

**An Assessment of the Problems / Obstacles faced by
Informal Cross Border Traders in Zambia: The
Case for Chipata and Livingstone towns..**

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EXECUTIVE SUMMARY

This study assesses the problems / obstacles faced by informal cross border traders in Zambia, using Chipata and Livingstone towns as case studies. The study was done with the understanding that Zambia is part of the COMESA Free Trade Area (FTA). The study asserts that the COMESA Free Trade Area puts more emphasis on formal trade and only assumes the role of the informal cross border traders in regional trade. While provisions such as zero tariff and the COMESA certificate of origin have been put in place to promote trade among members of the Free Trade Area, the informal cross border traders have not benefited from these measures. The study hypothesizes that COMESA FTA has not eliminated the obstacles faced by informal cross border traders and that the non-availability of formal sector employment has led to people opting for informal cross border trade as an alternative source of livelihood.

The theoretical underpinning of the study was based on the early theory of regional integration. Theory shows that from economic integration emerged cross border trade. Economic integration brings together the economies of two or more countries, typically with same geographical proximity, through the removal of economic barriers such as tariffs and immigration controls. This is aimed at improving the standard of living as well as achieving peaceful relations among the participating countries.

The study used simple random sampling for both cases to select interviewees who were informal cross border traders in market places. Both primary and secondary data was used in the analysis. Interviews with key informants and focused group discussions were held. Interviews with customs officials and chairpersons of cross border associations were held.

The findings of the study revealed that informal cross border traders face a multiple of problem, which included lack of access to credit. The study found out that in Chipata, 76.3 % obtained the capital for their business from their own savings, 8.8 % from Zambia traders, 7.5 % from the retirement benefits and the 7.5 % from the formal sector traders. While in Livingstone, 52.0 % of the informal cross border traders used their own savings as capital start up capital for their business, 30.7 % used retirement benefits, 8.0 % borrowed from Zambian traders and 9.3 % from formal sector traders. The result of the study show the lack of access to credit by most traders has inhibited the growth of their businesses.

The study sought to find out whether there were any improvements in trade since the introduction of the FTA. 86.4 % of the traders in Livingstone said there was no improvement, and only 13.6 % said there was an improvement. In Chipata, 80 % of the respondents said there was no improvement in their business since the introduction of the COMESA FTA while only 20 % reported that there were some improvements.

Most traders interviewed said that the customs duty charged on their goods was very high and saw it as a hindrance to their business. In Chipata, 65 respondents, representing 81.3 % said the customs duties were a hindrance to their business, while 18.3 % said it was not. The study revealed that most informal cross border traders complained of harassment by customs officials at the border posts. The study also revealed that there was little sensitisation of informal cross border traders on trade related issues.

The study found out that the supply of foreign currencies (Malawi Kwacha and Zimbabwe Dollar), in commercial banks was very limited. Traders obtained their forex from either the bureaux de change, where the rates are relatively higher or from the moneychangers in the streets. However it was observed that the informal cross border traders would prefer to buy their currency from the black market in the streets.

Regarding markets for the goods, in both cases the study found out that informal cross border traders sold most of their goods within the border town, however they had big problems with storage of their goods, especially in Livingstone. The traders also saw the lack of safety of their seized goods as a very severe problem.

The results of the hypothesis testing show that there is insufficient evidence to reject the hypothesis that the COMESA FTA has not eliminated the obstacles faced by informal cross border traders. The study concludes that informal cross border traders face multiple problems and these inhibit the expansion of their businesses and the COMESA FTA has not changed the situation for informal cross border traders in any way. The study further recommends that COMESA should legitimise informal cross border trade and not try to curb it. There is need for policies with a special focus on informal cross border trade that will not be influenced by the negative perception of cross border trade.

There is also need for the government; through the Zambia Revenue Authority to sensitise these people on various issues of trade, such as banned items, restricted goods, etc. Information should be made available at all border posts and this should be displayed on big billboards. Most informal cross border traders are eking out a living through trade and therefore government should have a deliberate policy to address the problems faced by this sector.

