Africa.

Balance of Informal Trade between Mozambique and South Africa

The dependence of Mozambique on South Africa regarding both agricultural and non-agricultural goods is demonstrated by Table 4.3.

Table 4.3 shows a positive informal trade balance in favor of South Africa by approximately US$31 million. This trade balance is to a large extent explained by the huge differences between Mozambique and South Africa in terms of levels of agricultural and non-agricultural production as well as poor infrastructure in Mozambique which hampers the movement of agricultural goods from the north, where there is a surplus, to the south, where there is a deficit.

A Comparison of Formal and Informal Trade Values

Although the value of ICBT between Mozambique and South Africa was substantial (about US$33 million), it represented a smaller share in the total (formal and

Table 4.4. Comparison of Formal and Informal Trade with South Africa (Thousand US$)

Type of Activity	Formal Trade 1996	Informal Trade 1995/96	Total Trade	Share of Informal Trade
Exports to South Africa	43,800	1,303	45,103	2.89 percent
Imports from South Africa	255,000	32,092	287,092	11.18 percent
Total	298,800	33,395	332,195	10.05 percent

informal) trade between these two countries. As Table 4.4 shows, of the total trade with South Africa, at least 10 percent of it was unrecorded. This percentage is even smaller as far as total exports are concerned (about 3 percent) and a little higher with respect to total imports (about 11 percent).

A major reason for a smaller share of ICBT with regard to the total trade between Mozambique and South Africa, as compared to trade with Swaziland, was the fact that substantial formal trade takes place between Mozambique and South Africa as 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). But after many protests, it is now payable in South African currency (ZAR 140).

Zimbabwe

Agricultural Products

As one moves from the south to the central region of Mozambique, a sharp decline in informal imports of agricultural products is observed. This was the case at the Mozambique-Zimbabwe border. It is only at the Machipanda border post where a relatively larger proportion of imports of agricultural goods from Zimbabwe entered Mozambique, whereas the other border area (Cuchamano) handled a relatively smaller proportion of imports. But the volume of trade through this border with Zimbabwe was much lower compared with the volume passing through the border between Mozambique and Swaziland and the border with South Africa in the south. This difference is due to relatively high potential in agricultural production in the central region compared with the southern region.

Chart 4.6 shows the value of ICBT in agricultural commodities between Mozambique and Zimbabwe. 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. 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 percent) of the only sugar mill in operation in central Mozambique (Mafambisse) after the war, as well as

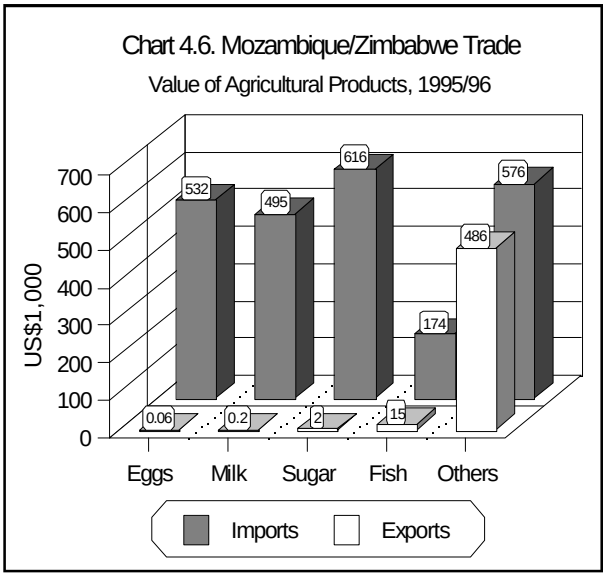


Table 4.5. Balance of Informal Trade Between Mozambique and Zimbabwe (Thousand US$)

Type of Commodity	Exports to Zimbabwe	Imports from Zimbabwe	Trade Balance
AgriculturalGoods	66	2,393	-2,327
Non-Agricultural Goods	340	4,902	- 4,562
Total	406	7,295	- 6,889

the problems of quality, color and packing of sugar in Mozambique. Other problems are poor commercialization network and a price structure in favor of imports.

One surprising outcome of the present study was the revelation that large quantities of fish were 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, with Sofala Bay being rich in water resources including fish, the exploitation of its potential is concentrated on prawns for export to the developed world. Local fish supply outstrips the supply (production), hence the informal fish imports from Zimbabwe. Infrastructure for preservation and domestic distribution of fish (cold stores, cold trucks, etc.) are also rather poor in Mozambique.

There was considerable fluctuation of trade between Mozambique and Zimbabwe 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 toward traders.

Non-Agricultural Products

Informal cross-border trade in agricultural products between Mozambique and Zimbabwe comprised mainly value-added goods being imported into Mozambique. The majority of these goods as shown in Chart 4.7, 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).

Balance of Informal Trade Between Mozambique and Zimbabwe

Mozambique had a negative informal trade balance with Zimbabwe, as shown in Table 4.5.

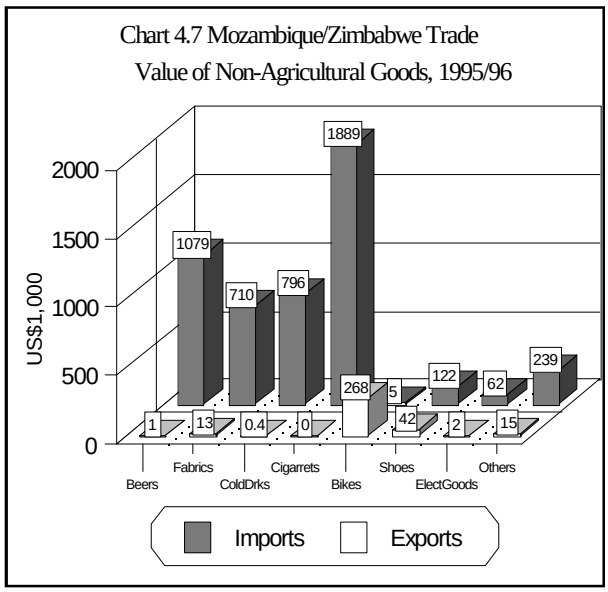


Table 4.6. Comparison of Formal and Informal Trade with Zimbabwe (Thousand US$)

Type of Activity	Formal Trade 1996	Informal Trade 1995/96	Total Trade	Share of Informal 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%

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 informal traders to move food from the central region to southern Mozambique rather than across the border.

A Comparison of Formal and Informal Trade with Zimbabwe

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

As informal exports to Zimbabwe were insignificant, 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.

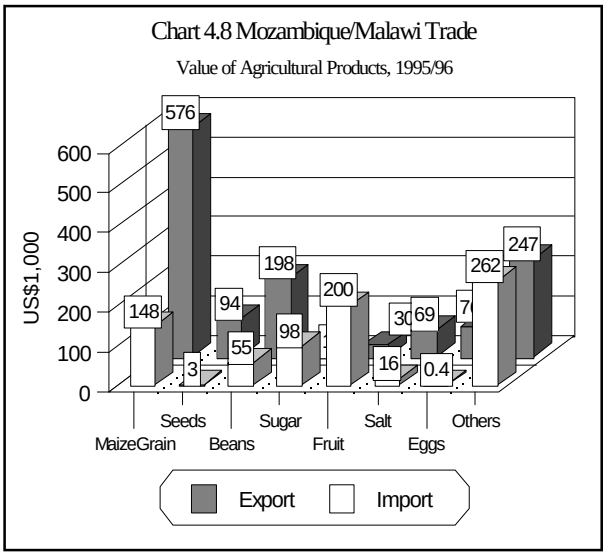
Malawi

Agricultural Products

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

Informal exports of maize grain from Mozambique to Malawi reflected Mozambique's comparative advantage in terms of production as determined by agro-climatic conditions. On the other hand, Mozambique has no comparative advantage in terms of storage, processing and commercialization of maize and other grains. As a consequence, Mozambicans sold their maize grain to Malawi immediately after harvesting. A small proportion of the same maize in form of both grain and flour was, however, re-imported into Mozambique in the pre-harvest period when maize stocks were exhausted.

