

**THE RELATIONSHIP BETWEEN REQUIRED TRADE DOCUMENTATION AND
THE CHOICE OF CROSS-BORDER TRADE PATTERNS**

A CASE OF REGISTERED MAIZE TRADERS AT BUSIA BORDER POST

BY

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DEDICATION

To the most precious women in my life;
Beloved Mum *Consolata* and My lovely Wife, *Linda*
Thank you for bringing the best out of me

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ACRONYMS

CBTA	Cross Border Traders Association
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECA	Economic Commission for Africa
FTA	Free Trade Area
GDP	Gross Domestic Product
ICBT	Informal Cross-border Trade
IDF	Import Declaration Form
JBC	Joint Border Committee
KEBS	Kenya Bureau of Standards
KEPHIS	Kenya Plant Health Inspectorate Services
KI#	Key Informant No.
KIFWA	Kenya International Freight Forwarding and Warehousing Association
KRA	Kenya Revenue Authority
MAAIF	Ministry of Agriculture Animal Industry and Fisheries
MOA	Ministry of Agriculture
RATES	Regional Agricultural Trade Expansion Support Program
SAD	Single Administrative Document
UNBS	Uganda National Bureau of Standards
URA	Uganda Revenue Authority
USD	United State Dollars

ABSTRACT

Among the wide range of regulatory requirements facing traders, documentation procedures have often acted as an important barrier to formal trade contributing to raising Trade Transactions Costs (TTCs). Whereas concluded studies highlight the bottlenecks faced by traders in the documentation procedures such as bureaucracy and high costs as constraints to growth of formal cross-border trade, there is a gap in the literature that sufficiently speak to the relationship between the complex documentation procedure and the choice of informal trade patterns with reference to border posts.

The overall research objective of this study is to investigate the relationship between complexity in trade documentation and the patterns of trade chosen by registered maize traders at the Busia border post. In order to achieve this objective, a survey of fifty-five traders engaging in cross-border trade activities was conducted through the use of probability sampling technique. Also, different stakeholders and government agencies were purposively selected as key informants. Data was collected by use of face to face administered questionnaires, key informant interview guide and direct observation. Key informants' data were thematically analyzed using Microsoft Word Tables while data from traders were coded and entered into SPSS for analysis.

The study found that required trade documentation partly influences the choice of informal cross-border trade patterns due to constraints such as accessibility and costs which increase trade transaction costs. It also established that the high illiteracy levels among cross-border traders contributes to lack of adequate market information which is linked with issues of accessibility hence exposing them to exploitation by unregistered clearing agents and brokers. It was further observed that importation through informal routes, inflow and outflow of unrecorded small volumes of goods coupled with diversion of trade flows from the formal trade routes comprise the main observable informal cross-border trade patterns. The study also found that inter-community trade and extended family relations play an important role in the growth of informal trade at the border point. Overall, the study indicates that the growth of informal cross-border trade is a result of a host of factors.

The study concludes that despite the fact that complexity in the documentation procedure partially correlates with the choice of trade patterns, in the same measure does informal trade grow especially in the absence of formal contracts and adequate market information; when other important obstructions to formal trade prevail and when trust-based networks such as extended family or inter-community networks are left to link markets, although informal. To enhance the growth of formal trade, the study recommends that it is important to sensitize and educate the traders so as to increase their level of awareness and understanding of vital trade regulations and documents, help them appreciate the benefits of conducting formal trade and harmonization of trade documentation between Kenya and Uganda so as to facilitate formal regional trade.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The Cross-border Trade Report 2012 states that Kenya trades substantially with her neighbours in the East African region since the country is deficient in major commodities such as maize, beans, wheat, and rice (MOA, 2012). This trade has been enhanced through East African Community becoming a fully fledged customs union and also by Kenya being a member of the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area (FTA) (MOA, 2012).

Studies indicate that trade across the Kenya-Uganda borders is composed of both formal (recorded) and informal (unrecorded) trade (Ackello-Ogutu et al., 1997). The term informal cross-border trade denotes the activities of small scale entrepreneurs who are involved in buying and selling in neighbouring countries. It occurs in a diversity of forms, and is often viewed as the darker side of entrepreneurship (Golub, 2009; Lesser and Moisé-Leeman, 2009). However, in the context of this study, informal cross-border traders are registered maize traders who import maize from Uganda from wholesale outlets to bring back to their home country for resale without following some of the laid down regulations.

Ogalo (2010) states that informal trade thrives due, in part, to the physical nature of the border points, the reluctance on the part of customs officials to record “small” transactions, the lengthy documentation procedures and the reluctance of the traders to pay “high” clearance fees. Therefore, the commonly higher estimates of the informal volume of cross-border trade compared with the formal volume is an indication of serious leakage that significantly contributes to understated Gross Domestic product (GDP) values in Kenya and Uganda, especially the former (Mauyo et al., 2007).

According to Regional Agricultural Trade Expansion Support Program (RATES), maize is a major staple food crop in Kenya and is taken as being synonymous to food security. About 90% of Kenya’s population depends on it as an income-generating commodity (RATES, 2013). Over the years, maize production has fallen short of the consumption requirements, rendering the country a net importer (RATES, 2013). For instance, production deficits have continued to be recorded ranging between 2 to 6 million bags (180,000 to 540,000 metric tonnes). It is important to note that the deficit has been bridged through unrecorded cross

border trade. In addition to the unrecorded trade, the deficit has been met through official cross border trade and off-shore imports (RATES, 2013).

Statistics from other cross-border trade studies provide ample evidence that maize trade has increased over some period (Mauyo et al., 2007). Formal maize export volumes from Uganda to Kenya increased from 115,000 metric tons in 2006 to 166,000 metric tons in 2010. However, informal maize trade constituted an estimated 83 percent of Ugandan maize exports to Kenya from 2004 to 2006, and anecdotal evidence suggests that informal maize volumes are increasing (Lesser and Moisé-Leeman, 2009). The total maize flow from Uganda to Kenya was estimated to exceed 250,000 metric tons in 2008 (Karugia et al., 2009). The disparities point to the fact that there are both informal and formal cross-border trade engagements between the two EAC member states.

1.2 Background to the Study

Klissas et al., (2009) states that the emergence of regional trading blocs, where members freely trade with each other, but erect barriers to trade with non-members, has had a significant impact on the patterns of regional trade since they have led both to trade creation and diversion between members. The East African Community (EAC) which comprises Burundi, Rwanda, Tanzania, Kenya and Uganda is an example of such arrangement. The EAC remains a major destination for Kenya's exports accounting for 53 percent of Kenya's total exports to the rest of Africa in 2010 (Muluvi et al., 2012). In the same year, Uganda was Kenya's leading export destination, absorbing 12.7 percent of total exports (Muluvi et al., 2012). Overall, Kenya's trade value in the region has grown significantly, from \$1.2 billion in 2008 to \$1.52 billion in 2010, representing a 26.7 percent increase. Kenya accounts for about 45 percent of the total intra-EAC trade (Muluvi et al., 2012).

This study focuses on the pattern of trade between Kenya and Uganda, which according to Adeleke et al., (2010), is modelled around and influenced by the needs of the population within the border posts. The modality of these trade engagements is described as either formal or informal (Adeleke et al., 2010). Rutaihwa and Rutatina (2012), highlight that the pattern of trade in the period between 1990 and 2000 shows EAC intra-regional trade flows were very low compared to the period between 2004 and 2010. The significant growth was attributed to coming into effect of the East African Customs in January 2005 which meant an improvement of the trade patterns of the EAC partner states, though the shift was not

immediate (Rutaihwa and Rutatina, 2012). Shinyekwa and Othieno (2013) states that following the implementation of the EAC customs Union in 2005, the value of intra-EAC trade steadily increased and more than doubled from US\$1.8 billion in 2005 to US\$4.9 billion in 2011.

However, the pattern of trade between Kenya and Uganda is understood to be quite diversified (ECA, 2013). The UN Economic Commission for Africa emphasizes that a large part of this trade is informal cross-border trade, generally following a long trading tradition among neighbouring nations (ECA, 2013). World Bank (2010) estimates that more than 95 per cent of the regional trade in Eastern Africa is carried out through informal channels and that it (informal trade) is one of the fastest-growing areas of commercial activity in the region. It is argued that informal cross-border trade (ICBT) represents 43 percent of official gross domestic product (GDP), thus being almost equivalent to the formal sector (Lesser and Moisé-Leeman, 2009). This unrecorded trade has long co-existed with, thrived and even surpassed the value and magnitude of official exports and imports (World Bank, 2010). The unrecorded trade is understood to be significant in boosting intra-regional trade, as well as in tackling unemployment levels, improving the supply side of goods and services and food security among others (Lesser and Moisé-Leeman, 2009). The ECA report further points out that in many instances, informal trade represents the only type of exchange that is possible under conditions prevailing in some regional economic communities since the trade bottlenecks often render near-impossible “official” trade between neighbouring countries (ECA, 2013).

Due to such conditions, it is informal cross-border trade (ICBT) that plays the main role in linking producers to markets in the wider East African region, and specifically between Kenya and Uganda. The maize market between Kenya and Uganda is no exception. Though maize is marketed under a free (liberalized) market system with minimum government intervention, a number of constraints still exist (Muluvi et al., 2012). Mauyo et al., (2007) argue that the formal procedures, specifically complex methods of certification and stamp fees are one of main reasons for the presence of bribery at border crossings. In addition, institutional restrictions in form of lengthy documentation procedures involved in the issuance of licenses, coupled with high clearance fees, forces many traders to resort to informal crossing points (Mauyo et al., 2007).

Despite Kenya and Uganda being important trading partners within the EAC fraternity, formal trade links between them have been constrained by a myriad of factors which have spurred the growth of informal and/or unrecorded trade (Ackello-Ogututu et al., 1997). It is widely felt that unrecorded trade between Kenya and Uganda is substantial and vital to both countries. Ackello-Ogututu et al., (1997) argue that despite trade promotion protocols and market reforms which, to a large extent, have eased exchange controls and commodity movement restrictions, cumbersome documentation procedures still inhibit formal trade between Kenya and Uganda.

According to Mauyo et al., (2007), cross-border trade in maize between Kenya and Uganda has increased over some time. However, informal maize trade constituted an estimated 83 per cent of Ugandan maize exports to Kenya from 2004 to 2006, and anecdotal evidence suggests that informal maize volumes are increasing (Lesser and Moisé-Leeman, 2009). The total maize flow from Uganda to Kenya was estimated to exceed 250,000 metric tons in 2008 (Karugia et al., 2009). The disparities point to the fact that there are both informal and formal cross-border trade engagements between the Kenya and Uganda.

The formation of the EAC Customs union was meant to ease trade and lead to rapid growth among member states by expanding the volumes of goods crossing their borders (Muluvi et al., 2012; Shinyekwa et al., 2013). According to the WTO report (2012), the EAC customs union protocol provides for standardization of customs formalities and harmonization of documentation procedures by member states. Further, the deepening and expansion of the EAC was meant to create an integrated market that would provide prime opportunities for more free and less restrictive trade (Muluvi et al., 2012). The creation of a common market between EAC states was directed at facilitating free-trade implied in the fundamental objective of "duty-free and quota-free movement of tradable goods across its constituent territories" (Ogalo, 2010). It is clear that neither of these objectives has been realized nor have they lessened the trade bottlenecks between Kenya and Uganda. Instead, cross-border trade patterns have become more fragmented.

1.3 Statement of the Problem

The application of custom formalities and harmonization of documentation was intended to promote formal trade in various commodities, such as maize, between Kenya and Uganda. However, the realization of this objective by individual member countries has been marked

by a host of constraints in the form of divergent and inconsistent import and export documentation procedures. In addition, it is expected that registered traders would follow the laid down regulations as a way of enhancing flow of formal trade. Unfortunately, this is not the case. In practice, a free market is non-existent despite the proposed free trade area. In reality, as Lesser and Moisé-Leeman (2009) states, Kenya – Uganda importers and exporters have to tackle domestic constraints such as bureaucratic customs procedures, formal business registration hurdles and time-consuming administrative processes. Studies on cross-border trade show that varying systems of customs formalities and non-harmonized standards continue to impede formal trade between Kenya and Uganda despite the fact that they are both signatories to the custom union protocol of the EAC (Okumu and Nyakori, 2012). Moreover, variation in required documents reflects the differing import procedures and inspection requirements between Kenya and Uganda. There are issues of duplicated inspections of products already certified by accredited institutions of products originating from the two countries and bearing the certification mark issued by respective national standards bureaus (Shinyekwa and Othieno, 2013). This, arguably, predisposes traders to transactions costs, which become impediments to formal trade (Adeleke et al., 2010; RATES, 2013). This is bound to lead to informal trade because traders always find ways of avoiding constraints which slow their exchange processes or make the trade processes expensive, leading to different informal trade patterns based on their mode of evading formal procedures (Shinyekwa and Otheino, 2013; Adeleke et al., 2010).