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ACRONYMS AND ABBREVIATIONS

COMESA	Common Market for Eastern and Southern Africa.
EJP	Economic Justice Programme.
FTA	Free Trade Area
ICBT	Informal Cross Border Traders
MCTI	Ministry of Commerce, Trade and Industry.
NTB's	Non-Tariff Barriers
PTA	Preferential Trade Area.
ZRA	Zambia Revenue Authority

CHAPTER ONE

1.0 Introduction & Background

Informal cross border trade (ICBT) is a phenomenon that has been in existence for some time now. A number of reasons have been cited to explain the emergence of informal cross border trade and what seems to be common in this discourse, is that informal cross border trade emerged because of the controls in the formal trading system. Because of the stringent procedures, which cannot be followed by financially weak people, informal cross border traders emerged.

In his paper on Policy Reforms and Structural Adjustment in Zambia, the case of Agriculture and Trade, Saasa, (1995) asserts that there is a very strong correlation between overvalued exchange rates and cross border trade and attributed the emergence of cross border trade in Zambia to the then overvalued currency.

Macamo,(1999) argues that 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 not been widely documented. This lack of documentation leads to the recording of misleading figures in the national accounts and consequently inappropriate policies on regional trade

To date, informal cross border traders are viewed as “smugglers” who do not follow the correct laid down procedures to carry out their activities and most studies have concluded that informal cross border trade does not contribute significantly to national income. (Ackello-Ogutu,1997, Mindle, 1998,Macamo, 1999).

In dealing with informal cross border trade, there is a paradox of definitions and several people have attempted to define informal cross border trade. Mindle & Nakhumwa,(1998) defines informal cross border trade as consisting of those goods that were exchanged across the border; either by-passing the official customs check and recording points, or passing through these customs points while deliberately undervalue, mis-specified or unrecorded.

Chirwa,J, Lungu, J and Mkanda H 's (2001) define informal cross border trade as a “parallel market where both licensed and unlicensed traders carry out their transactions”. For the purposes of this study we adopted the definition by Chirwa, et al.

In this regard, the informal cross border trade is occurring in an environment where Zambia is part of the COMESA Free Trade Area (FTA). In theory, a Free Trade Area is one where goods and services are traded freely. A free trade area requires the elimination of duties and restrictions on “substantially all the trade” between the members, without the requirement of a uniform external tariff and regulations on the trade of non-members. Consequently members of the FTA could retain their external tariff very much as they were before the Free Trade Area was formed. (Kumar, 1995) This is one level of regional integration meant to promote trade among members.

The Common Market for Eastern and Southern Africa (COMESA) was established in 1994, replacing the Preferential Trade Area for Eastern and Southern Africa (PTA), which had been in existence since 1981. Trade liberalization, the promotion and enhancement of intra-

companies have complained that the FTA has brought unfair competition, while for the consumer cheap imported products have enhanced welfare. On one hand, the imports have to a large extent threatened the existence of the manufacturing industries in Zambia.

1.1 Significance of the Study.

While it is widely acceptable that informal cross border trade is one of the main methods of overcoming barriers to formal trade. In Zambia however, very little has been done to find out the problems/obstacles faced by informal cross border traders. Thus, this study is unique in that it brings out the problems faced by informal cross border traders as they trade between borders. It also analyses the results with economic justice lenses. Since the economic justice dimension of the study is used, the human aspects are given a priority.

In addition, customs officers continue to view cross border traders with suspicion even after they honestly declare the correct amounts and values of the goods. Cross border trade has been enhanced with the coming of the COMESA Free Area but this has not contributed to the reduction of the injustices faced by informal cross border traders.

2.1 Overall Objectives

To assess the obstacles faced by informal cross border traders and to examine the economic justice dimension of cross border trade.

2.2 Specific Objectives.

- a) To examine the problems / obstacles faced by cross border traders.
- b) To examine whether the livelihoods of the informal cross border trader has improved or worsened since the introduction of the COMESA FTA.
- c) To provide policy recommendation on the improvement of informal cross border trade.
- d) To create a knowledge base for lobbying and advocacy.

2.3 Main Hypothesis

1. The COMESA FTA has not eliminated the obstacles faced by informal cross border traders.
2. The non-availability of formal sector employment has led to people opting for informal cross border trade as an alternative source of livelihood.

