

# Informal Cross Border Trade (ICBT) Survey- Phase I

Phase I October 2003 – January 2004.

6 August 2004



# INTRODUCTION

- **Background**
- **The Problem**
- **Objectives, Significance, Scope and Coverage**
- **METHODOLOGY**
- **Sampling Procedure**
- **Time Chart for monitoring**
- **FINDINGS AND ANALYSIS OF RESULTS**
- **UP RATING**
- **Recommendations**
- **Way Forward**



# Background

External Trade Statistics is one of the most important fields of statistics in the national statistical system.

These statistics give indicators that assist in the monitoring of the flow of resources across international boundaries and are used to determine Balance of Payment and the National Income of nations worldwide



# Background

- External trade data are very essential in making decisions for regional and economic integration.
- Reliable and timely statistics on external trade are also vital in negotiations and implementations of common trade policies with group of countries.
- Monitoring trade agreements.
- Studying world and national markets.



# Background

- Compilation of Terms of Trade Indices.
- Compilation of the import component of the various price indexes such as cost of living index.
- Analytical use of trade data into macroeconomic analysis and forecasting within the framework of the system national accounts (SNA); including input-output analysis and Balance of Payments computations.



# The Problem

- There exists a lot of cross-border trade amongst African countries, which remains largely unrecorded.
- Under the ICBT, industrial and agricultural items that cross the border in both large and small quantities are not recorded.
- There are indications that unrecorded trade is still extremely high in Eastern and Southern Africa.



# The Problem

- Inadequate knowledge of ICBT magnitude may lead to under estimated figures in national accounts and balance of payment statistics.
- It also complicates the formulation of appropriate macroeconomic policies and strategies to exploit its potential impact.
- During 1997/98 fiscal year, the Balance of Payments (BOP) figures from Bank of Uganda indicated a trade balance of over US \$ 500 million higher than was recorded by the Uganda Bureau of Statistics on the expenditure side of National Accounts.



# Objectives

- The long-term objective is to build robust, institutionalized, sustainable capacity, frameworks for providing comprehensive and reliable external trade data and information for policy analysis, decision-making, monitoring and evaluation of trade related programs and projects in the country.



# Objective

- The immediate objective of the survey is to provide quantitative data and information about the ICBT, which is to be incorporated into the external trade statistics database.
- This will provide comparable and complete external trade statistics necessary for computation and compilation of balance of trade and national accounts.



# Specific Objectives

- (i) Provide estimates of the magnitude of unrecorded trade highlighting the most important commodities (and categories of commodities) being traded and the trade patterns.
- (ii) Give a comparative analysis of recorded and unrecorded (unofficial) trade volumes/values highlighting the factors determining the disparity between the two;



# Specific Objective

- (iii) Provide an overall assessment of the impact of the ICBT on national/regional food security and the effect of cross-border trade liberalization.



# Significance

- Provides important information on the ICBT that is necessary for appropriate product-specific market research, including food accessibility studies in the country.
- Furthermore, the study helps in reviewing the export performance of the country in terms of the product basket, growth of leading informal export products and the dynamics of regional demand for these products.



# Significance

- Also, the study may help in explaining the implication of regional integration initiatives under the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA).



# Scope and Coverage

- All unrecorded goods entering and leaving Uganda and her neighbours during the months of October 2003 to January 2004 (48 days spread over the four months)
- Thirteen selected border stations; four along Uganda – Kenya border, five along Uganda – DR Congo border, two along Uganda – Rwanda Border and one each along Uganda – Sudan and Uganda - Tanzania borders were monitored.



# METHODOLOGY

- According to UN guidelines, the coverage of international trade statistics should be sufficiently broad to encompass all merchandise entering or leaving a country from or to another country, except transit goods.
- The techniques for data collection must take into account the characteristics and prevailing habits of the practitioners at the border.



# METHODOLOGY

## A technique for Border Monitoring (Direct Observation)

- Both official and unrecorded cross border trade is concentrated in and around established townships and Customs posts along the borders.

Therefore, most of the unofficial routes are usually around these stations rather than in the remote frontier region.



# METHODOLOGY

- The border monitoring was therefore concentrated around the known crossing points for the above reason. (During day time-7am to 6pm)
- Furthermore, budgetary constraints necessitated that fewer border stations were monitored, considering the magnitude of informal cross border trade around border stations and also the geographical spread.