However, these studies do not explicitly capture information on the aspects of complexity in the required trade documentation between Kenya and Uganda that impede formal trade across the border. In addition, there is sparse literature on the bearing that the complexity has on the patterns of trade chosen by maize traders across the Kenya-Uganda border. Literature is inadequate on the effects the complexity creates as far as trade patterns are concerned since it results in constraints which prompt cross-border traders to opt for less restrictive and costly procedures by being informal. The study aims at supplementing the literature by investigating the relationship between this complexity and the informal trade patterns chosen by registered maize traders at the Busia border post.

1.4 Research Questions

The overall research question is: **What is the relationship between complexity of trade documentation and the patterns of trade chosen by registered maize traders?**

To arrive at an answer to this broad question, this study will set out to investigate the following specific research questions:

- i) What are the main aspects of complexity in trade documentation faced by registered maize traders?
- ii) What are the observable informal cross-border trade patterns at Busia border post?
- iii) What is the relationship between required trade documentation and informal cross-border trade patterns at Busia border post?
- iv) What are the trading traditions that predispose traders to informal cross-border trade patterns at the Busia border?

1.5 Objectives of the Study

The main objective of the study is to investigate the relationship between complexity in trade documentation and the patterns of trade chosen by registered maize traders at the Busia border post.

Specific objectives of the study are;

- i) To establish the aspects of complexity in trade documentation faced by traders at the Busia border post.
- ii) To identify the observable informal cross-border trade patterns at Busia border post.
- iii) To establish the effect of the complexity in trade documentation on informal cross-border trade patterns at Busia border post.
- iv) To explain some of the trading traditions that predispose traders to informality.

1.6 Justification of the Study

Different studies have endeavoured to expose and explain various constraints to formal cross-border trade. There is a pool of literature that attempts to lay emphasis on the fundamental challenge posed by inconsistency in the required documentation to formal trade between Kenya and Uganda. A significant number of studies have discussed the element of trade documentation as an institutional barrier which impedes on formal cross-border trade. However, these studies have not explored in depth the bearing that such a 'procedural

bottleneck' can have on traders in relation to the choice of trade patterns with regard to formal trade flows. Therefore, this study is justified to delve into the current discourse surrounding informal cross-border trade and expound further on the emerging effects and perspective that complex trade documentation has on a trader to opt for informal over formal trade pattern(s) by focusing on registered maize traders at the Busia border post.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviews both theoretical and empirical literature. The first section reviews the theoretical literature focusing on the main theories that inform this study. The second part comprises empirical literature review which draws on arguments and findings from other studies that explain relationship between complex trade documentation and the dimensions of cross-border trade.

2.2 Theoretical Literature Review

There is a large body of research that subscribes to the statement that “institutions matter”; and so is the case with trade institutions. Trade involves two or more distinct parties hence require regulatory frameworks and structures to govern the manner in which it is conducted plus safeguarding the interests of the parties. One fundamental aspect of trade is legitimacy. This implies that there are institutions entrusted to ensure that certain norms, regulations and measures are adhered that make trade legitimate and formal. As such, non-compliance leads to informality. It can be argued that informal cross-border trade is a function of institutional failure as well as an inevitable consequence of institutional changes (Scott, 2004). Promoting free trade across borders depends on the interplay between institutional restrictions, facilitations and transactions costs involved in the process. Institutions can be defined as regulations, policies, rules and facilitation processes that shape activities, in this case, pertaining to cross-border trade (Scott, 2004).

Institutional Theory

Institutional theory emphasizes legitimacy by focusing on the formal and legal aspects of government structures (Scott, 2004). The theory considers the process by which structures become established as authoritative guidelines for social behaviour (Scott, 2004). It further explains how these elements are created, diffused, adopted and adapted over space and time; and how they fall into decline and disuse. Institutional theory suggests that institutional contexts – the combination of formal rules, informal constraints and their enforcement characteristics – create an impetus for action patterns. An analysis of the theory focuses on ‘action situation’ which is understood as the social space where individuals interact, exchange goods and services or solve problems. The ‘action situation’ leads to patterns of

interactions and outcomes (Ostrom, 2011; Scott, 2004). And that identity and activity patterns exist as a product of institutional forces (Ang and Michailova, 2008).

The institutional theory takes into account cross-border differences in institutional arrangements as firms/traders face a complex variety of legal rules and procedures in the host countries (Scott, 2004). This assertion can be used to explain the existence of different trade rules and policies between Kenya and Uganda for technical and market access issues which have been argued to act as barriers to formal trade (Adeleke et al., 2010). These rules, in particular, have the effect of protecting national markets and obstructing a level playing ground. As a result, growth of formal cross-border flows has remained both low and slow for the two countries. Harmonizing and simplifying trade rules and regulations pertaining to import/export trade, then, is argued, could facilitate cross-border trade, and the integration of national and regional markets (Ang and Michailova, 2008; Adeleke et al., 2010).

Further, the theory puts emphasis on legitimacy as an important aspect of cross-border trade. Informal cross-border trade has been referred to as smuggling or illegal trade by the fact that it lacks legitimacy since it is characterized by avoidance of laid down legal procedures (Golub, 2009). Ang and Michailova (2008) states that legitimacy is acquired when firms/traders are rewarded for using structures, policies and practices that are “desirable, proper or appropriate within some socially constructed systems of norms, values, beliefs and definitions.” The theory proposes that formation of cross-border alliances are fundamentally important in promoting cross-border trade since it is a mechanism of building legitimacy through partnering of established firms (Ang and Michailova, 2008). This is because cross-border alliances represent a fast way to access assets and skills embedded in host countries by reducing environmental uncertainties and insulating firms from environmental threats (Ang and Michailova, 2008). As such, this could be a remedy to the institutional constraints that deter traders from choosing the formal trade patterns.

The theory attempts to expound on the regulatory environment that ought to govern cross-border trade which largely depends on the support accorded to it by the relevant law enforcement institutions. The regulatory pillar of institutions consists of rules and regulations either taken for granted or well supported by public opinion or law enforcement that are intended to encourage certain behaviours and discourage others (Ang and Michailova, 2008). The theory classifies the regulatory environments as either less restrictive or more restrictive.

In less restrictive contexts, laws and regulations are accepted and respected and corruption is minimized. This is argued to promote formal trade (Adeleke et al., 2010; Ang and Michailova, 2008). However, more restrictive institutional environments constrain the process of seeking legitimacy since meeting existing country specific regulatory requirements and ability to overcome regulatory restrictions and barriers are complicated as it has been argued to be the main pull and push factor for traders to engage in informal cross-border trade (Adeleke et al., 2010; Ang and Michailova, 2008).

Finally, the proponents of this theory build on the outlined failure of institutions to promote formal cross-border trade. They highlight that both the process of harmonizing trade documents and voluntary negotiations between countries are always aimed at sealing agreements on common rules to facilitate cross-border trade and regional market integration (Hoskisson et al., 2000; Ang and Michailova, 2008). However, they agree that the process has always been slow and little is achieved, hence a 'regulatory gap/void' is created (Ang and Michailova, 2008). This breeds familiarity among cross-border traders. For them, countries, as well as their institutions lack the ability to deal with such institutional voids which are exploited by cross-border traders (emerging firms) to constitute an important unique asset which they utilize to compete with multinationals in their home countries and other firms. This inevitably creates informality in the nature of trade activities that such firms/businesses engage in (Ang and Michailova, 2008).

As much as institutional arrangements matter in controlling cross-border exchange especially in terms of enforcement, it is important to note that overall, all exchange transactions encounter costs. In effect, conforming to regulations, registration requirements (implying documentation procedures) and enforcement of cross-border arrangements carry an element of cost. This dimension of trade is explained by the transactions cost theory which explains an institutional constraint to the growth of formal trade.

The transactions cost theory of the firm was created by Ronald Coase. Transactions cost refers to the cost of providing for some goods or services through the market rather than having it provided from within the firm. It accounts for the actual cost of doing business including coordination costs which are very integral component of cross-border trade. The inclusion of all costs is considered when making a decision and not just the market prices. Essentially, this theory is a suitable instrument for explaining the behaviour of most traders in

the context of free market (Ricketts, 1994). This is in relation to the human factor that leads to opportunistic behaviours in which one seeks to free himself from expenses with regard to exchange processes. Ideally, people engage in trade because of expected gains. Ricketts (1994) argues that if gains from trade are potentially available, then it is expected that institutions will be developed to facilitate their realization and this involves mitigating the effects of some of the forces which stand in the way. It can be argued therefore that complex trade documentation is such a force. This is indeed a transaction difficulty since it disrupts the process of exchange.

This theory identifies one important category of informal cross-border traders that is those who mis-declare their consignment. The proponents of the theory hold that the failure of transactors (traders), to declare information honestly would conceivably totally inhibit the development of certain insurance or other markets. In other words, people cannot be expected to declare honestly and voluntarily information which adversely influences the terms upon which they will trade when there are no cost-effective means of verifying the information (Ricketts, 1994). This implies that traders voluntarily chose to be informal so as to avoid such costs. Opportunistic behaviours are explained when traders engage in practices such as under-invoicing (i.e. reporting a lower quantity, weight or value of goods to pay lower import tariffs) or misclassification (i.e. falsifying the description of products so that they are misclassified as products subject to lower tariffs).

As far as cross-border trade is concerned, there are other factors that explain the element of transactions cost that further constraint the process of exchange. First is the size/volume of consignment. The size of the consignment handled by cross-border traders is equally a significant determinant of the choice of trade pattern a trader will choose. According to Ogalo (2010), trade flows passing through the informal channels usually consist of small quantities. Because of the small volumes per transaction, it is usually uneconomic for such traders to follow the official documentation formalities (Ndlela, 2006), even though a significant amount are passed through the official crossing points (Peberdy, 2002). However, since this is done repeatedly, the quantities passed across the border end up being significant.

However, informal cross-border trade is not only conducted in small quantities. Ackello-Ogutu (1997) argues that big consignments are also usually divided into smaller quantities to avoid attention when passing across borders or if the whole lot is passed through, they are

either under-invoiced or misclassified, or mis-declared. Once goods have crossed the border through the various informal means, they are piled-up in stores which are jointly hired, especially, by wholesalers. The stocks are accumulated to a reasonable volume in these stores for a week or more and the traders again team up to hire Lorries to transport them to various destinations in the importing country. It can be argued that the size of consignment is a cost related aspect when engaging in cross-border trade.

The second factor that explains the transactions cost theory is rent seeking behaviour by law enforcers. Studies point to the fact that the slow process of clearance of goods at the border may be a deliberate practice to obtain economic rent/bribe, understood as 'facilitation payment' from traders who naturally would want their clearance to be expedited. Under such cases, a trader may be allowed to pass without undergoing full checks as may be required. Traders are, therefore, attuned to this corrupt culture and they engage in informal trade with justified confidence. According to Perry et al., (2007), the level of corruption is positively correlated with the incidence of informality. Further, with regard to informal cross-border trade, De Soto (2000) sees its growth as representing a normal market response to overly cumbersome, rigid, time-consuming and inefficient bureaucratic export/import procedures and regulations; these factors can significantly increase the cost of both joining the formal economy and operating within it hence offering an incentive to join the informal sector.

It is worth noting that such corrupt deals involve mostly the formal firms (described in category B and C in Fig. 2.1) that engage in informal cross-border trade and their practice could be hurting the EAC economies more than is understood of small informal traders. This is because the formal enterprises/traders engaging in ICBT are well endowed with better education and so they understand international trade rules better than their small informal counterparts many of which are merely survivalist enterprises. They also have stronger economic might to be able to deal in larger quantities than small-scale informal cross-border trades; and, because of their stronger economic might they are also able to afford 'facilitating' their way across borders through several informal ways, thus evade taxation and other regulatory measures.

Thus, these two aspects of institutional theory provides the relevant theoretical basis that informs the major concerns of this study that is cross-border differences in institutional arrangements; legitimacy of cross-border trade; regulatory environment, failure of institutions

to promote formal cross-border trade and the transactional costs that impede on the process of exchange.