2.4 Limitations of the study.

Due to financial constraints the study could only be conducted in Chipata and Livingstone border areas. The study confined itself to Livingstone-Zimbabwe border and Chipata Mwami-Mchingi border to ensure that the study only captures traders coming from COMESA region.

- i) Prohibitive taxes, compounded by harassment of the informal cross border traders by customs officers.
- ii) General lack of willingness by the informal cross border trader to pay duties because this is seen as reducing their profit margins.

A Commonwealth Research Team (1993) in a study on Zambia stated that informal cross border trade was harmful to Zambia's economy in two ways. Goods smuggled into the country (as imports) create unfair competition to local manufacturers and cause a loss of revenue to the Government treasury. As for exports they noted that smuggling deprives Zambia of foreign exchange and promotes unofficial foreign exchange trading while reducing the availability of goods for official export as in the case of gemstones. (Chirwa J.B et al,2001)

Many causes of informal trade in developing countries have been attributed to market interventions by government. According to a World Development Report (Vol. 17, number 12, December 1989), market interventions by governments in developing countries had become a dominant theme in the development literature. Informal cross-border trade sprang up as producers, traders and consumers tried to evade price and quality controls.

Over-valued exchange rates associated with foreign exchange controls, characteristic of many COMESA countries, gave rise to informal trade. The main conclusions from these studies are that whenever governments impose controls over prices or quantities, informal cross-border trade arises so as to evade these controls. The risks and other costs incurred by sellers raise prices for goods sold outside the official market. These costs involve the risk of being caught and punished for selling illegally, the cost of avoiding detection, payment of bribes or fines if caught.

A study conducted by J.B. Chirwa et al (2001) on "The impact of informal cross border trade on price, production and intra-COMESA trade in Eastern and Southern Africa: An Empirical Analysis". This study shows that on the Zambia/Malawi border, Zambians mainly bought sugar, rice, drinks, canned beer, beans and salt from Malawi, while Malawians bought textiles and maize from Zambia. Maize was usually taken into Malawi through illegal channels at night, because at the time the Zambian government banned the export of maize, so as to cushion its shortage in Zambia. Informal cross-border trade at Mwami border post was particularly high for maize, as Zambian farmers were particularly desperate for cash for their maize, for which they were only being given promissory notes instead of cash by the government.

The study also mentioned that the forms of transport used for these informal transactions include bicycles and motor vehicles, as well as pedestrians. Most of the people involved in informal trade at Mwami, included licensed and unlicensed traders, both male and female. According to customs officials at the border, very little trade is conducted out by children below the age of 15 years. In the same study, the Zambia/Zimbabwe border was also visited. Customs officials at Chirundu revealed that due to poor monitoring logistics at both border posts, informal cross-border trade was going on almost undisturbed.

The approach of this research in assessing the obstacles faced by cross border traders is slightly different from what others have been done before. This study is guided by the economic justice dimension, which put priority of labour over capital. Thus the study will examine the social dimension of trade.

CHAPTER FIVE

5.0 Findings and Analysis of Findings.

5.1 Overview of the findings.

The study sampled 150 informal cross border traders. 75 respondents from Chipata and 75 from Livingstone. The study also included interviews with customs officials at the borders, market committees and Informal Cross Border Traders Associations.

5.2 Comparative analysis of the informal cross border trader in Chipata and Livingstone.

5.2.1 Gender

In terms of distribution by gender the study found out that there were more women than men in the informal cross border trade in Livingstone. 66.7 % were men and 33.3 % were women. However, in Chipata, the situation was different, the majority of the informal cross border traders are men, 83.8 % men and 16.3 % women. This finding is consistent with Mindle (1998) who also found out that there were more men than woman in informal cross border trade in Eastern Province. The possible reason is that women engage men to do cross border trade.

5.2.2 Age Group

The study find out that 54.4 % of the respondents were between the ages of 20 --29 years old in Chipata while the average age in Livingstone was 40 years and above representing 44.6 %. 33.8 % of the traders were between 30-39 years and 20.3 % were between 20-29 years old.