# METHODOLOGY

- All the major border stations to Kenya, Tanzania, Rwanda, Democratic Republic of Congo and the Sudan were selected purposively.
- This was done using the knowledge of all the border stations in the country and how much informal cross border trade takes place around these stations by the technical team.
- The map below shows sites and towns along Uganda borders, those monitored are underlined



# Map of Uganda showing Cross-Border Monitoring Sites (underlined)

## THE MAJOR BORDER STATIONS



### KEY

-  BORDER STATIONS
-  ROAD NETWORK
-  DISTRICT BOUNDARIES
- ORABA MONITORED STATIONS



# Observation Time Frame for the survey

- Border monitoring commenced in the first week of October 2003.
- Observation lasted 8 weeks, with 2 weeks in each of the months October 2003 to January 2004.
- Each border station was manned by at least 2 enumerators, except Busia and Malaba. Each Zone had a Supervisor.



# Sampling Procedure

- The sampling was done to get adequate data (with minimum sampling bias), for constructing realistic estimates of monthly trade volumes and values.
- A two - stage process, initially involving selection of months.
- The next stage required specification of two weeks randomly selected from each of the four months.



# Sampling Procedure

- The weeks of the month were selected with the restriction that each month is observed for only two weeks.
- The starting week of monitoring in each month was randomly selected.
- Then border monitoring was done for two continuous weeks to minimize costs.



# Sampling Procedure

- The precondition set was that the first week randomly chosen is not the last week of the month because the following week would be in the next month.
- However, this last week stands a chance of being chosen as a monitoring week if the preceding week has been randomly selected.
- As long as the starting week is randomly chosen, statistical sampling bias is minimized.



# Time Chart for monitoring the (ICBT)

Calendar Month	Monitoring weeks of the month
October (10)	10.1 and 10.2
November (11)	11.1 and 11.2
December (12)	12.2 and 12.3
January (1)	1.3 and 1.4



# Time Chart for monitoring the (ICBT)

- The figures in the second column of the chart indicate the weeks of the month when monitoring actually took place; for instance, 10.1 and 10.2 mean that monitoring took place during the first and second weeks of October 2003.
- October and December each had 13 days of monitoring while November and January each had 11 days of monitoring, making it a total of 48 days.



# Data Limitation

- The survey did not cover all the border stations in the country as well as un gazetted routes near the monitored border stations.
  - The survey took utmost two weeks of border monitoring instead of four weeks in a month.
  - The Observation technique did not accurately estimate the quantities of traded items.
  - Assignment of values to some commodities was not as accurate as required because of the nature of goods traded.
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# Measures to address limitations

The following measures were taken to address above limitations to a significant extent.

- Data verification, validation, consistency checks and coding in line with international merchandise trade statistics recommendations.
- Data up rating (Discussed in Chapter 4).



# FINDINGS AND ANALYSIS OF RESULTS

These results refer only to two weeks in each month of border monitoring that lasted for 4 months (October 2003 to January 2004).

- Uganda earned over US \$ 6.7 Million in foreign exchange earnings from informal exports.
- The corresponding expenditure is estimated at US \$ 1.4 Million on imports.
- This implies a favourable informal trade balance of about US \$ 5.3 Million.
- Kenya and DR Congo are the main destinations of Uganda's exports.



# Findings

- Kenya is a major informal trading partner with total informal trade estimated at US \$ 5.5 Million and a trade balance of approximately US \$ 4.1 Million.
- Kenya is followed by Democratic Republic of Congo with total informal trade estimated at US \$ 1.9 Million and a trade balance estimated at US \$ 0.7 Million.
- Sudan had total informal trade of approximately US \$ 0.3 Million and a trade balance estimated at US \$ 0.2 Million.



# Informal Exports and Imports by country (in '000 US \$)

<b>Country</b>	<b>Exports</b>	<b>Imports</b>	<b>Total Trade</b>	<b>Trade Balance</b>
<b>DRC</b>	1,300	581	1,881	719
<b>Kenya</b>	4,767	688	5,455	4,080
<b>Rwanda</b>	205	41	246	165
<b>Sudan</b>	260	43	304	217
<b>Tanzania</b>	183	14	196	169
<b>Overall</b>	6,716	1,366	8,082	5,350

# Findings

- Kenya depends on Uganda's agricultural (food) imports, with a percentage share of 53.8 percent of all exports.
- The survey results further indicate that Uganda imported from DR Congo significant agricultural (food) products contributing a percentage share of 28.7 percent of all imports.
- Agricultural imports from DR Congo account for 28.7 percent of the total import bill compared to agricultural exports with a share of 5.9 percent of the total export earnings.