2.3 Empirical Literature

2.3.1 Informal Cross-border Trade (ICBT)

The Concept and Patterns of Informal Cross-border Trade

There have been numerous case studies of ICBT in the last two decades, most by sociologists, anthropologists and political scientists as well as economists (Golub, 2009; Lesser and Moisé-Leeman, 2009). Moreover, the discourse on informal cross-border trade (ICBT) must be understood in the context of the overwhelming role of the informal sector in most African countries (Golub et al., 2009; 2012). The informal sector exists around the world, but is most dominant in Africa (Kanbur 2009; Golub et al., 2009). Kanbur (2009) emphasizes that ICBT is closely connected to domestic wholesale-retail trade, in which the informal sector plays a particularly prominent part. In fact, the informal sector is so pervasive and the breakdown of state institutions is so complete in parts of Africa that some go as far as to say that the distinction between formal and informal economies has become meaningless and the informal sector is the real economy (Meagher, 2005).

From Kanbur's (2009) perspective it can be argued that several key features of the informal sector identified in recent literature are prominent in ICBT; first, informality is a continuum rather than a dichotomy; second, the informal sector is quite heterogeneous; third, ethnic and religious networks play a large role in organizing the informal sector, and are particularly important in ICBT given that their populations often straddle national borders and finally, although informal, ICBT is highly organized, with elaborate practical norms and division of labour (Titeca et al., 2009; Kanbur, 2009). Numerous specialized semi-official intermediaries are involved, such as customs clearance agents and government officials (Titeca, 2009).

Therefore, no single definition can be worked out to cover all these dimensions to distinctively define what informal cross-border trade is. It is a complex and multi-dimensional concept. However, this study uses the concept 'informal cross-border trade' to refer to trade in legitimately produced goods and services, which escape the regulatory framework set by the government, as such avoiding certain tax and regulatory burdens (Ackello-Ogutu et al., 1997; Golub et al., 2009; Kanbur, 2009). In addition, the term refers to goods traded by formal and informal firms that are unrecorded on official government records and that fully or partly evade payment of duties and charges (Golub et al., 2009).

According to Ackello-Ogutu et al., (1997), such goods include commodities which pass through unofficial routes and avoid customs controls, as well as goods that pass through official routes with border crossing points and customs offices yet involve illegal practices. Ackello-Ogutu et al., (1997) and Kanbur (2009) both highlight that such practices can comprise under-invoicing (i.e., reporting a lower quantity, weight or value of goods to pay lower import tariffs), misclassification (i.e., falsifying the description of products so that they are misclassified as products subject to lower tariffs), mis-declaration of the country of origin, or bribery of customs officials. Goods traded informally can cover both small volumes of goods, transported by individual traders crossing the border by foot or by bicycle, as well as larger volumes transported in containers by land, sea or air. Informally-traded goods can originate from (and be produced in) world markets or come from neighbouring countries (Lesser and Moisé-Leeman, 2009).

It is significant to note that informal trade can involve two types of illegality, i.e., in the goods themselves (e.g., narcotics) or in the manner of trading (evasion of customs duties and regulations) (Golub et al., 2009; 2012). Both types of illegal trade occur across Kenyan and Ugandan borders. However, although most informal trade is illegal in the narrow sense that it is unreported and fails to comply with statutory tax rates and other regulations, the products involved are generally not in themselves illegal to trade or use (Golub et al., 2009). Unfortunately, as pointed out by Golub et al., (2012) discussions of ICBT have failed to distinguish between these forms of unrecorded trade, yet they may have quite different causes and welfare effects.

The major players in informal trade are women and the youth, who either carry their merchandise on bicycles or cross on foot (Masinjila, 2009). Informal cross-border traders play a significant role in addressing vital issues of livelihoods such as food and income security. According to Masinjila (2009), majority of women traders in the East African region are small-scale traders who depend on the modest profits generated from their trade to make ends meet. Commodities, majorly agricultural products, are carried in small quantities (sometimes as low as 5 kg) (Lesser and Moisé-Leeman, 2009). However, since this is done repeatedly, the quantities exported end up being significant. It is important to note that informal trade is not only conducted using side-roads. In fact, a significant outflow of commodities through the informal channel is said to be occurring at the official crossing points (Lesser and Moisé-Leeman, 2009).

Fig 2.1: Categories of Cross-border Trade

CATEGORY A	CATEGORY B	CATEGORY C	CATEGORY D
Informal (unregistered) traders or firms operating entirely outside the formal economy	Formal (registered) firms <i>fully</i> evading trade-related regulations and duties (e.g., avoiding official border crossing posts)	Formal (registered) firms <i>partially</i> evading trade-related regulations and duties by resorting to illegal practices (e.g., under-invoicing)	Formal (registered) firms <i>fully</i> complying with trade-related regulations and duties

(Source: adapted from Ackello-Ogutu et al., 1997)

2.3.2 Documentation Procedure and Cross-border Trade Patterns

Although there have been significant advances in the operation of inter-regional trade in recent years, a considerable number of obstacles still exist to the free flow of goods and services in many countries, particularly in developing countries and those in transition (Yoshino et al., 2011). The authors argue that these obstacles result in unnecessary extra costs and complications to international transactions, thereby preventing countries and enterprises from fully benefiting from cross-border trade (Yoshino et al., 2011). Arguably, both formal and informal cross-border trade patterns are a result of a variety of factors. However, different studies have identified the role played by documentation in enhancing and/or stifling trade flows across borders.

Shinyekwa and Otheino (2013) while considering the flow of formal trade among EAC states argue that for some time the fluctuation of formal exports was partly due to stringent policy of imposing lengthy documentation procedures and customs duty on maize exports. This scenario discouraged formal cross-border maize trade and led to most traders evading formal export procedures and customs duty. Muluvi et al., (2012) adds that in addition to the fact that formal cross-border trade has been made nearly impossible by cumbersome documentation procedures, there is lack of a well coordinated and monitoring framework that

result in weak trade regulations that further jeopardize the nature of trade among these countries.

In a recent study Yoshino et al., (2011) while focusing on formal trade argue that the cumbersome documentation process for importation multiplies the constraint behind the border in South Sudan. Further, the recent Doing Business report for South Sudan (World Bank and International Finance Corporation 2011) found that an entrepreneur in Juba needs to submit 11 documents, wait 60 days, and spend US\$ 9,420 to import a standardized container of cargo through the port of Mombasa. While this is the case of imports outside of the sub-region, a similar story applies for regionally produced and regionally traded products which are the focus of this paper. Better coordination of process among Customs, Ministry of Commerce and Industry (MCI) and Sudan Standard and Metrological Organization as well as state governments would facilitate importation process by cutting down the time cost of importation in Juba.

A recent report focusing on Trade Facilitation in the EAC reiterated that compared to global best practices, the EAC countries require large numbers of trade documents and inspections. Moreover, requirements vary significantly among countries, raising transaction costs and lengthening import/export processing times. This has been cited as delaying imports and hindering formal trade in the region (USITC, 2012).

2.3.3 Trading Tradition

Literature suggests that complex market arrangements and channels involving a wide range of participants have created a web of cross-border relations based on trade and clan affiliations (Meagher, 1997). Thus, a close look at the nature of cross-border trade in East African Community aligns to the argument that many cross-border markets pre-date colonial and post-colonial state boundaries when there were no cross-border procedures to be followed (Meagher, 1997). Hence, what continues today as informal cross-border trade could simply reflect the longstanding indigenous patterns of trade that make more sense than formal trade channels (Meagher, 1997). The tendency to stick to informal cross-border trade should therefore be understood simply as an old practice that cannot be expected to die out easily.

In this perspective, informal cross-border trade is not significantly influenced by the high transaction costs or rigidity and bureaucratic customs procedures; rather, its entrenchment is

simply a re-establishment of the extensive barter trade and migration of people that were a feature of economic and social life predating colonization in East African Community. Then, pre-colonial period, people traded freely across borders and many still prefer that old way (Ogalo, 2010). The UNECA (2009) study analyzing the gender dimension of cross-border trade in EAC finds that the women involved in informal cross-border trade prefer to continue trading, largely, the same way as they have done for many decades gone by; these traders show little evidence of knowledge of the EAC Customs Protocol. In actual fact, they are less motivated to know how the Protocol can benefit them and they perceive the opening up of trade under the evolving EAC Customs Union Protocol and promotion of formality as an interference and threat to their livelihoods (UNECA, 2009). For instance, cross-border livestock trade between Kenya and Ethiopia is a significant integrating mechanism through which vital connections between communities have been maintained some of which predate colonial period.

In West Africa, informal cross-border trade is rooted in antiquity. For instance, in the pre-colonial period peoples of sub-region related and traded without the need for formal registration and without delineated borders. Colonization led to institutionalization of borders as symbols of state sovereignty. The Eurocentric structure categorized informal cross-border trade as illegal in tandem with West-centric economies. Tariffs and various non-tariff barriers were imposed, disrupting the natural trading activities of communities, especially those living along national borders.

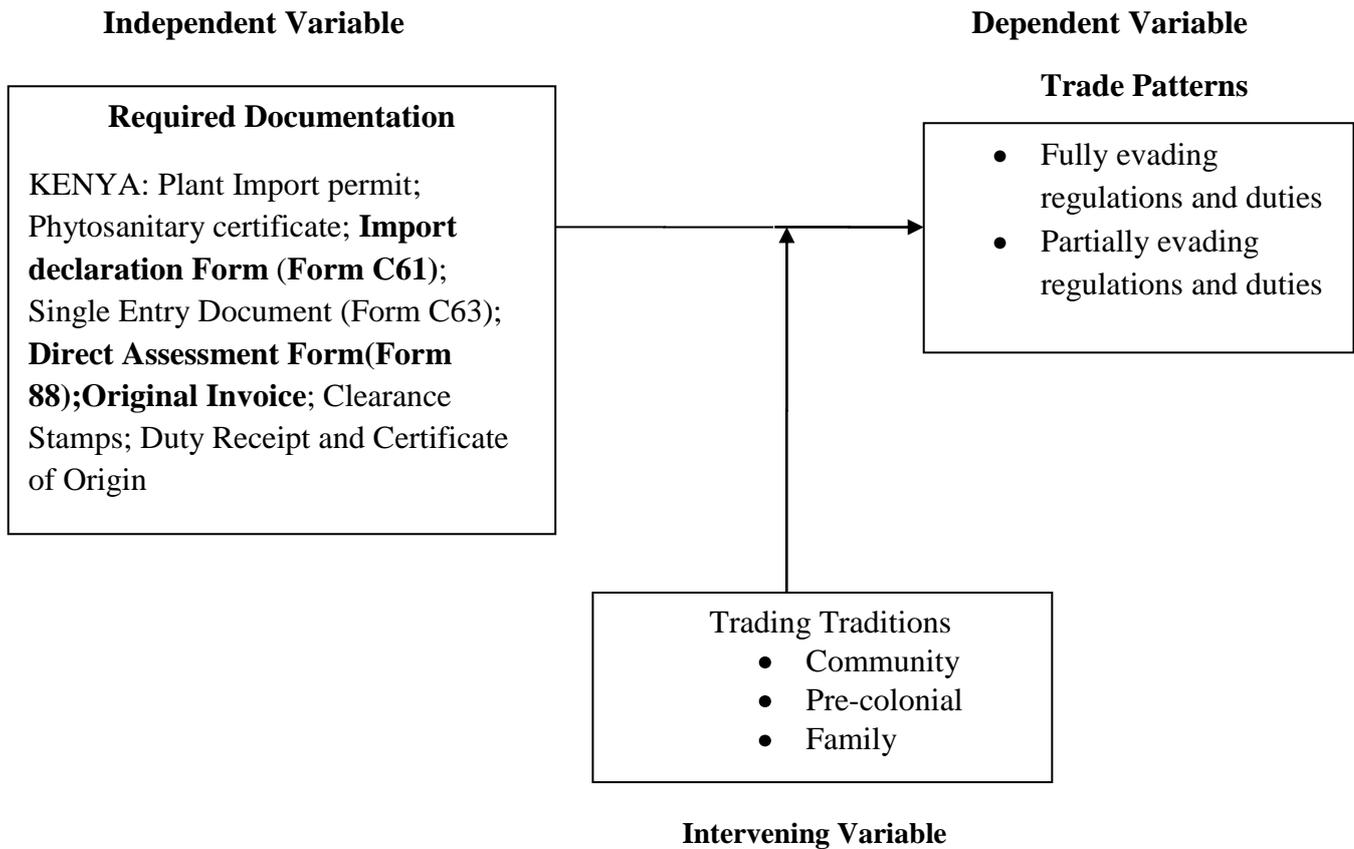
While considering the nature of cross-border trade between India and Myanmar, Singh (2005) cites that informal cross-border trade between Myanmar and its neighbouring countries, that is, China, Thailand, Bangladesh, India, have been going on for the past several decades. He emphasizes that the social, cultural, religious and the ethnic similarities among the human groups have encouraged stronger economic ties inform of border trade (Singh, 2005). It is further argued that history is full of such relations which are still continued despite formation of “impermeable” boundaries (Husain, 2000). Additionally, cross-border trade between Cambodia and Thailand in the 1960s was mainly carried out informally between people living side by side as neighbours and friends, rather than as residents of separate nations with an acute sense of national identity. Thus, Meagher (1997) argues that informal cross-border trade simply reflects longstanding indigenous patterns of trade that

makes more sense than formal trade channels. Informal cross-border trade is not necessarily incentivized by the constraints facing formal trading; rather, the tendency to stick to informal cross-border trade should be understood simply as an old practice that is difficult to leave and its entrenchment today is simply a re-establishment of the extensive barter trade and migration of people that were a feature of economic and social life before colonization (Ogalo, 2010).