For similar reasons, beans were informally exported from Mozambique to Malawi. Although there was a very high demand for beans in the urban cen ters



in the southern region, the supply from the northern region could not be transported effectively due to problems of availability, reliability and cost. The producers therefore found foreign market (Malawi) to be more lucrative.

Sugar was one of the main informal imports from Malawi. As previously noted, this was due to capacity under-utilization of the Mozambican sugar industry, inappropriate location of the only two operational factories, non-competitive prices and poor commercialization network.

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

(i) The different patterns of price fluctuations between border towns on both sides of the Mozambique-Malawi border. For instance, the decreasing domestic prices of maize grain during the harvest period in Mozambique reflects high supply and poor market conditions. These conditions coincided with higher and more stable prices in Malawi (where supply is by then lower and market conditions better), hence the exports from Mozambique to Malawi;

(ii) Temporary shortages and price fluctuations of consumer goods. At most border posts with Malawi, Mozambicans exported maize grain to Malawi with a view to purchase sugar, which was expensive and in short supply on the Mozambican side. Malawians on the other hand also exported maize to Mozambique and in return bought salt which was a rare commodity in that landlocked country;

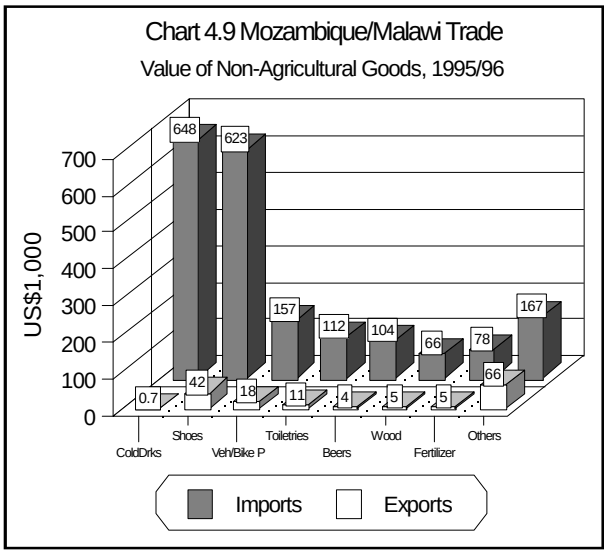
(iii) The unavailability of food processing equipment [15] and differences in prices for this service at different border towns on both sides of the border. For example, in April 1996 at Mandimba in Mozambique, milling services were reported to be three times more expensive than at Chaponda in Malawi. 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; and

(iv) The availability of market places where competition resulted in lower prices and improved quality. The existence of open market places on specific days of the week at Dedza in Malawi resulted in increased exports of vegetables and maize from Mozambique to Malawi on those days.

Other reasons for fluctuations of informal trade in general 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, there was predominance of informal imports of value-added goods being observed at the borders with Malawi. As Chart 4.9 shows, major imports included cold drinks, shoes, vehicle and bicycle parts, toiletries, beer, wood



[15] This was quite evident during the initial period of border monitoring. For example, at Cuchamano (border with Zimbabwe) where there were no maize mills and this service was only provided on 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 decreased sharply.

Table 4.7. Balance of Informal Trade Between Mozambique and Malawi (Thousand US$)

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

Table 4.8. Comparison of Formal and Informal Trade with Malawi (Thousand US$)

Type of Activity	Formal Trade 1996	Informal Trade 1995/96	Total Trade	Share of Informal 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 %

and fertilizers. Imports in the category 'others' included bicycles, kitchenware and electrical goods.

Informal exports of non-agricultural products to Malawi were limited to shoes, electrical goods, vehicle and bicycle parts and wood, all of which were in insignificant amounts. Most of these goods, excluding wood, were re-exports.

Malawi's urban centers are located nearer to the remote areas of the central-northern region of Mozambique. As a result, border regions of the Mozambican provinces of Tete, Zambezia and Niassa rely on Malawi for their supplies of non-agricultural products. These goods are exchanged with agricultural products from Mozambique as the main means to balance trade.

Balance of Informal Trade between Mozambique and Malawi

Mozambique had a positive informal trade balance with Malawi with respect to food and agricultural goods and a negative trade balance with regard to non-agricultural goods. Overall, the informal trade balance favored Malawi as shown in Table 4.7. The figures shown in the table can be explained simply and better by stating that agro-climatic conditions were in favor of Mozambique, while infra-structural and locational conditions favored Malawi.

A Comparison of Formal and Informal Trade with Malawi

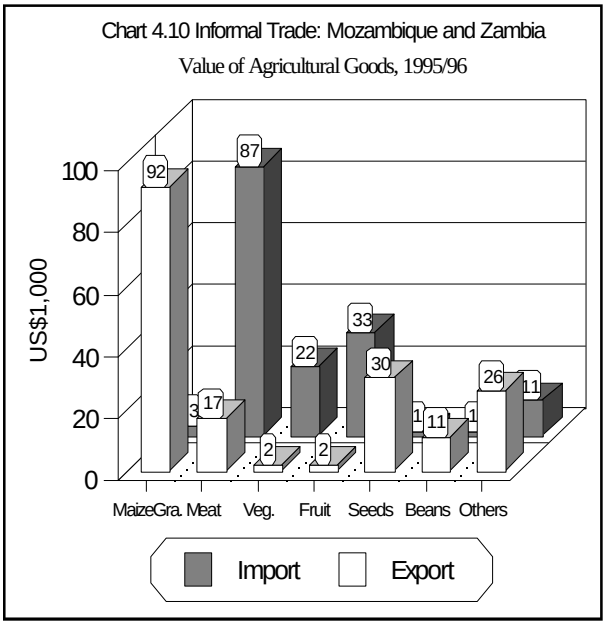
Informal cross-border trade between Mozambique and Malawi amounted to about US$4 million (Table 4.8). This amount represented about 20 percent of the total (informal and formal trade) between the two countries during the 12 months period. Table 4.8 also shows that informal exports represented about one half of total (formal and informal) exports while informal imports represented less than one quarter of total imports.

In addition to the difficulties experienced in trading Mozambican agricultural commodities within Mozambique, the nature of the Malawi-Mozambique border and the absence of strict regulations on the movement of people and goods between the two countries contributed to ICBT representing a larger proportion to total trade.

Zambia

Agricultural Products

Informal cross-border trade between Mozambique and Zambia was quite depressed compared with other Mozambique's immediate neighbors. This situation is partly due to the remoteness of the Mozambican side of the border (Cassacatiza) which has a low popula tion



density. Furthermore, that region was strongly affected by the war, which resulted in the destruction of its infrastructure (schools, health centers and shops). Catete, on the Zambian side, had about 10 shops which were selling and buying a little of everything. It was surprising to observe Mozambican currency being accepted at Catete, unlike at other border posts, as a medium of exchange. Despite the low volume of informal transactions in agricultural products, one could observe, as Chart 4.10 shows, a concentration on exports of maize grain, seed, beans and other products (such as salt, maize flour, fish and peanuts). Imports, on the other hand, included 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 had been paid in kind (maize grain). In the subsequent period, Mozambican informal traders exported maize grain with a view to purchasing non-agricultural goods from Zambia.

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

Beans produced in Mozambique could only find a market in Zambia. As mentioned earlier, this region is very remote and, as most households produce beans (and maize), they find it difficult to trade among themselves and resort to disposing of their produce in Zambia.