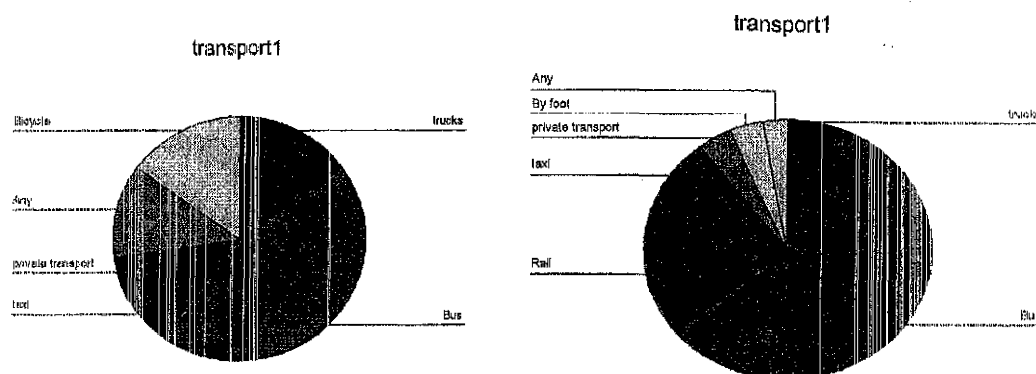
5.2.3 Marital Status

Regarding marital status, 58.2 % of the respondents in Chipata said they were married, 34.2 % single, 5.1 % widowed, 2.5 % divorced. While in Livingstone, 54 % were married, 20.3 % single, 23.0 % widowed, 2.7 % divorced.

5.2.4 Education

The study found out that in both cases, most traders had attained secondary school education. In Livingstone, 61.3 % of the traders had attained secondary education, 22.7 % primary education, and 16 % attained tertiary education while 58.2 % of the traders in Chipata had attained secondary school education, 34.2 % primary school education and 7.6 tertiary education.

Diagram: 2 Transport usage.



Transport Usage in Chipata

Transport Use in Livingstone

5.2.8 Occupation of Spouse of Traders

In Chipata, the study revealed that, 35.8 % of the spouses of traders were unemployed, 62.3 % were self-employed, and only 1.9 % were engaged in formal employment. While in Livingstone 40.5 % of spouses of the traders were unemployed, 32.4 % were self-employed, and 27.0 % were engaged in formal employment. This finding makes us generalize that ICBTs supplement their spouse's incomes.

5.2.9 Number of Years in the Business

Regarding the number of years in business, the study revealed that in Chipata, 50 % of the traders had been trading for between one-five years, 27.5 % six years and above and 22.5 % less than a year. In Livingstone, 38.9 % of the traders had been trading for between one –five years, 54.2 % six year and above and 6.9 % less than a year. This goes to prove that with the declining levels of formal sector employment in Zambia, informal cross border trade has provided an alternative to employment creation.

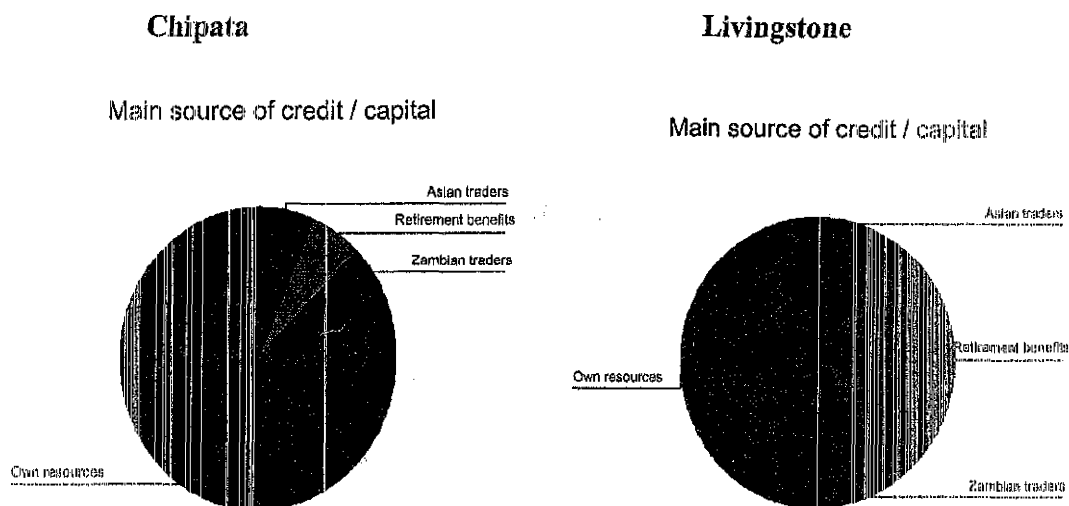
5.2.10 Whether the trader was once employed