2.3.4 Trading Tradition and Informal Cross-border Trade

According to Meagher, (1997); Peberdy, (2000); Little, (2001); Meagher, (2003); and Matorova, (2008), the recent rise of the informal sector, and growth of informal cross-border trade, is mainly a structural backfire to the market liberalization policies of the 1980s and 1990s. In their view, it is an indictment on the Structural Adjustment Programmes (SAPs) policies which prematurely exposed EAC economies to unfair external competition and also reduced the government interventionist policy spaces and as thus ended up creating more poverty and unemployment than they were meant to create them. There is no need to explain the fact that poverty and unemployment would inevitably push people to the search for alternative sources of income, and ICBT is one such alternative. Therefore, this study delves into explaining one significant factor that contributes, alongside documentation procedure, to the growth of informal cross-border trade patterns.

Fig 2.2: Conceptual Framework



2.3.5 The Nexus between Informal Cross-border Trade and Development

Among economic theorists, ICBT is both a social and economic malice (Njikom and Tchouassi, 2011). However, it is important that we assess its likely impact on dimensions of development, especially, bearing in mind that as much as ICBT denies government of revenues which could be invested productively, it is also an important source of employment and income generation, hence appears to play a vital role in alleviating poverty for many poor people trying to eke out a living where formal jobs are shrinking (Ogalo, 2010; Njikom and Tchouassi, 2011).

In literature, the existence of counter arguments and mixed opinions about ICBT is an indicator that ICBT is not entirely negative but rather complementary to the formal economy. In one school of thought, ICBT has been seen as socially and economically undesirable as the proposers of this view consider the trade as undermining established industries since they distort price incentives to producers. In another school of thought, ICBT has also been viewed as having the potential to undermine the efficiency and returns of intra -regional

trade. Yet, a third school of thought sees ICBT as having the potential to push back the frontiers of poverty (Kachere, 2011; Ackello-Ogutu and Echessah, 1998).

The impact of ICBT is difficult to estimate because of the unregistered characteristics of the trade (Ama et al., 2013). Apart from its negative impact on the formal economy of any nation through 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, it has an even greater positive impact on the individuals participating in the trade, their families and relatives through contribution to food security, creation of employment, provision of income and poverty alleviation, complementing the formal commercial network and contribution to the opening of new markets for domestic products (Ama et al., 2013).

Various scholars have argued that ICBT is a source of employment and livelihood for the many participants engaged in it. Mijere (2006) offers a perspective into this debate by emphasizing that ICBT enables traders to obtain decent shelters for themselves and their relatives using the income generated from the trade and it has a multiplier effect on education and health care, not only for themselves but for their dependants hence impacting on their overall livelihoods. Households participating in the trade have been able to support their families using ICBT incomes and poor families are increasingly escaping poverty (Kachere, 2011; Ackello-Ogutu and Echessah, 1998; Minde and Nakhumwa, 1998). Muzvidziwa (2005) also reiterated that ICBT is not only a source of livelihood; it is also a source of employment, making up for the shortfall as a result of the reduction in formal employment under Structural Adjustment Programmes (SAPs). As a result, informal cross border trade plays a key role in poverty alleviation, complementing the objectives sought under regional integration. For many of the economically poor, informal cross border trade has become a means of survival, a source of income and employment (Muzvidziwa, 2005).

Tekere et al., (2002), in their study on informal cross-border trade between Zimbabwe on one hand and South Africa and Zambia on the other, concluded that ICBT provides an opportunity for a large number of unemployed people to earn an income considerably higher than the minimum salary in the formal sector (Ama and Mangadi, 2013). The authors argued that, by engaging in ICBT, people who otherwise have no jobs become gainfully employed and in turn a chain of other service providers such as transport and commuter operators get jobs where otherwise these operators would be unemployed. The study also established that

some families depend on ICBT source of income even for school fees and other expenses, and that cross-border trading contributes positively to the empowerment of women, who are the major participants, and food security. ICBT is often considered as offering a lot of employment and income opportunities to women traders thus promoting women economic empowerment. These views were supported by Bracking and Sachikonye (2006), Mwaniki (1998), Muzvidziwa (1998) and Meagher (2003).

Mwaniki (1998) supported the view that several people in the region, with a big proportion mainly women, were shifting to the informal sector where they hope to earn a living and among such groups are the cross-border traders who travel frequently to neighbouring countries to sell their products and return home with more goods for resale and some foreign currency. Mwaniki (1998) also noted that all the cross-border traders interviewed managed to raise incomes that took their households out of poverty, as the incomes accruing to them were above the prevailing official poverty threshold. In reference to Vietnam, Lindsay (2002) points out that participation in the cross border economy has proved to be a way for people to escape from poverty. This is clearly brought out by the significant difference in living standards between participants and non-participants in cross-border exchange.

Another significant impact as far as ICBT is concerned relates to regional and market integration. Proponents of market integration argue that, by widening markets, cross-border trade creates positive incentives for investment in productive sectors such as agriculture and industry. In addition, Mwaniki (1998) quoted in Kachere (2011) noted that informal contacts strengthen regional integration networks and relationships, and also noted that informal cross-border trade contributes immensely to the process of regional integration. Mwaniki (1998) concludes that regional integration processes demand participation of all sectors of the economy including the informal sectors.

The proponents of the negative effect of ICBT argue that informal cross-border traders have the potential to undermine the development of established industries as they expose local industries to unhealthy competition, distort producers' price incentives and bastardize foreign exchange earnings. Slotterback (2007), while considering the impact of ICBT in the case of Nigeria, argued that home based textile industries in Nigeria suffered due to importation of used cloths from the Western world. According to Slotterback (2007), from the perspective of Nigeria's Fran Zone neighbours, cross-border trade flow have seriously undermined industrial production since the onset of Nigerian structural adjustment. Several studies point

to the de-industrialization of Niger under the impact of competition from cheap Nigerian products. The survival of some of the key industries for instance, textile, chemical and milling is under threat. According to Faleye (2013), in order to combat this trend, there is need for restrictive import measures in order to protect indigenous textile industries in emerging economies.

Tekere et al., (2002) noted that, despite the economic benefits brought about by ICBT, for example, alleviating poverty, there is some evidence that ICBT contributes to the high divorce rate and the single parent families largely headed by women. However, this study fell short of describing how ICBT has contributed in directly or indirectly in reconciling families through gainful employment and job creation, bringing about affordability and thereby, social rest (Tekere et al., 2002). On the other hand, Mupedziswa and Gumbo (2001) noted that relations with parents and relatives were strengthened since the traders were remitting some of their proceeds as assistance, and their spouses were not against cross-border trade, though they could not support them with start-up capital. Nyatanga et al., (2008) acknowledged that most developing countries face a huge employment problem. Due to the deteriorating macro-economic environment in these countries, informal cross-border trade is viewed as a viable activity (particularly in comparison with rural farming) that generates employment, supplement income, improves food security by households and a means for improving living standards (Nyatanga et al., 2008).

Despite the fact that ICBT has been ongoing for some years and is an important economic activity to most countries, it is clear that its impact to general growth and development is contested. Mijere (2006) is of the opinion that despite its significant contribution to welfare of the population (participants and their dependants) through employment and income generation, ICBT has not been recognized by governments as a part of the national or regional economy. Different studies reveal that ICBT has numerous spill-over effects associated with socio-economic development in terms of infrastructure and service delivery, including communications, access to schools and health centres, credit and financial institutions and rural development programmes. In essence, ICBT should not be seen as protest sector but rather a complementary sector. Little (2007) argues that instead of being stifled, ICBT should be encouraged as a means to increase intra-regional trade (and 'regionalization'), meet local demand that is not being met by national production and markets, and ensure regional food security.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section provides a description of the methodology that was used in the study. It begins by providing a description of the study site and the research design. It then proceeds to explain the study population, the sampling procedure and the sample size as well as data collection methods and analysis. The chapter concludes by discussing the challenges faced by the researcher during data collection and how they were resolved.

3.2 Study Site

Busia is at the international border between Kenya and Uganda. It is situated West of Kenya and East of Uganda. It has become a major trading centre for both countries and the entire Eastern Africa region (Compete USAID, 2010). The Busia border accounts for the bulk of both trade and human traffic between the two East African countries and is characterized by heavy human traffic, medium and small scale cross border trade and containerized cargo trucks carrying imports, exports and goods on transit to other neighbouring countries. Busia is a very busy trading centre where infrastructural facilities including roads, telecommunications, power lines and supporting institutions like banks, are well developed on both sides of the boarder. The study focuses on Busia since the most noticeable trade around Busia revolves around cereals and legumes; with beans, maize, millet and groundnuts finding their way into Kenya (Crown Agents, 2010).

3.3 Research Design

According to Bryman (2008), a research design is the structure for the collection and analysis of data. Hence, a research design serves to plan, structure and execute a research. The study used mixed methods - a combination of qualitative and quantitative research methods. The justification for using these techniques was to overcome the weakness or intrinsic biases of using a single method and for completeness purpose in order to attain an in-depth understanding of the phenomena under investigation. Qualitative methods comprised key informant interviews whereas survey questionnaires covered the quantitative methods.

Prior to actual data collection, the researcher conducted preliminary fieldwork which involved direct observation of the trade patterns used by registered maize traders at the Busia border post. During this exercise, a list of registered traders at the Busia border post was

obtained from the Cross Border Traders Association (CBTA) officials upon which a targeted population for this study has been constructed.

3.4 Target Population and Unit of Analysis

The target population for this study is defined as all registered traders engaged in maize trade activities at the Busia border post. According to Teddlie and Tashakkori (2009), a unit of analysis is understood as the individual case or group of cases that the researcher wants to express something about when the study is completed and is therefore the focus of all data collection efforts. Therefore, the unit of analysis for this study was the individual registered trader engaged in maize trade at the Busia border post.

3.5 Sampling of Respondents

The sampling frame that was used for this study is the list of all registered cross-border traders, who are members of the Cross Border Traders Association, which are 185. To extract the sample size, simple random sampling was used. This is a probability sample in which sampling is based on chance to generate an accurate sample size.

The sample for this study was derived by:

$$\begin{aligned} \text{Sample size} &= \frac{30\%}{100} \times \text{Total No. of registered traders} \\ &= \frac{30\%}{100} \times 185 \text{ which is } 55.5 \text{ (app 55 respondents)} \end{aligned}$$

Based on the given sampling frame, a sample size of 55 was used as the actual number of respondents for this study. Respondents who declined were replaced with those willing to participate. This method of sampling could lead to biased results. However, the researcher moderated the responses to counter such bias. The sample size is 30% of the total population of the target population.

3.6 Sampling of Key Informants

The key informants were sampled based on their expertise knowledge about the issues that the study sought to investigate. Therefore, six key informants were sampled for the study using purposive sampling technique. The key informants included the Busia County Revenue Collection Officer (KI#1), the Kenya International Freight Forwarding and Warehousing Association (KIFWA) chairman (an association of all clearing and forwarding agents) (KI#2), the Busia Kenya Cross-Border Traders Association (CBTA) chairman (KI#3), the

Busia County Director of Trade (KI#4), the East African Community Regional officers (KI#5), and the Customs and Revenue Collection Authority (KRA) officer (KI#6).