There are plenty of mango trees on the Zambian side of the border and mangoes constituted a large proportion of the fruit imports shown in Chart 4.10. Meat was one of the main products informally traded between Mozambique and Zambia. Goat meat was the main type of meat informally imported into Mozambique, while poultry comprised major export to Zambia. This situation could change as Mozambican households had started re-stocking goats following the end of the civil war in Mozambique.

Non-Agricultural Products

Informal cross-border trade in 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. There were other imports of smaller quantities of fabrics, beer, cigarettes, toiletries, petrol and spirits. Some of these goods were actually re-exports from Malawi and South Africa. 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.

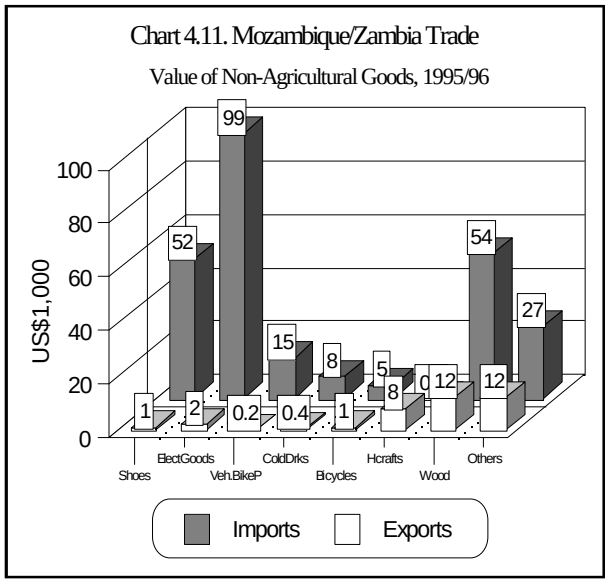


Table 4.9. Balance of Informal Trade between Mozambique and Zambia (Thousand US$)

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

Table 4.10. Comparison of Formal and Informal Trade with Zambia (Thousand US$)

Type of Activity	Formal Trade Trade 1996	Informal Trade Trade 1995/96	Total Trade Trade	Share of Informal 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.

Most of these products, except handicrafts, were re-exports.

There appears to have been a low volume of trade in 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 an all-weather tarmac road, there seemed to be very low volume of traffic to and from Zambia.

Balance of Informal Trade between Mozambique and Zambia

As Table 4.9 shows, the balance of informal cross-border trade between Mozambique and Zambia marginally favored Mozambique as regards agricultural goods while it favored Zambia with respect to non-agricultural goods. Overall, the informal trade balance between Mozambique and Zambia was in favor of Zambia.

Comparison between Formal and Informal Trade with Zambia

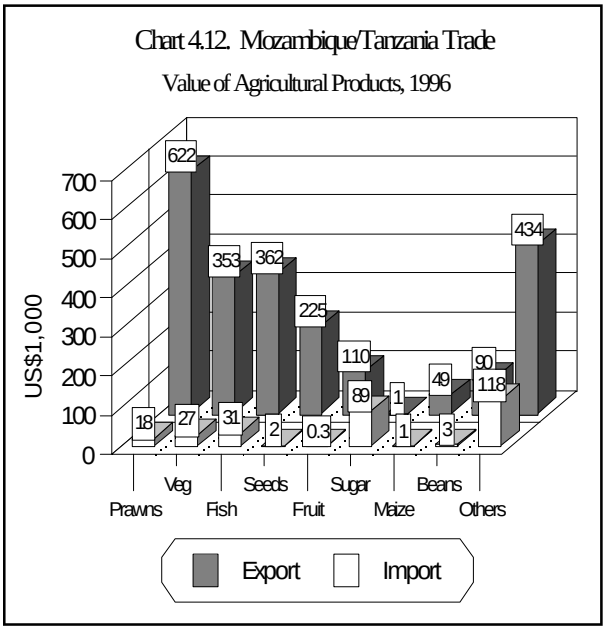
Although not significant in absolute terms relative to other borders, ICBT between Mozambique and Zambia represented about 67 percent of the total trade. As Table 4.10 shows, informal exports and imports were about twice the formal exports and imports.

Tanzania

Agricultural Products

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 port[16] of departure and destination of artesanal 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, seed, fruit, beans and maize grain. Exports in the 'other' category included a number of products such as meat, rice, peanuts, milk, maize grain and seed. Informal imports of food and agricultural goods from Tanzania into Mozambique were limited

[16] The fact that sea traffic depends on tides, facilitated the work of the enumerators.



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 the remoteness of major consumption centers in Mozambique with respect to high agricultural potential areas of the northern zone. These conditions entail high transportation costs rendering commodities from the northern region expensive. The sailing conditions to Tanzania (bays, archipelagos, etc.) are calmer for artesian boats as compared to sailing down south.

Informal imports of sugar from Tanzania to Mozambique, off-loaded at the coast of Cabo Delgado, represented an interesting case. Almost all sugar offloaded at Mocimboa da Praia was Malawian sugar. It was informally imported into Tanzania and then informally re-exported to Mozambique.

Corn flour and rice informally imported into Mozambique from Tanzania 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 activities between Mozambique and Tanzania in non-agricultural products was very vibrant and followed the general pattern of that trade in other border areas whereby informal imports were dominated by value-added goods while exports comprised goods subjected to minimal processing. As Chart 4.13 shows, informal imports of non-agricultural goods from Tanzania was dominated by shoes, electrical 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 not only dominated by wood but also included a few other goods such as handicrafts. Most of the non-agricultural goods being informally imported from Tanzania to Mozambique were re-exports originating from the Middle East and southeast 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 (a four-wheel drive vehicle) from Pemba, the Provincial capital of Cabo Delgado, to Mocimboa da Praia (366 km), takes at least eight hours, which means that a truck full of merchandise

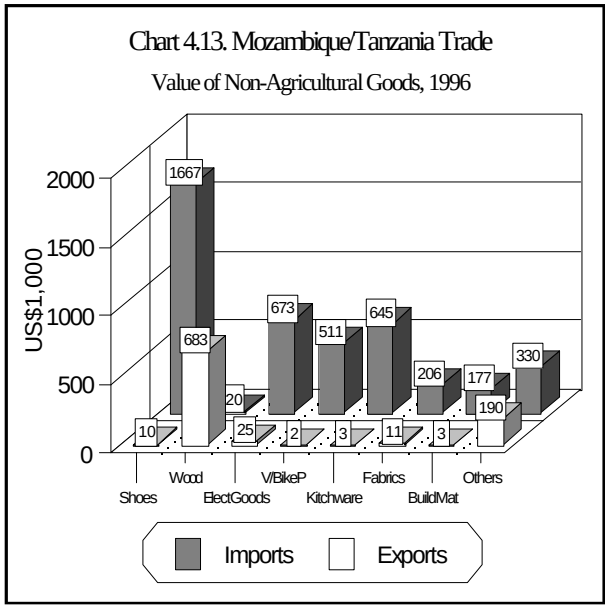


Table 4.11. Balance of Informal Trade between Mozambique and Tanzania (Thousand US$)

Type of Commodities	Exports to Tanzania	Imports from Tanzania	Trade Balance
Agricultural Goods	2,021	288	1,733
Non-Agricultural Goods	929	4,355	-3,426
Total	2,950	4,643	-1,693

Table 4.12. Comparison of Formal and Informal Trade with Tanzania (Thousand US$)

Type of Activity	Formal Trade 1996	Informal Trade 1995/96	Total Trade	Share of Informal 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%

(usually an old, poorly maintained truck) would take much longer.

Balance of Informal Trade between Mozambique and Tanzania

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.

The figures in Table 4.11 show interdependence of the communities living along the Mozambique-Tanzania border region, where Mozambican agricultural products are exchanged with 'Tanzanian' non-agricultural goods. Difficulties experienced in accessing markets in Mozambique occasioned by the poor infrastructure may have greatly contributed to the volume of transactions.