The study found out that in Chipata, 35.9 % of traders were employed in the formal sector before and 64.1 % were never employed before. In Livingstone, 47.9% of the traders were once employed before and 52.1 % were never employed before.

5.2.11 Whether the trader would stop trading to take on formal sector employment

The study sought to find out whether the traders would leave trading to joint formal employment once offered the opportunity. In both cases, over 60 % of the respondents said

Diagram 3: Source of credit.



Most traders lack sufficient capital to improve or diversify their business and this has led them to being in one business line for so many years even when the profit margins are minimal.

5.2.15 Benefits of the COMESA FTA

The study sought to find out whether there were any improvements in trade since the introduction of the FTA. 86.4 % of the traders in Livingstone said there was no improvement, and only 13.6 % said there was an improvement as the table below shows.

Diagram 4: Improvements in business since the introduction of COMESA FTA

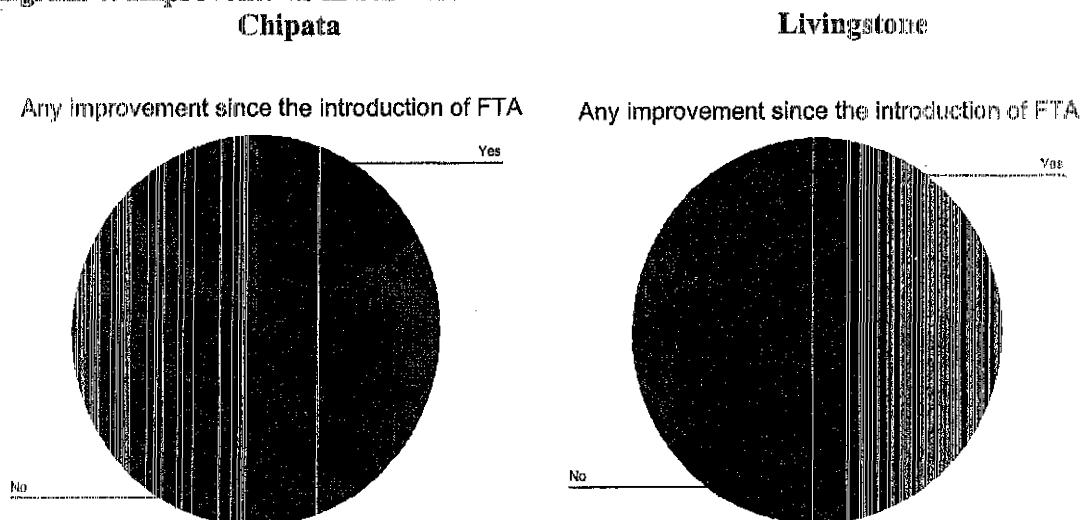
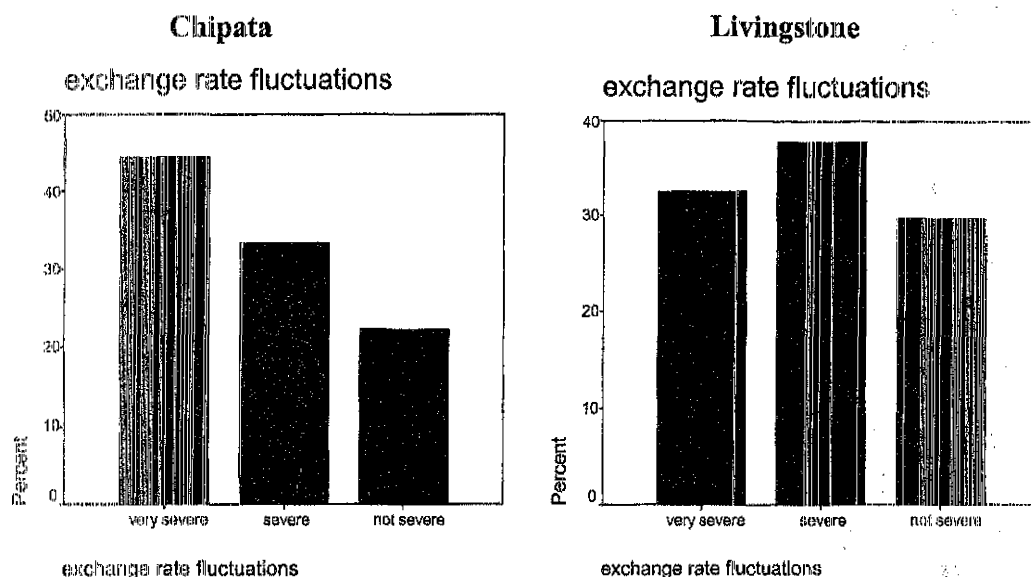