3.7 Data Collection Methods and Sources

The study was conducted from the 1st to 30th of July 2015. Both quantitative and qualitative data collection methods were used. The quantitative method of data collection used was a field survey whereas qualitative data was collected using both key informant interviews and direct observation. Data sources included both primary and secondary sources. The primary sources included the survey responses, observation guide and key informant interviews. The study drew significant secondary data from trade documents obtained from key players involved in trade facilitation at the border post.

The first data collection tool used was a survey questionnaire. The survey comprised a brief structured questionnaire which profiled cross-border traders in relation to age, gender, level of education, ethnicity, and trade in other commodity apart from maize and whether they possess the required trade documentation. The questionnaire was subdivided into sections targeting to establish general information on traders, trade patterns, trade documentation and cost related issues.

Direct observation was used to supplement and validate the data collected from other sources. According to Little (2005), a common approach to quantifying trade flows is observation of trader activities at border crossings. This method has the advantage of direct observation rather than inference and can be a crucial source of information for understanding the modalities of trade. During the study, the research was positioned at three key entry points at close intervals. The three points were the Busia border Custom entry/exit gate, Sofia informal exit/entry route and Marachi exit/entry route. The two informal routes are manned by both the police and customs officials throughout the day. The reason for adopting direct observation was to capture the patterns of flow of trade and the timings of the day when the traders constantly cross with their goods.

Finally, in-depth key informant interviews were used to provide deeper insight and verification of information gathered through direct observation and survey questionnaire. Based on their expertise and experience, the key informants provided relevant information touching on issues of complexity of trade documentation, reasons explaining some of the

informal trading activities, the element of cost associated with securing the necessary documentation, the patterns of trade common at the border post and the existing trading traditions that predispose traders to choose informal patterns.

3.8 Data Needs Table

The data needs table below breaks down, the data collection methods to be used, the type of data needed and their respective sources.

Table 3.1: Data Needs Table

Research Question	Data Needs	Source(s)	Instrument
What are the main aspects of complexity in the required documentation faced by registered maize traders?	(a) List of formal trade documents from Kenya (b) Identifying areas and aspects of complexity; <ul style="list-style-type: none"> • Accessibility • Cost • Time of processing 	Key Informants Survey Respondents	i) Key Informants in-depth interviews ii) Survey Questionnaire iii) Direct observation
What are the observable informal cross-border trade patterns at the Busia border post?	(a) Routes taken by traders while crossing the border (b) Observable aspects of informality	Direct Observation Data from Customs Officials	i) Direct Observation ii) Key Informant Interviews
What is the relationship between required trade documentation and informal cross-border trade patterns at the Busia border post?	Effect of required trade documentation on; <ul style="list-style-type: none"> • Traders avoiding official points 	Survey Respondents	Survey Questionnaire
What are the trading traditions that predispose traders to informal cross-border trade patterns at the Busia border?	Types of trading activities currently and in past; <ul style="list-style-type: none"> • Family • Community 	Survey Respondents	Survey Questionnaire

3.9 Data Analysis

The study benefited from both qualitative and quantitative data. Hence, qualitative and quantitative data analysis techniques were used to analyze field data. Quantitative data collected through the survey was cleaned to counter irregularities arising from wrong entries and/or error in responses. After, the data was coded and keyed into the Statistical Package for Social Science (SPSS). Analysis of the resultant data was done using descriptive statistics such as frequencies, percentages and cross-tabulations. The data gathered from key informant interviews was analyzed through thematic analysis.

Table 3.2: Data Analysis Table

Research Question	Data Type	Data Analysis
What are the main aspects of complexity in the required trade documentation faced by registered maize traders?	Qualitative Areas and aspects of complexity	Thematic analysis a) Explaining formal trade documents b) Identifying areas of complexity
What are the observable informal cross-border trade patterns at the Busia border post?	Qualitative Identifying common trade patterns used by traders while importing maize across the border points	Thematic analysis with frequency analysis
What is the relationship between required trade documentation and informal cross-border trade patterns at the Busia border post?	Quantitative Explaining the how traders evade formal regulations as a result of lacking documentation	Independent variable analysis; Cross-tabulation
What are the trading traditions that predispose traders to informal cross-border trade patterns at the Busia border?	Qualitative a) Some of the trading traditions among the traders b) The influence of trading tradition on choice of trade patterns	Thematic analysis

3.10 Challenges Faced During Data Collection

Lack of Suitable Time to Administer Questionnaire

The researcher faced the challenge of lack of a suitable time to administer the face-to-face questionnaire. Since the study respondents were traders, there were frequent disruptions from customers coming to purchase maize. The researcher had to explain to the respondents that the interview would accommodate such occurrences. Thus, the interview would be stopped for a couple of minutes for the respondent to serve customers then resume.

Decline by Respondents

There were instances where respondents declined to be interviewed. This was experienced from both the survey respondents and key informants. One key informant declined to provide detailed information hence the interview ended prematurely. The researcher had to rely on information provided by someone in a junior position to finalize on some of the pending issues. In the case of survey respondents declining, the researcher replaced them with others who were willing to be interviewed.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents findings and discussion of the study as related to the research questions. The study targeted cross-border maize traders at the Busia border post. The main objective of the study was to investigate the relationship between complexity in trade documentation and the patterns of trade chosen by registered maize traders. To arrive at this broad objective, the study sought to: establish the aspects of complexity in trade documentation; identify the observable informal cross-border trade patterns; establish the effect of the complexity in trade documentation on informal cross-border trade patterns and to explain some of the trading traditions that predispose traders to informality.

4.2 Characteristics of the Traders

Understanding the basic characteristics of the traders such as gender, marital status, age, level of education, nature of post school training, place of residence, ethnicity, nationality and years in cross-border trade helps one put the study into context. Comprehending these characteristics was a key component to this particular study since earlier studies have made attempts at correlating some of these characteristics especially gender, marital status, education level and number of years in cross-border trade as factors having a bearing on the choice of trade patterns among different traders at the border. Some of the findings are discussed as follows.

4.2.1 Gender Analysis

Analyzing the gender composition of the traders was to help expose the gender dynamics in this particular type of trade and what reasons exist to explain it. From table 4.1, a majority of the respondents 67.3% were female and 32.7% were male. This shows that informal cross-border trade is predominantly female dominated. This concurs with findings from other studies (Masinjila, 2009; Titeca et al., 2009; Yoshino et al., 2011) who found that women's participation in cross-border trade is largely informal ranging between 70 – 80 per cent. This is a characteristic of most developing countries where women small-scale traders depend on the modest profits generated from their trade to make ends meet since trading activities play a crucial role in improving their household incomes. From direct observation made by the

researcher during the study at various crossing points, on average, women constituted the majority of those crossing the border.

Table 4.1 Gender of Traders

Gender	Frequency	Percent
Female	37	67.3
Male	18	32.7
Total	55	100.0

Source: Field Data, 2015

4.2.2 Marital Status

Out of the study sample of 55, majority of the respondents (69.1%) were married with a significant proportion (10.9%) being divorced. This was a significant aspect for this study since it contradicts what earlier studies (Masinjila, 2009; Brenton & Isik, 2009; Lesser & Moisé-Leeman, 2009 and Ngungi, 2010) had highlighted that most informal cross-border traders were either divorced or widowed women who engaged in informal cross-border trade for purposes of alleviating poverty in general and feminized poverty in particular. A significant percent of cross-border traders were from female-headed households as widows or bread winners, depending solely on cross-border trade as a source of income for their dependants and profits from informal trade often constitute the sole source of earnings and ‘economic empowerment’.

However, these findings contradict such findings as it indicates that a significant proportion of the traders are married. This could be an indication that despite the fact that informal-cross-border trade is female dominated; it does not necessarily imply that their (female traders) involvement is due to their socio-economic status of being either divorced or widowed and bread winners.

Table 4.2 Marital Status

Marital status	Frequency	Percent
Married	38	69.1
Divorced	6	10.9
Widowed	5	9.1
Single	4	7.3
Separated	2	3.6
Total	55	100.0

Source: Field Data, 2015

4.2.3 Level of Education

From the analysis on table 4.3 and figure 4.3(a), the study shows that majority of informal cross-border traders lack education. The data shows that a large number of the traders are either primary or secondary school dropouts with a corresponding 20% and 34.5% respectively. Cross-tabulation results as observed in Table 4.3 (b) shows slightly higher illiteracy level among the female traders compared to their male counterparts as they dominate the columns for both primary and secondary incomplete. This conforms to earlier studies (Masinjila, 2009) which established a close association between women illiteracy level with their trading patterns. The researcher confirmed during the study that due to their low education levels, women show little evidence of knowledge regarding the documentation procedure and even less motivation to use it to facilitate trading activities. In support of this finding, KIFWA chairman argued that most traders lack the knowledge of customs union. Since they are illiterate, they end up struggling to smuggle zero rated goods which maize is one of them. As this study confirms, most women traders interviewed avowed that they continue to trade, largely the same way they have done for many decades gone by. This was an admission by majority of respondents who have been in the trade between 3 – 5 years as indicated in Table 4.3 (c) below. In addition, most of the traders interviewed exhibited a lot of misgivings they have about current conditions of cross border trade. Most of the traders associated possession of required trade documentation to a condition for attracting taxation hence pushing them to remain informal, that is, without the documentation. The fear of taxation is anchored on the argument that formal taxes will eat into their profits and that traders are unlikely to afford taxes. There is an overwhelming preference among most of the traders for this ‘old way’ of conducting informal cross-border trade due to the doubts and outright discomfort with the trade documentation.

High illiteracy level among traders was cited by most Key Informants as the key driver and cause for informal cross-border trade. Key informants consent that vast majority of the traders participating in cross-border trade use agents for clearing their consignments. This was confirmed by traders who import at large scale. According to two Key Informants (KI#1 and KI#2), large scale traders are those who import an average of 150 – 200 bags of maize per trip. It is this category of traders that is bound to use certain documentations such as Certificate of origin, Phytosanitary certificate and Invoice. One trader confessed that he barely knows the total cost of the documentation since it is handled by the clearing agents. He cited his level of education as an impediment to dealing with documentation process.

The study found that the agents are not necessarily based on professional permits or licenses but simply based on personal recognition by the traders. Therefore, the agents are naturally those who have been around doing the work at the border post and know how to get around with the system. This is supported by KI#2 who when elaborating factors explaining informal cross-border trade cites that top in the list is the level of ignorance among most traders. Generally, traders lack knowledge of the requisite documents. In addition, they lack a proper interpretation of the common market as well as a clear understanding of the documentation process. Closely linked to this is the issue of brokers who take advantage of traders who lack the knowledge of customs procedures. In fact the brokers are not registered or recognized by any authority. Therefore, ignorant traders become their targets. To a large extent they are the cause of the persistence of informal trade patterns. This is because they divert traders to the informal routes since they earn their living from such activities. They charge costs for handling duty free goods such as maize which is zero rated. In the long run, the traders end up incurring costs that double what they would have incurred by going the formal way. In effect, passing through the informal routes proves expensive than when a trader uses the formal routes.

Further, KI#2 argued that the use of agents is not officially required; however, customs officials have preference to deal with clearing agents who understand the procedures better than the traders. The negative perception was that the customs officers looked down on the traders because they were semi-illiterate and they perceived their negligible understanding of the customs procedures, especially the documentation procedure, as a challenge.