Comparison of Formal and Informal Trade with Tanzania

A comparison between ICBT and formal trade between Mozambique and Tanzania show that ICBT represented about 65 percent of the total (informal and formal) trade between the two countries during the twelve months period. As Table 4.12 shows, informal exports represented about 43 percent of the total export trade with Tanzania while informal imports represented about 99 percent.

Table 4.13. Estimated Annual Value of Mozambique's Informal Trade with Neighbors and Overall Trade Balance (Thousand US$)

Neighbors	Mozambique's Exports	Mozambique's Imports	Total Informal Trade	Informal 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

SUMMARY OF MOZAMBIQUE'S INFORMAL TRADE WITH NEIGHBORS

Informal cross-border trade is a large business. Based on the border monitorings undertaken during this study, it is estimated that the total annual value of ICBT between Mozambique and her immediate neighbors during 1995/1996 period approximately amounted to US$135 million. As Table 4.13 shows, of this total amount, about US$37 were informal exports from Mozambique to her neighbors, whereas about US$98 million comprised informal imports into Mozambique.

Table 4.13 also shows that during the period under review, Mozambique had an overall negative informal trade balance amounting to approximately US$61 million.

Informal cross-border trade activities were predominant in the southern region of Mozambique bordering Swaziland and South Africa. It was also along these borders where Mozambique experienced the largest trade deficits. The lowest volume of trade and the smallest trade deficits were registered with Zambia.

The substantial volumes of trade in the southern region reflect in part high demand for and low supply of both agricultural and industrial goods. These factors are in turn influenced by agro-climatic conditions and industrial performance within Mozambique. On the other hand, remoteness, low population density and relatively lower demand for food at the border region between Mozambique and Zambia explain why there was depressed informal trade. Supply driven informal exports of food to Malawi and Tanzania accounted for a lower trade deficit with those countries compared to the trade deficit with Zimbabwe.

5. Trade Determinants and Implications of ICBT

DETERMINANTS OF ICBT IN MOZAMBIQUE

Informal cross-border trade, as defined for purposes of this study, is one of the informal economic activities that has been flourishing not only after the introduction of the ERP but even in the preceding period. One of the factors contributing to this phenomenon is the interaction and mutual reinforcement between the so called "labor-supply push" and "low-income-demand pull."

Within the context of the present situation in Mozambique, what is referred to as the "labor-supply push" is characterized by: (i) high unemployment, resulting in an increasingly cheap labor supply; and (ii) the search for alternative or complementary income earning opportunities as a result of eroded income levels, decreases in the labor force in productive enterprises and lack of skills to enter into the shrinking formal sector.

The "low-income-demand pull" on the other hand has the following features: (i) the existence of a large number of poor consumers with low effective demand for basic consumer goods offered in the formal sector; and (ii) the existence of suppressed demand for goods normally offered by the commercial network and 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 ERP compounded by the effects of the recently terminated war in Mozambique.

The privatization of state enterprises, following ERP, has had adverse effects on employment. Unions estimate that about 90,000 workers have been retrenched 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 has created substantial unemployment and reduced incomes among large numbers of people. A 1995 government report says that 60 percent of the population is poor. [17] Poverty results in inexpensive labor and creates a growing number of consumers who satisfy their basic needs through the informal sector.

In spite of the economic gains made in recent times and achievements of the ERP, the majority of the Mozambican population still face serious financial hardships, which expose them to food insecurity especially at the household level. The GDP real growth rate which averaged 2.3 percent in the last 5 years (excluding 1993), is lower than the population growth rate (2.7 percent) which means that the GDP per capita is decreasing. Thus, with the emphasis being placed on curtailing demand rather than expanding output, the impact on incomes has been negative. 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, while the cost of a basket of essential consumer goods to cover the needs of a five-person family [18] was equivalent to US$67. The minimum salary covers only 28 percent of the basket. Under these circumstances, 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 running informal activities.

Of no less importance are the following: the effects of the recently terminated war, namely, the migration of many people from the country to the main towns in search of safety; the destruction of agro-

[17] See GoM-*Unidade de Apoio a Pobreza MPF*, 1995

[18] The average number of people in a Mozambican family.

industrial enterprises; and the destruction of 60 to 70 percent of the commercial network [19] 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 soldiers coupled with the 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. The southern neighbors of Mozambique, namely, South Africa and Swaziland have a comparative advantage in both agricultural and industrial manufacturing. These countries serve the food deficient region of southern Mozambique. In the northern region, Mozambique has comparative advantage in maize production but not in 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 in Malawi.

An equally important determinant of ICBT are the high tariffs applied in light of a tight fiscal policy being pursued in Mozambique. High tariffs make the risks of evasion and the informal transactions costs not only worthwhile but also tempting. Furthermore, poor customs administration resulting from lack of trained, motivated and trustworthy personnel facilitates diversion of goods to the informal channels. Many customs officials complain about meager salaries, lack of accommodation at border posts and frequent transfers. Some of them even obtain accommodation and food from informal traders. A number of them possibly induce formal and informal traders to evade customs duties and instead 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.

[19] 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. As a consequence of the war, the number decreased further to 3,650 shops in 1981 and 1,703 in 1989 (Levi et. al., 1990, cited by Coulter, 1995).

IMPLICATIONS OF INFORMAL CROSS-BORDER TRADE IN MOZAMBIQUE

Like any other informal activity, ICBT has both positive and negative implications. The major positive implications include contribution to food security, positive impact on employment, provision of income and poverty alleviation, complements the formal commercial network and a contributes to the opening of new markets for domestic products. Important negative implications include potential losses of tax revenues, possible promotion of illegal trade and corruption, violation of health and sanitary requirements and, to some extent, a negative environmental impact.

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 cross-border trade 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)

Table 5.1. Share of Agricultural Products in ICBT (Thousand US$)

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%

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. First, does ICBT in Mozambique contribute to the adequacy of food supply? Second, does ICBT contribute to maintaining food supply stability in Mozambique? And third, is ICBT helping Mozambicans to ensure access to food supplies?

The answer to the first question requires information on the share of food in the overall estimates of the value of informal trade between Mozambique and her neighbors. Table 5.1 shows a breakdown of the ICBT output of border monitoring into agricultural and non-agricultural products.

The table shows that about 57 percent of the products handled by informal traders are of agricultural origin. Since all agricultural products are food products and some of the 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 57 percent. Table 5.1 also shows that more than 60 percent of the total informal exports and about 56 percent of the total informal imports were agricultural products.

As border monitoring has confirmed, the bulk of informal imports of food products occur along the southern borders of Mozambique with Swaziland and South Africa. By contrast, the central-northern regions present diminishing food imports, and increasing exports. This behavior of ICBT, as has been observed, 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 while the central-

Table 5.2. Grain Availability in Mozambique by Source , 1989/90-1996/97 (Thousand MT)

Market Year Apr-Mar	Production				Food Aid				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

northern region has a better agricultural potential. As a result of these natural conditions, food deficits traditionally occur in the southern region while the central-northern region traditionally produces food at surpluses.

Due to the difficulties experienced in moving food from the northern to the southern parts of Mozambique occasioned by high transportation costs, food commodities are sourced informally from the neighboring countries of Swaziland and South Africa. But in the northern-central parts of the country, where food is produced at surplus but under very poor infrastructural conditions, ICBT is dominated by exports of food to Mozambique's immediate northern neighbors, such as Malawi and Tanzania.

Informal imports of food thus fill the food deficits not 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 WFP) was summarized by MOA/MSU as shown in Table 5.2. These figures are exclusive of ICBT.