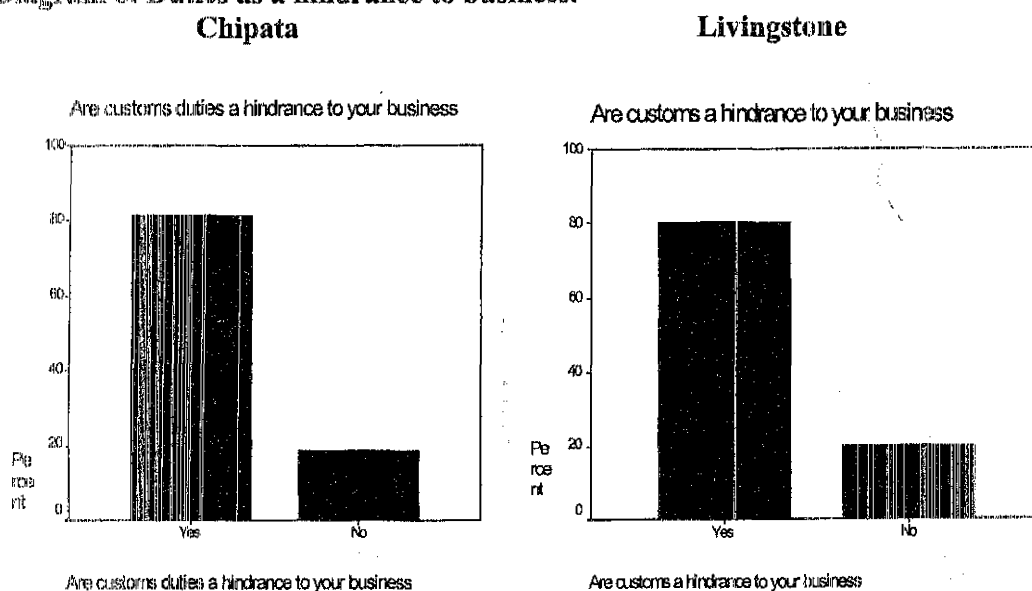
Diagram 5: Exchange rate fluctuation.



5.2.20 High Duty.

Most trader interviewed said that the customs duty charged on their goods was very high and saw it as a hindrance to their business. In Chipata, 65 respondents, representing 81.3 % said the customs duties were a hindrance to their business, while only 18.3 % said it was not.

Diagram 6: Duties as a hindrance to business.



Trade Diversion and Trade Creation, unlike the study done by the independent consultants in 1994, who found out that trade diversion was seen from goods such as cement, detergents, etc, this study found out that the trade creation effect could be seen from the increase in imports in drinks and bananas.

5.2.22 Customs Perspectives.

The COMESA certificate of origin does not work for informal cross border trader and very few of them have used this certificate to import goods. The reason cited was the complicated procedure to obtain this certificate and the high cost involved.

The COMESA FTA has called for added skills in the for the customs officers.

There are also a number of complaints levelled against the customs officer that they have not offered any explanation about the FTA to the informal cross border traders.