Table 4.3: (a) Level of Education

Education Level	Frequency	Percent
Primary Incomplete	11	20.0
Primary Complete	9	16.4
Secondary Incomplete	19	34.5
Secondary Complete	13	23.6
Post-secondary/Tertiary	3	5.5
Total	55	100.0

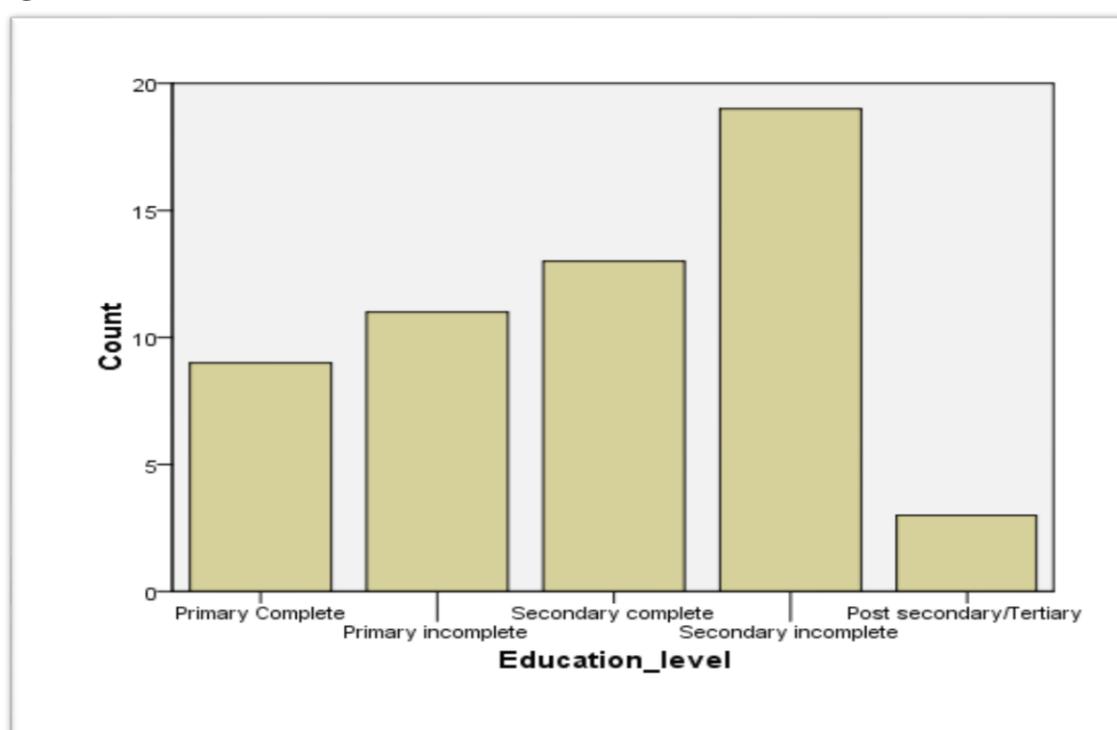
Source: Field Data, 2015

Table 4.3: (b) Gender – Education Level Cross Tabulation

Gender	Education level					Total
	Primary Complete	Primary incomplete	Secondary complete	Secondary incomplete	Post-secondary/Tertiary	
Male	2	4	6	4	2	18
Female	7	7	7	15	1	37
Total	9	11	13	19	3	55

Source: Field Data, 2015

Fig 4.1: Level of Education



Source: Field Data, 2015

4.2.4 Ethnicity of Informal Traders

Ethnic trading networks are a key to understanding the modalities of informal trade in various parts of the world. A common language, religion, culture, etc, play a critical role in facilitating trading across the border. This is particularly so where the same ethnic community is divided into two national boundaries; for example, the division of the Samia of the Luhya ethnic group into Kenya and Uganda borders. Some of the traders, especially of the Luhya and Teso ethnic groups, affirmed that the origin of their intercommunity cross-border trade dates back to pre-colonial time when they traded with their fellow tribesmen

across the borders. Thus, ethnic trading networks in the pre-colonial time are an explanation to the existence of some of the informal trade patterns at the Busia border. The distribution of the total sample among different ethnic communities is reflective of the participation of different ethnic communities in the informal trade between Kenya and Uganda (see Table 4.4 (a)).

Table 4.4 (a) Ethnicity

Ethnic Group	Frequency	Percent
Luo	25	45.5
Luhya	16	29.1
Mgisu	6	10.9
Teso	2	3.6
Acholi	2	3.6
Musoga	2	3.6
Kisii	2	3.6
Total	55	100.0

Source: Field Data, 2015

According to this study, cross-border trade between Kenya and Uganda is dominated by members of the Luo ethnic group (45.5%), followed by the Luhya community at 29.1% while the Teso, Acholi, Basoga and the Kissis are the least represented ethnic groups with a 3.6% respectively. Other studies (Taneja, 2002, Masinjila, 2009) have looked at ethnic ties between trading partners as a significant factor to explain the growth of informal cross-border trade. In fact traders mentioned that the close ethnic ties between different tribes at the border was the reason for explaining their informal trade and its persistence.

4.2.5 Duration in Cross-border Trade

The other factor that is central to maintaining the close ethnic ties is the duration the respondents have been engaged in cross-border trade. Establishing the duration in trade was a significant component in this study since from the onset one of the study objectives was to understand the trading traditions that predispose traders to informal cross-border trade patterns. The data in Table 4.4 (b) shows that most of the traders (81.1%) have been in cross-border trade for more than a year. This category of traders is therefore better placed to understand the dynamics of trade at the border post. The study exposed that a significant portion of the respondents have established some form of distribution channels for their consignments especially those who import in large scale. In addition, some of the key

informants confirmed that a majority of the traders have been in this type of business for a very long time. This makes them familiar with the ways of circumventing the formal procedures. Another key informant revealed that it is those who had been in this trade for a number of years that direct the new entrants into informal trade patterns.

Table 4.4: (b) Duration in Cross-border Trade

No. of years in CBT	Frequency	Percent
More than a year	45	81.8
Less than a year	10	18.2
Total	55	100.0

Source: Field Data, 2015

4.3 Trade Documentation

The study sought to establish the aspects of complexity in trade documentation faced by cross-border traders. First, the study made attempt to understand the different types of documentation needed for cross-border trade. According to KI#2, there are different types of documentations. There is documentation for export, import, transit, temporary importation and re-importation. Hence, a trader will require certain documents in relation to the nature of his/her trade.

As far as formal import is concerned, a Kenyan trader must first obtain a Plant Import Permit from KEPHIS which is the government agency entrusted with the prime role of regulating plant imports (and exports) (KI#2). In addition the trader must have: (i) Invoice which states the value and quantity of the goods; consigner and consignees names and details; (ii) Packing list which contains details of the goods/items; (iii) Certificate of origin issued by the Kenya Revenue Authority. This document is issued free (no charges) when dealing with cereals. This is because maize receives preferential treatment under the EAC custom protocol. The essence was to give a waiver on import duty, unless the consignment attracts Value Added Tax (VAT). However, maize does not attract any VAT since it is imported duty free; and (iv) Phytosanitary certificate. This is issued by the Ministry of Agriculture on the Ugandan side (country of origin) certifying that the conditions stipulated both in Kenya's Plant Import Permit and under the EAC rules are met and it costs USD 1.39. According to KI#2 and KI#3, there are two types of certificates of origin. The yellow certificate of origin which is issued for voluminous consignments and the Pink certificate of origin also referred to as Simplified Certificate of Import which is issued on consignments of the value not exceeding USD 2000.

This was an initiative meant to help small scale traders who move goods across the borders in small volumes.

Maize imports to Kenya must meet certain EAC quality standards/requirements for instance moisture content, foreign matter, inorganic matter among other elements (KI#2, KI#3 and KI#4). Quality standards are enforced through inspections of maize imports by Kenya Bureau of Standards at points of entry like the border posts. Further, maize imports must meet certain food safety standards specifications for instance moisture content of 12.5%; aflatoxin level of 10ppb; be free from radioactive material and other impurities and other requirements stipulated in '*Food, Drugs and Chemical Substances*' Act. These standards are enforced through inspections of maize imports by the Health Authorities at the border entry point. The other requirement is import duty. To this effect, maize from COMESA countries attracts no import duty whereas maize from all other countries attracts an import duty of up to 50%.

Additionally, a maize importer must obtain Form C61 (Import Declaration Form) from Government authorities. The Government of Kenya fee for this form is *ad-valorem* rate of 2.75% of Cost Insurance and Freight (C.I.F) value of the import. An advance Import Declaration Form (IDF) fee of Kshs. 5000 (USD 48.75) is paid to any Kenya Revenue Authority office throughout the country. When clearing the maize imports, an IDF fee is calculated on maize imports at a rate of 2.75% of the dutiable value of imports, to cover the cost of documents, KEPHIS and KEBS inspection. If the amount exceeds the advance IDF fee of USD 48.75, the importer is required to pay the difference. If the amount does not exceed the 2.75% of the dutiable value, no further IDF fee is payable. Maize importers must also have other additional documents and comply with the stipulated procedures. The importer must declare imports using Form C63 (Single Entry Document) (or Form 88, Direct Assessment, if maize is for non commercial use), obtainable from the Government authorities or clearing and forwarding agents.

With regard to this study objective, findings from the traders and some of the Key Informants reveal that complexity of trade documentation is indeed still a principal factor constraining formal trade. For instance, KI#4 states that the general feeling among traders is that documentation is seen as a way of punishing the traders. This is because documentation has largely been associated with Kenya Revenue Authority (KRA), and once you mention KRA then the element of taxes come in, a thing that most traders do not want to listen to due to the negligible profits they acquire from their trade. He further argues that access to

documentation is an issue. This is because unregistered brokers have exploited these traders. Since most of them are limited by their low level of education, they suffer from lack of information on the documentation procedure in relation to their importance, costs and sources. Thus, they are unable to access these documents hence resort to use brokers who exploit their ignorance.

Another aspect of complexity cited by KI#4 is the fact that every time there is a new system for clearing goods across the border. This implies that the system is very unstable because of frequent adjustments. Coupled with this, clearance of imported goods is done online which requires computer (ICT) skills which most traders lack. Equally, the documentation procedure itself is too complicated for the type of trade done by small scale cross-border traders. Most of the traders engage in this type of trade for survival purposes. Therefore, subjecting them to formal documentation, with all the convolutions of access and costs among other things, is in itself a deterrent from formal trading patterns. In addition, there is a problem with issuance of some trade documentation. For instance, KI#2 highlights that there is a challenge with the issuance of transit license for trucks. The application process is too constraining, bureaucratic and costly, i.e. it costs 3,000 US Dollars. In the same breadth, KI#3 mentions that Kenyan traders face the challenge of frequent rejection/non-acceptance of trade documents by Ugandan authorities. Closely linked to this is the challenge caused by lack of harmonization of trade documentation between Kenya and Uganda. For instance, KI#2 mentions that the Single Custom Territory has never been implemented as per the EAC protocol which stipulates that taxes on any consignment within the EAC boundary should be paid at the importing country. On the contrary, taxes are paid at both the importing and exporting countries making trade expensive. To a large extent this hinders the implementation of free trade agreement under EAC and eventually stands in the way of fostering formal cross-border trade.

Based on the above discussion, Table 4.5 shows that most of the respondents 56.4% agree that various aspects of complexity in the documentation procedure is a cause for informal trade. Thus, it can be affirmed that documentation is a restraint to formal cross-border trade.

Table 4.5 Perception on Complex Documentation as Reason for Informality

Response	Frequency	Percent
Strongly Agree	4	7.3
Agree	27	49.1
Neutral	7	12.7
Disagree	13	23.6
Strongly Disagree	4	7.3
Total	55	100.0

Source: Field Data, 2015

However, 30.9% of the traders disagreed with this view by holding on to a different argument. They argue that since the entire process has been simplified, complex documentation procedure is not the main factor impeding the growth of formal trade among small scale traders. In support of this, KI#2 and KI#3 argue that traders with smaller consignments have been given priority by the Kenya Revenue Authority since they receive instant services to ease flow of trade. In addition, KEPHIS, which is a major player in the process of documentation, have a leeway in that traders can apply for a plant import permit before shipping the consignment. In their perspective, there are other factors that collectively contribute to the uncontrolled growth of informal trade at the border post other than complex documentation procedure.

4.4 Observable Informal Cross-border Trade Patterns at the Busia Border Post

This study had the objective of identifying the observable informal cross-border trade patterns at Busia border post. The researcher relied heavily on the data gathered through direct observation and supplemented by in-depth key informant interviews.

First, the study found that cross-border trade flows between Kenya and Uganda is focused primarily on cereals especially maize (as shown in table 4.6). According to KI#4 this is as a result of shortage or low availability of this staple commodity in Kenya while its surplus is in Uganda. To an extent it is the existence of surplus production in Uganda witnessed at harvest time that has led to continuous importation of maize into the Kenyan market which faces unceasing shortages. And as all the study respondents stated their source of maize is from wholesalers in Uganda.

Table 4.6 Main Commodity of Trade

Commodity	Frequency	Percent
Maize	31	56.4
Other	24	43.6
Total	55	100.0

Source: Field Data, 2015

The researcher established two major physical informal routes at the border point that is Marachi and Sofia trade routes which had constant inflow and outflow of people ferrying different merchandise maize being one of them. However, it does not mean that the two are the only routes for informal cross-border trade activities. Of course other informal trade activities occurred through the formal entry point. One observable pattern is importation through informal routes. Relying on discussions with Key Informants (KI#1 and KI#3), the pattern of trade where some traders import maize through the informal routes while avoiding the official crossing point is one of the main features of informality at the border point. This tendency is explained by the nature of the markets which are geographically close and the source of the maize which is an uncontrolled surplus market in Uganda. The key informants further argued that the border is very porous which make it susceptible to uncontrolled entry and exit of goods through various points. These are some of the aspects that most traders (both small and large scale) exploit to engage in informal trade across the border.