Informal cross-border trade grain imports averaged 13,610 tons during the period from December 1995 to November 1996. These imports represent 44 and 14 percent 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 increases productivity which contributes to adequate internal food supply. Under the present situation of poor infrastructure resulting in high transportation costs in linking the northern and southern regions of Mozambique, it is more competitive to import grain from Swaziland and South Africa to supply the southern region than to rely on internal supplies from the remote areas in the north. Possible restrictions of 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 of 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 internal or cross-border grain trade depending on the prevailing conditions of supply and demand both within and outside Mozambique.

The fluxes of grain take four main directions: from the central-northern region to the southern region (mainly during harvest period when producer prices are low thus compensating for transport cost); from the inland 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 mainly in the form of flour. If Malawi did not have storage and processing capacity and with the marketing problems prevailing in Mozambique, food supply stability would be at risk. Therefore, informal cross-border traders are playing a positive role in the attainment of food supply stability by leading in the movement of grain and flour between Malawi and Mozambique.

Results also show that bulk breaking of food products was being undertaken as one of the main ways of reaching poor consumers. Visits to any informal market places showed that food products were being sold in quantities that consumers could afford, 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,

smaller appropriate packages are convenient for the poor consumer who generally makes purchases in small quantities in accordance with the limited amount of money available. Bulk breaking facilitates access to a greater range of products and a more efficient use of each product. In other words, a poor consumer might only be willing and able to buy, each time, 1/10 of a liter of cooking oil sold by an informal trader, at a price that when 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 offer smaller quantities (and not necessarily low unit prices) that makes ICBT capable of providing access to supplies to all consumers. Furthermore, informal traders themselves rely on ICBT as a source of livelihood and food security for their families.

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, it was evident that many individuals of both sexes were engaged in this activity. This trend was necessitated mainly by the structural adjustment programs taking place in Mozambique.

Another reason why ICBT attracts a huge number of people is the ease of entry, as there is no requirement for registration or enrollment for one to be involved. The fact that a small amount of initial capital is required is another reason that attracts the involvement of a large number of people engaged in ICBT.

Equally important is the fact that ICBT activities are, in general, labor intensive. For example, the activities of transporting across the border small quantities of merchandise (mainly as a strategy to avoid confiscation) requires a large labor force before the goods are reassembled on the other side of the border for onward transportation.

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, on average, to be equivalent to more than four times the minimum salary paid in the formal sector. Furthermore, the average income earned by informal traders is about two times the cost of essential goods for a family of five people, while the minimum salary only covers about 40 percent. 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 do so only for purposes of social status.

Informal cross-border trade plays a positive role on poverty alleviation by providing employment and incomes. This role is important, particularly in view of the fact that more than two thirds of the Mozambican population live 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 Products

With 60 to 70 percent 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. At most of the border regions, it was found that formal retail shops were either nonexistent, closed or offering a very limited range of goods. Liquidity problems and difficulties in accessing credit were the main problems mentioned by formal shop owners. Thus, the general supply of goods and commercialization of farmers' 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 farmers' production.

NEGATIVE IMPLICATIONS OF INFORMAL CROSS-BORDER TRADE

Potential Losses of Tax Revenues

One of the controversial issues with 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, the issue of foregone revenue is only applicable to imports, 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. Goods are split into agricultural and non-agricultural. 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 figures in Table 5.3 were obtained.

It is thus estimated that the total revenue forgone in the 12 months of border monitoring could be about US$33 million according to 1996 rates or about US$26 million according to the new rates since November 1996.

It should be noted, however, that informal traders obtain goods on a total 'duty free' basis. A number of them paid unofficial rents to customs officials estimated at about 50 percent of the official duties and taxes. The payment of unofficial rents is, therefore, one of the consequences of the high level of import duties and taxes.

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 percent to 16 percent. 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 the promotion of corruption. While illegal trade and corruption were outside the scope of this study and the methodology was only applicable for monitor ing

Table 5.3. Informal Cross-Border Trade in Mozambique: Missed Revenues (Thousand US$)

Type of Goods Informally Imported	Value	Duty/Tax Rate (a)	Duty/Tax Rate (b)	Missed Revenue (a)	Missed Revenue (b)
Sugar	17,308	5%	12.5%	865	2,163.5
Eggs	5,847	35%	35%	2,046	2,046
Meat	7,574	35%	35%	2,651	2,651
Vegetables	3,625	35%	35%	1,269	1,269
Others	20,359	26%	16%	5,293	3,257
Sub-total Agricultural	54,713			12,125	11,387
Shoes	9,132	55%	35%	5,023	3,196
Vehicle/Bicycle parts	2,148	80%	12.5%	1,718	269
Building Materials	4,019	12.5%	12.5%	502	502
Beer	7,703	110%	90%	8,473	6,933
Others	20,233	26%	16%	5,261	3,237
Sub-total Non-Agricultural	43,235			20,978	14,137

a) Before reduction of duty/tax rates in November 1996 **b**) After November 1996

visible goods crossing the border unrecorded and surveying informal traders, it was noticed that ICBT operators were sometimes used as facilitators of illegal trade. Their familiarity with the border routines, their knowledge of informal ways around the borders and their interaction with border officers may be used to provide services to smugglers.

One of the pressures against widespread illegality and corruption has been the need for increased government revenue. In general, customs officers at border posts assume that they know the different categories of active informal cross-border traders and their importing or exporting habits. When under pressure from the central office to deliver more revenues, they concentrate their collecting efforts on 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 with 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, thus 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 being traded across some of the borders unrecorded.

POLICY IMPLICATIONS

At the beginning of this sub-chapter it was mentioned that ICBT in Mozambique has positive effects on: food security, employment, incomes, poverty alleviation, complementing the commercial network and opening new markets. It was also mentioned that ICBT has negative effects on: revenue collection, transparency in trade operations, and health, sanitary and environmental requirements.

Taking the foregoing into consideration, the policy implications of ICBT can be assessed by addressing two main questions. What would be the consequences of repression of ICBT on the positive effects of this form of trade? And what would be the consequences of repression of ICBT on the negative effects of this form of trade?

Repressing cross-border trade 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 exports leading to decreased productivity in the northern regions of Mozambique which depend on foreign markets. As productivity would decrease, less food would be available for both consumption and for the market.

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 will be the effect of repression 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 on food supply and its accessibility by the majority of the consumers.

The effects of repressing ICBT would not be limited to threatening food availability. Increased unemployment and lower incomes would be another consequence of repression further aggravating food insecurity situation. Residents of border regions without formal employment, without access to land and those illiterate 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 with satisfactory success. 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 products would be curtailed.

Concerning the effects of repression on negative effects of ICBT, it is worth mentioning that the main objective would be to maximize revenue collection. But 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 would probably be much lower even with the payment of unofficial rents? There are places where repression would simply be symbolic due to the nature of the borders themselves. An example is the border with Malawi where there is a frontier road along most of the sections of the border. These are examples of cases where the cost of repression would probably be much higher than the amount of revenue collected, as the border would be porous to informal traders. Repression as a means to eliminate corruption would be counter-productive. High customs and tax rates coupled with repression of ICBT, would be an incentive for corrupt practices.

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 would worsen as more goods would have to be smuggled, longer distances to consumer centers would have to be covered, more goods would have to be stored under poor conditions, and so on. Negative effects to the environment would continue or even be aggravated as informal traders unable to trade in other goods would 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 pursued? This study contends that, although part of ICBT activities might be illegal, the ICBT sub-sector currently represents one of the main mechanisms for exchanging goods and services at the border regions. Given that the positive aspects of ICBT outweigh its negative aspects and, given that ICBT 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 this 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, especially if this move is accompanied by improvement in transport and storage infrastructure. This could be the first step towards the liberalization of cross-border trade and improvement in recording trade statistics.