Generally the customs officers have realized that the informal cross border traders have not understood the FTA. The general perception is that the COMESA FTA was only meant for large-scale traders.

Regarding evasions, the study found out that previously the levels of evasion were high but these have been brought under control by ZRA. However, evidence from the ground still shows that the levels of evasion were relatively higher in Chipata than in Livingstone because of the vastness of the border.

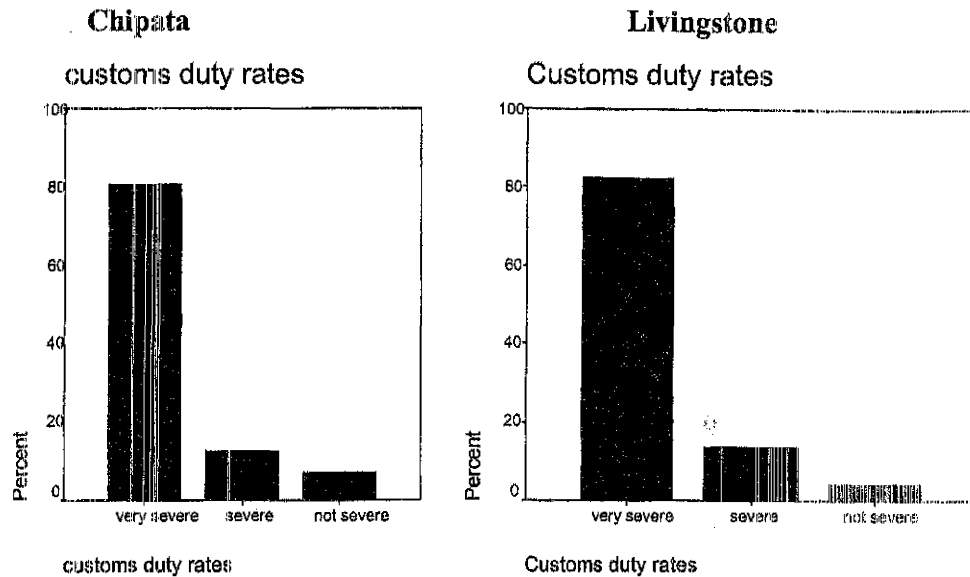
5.3 PROBLEMS FACED BY INFORMAL CROSS BORDER TRADERS BY SEVERERITY.

5.3.1 Relationships with customs officers

The study revealed the majority of the customs officials were not in good books with the informal cross border traders. This was because the traders viewed customs officers as being exceptionally harsh and charging very high duties. This was compounded by the frequent seizures of the goods from traders, in some cases without receipting the goods.

In Livingstone, the study found out that, 56.2 % of the respondents said their relationship with customs officers was bad because they were usually harassed and were being charged very high duties. 21. 9 % said the customs officers were corrupt. Observations from the study revealed that the harassment faced by informal cross border traders, is as a result of the pressure, which the formal sector is exerting on government institutions. The informal cross border traders are a threat to the formal sector. Secondly, responses on favours or rent seeking by customs officer, were interpreted with caution because most traders saw the paying of customs duty as a hindrance