The researcher also observed significant unrecorded volumes of trade escaping the attention of the regulatory agencies/institutions. A number of traders, majority of who are women, cross at the official border point ferrying goods varying both in volume and type either by foot, bicycles, motor bicycles, push carts or wheelchairs. In duration of 2 hours, traders would make between 2-3 trips. One category of these traders would make return journeys carrying different commodities while another category made one way journey. According to KI#4 the behaviour among traders is that they make numerous trips by foot carrying small volumes of goods ranging from 2-10kgs. In the end this accumulates to large volumes of unrecorded imports/exports. This observation resonates with findings from other surveys (Lesser & Moisé-Leeman, 2009) which found that informal cross-border flows often consist of relatively small consignments of goods. Such consignments can however add up to important aggregate volumes of informal trade. According to KI#2 because of the small volumes per transaction, it is usually uneconomic for such traders to follow the official documentation formalities hence the element of informality. For instance, during the early

morning hours most of the traders crossed carrying cereals or fruits from Ugandan side. However, by midmorning most of those crossing the border were transporting fresh fish from Ugandan side. By afternoon till late, the focus shifted to finished consumable goods especially household items finding their way into the Ugandan market from the Kenyan side. The researcher observed that there was constant flow of goods from either side of the divide using both the formal and informal routes with agricultural products dominating flows from Uganda whereas those from Kenya were mainly consumable goods. The dominance of agricultural products is due to the fact that agriculture sector still represents an important share of GDP for the two countries.

By use of observation backed by in-depth key informant interviews, the researcher established that there are instances where traders divert the flow of trade to the informal routes. This diversion is perpetuated by cross-border traders themselves. KI#3 argues that the diversity of informal trade activities is due to a behavioural tendency tradition embedded among the traders. For instance, when a new trader comes to the border, s/he is led (oriented) by someone (*an insider*) who has been engaging in informal trade. Hence, new entrants get initiated into the channels their friends have always been using most of which are informal. This is not only in cereals (maize) but it cuts across the board even for finished/commercial goods, cloths, shoes or household items. Thus, informal trade persists as a result of such behaviour where traders divert the flow of trade.

4.5 Relationship between Trade Documentation and Informal Cross-border Trade Patterns

Trade documentation is among the wide range of regulatory requirements facing cross-border traders that have often acted as an important barrier to formal trade, contributing to raising trade transaction costs (TTCs). It is against this background that the study sought to investigate the relationship between Trade documentation and informal cross-border trade patterns. An investigation was made into the extent to which required trade documentation is a reason for choosing informal trade patterns by the traders.

In response to this particular objective, the study sought to establish the number of traders in possession of required trade documents as a means of legitimizing their trading activities. From the study findings, majority of the respondents (78.2%) do not have the required trade documentation while only a minimal per cent (21.8%) are in possession of the required

documentation. The latter category comprises those who engage in formal cross-border trade since they import large consignments and use the stipulated formal procedures.

Table 4.7 Is the Trader having Required Documentation

	Frequency	Percent
Yes	12	21.8
No	43	78.2
Total	55	100.0

Source: Field Data, 2015

To advance this objective further, the study aimed at establishing the reasons as to why traders lacked the required documents. The findings show that 32.7% of the traders indicated that they did not need the documents since they have been operating without any documentation following the certain trading traditions; 29.1% stated that they were not large scale traders hence there was no relevance in possessing the documents whereas 12.7% lacked the documents due to the cost involved in obtaining them. Another 9.1% of the traders admitted to missing all the documents. (See table 4.8).

Table 4.8 Reason for Missing Documentation

	Frequency	Percent
Not needed	18	32.7
Not a large scale importer	16	29.1
Cost involved	7	12.7
Missing All	5	9.1
Total	46	83.6
Missing System	9	16.4
Total	55	100.0

Source: Field Data, 2015

A further analysis was made using cross tabulation in order to establish the relationship between required trade documentation and the informal cross-border trade patterns among the traders. As shown in Table 4.9 the results show that most traders do not attribute their involvement in informal trade to lack of trade documentation. The analysis shows that traders who lacked formal trading documents were engaging in informal trade as a result of a host of factors. Among the reasons, the traders mentioned that they do not need the documents since they are confined to trade at the border markets; they are not involved in large scale trade and

lastly the cost factor implied in obtaining the documents as the common hindrances to formal trade.

Table 4.9 Cross Tabulation of Trade Documentation and Documentation as Reason for Informality

		Documentation as reason for informality					Total
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	
Trade documentation	Yes	1	4	1	5	1	12
	No	2	6	2	27	6	43
Total		3	10	3	32	7	55

Source: Field Data, 2015

4.6 Trading Traditions at the Busia Border

The study sought to explain some of the trading traditions that predispose traders to informality. From the responses given by the traders, there are two distinct trading traditions that influence the patterns of trade among cross-border traders.

4.6.1 Inter-community Trading Traditions

The study established that one of the outstanding traditions is the inter-community trading ties among communities settling either along or across the borders. According to KI#3 cross-border trade has always been conducted among people of the same clan or ethnic group. As stated by KI#4, some of the communities spread along the territorial boundaries share a lot in common both culturally and socially for instance the Samia at either sides of the border. He highlights that they speak the same language, they inter-marry and own land on either side of the borders. This alone provides an incentive to these communities to engage in trade to exploit available opportunities on either sides of the border. During the study, traders who agreed to have been influenced by trading tradition (9.1%) stated that their communities had engaged in some form of cross-border trade at the pre-colonial time characterised by barter trade (See Table 4.10(a)). Thus, their involvement in informal trade was either through inheritance and/or a continuation of established inter-community trade activities which date back to pre-colonial time prior to the introduction of formal trade. This is supported by an earlier study (Lesser and Moisé-Leeman, 2009) which attest to the fact that informal cross-border trade often reflects long-standing relationships and indigenous patterns, which often

pre-date colonial and post-colonial state boundaries. Table (4.10(b)) illustrates the two main categories of trading traditions that were either initiated during the pre or post-colonial times.

Table 4.10 (a) Inter-Community Trade

	Frequency	Percent
Yes	5	9.1
No	50	90.9
Total	55	100.0

Source: Field Data, 2015

Table 4.10 (b) Nature of Inter-Community Trade

Type of Trade	Frequency	Percent
Pre-colonial	3	5.5
Barter trade	2	3.6
Total	5	9.1
Missing System	50	90.9
Total	55	100.0

Source: Field Data, 2015

4.6.2 Trading Tradition from Parents

The study findings also reveal that a significant portion of the traders had inherited the trading habits from their parents or relatives. In some cases, the parents/relatives were still actively involved in the trade during the study or had transferred the tasks to their sons/daughters. The data presented indicates that 23.6% of the traders interviewed had either their parents or other relatives involved in cross-border trade (See Table 4.11(a)). Thus, this was a significant determinant of the nature of their entry into this trade. One category of the traders (14.6%) mentioned that the choice of engaging in informal trade was influenced by either one/both parents. The other category had been introduced/influenced by either an elder sister/brother (3.6%) (See Table 4.11(a)). This is an indication that family ties equally play a significant role in determining the choice of cross-border trade pattern more so if the arrangements involve extended families at either side of the borders.

Table 4.11 (a) Was Parent/Relative a Trader

	Frequency	Percent
Yes	13	23.6
No	42	76.4
Total	55	100.0

Source: Field Data, 2015

Table 4.11 (b) Nature of Trade Inherited from Parent/Relative

	Frequency	Percent
Mother was a trader	5	9.1
Elder sister/brother actively involved	2	3.6
Both parents with partners	3	5.5
Mother actively involved in trade	3	5.5
Total	13	23.6
Missing System	42	76.4
Total	55	100.0

Source: Field Data, 2015

Discussions with KI#3 and KI#4 confirm that understanding some of the persisting informal cross-border trade patterns is embedded in the nature of inter-community trade at and after pre-colonial period long before trade was formalized. And this was done either by parents or at community level. Thus, some of the traders are simply following this tradition. This is further explained by the fact that the *'geographical boundary found us, not vice versa'* as stated by KI#4. He explains that there are Samia traders (of the Luhya ethnic group) in Kenya and Uganda side who deal in virtually same commodities. So they use relatives to engage in trade across the border. It is very difficult for such people to acknowledge something like geographical boundaries rather they follow their families at either sides of the border. Thus formalizing trade for such traders is next to impossible and is in itself a disincentive to formal trade. Further discussion with KI#4 reveals that such trading traditions have been cemented through intermarriages. Intermarriages among the neighbouring communities have opened the border to small scale traders who engage in informal cross-border trade with their relations across the borders.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives summary of the findings, draws conclusions and suggests recommendations in relation to the study objectives.

5.2 Summary of the Findings

Characteristics of the Traders

In order to contextualize the study, the researcher aimed to understand some of the characteristics of the traders such as their gender, marital status, level of education, ethnicity and years in cross-border trade. The study findings show that informal cross border trade is dominated by the female gender at 67.3 per cent with 32.7 per cent being males. Some of the women small-scale traders interviewed indicated that trade activities played an important role in improving their household incomes and economic wellbeing. Further, the study established that majority of the traders (both men and women) are married (69.1%) and engage in cross-border activities as the main source of income for their families. With regards to education level, the study found that most traders are either illiterate or semi-illiterate. The findings reveal that a significant proportion (70.9%) of the traders has not attained secondary education and are either primary or secondary school drop-outs. Since ethnic affiliations play a crucial role in organization of informal trade, it was necessary to understand the ethnic composition of the traders. The findings show that informal cross-border trade is conducted by various ethnic groups. However, it is dominated by the Luo community (45.5%) followed by the Luhya community (29.1%) with other ethnic communities such as the Teso, Gishu, Acholi, Basoga and the Kisii significantly represented. The last aspect was the duration traders had been engaging in cross-border trade. The findings indicate that 81.5 per cent had carried out trade for more than a year while 18.2 per cent had been in cross-border trade for less than a year.

Trade Documentation

The study sought to establish the main aspects of complexity in trade documentation faced by cross-border traders. First, the study found that different types of documentation exist; there is documentation for export, import, transit, temporary importation and re-importation. Thus, the nature of trade determines the type of documentation used by a particular trader.

The main aspects of complexity are; access to documentation, lack of knowledge to process the documents, issue of cost and lack of harmonization of trade documentation. The study established that the process of obtaining the required trade documents is too constraining and bureaucratic hence causing delays. The second element of complexity is embedded in the finding that most of the traders are either illiterate or semi-illiterate. Thus, they are incapable to use the available online process of obtaining relevant trade documents which require ICT skills. The third aspect of complexity is posed by the cost implications. The study established that the documentation procedure is costly considering the fact that most of these traders are small scale traders who engage in cross-border trade for survival hence their inability to afford. For instance, the application process costs USD 3,000. Lastly, the documentation process is complex due to lack of harmonization in the documentation between Kenya and Uganda. The study found that formal trade documents issued by Kenyan authorities are occasionally rejected or not recognized by Ugandan authorities.

Observable Informal Cross-border Trade Patterns

The study aimed at establishing the observable informal cross-border trade patterns at the Busia border post. The first observable pattern the researcher identified is where traders import maize and other products through informal trade routes. The most used informal entry and exit points are Marachi and Sofia routes. It was observed that these routes are frequented by those using bicycles, motor bicycles and foot to ferry their consignment from Uganda to Kenyan markets. The study established that the second observable trade pattern involved unrecorded volumes of goods escaping regulatory agencies/institutions. This was done by traders transporting small volumes of consignments either on their heads, by foot, bicycles or wheelchair in small packages of between 2 – 10 kgs. Most of them made return journeys hence cumulatively transporting large volumes of goods. The third observable feature of informal trade pattern was diversion of trade flows. The study found that some traders would direct new entrants into the market to use unofficial trade routes (Marachi and Sofia) while importing their maize hence promoting informal flows.