It is recommended that a follow-up study be undertaken to determine the appropriate tariff rates payable by informal traders. Such a study would include detailed figures on the cost of evading the present rates in order to estimate optimal rates. A gradual adherence to formal trade rules could be expected under a lower, more appropriate tariff regimes and more courteous treatment of cross-border traders.

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Appendix 1

Monthly Quantities of Major Agricultural Commodities Traded Between Mozambique and Her Neighbors

Monthly Quantities of Major Agricultural Commodities Traded Between Mozambique and Her Neighbors, December 1995 – November 1996 (in metric tons)

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Swaziland														
Imports[1]	Sugar	69	499	2,912	296	171	1,854	9,883	5,452	951	1,312	608	83	24,090
	Meat	24	34	286	206	280	59	57	45	172	208	41	31	1,443
	Maize Flour	7	1,803	1,150	75	13	73	98	374	281	4	27	28	3,933
	Potatoes	2	22	40	13	16	9	8	58	68	72	13	14	335
Exports[2]	Prawns	0	0	11	13	2	203	1,547	432	194	627	100	1	3,130
S. Africa														
Imports	Potatoes	484	1,727	698	710	469	0	379	19	273	150	399	86	5,394
	Maize	1,090	1,683	143	42	446	5	67	10	49	61	64	55	3,715
Zimbabwe														
Imports	Sugar	10	8	10	22	35	75	115	199	91	181	199	7	952
	Eggs	0	0	0	111	65	44	59	16	10	9	16	0	330
	Potatoes	21	33	29	18	8	3	8	11	2	1	11	37	182
Malawi														
Imports	Maize	34	120	75	8	0	10	28	19	12	0	4	15	325
	Sugar	5	7	0	33	7	7	10	12	12	0	11	7	120
Exports	Maize	28	12	14	6	0	192	219	160	204	13	241	32	1,121
	Potatoes	0	5	4	9	15	10	7	5	6	8	18	1	88
	Beans	0	2	10	39	46	32	17	8	12	14	11	2	193

[1] Mozambique' s imports from the trading partner.

[2] Mozambique' s exports to the trading partner.

Monthly Quantity of Major Agricultural Commodities Traded Between Mozambique and Her Neighbors, December 1995 – November 1996 (in metric tons), continuted

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Zambia														
Exports	Maize	0	0	0	2	0	0	43	73	41	0	23	0	182
Tanzania														
Imports	Sugar	28	31	16	27	2	5	6	4	4	2	1	7	133
Exports	Fish	53	67	23	56	1	18	24	16	21	11	6	34	330
	Vegetables	253	18	18	7	4	0	1	0	0	0	0	110	411
	Maize	100	0	1	0	0	6	2	4	1	1	0	16	131

Appendix 2

Annual Quantity and Value of Major Agricultural Commodities Traded by Border Site

Annual Quantity and Value of Major Agricultural Commodities Traded by Border Site

		Quantity (metric tons)	Value (US$)
Namaacha			
Imports	Sugar	24,090	16,448,583
	Meat	1,543	6,787,317
	Maize Flour	3,933	1,441,429
	Potatoes	335	143,833
Exports	Prawns/Sea Food	3,130	15,310,536
Ressano Garcia			
Imports	Potatoes	5,394	2,320,344
	Maize	3,715	1,420,469
	Eggs	5,305	5,199,120
	Vegetables	3,528	3,033,696
Exports	-------[3]	------	-----
Machipanda			
Imports	Sugar	849	577,084
	Eggs	459	450,155
	Potatoes	169	72,676
	Milk	219	468,968
Exports	------	------	-----
Cuchamano			
Imports	Sugar	57	38,789
	Eggs	84	81,850
	Milk	12	26,050
Exports	------	-----	-----
Calomue			
Imports	Maize Grain	15	7,537
	Sugar	12	8,480
Exports	Maize Grain	117	59,615
	Potatoes	81	3,835
	Beans	92	96,760
Domue			
Imports	Maize Grain	71	35,983
	Sugar	24	16,442
Exports	Maize Grain	612	315,794
	Beans	54	55,834

[3] Dash (-----) denotes "not significant".

Annual Quantity and Value of Major Agricultural Commodities Traded by Border Sites, continued

		Quantity (metric tons)	Value (US$)
Zobue			
Imports	Maize Grain	205	104,707
	Sugar	71	48,226
	Fruit	113	180,325
	Eggs	60	58,468
Exports	Maize Grain	122	62,270
	Beans	22	22,232
Mandimba			
Imports	Sugar	36	24,668
Exports	Maize Grain	272	138,693
	Potatoes	8	3,437
	Beans	22	23,036
	Salt	72	52,880
Cassacatiza			
Imports	------	-----	-----
Exports	Maize Grain	182	92,348
Macimboa da Praia			
Imports	Sugar	133	89,189
Exports	Fish	330	362,443
	Vegetables	411	32,807
	Maize	131	49,129