Diagram 9 : Customs Duty rates

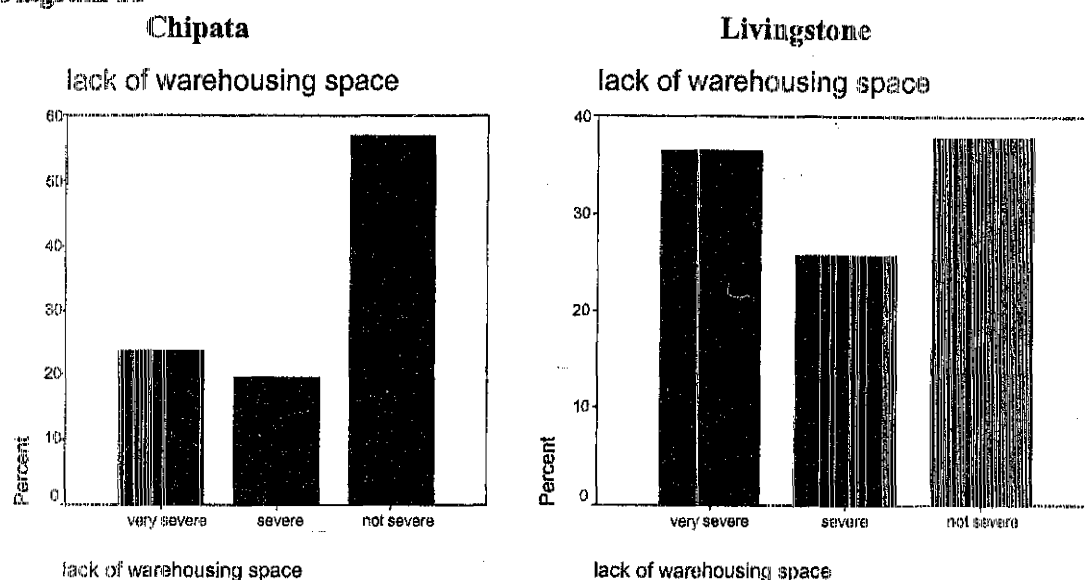


Although there was evasion on both borders, the level of evasion was high in Chipata because of the vastness of the border. The evasion commonly known as “Zalewa”, is done by men who ride on bicycles. The evasion was mainly attributed to high customs duties and people’s ignorance of what items attracted duty and what did not. To make profits, informal cross border traders had to resort to using secrete routes because they saw duty paid as being very high.

5.3.2 High Transport Costs

Regarding the severity of transport costs as a problem, 43.1 % of the informal cross border traders from Chipata said it was not severe, 31.9 % said it was severe and 25.0 % said it was very severe. Relatively, high transport costs were seen as a big problem in Livingstone. 43.5 % of the respondents said high transport costs were severe, 24.3 % said very severe and 32.4 % said high transport cost was not a severe problem, as seen in diagram 10 below.

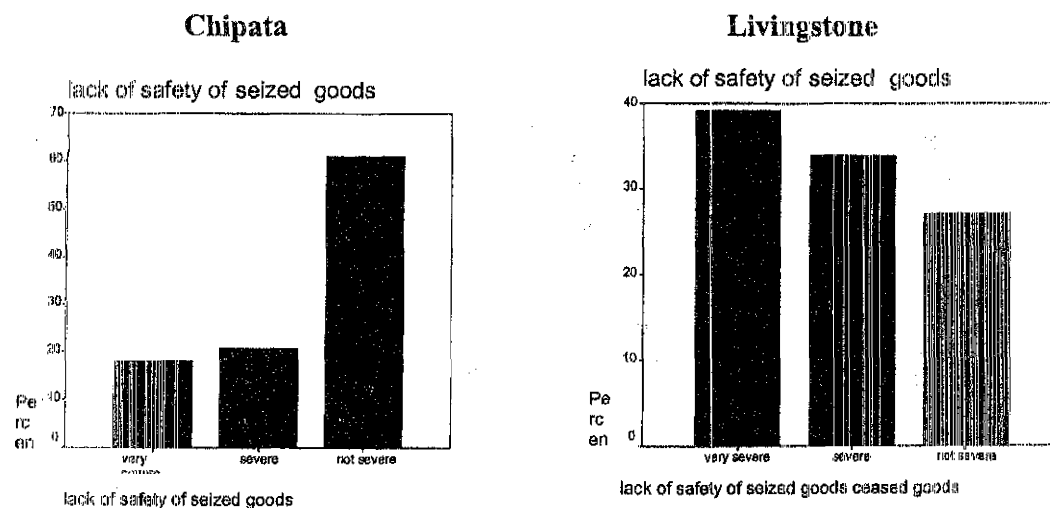
Diagram 11



5.3.3 Safety of seized items

The study revealed some traders complained that once goods are seized, by the Zimbabwean officials, the importer loses these goods completely and even after willing to pay to retrieve their goods.

Diagram 12: Safety of seized goods



In some cases, seized goods had gone missing and some of traders took advantage of the others by claiming what was not theirs. Some seized goods were not recorded and in some cases these went missing. The problem was more severe in livingstone where it was also learnt that some monkeys could even steal the seized goods from the warehouse.

5.3.4 Time Spent at the Borders

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