Relationship between Trade Documentation and Informal Cross-border Trade Patterns

The study sought to investigate the relationship between trade documentation and informal cross-border trade patterns. The findings indicate that a minimal 21.8 per cent of the traders were in possession of trade documents most of who were large scale importers while a significant 78.2 per cent were carrying out cross-border trade activities without any form of

documentation. The reasons given by traders for not having documentation were; the documents were not needed; they were not large scale traders or the cost involved in obtaining the documents was high. Cross-tabulation analysis established that most traders do not attribute their choice of cross-border trade pattern to the documentation procedure hence no relation between the two variables.

Trading Traditions at the Busia Border Post

The study aimed at establishing some of the existing trading traditions that predispose traders at the border to choose informal trade patterns over the formal patterns. From the study findings, two trading traditions were found to be prevailing at the border post. The first trading tradition is inter-community trade dating back to the pre and post colonial times. 9.1 per cent of the traders interviewed admit to following this existing tradition hence shunning away from formal trade. Further, the study found that other traders (23.6 per cent) are following trading traditions initiated either by their parents or relatives especially an elder brother or sister.

5.3 Conclusions

The main objective of the study was to investigate the relationship between complexity in trade documentation and the patterns of trade chosen by maize traders at the Busia border post. Based on the findings, the study draws the following conclusions.

The study concludes that complexity in trade documentation plays a partial role in the choice of informal cross-border trade patterns among some of the maize traders at Busia border. This is in light of aspects such as accessibility to trade documents bearing in mind that the process is constraining and bureaucratic; two, the process is costly and unaffordable in relation to paltry profit margins realised by these small-scale traders who engage in this trade for subsistence purposes, and thirdly, due to lack of harmonization of the documents of trade between Kenya and Uganda. Of course, there are inconsistencies that exist with the documentation procedure as well as conflicting roles played by regulatory agencies and institutions that equally obstruct on the growth of formal trade.

Based on the findings pertaining to education levels, the study concludes that high illiteracy levels among cross-border traders holds a host of impediments to the growth of formal trade. It is due to lack of education that most of the traders are ignorant of the process, costs and advantages of engaging in formal trade. Others even ignore the purpose of having formal

trade documents. And according to the Key Informants, most of the traders fall prey to rogue clearing agents and brokers who end up diverting the flow of trade to the informal trade routes. Some of the traders lack information on the opportunities provided under the Customs union as well as Free Trade agreement contained in the EAC Protocol and they show little or no interest to exploit some of these opportunities that enhance formal trade. In essence, most of the traders lack sufficient market information. Thus, informal trade thrives as a result of lack of education among the traders.

Lastly, the study concludes that trading traditions significantly influence the pattern of trade and the nature of flows across the border. Thus, the study draws a conclusion that in the absence of formal contracts and adequate market information and when other important obstructions to formal trade prevail, trust-based networks such as extended family or inter-community networks can play an important role in establishing trade relations, although informal. In effect, the study deduces that particular ethnic groups are responsible for organizing and controlling informal trading activities. This because informal cross-border trade often reflects long-standing relationships and indigenous patterns, which often pre-date colonial and post colonial state boundaries.

5.4 Recommendations

The study recommends that it is essential to sensitize and educate traders on the import/export requirements and formalities in application in their own country and in neighbouring countries. This could be done through the Cross-Border Traders Association (CBTA) through workshops and conferences aimed at raising awareness and understanding of vital trade regulations and documentation. For instance most traders understood tax as punitive thus the practice of tax avoidance. This was as a result of tax literacy specifically lack of information and education. Thus, any form of assistance and capacity building efforts should therefore not only concentrate on government agencies and officials but also be directed to most small-scale cross-border traders. Additionally, in order to enhance formal trade, major stakeholders such as CBTA, KIFWA, Busia County Department of Trade, Kenya Revenue Authority and business/industry associations should sensitize informal traders to the potential advantages they might gain from formalizing their trade transactions. Effective service provision could increase the probability that traders comply voluntarily with existing trade-related regulations. Thus, organizing information campaigns to sensitize

traders to the benefits of conducting formal cross-border transactions could therefore be useful to both the actors and the traders.

The study also recommends the synchronization, adoption and implementation of the same documentation requirements and formalities for efficient cross-border trade between Kenya and Uganda. To this effect, the EAC Secretariat should encourage small-scale traders, especially those who mainly trade with neighbouring Uganda to formalize their cross-border transactions. This is in order to facilitate formal regional trade and counter the growth of informal trade.

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APPENDIX I

SURVEY QUESTIONNAIRE

My name is Samuel Oketch Apondi, a Postgraduate student at the Institute for Development Studies (IDS), of the University of Nairobi. As part of the requirement for the award of the degree, I am expected to undertake research in my area of study. This questionnaire is designed to obtain information on the: **“The Relationship between Complexity of Trade Documentation and the Choice of Cross-border Trade Patterns.”** The accuracy of the information provided will be important for the success of this study. Data collected will only be used for academic purposes and will therefore be handled with utmost confidentiality.

SECTION A: GENERAL INFORMATION QUESTIONS

1. Gender of trader

- i. Male []
- ii. Female []

2. What is your marital status?

- i. Single []
- ii. Married []
- iii. Divorced []
- iv. Widowed []
- v. Separated []

3. What is your exact age in year?

4. What is your highest level of Education?

- i. Primary []

What class: [1] [2] [3] [4] [5] [6] [7] [8]

- ii. Secondary []

Which form: [1] [2] [3] [4];

A Level []

- iii. Post-secondary/Tertiary []

What level and subject?

.....
.....

5. a) Have you undergone any training after school?

- i. Yes []
- ii. No []

b). If Yes, describe the nature and duration

.....
.....
.....

6. a) Where do you reside?

- i. Busia []
- ii. Other []

(b) If other, specify

- i. Town.....
- ii. County.....

7. What is your ethnicity?

8. a) What is your nationality?

- i. Kenyan []
- ii. Other []

(b) If other, specify.....

9. a) For how many years have you engaged in cross-border trade?

- i. Less than one (1) year []
- ii. More than one (1) year []

b) If more than one (1) year, exact number of years.....

SECTION B: TRADE PATTERNS

10 (a) What is your main commodity of trade?

- i. Maize []
- ii. Other []

(b) If you trade in another commodity apart from maize, please specify

.....
.....
.....

11. Where do you get your maize from?

i. Retailers []

ii. Wholesalers []

12. Was either of your parents a trader?

i. Yes []

ii. No []

b). If Yes, describe the nature of trade (probe whom they traded with; commodity traded)

.....

13. a) Has your community traded with the neighbouring communities in the past?

i. Yes []

ii. No []

b) If Yes, describe the nature of trade (probe whom they traded with; commodity traded)

.....

14. a). Which mode of transport do you use while transporting goods across the border?

Mode of Transport	Ever use		Planning to use today		Frequency of use		
	Yes	No	Yes	No	Never	Seldom	Always
Motor vehicle							
Motorcycle							
Bicycle							
Push Cart							
Foot							
Other							

b). If other, specify

.....
.....

15. a). What is the main determinant of your choice of transportation mode?

- i. Cost involved []
- ii. Volume of your consignment []
- iii. Other []

b). If other, specify

.....
.....

16. a). What specific issues discourage you from formal trade?

- i. Costs of doing business []
- ii. Process of obtaining trade documents []
- iii. Taxes charged at entry points []
- iv. Other (s) []

b). If other, explain

.....
.....
.....

17. How important are these issues to you for keeping to be in informal trade?

- i. Low []
- ii. Important []
- iii. Very important []

SECTIONC: TRADE DOCUMENTATION

18. a). What documents are required to engage in cross-border trade and what are the costs of obtaining each?

	Required Trade Documentation	Distance to source/place of acquisition	Cost Incurred	Time/duration taken
	Trade License/Permit			
	Plant Import permit			
	Phytosanitary certificate			
	Import declaration Form (Form C61)			
	Single Entry Document (Form C63);			
	Direct Assessment Form (Form 88);			
	Original Invoice			
	Clearance Stamps			
	Duty Receipt			
	Certificate of Origin			
	Other (s)			

b). If other(s) specify

.....

.....

.....

19. a). Do you have all the required trade documentation?

i. Yes []

ii. No []

b). If No, which one(s) are you missing; and why?

Missing Trade Documentation	Reason(s)
Trade License/Permit	
Plant Import permit	
Phytosanitary certificate	
Import declaration Form (Form C61)	
Single Entry Document (Form C63);	
Direct Assessment Form (Form 88);	
Original Invoice	
Clearance Stamps	
Duty Receipt	
Certificate of Origin	

20. a). Do you incur any indirect and/or hidden costs in acquiring the documentation?

- i. Yes []
- ii. No []

b). If Yes, for which items?

.....

SECTION D: COST RELATED ISSUES

21. (a) Have you ever been denied access to cross the border by the officials?

- i. Yes []
- ii. No []

(b) If Yes, what were the reasons?

.....

22. (a) To what extent do you have to pay a ‘facilitation fee’ to have your goods cleared at the border?

- i. Never []
- ii. Sometimes []
- iii. Always []

(b) Give a description of how this happens

.....

.....

23. To what level, degree or extent do you agree or disagree with the following statements? (Please tick appropriately on the level of agreement/disagreement indicated in the table below).

INDEPENDENT VARIABLES/FACTORS	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a. Required trade documentation is a major reason for choosing the informal trade pattern.					
b. Having some of my relatives who engaged in cross-border trade influences my choice of going informal.					
c. Coming from a community that traded with her neighbours across the border in the past increases my chances of going informal.					
d. When I have a small volume of commodity am more likely to choose informal trade patterns.					
e. When I meet an officer requesting for payment to ease my movement across the border am more likely to go informal.					

APPENDIX II
DIRECT OBSERVATION GUIDE

This research observation guide aims at gathering relevant data at the Busia border post through observation by the researcher and research assistants.

1. Date:
2. Time of day:
3. Hours/duration of direct observation.....
4. Point of observation.....
5. Gender of the trader
 - iii. Female []
 - iv. Male []
6. As the trader gets to the border point, what route does the trade take? (explain if possible)
.....
.....
7. What mode of transport is the trader using to cross the border?
.....
.....
8. a) Is the trader approached or stopped by any of the officials at the border point?
 - i) Yes []
 - ii) No []

b) If Yes, describe what happens

.....
.....
.....

9. Describe what is observable of the trader regarding;

a) Volume/size of consignment

.....
.....

b) Type of commodity (if possible)

.....
.....

10. a) Does the trader make a return journey/trip?

i. Yes []

ii. No []

b) Is Yes, describe how this happens (paying attention to number of trips; choice of route; type and volume of commodity)

.....
.....
.....

11. Any other observations

.....
.....
.....

APPENDIX III

KEY INFORMANT INTERVIEW GUIDE

Study Topic: **The Relationship between Required Trade Documentation and the Choice of Cross-border Trade Pattern: A Case of Registered Maize Trader at Busia border post.** To achieve the objectives of this study, the following topical issues have been picked to guide the process of gathering relevant data from key informants.

Section A: General information

1. Name of your organization/institution
2. Respondent's area of specialization

Section B: Topics for Discussion

Guide I: Customs Officials

Topic 1: Trade documentation

1. Required documents for engaging in cross-border trade
2. The process of acquisition
3. Probe for ease of access (focus on institutional arrangements)
4. Acceptance by neighbouring authorities (probe for ease of acceptance, areas of difficulty)
5. Importance of acquisition to traders

Topic 2: Trade Patterns

6. Common trade patterns used by traders (probe for variations)
7. What explains the existence of some of these patterns (probe for causes)
8. Any relationship between required documentation and patterns of informal trade

Topic 3: Costs of Trade Documentation

9. Charges/costs of obtaining the documents
10. Any hidden costs (probe additional charges at the point of entry/exit)
11. Any suggestion/comment on the area of study

Guide II: Trade Organization Officials

1. Establish impediments to growth of formal trade
2. Challenges faced by cross-border traders; focus on the documentation procedure
3. Kind of help to cross-border trader (members and non-members; or restricted to members only)

Guide III: Agents/Brokers

1. Establish any personal history of involvement in cross-border trade
2. How they work – probe for choice of clients; who they work for?
3. Constraints in the documentation procedure as traders cross the border
4. Determinants of charges for their services – probe for size of consignment; documentation procedure involved; type of commodity

Guide IV: Transporters

1. Establish ease (or lack of it) in crossing the border
2. Rent seeking behaviour among customs officials to facilitate movement across the border
3. What determines their choice of particular trade route (to establish patterns)
4. Instances when denied access of crossing the border (circumstances/conditions under which it happens)

APPENDIX IV: SAMPLE TRADE DOCUMENTS