Appendix 3

Seasonality of Trade in Major Agricultural Commodities

Fig 1a Trade Seasonality in Major Agricultural Commodities

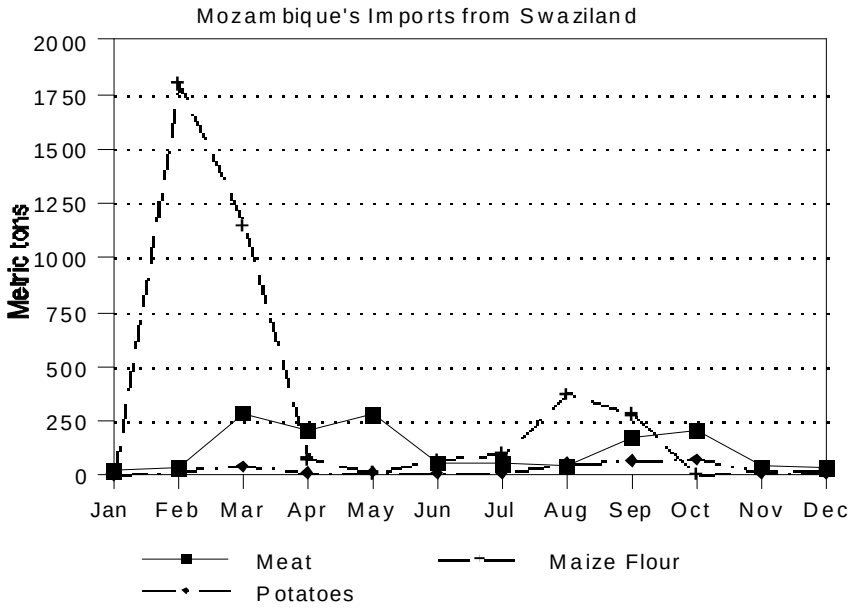


Fig 1b Trade Seasonality in Sugar

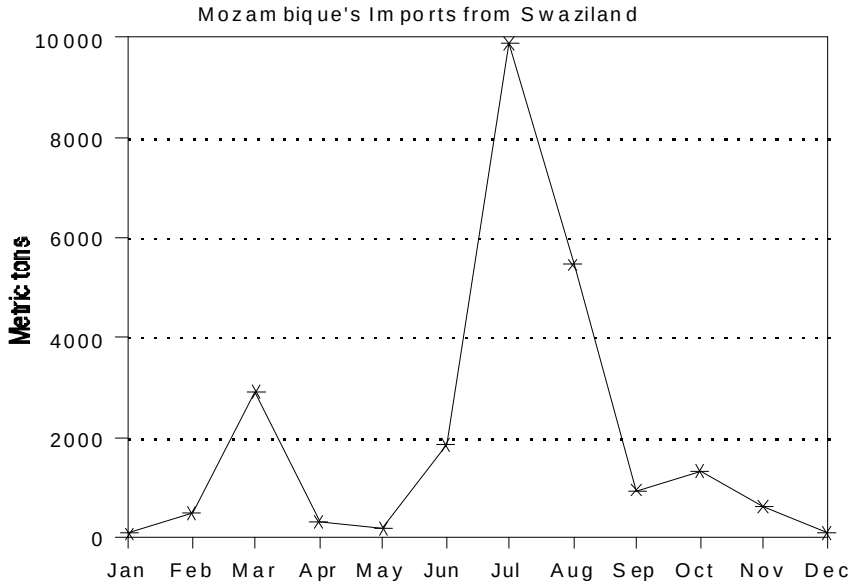


Fig 1c Trade Seasonality in Prawns/Sea Food

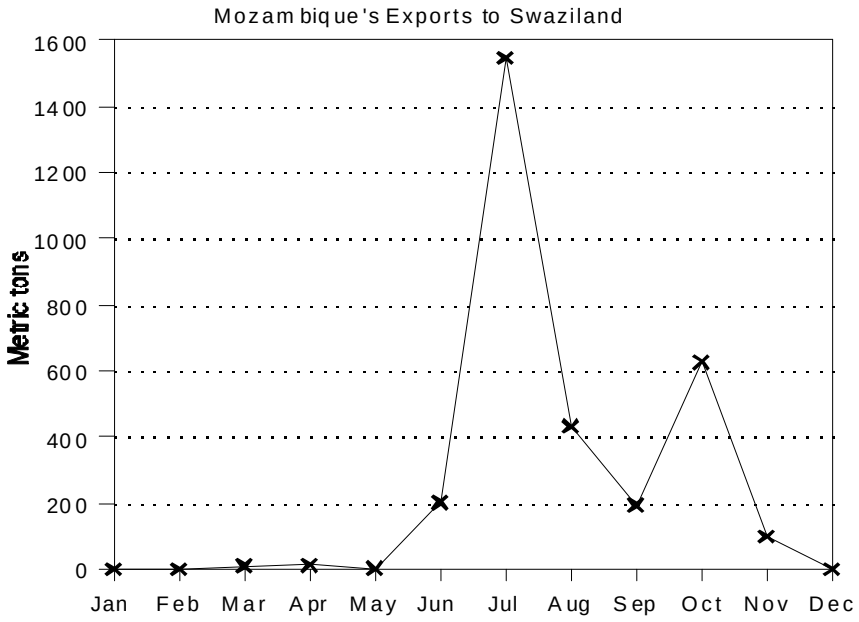


Fig 2 Trade Seasonality in Major Agricultural Commodities

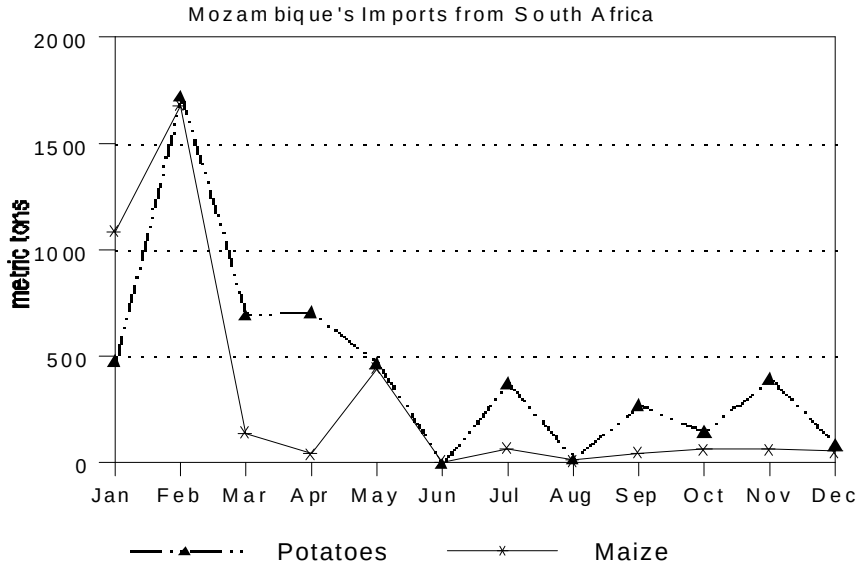


Fig 3 Trade Seasonality in Major Agricultural Commodities

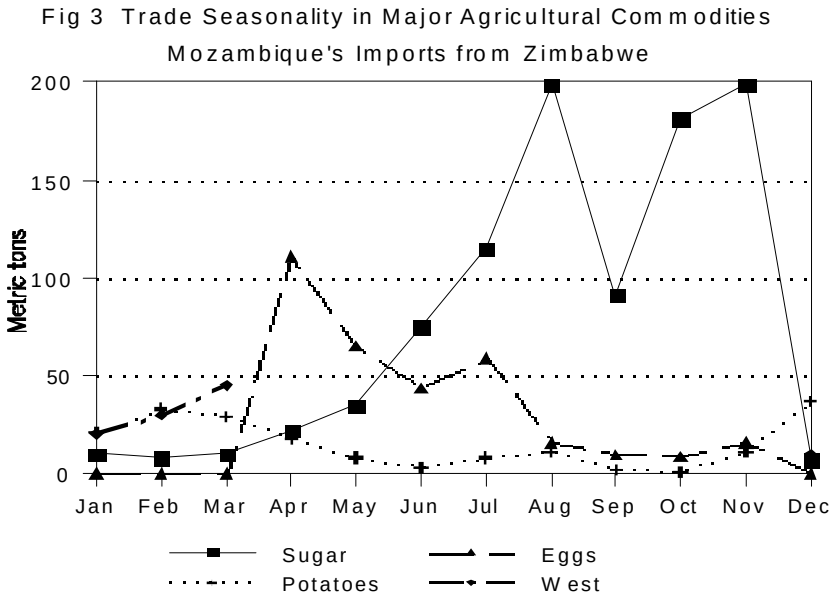


Fig 4a Trade Seasonality in Major Agricultural Commodities

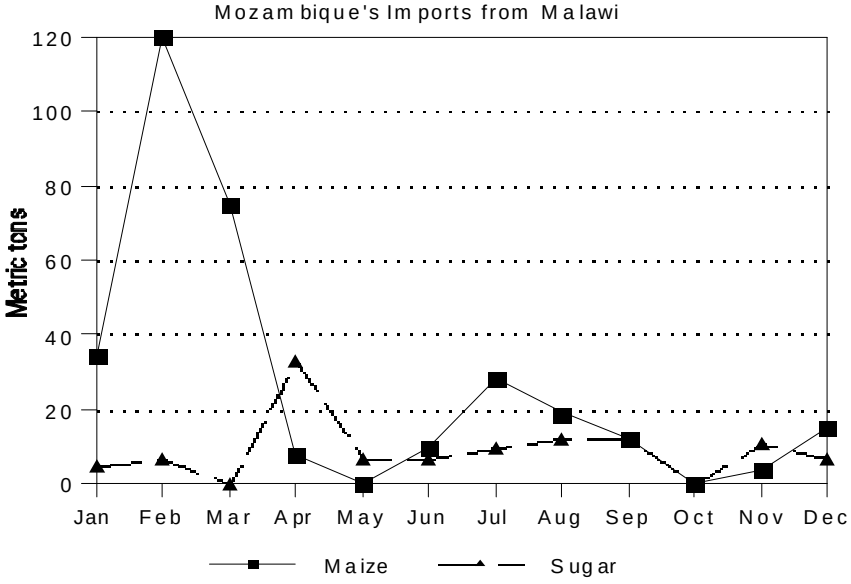


Fig 4b Trade Seasonality in Major Agricultural Commodities

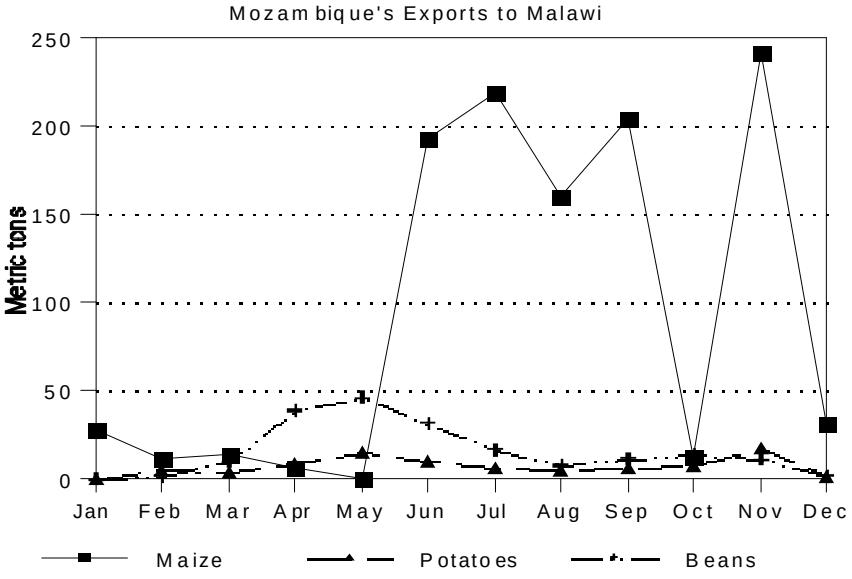


Fig 5 Trade Seasonality in Maize

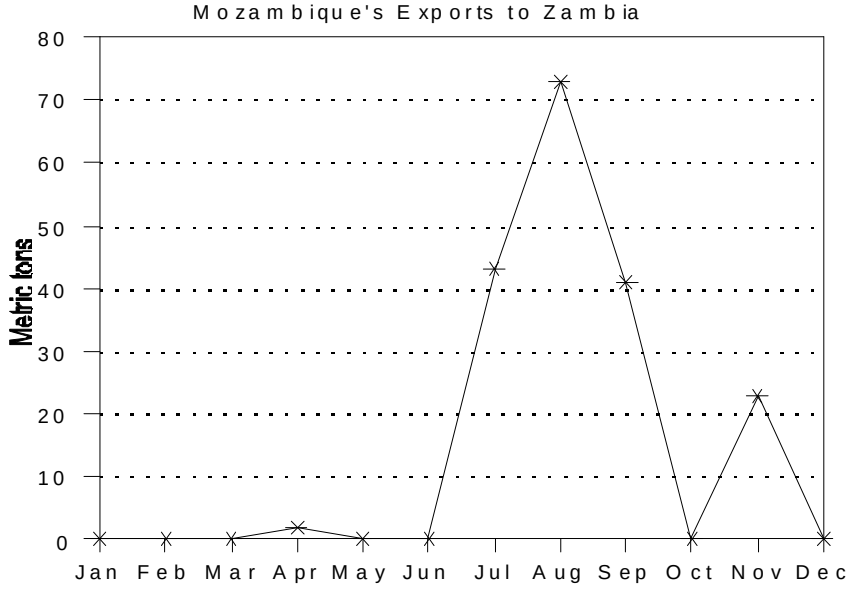


Fig 6a Trade Seasonality in Sugar

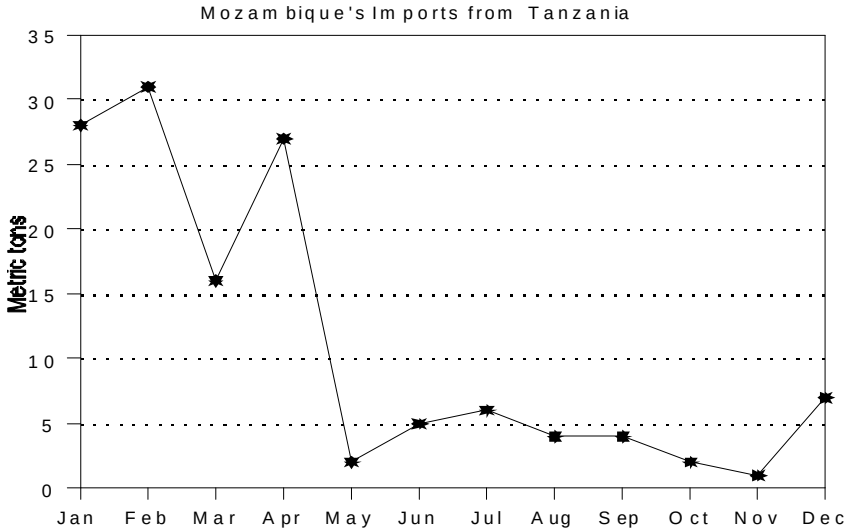
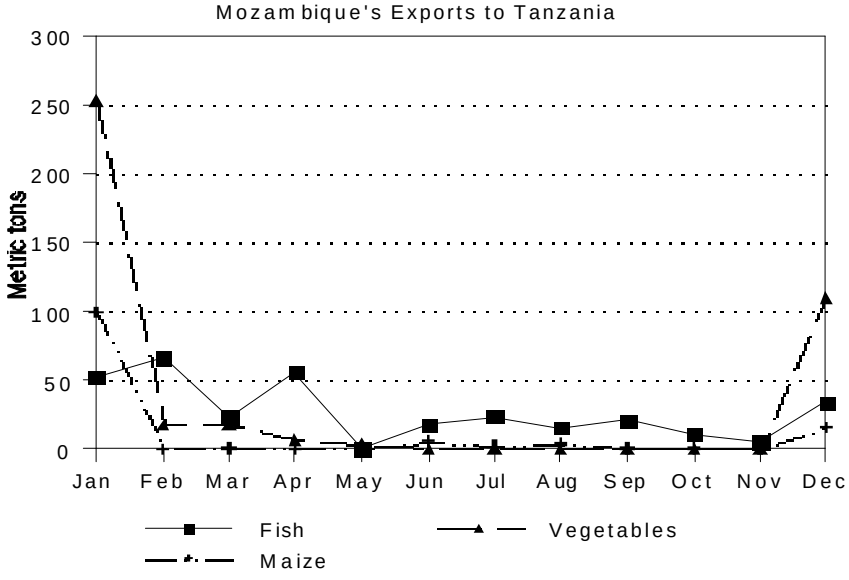
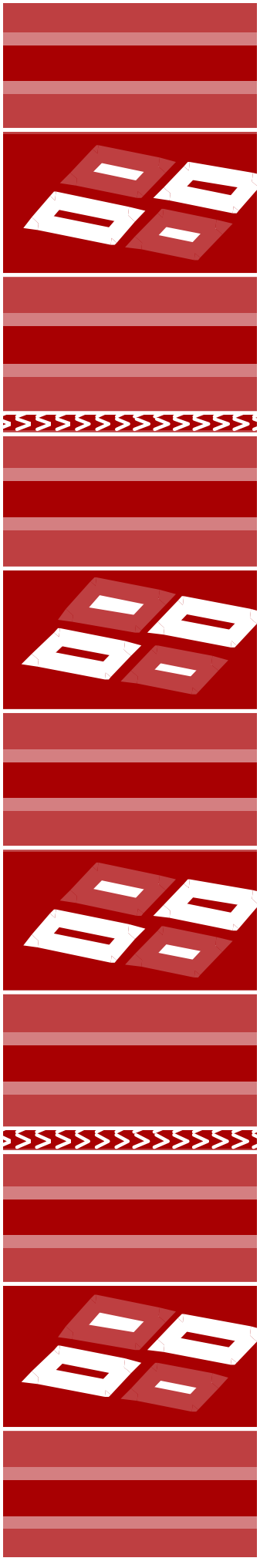


Fig 6b Trade Seasonality in Major Agricultural Commodities





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