## Values in '000 US \$.

Country	Product	Exports	Share	Imports	Share
<b>DRC</b>	<b>All Products</b>	<b>1,300.20</b>	<b>19.5</b>	<b>580.9</b>	<b>42.6</b>
	<b>Agric.</b>	<b>392.5</b>	<b>5.9</b>	<b>391.9</b>	<b>28.7</b>
	<b>Industrial</b>	<b>904.3</b>	<b>13.5</b>	<b>171.6</b>	<b>12.6</b>
	<b>Other</b>	<b>3.4</b>	<b>(-)</b>	<b>17.4</b>	<b>1.3</b>
<b>Kenya</b>	<b>All Products</b>	<b>4,767.40</b>	<b>71</b>	<b>687.9</b>	<b>50.4</b>
	<b>Agric.</b>	<b>3,615.70</b>	<b>53.8</b>	<b>77.5</b>	<b>5.7</b>
	<b>Industrial</b>	<b>1,132.50</b>	<b>16.9</b>	<b>606.8</b>	<b>44.4</b>
	<b>Other</b>	<b>19.2</b>	<b>0.3</b>	<b>3.6</b>	<b>0.3</b>
<b>Rwanda</b>	<b>All Products</b>	<b>205.3</b>	<b>3</b>	<b>40.7</b>	<b>2.9</b>
	<b>Agric.</b>	<b>100.4</b>	<b>1.5</b>	<b>29</b>	<b>2.1</b>
	<b>Industrial</b>	<b>102.2</b>	<b>1.5</b>	<b>8.8</b>	<b>0.6</b>
	<b>Other</b>	<b>2.7</b>	<b>(-)</b>	<b>2.9</b>	<b>0.2</b>
<b>Sudan</b>	<b>All Products</b>	<b>260.4</b>	<b>3.8</b>	<b>43.3</b>	<b>3.2</b>
	<b>Agric.</b>	<b>53</b>	<b>0.8</b>	<b>34.4</b>	<b>2.5</b>
	<b>Industrial</b>	<b>204.4</b>	<b>3</b>	<b>3.5</b>	<b>0.3</b>
	<b>Other</b>	<b>3</b>	<b>(-)</b>	<b>5.4</b>	<b>0.4</b>
<b>Tanzania</b>	<b>All Products</b>	<b>182.6</b>	<b>2.8</b>	<b>13.5</b>	<b>0.9</b>
	<b>Agric.</b>	<b>43.6</b>	<b>0.7</b>	<b>5.6</b>	<b>0.4</b>
	<b>Industrial</b>	<b>139</b>	<b>2.1</b>	<b>7.5</b>	<b>0.5</b>
	<b>Other</b>	<b>0.04</b>	<b>(-)</b>	<b>0.4</b>	<b>(-)</b>
<b>Overall</b>		<b>6,716.0</b>	<b>100</b>	<b>1,366.3</b>	<b>100</b>

# Findings

- The commonly traded agricultural commodities were Maize, Beans, Other grains, Bananas and Fish.
- Foreign exchange earnings from Maize exported to Kenya are estimated at US \$ 1.3 Million and from Beans estimated at US \$ 1.1 Million, whereas foreign exchange earnings from exports of combined Industrial products are estimated at US \$ 1.1 Million.



# Findings

- The corresponding expenditure is estimated at US \$ 22,206 on Maize imports and US \$ 4,177 on Beans imports, and estimated at US \$ 0.6 Million on imported Industrial products.
- The unit values of Maize, Beans and Fish are lower for informal trade as compared to official trade (Table 8 in the main Report).
- This means that the prices fetched by similar commodities under two trading arrangements vary at an advantage of those transacting in the official trade.



# Findings

- Informal exports of Maize, Beans and Fish to Rwanda fetch highest prices compared to those destined to Kenya and DR Congo.
- Coffee imports account for 9.1 percent share of total imports. These Coffee imports came from Democratic Republic of Congo.
- Busia, followed by Malaba, Mpondwe and Bunagana Border stations are the busiest as shown in the Table below.

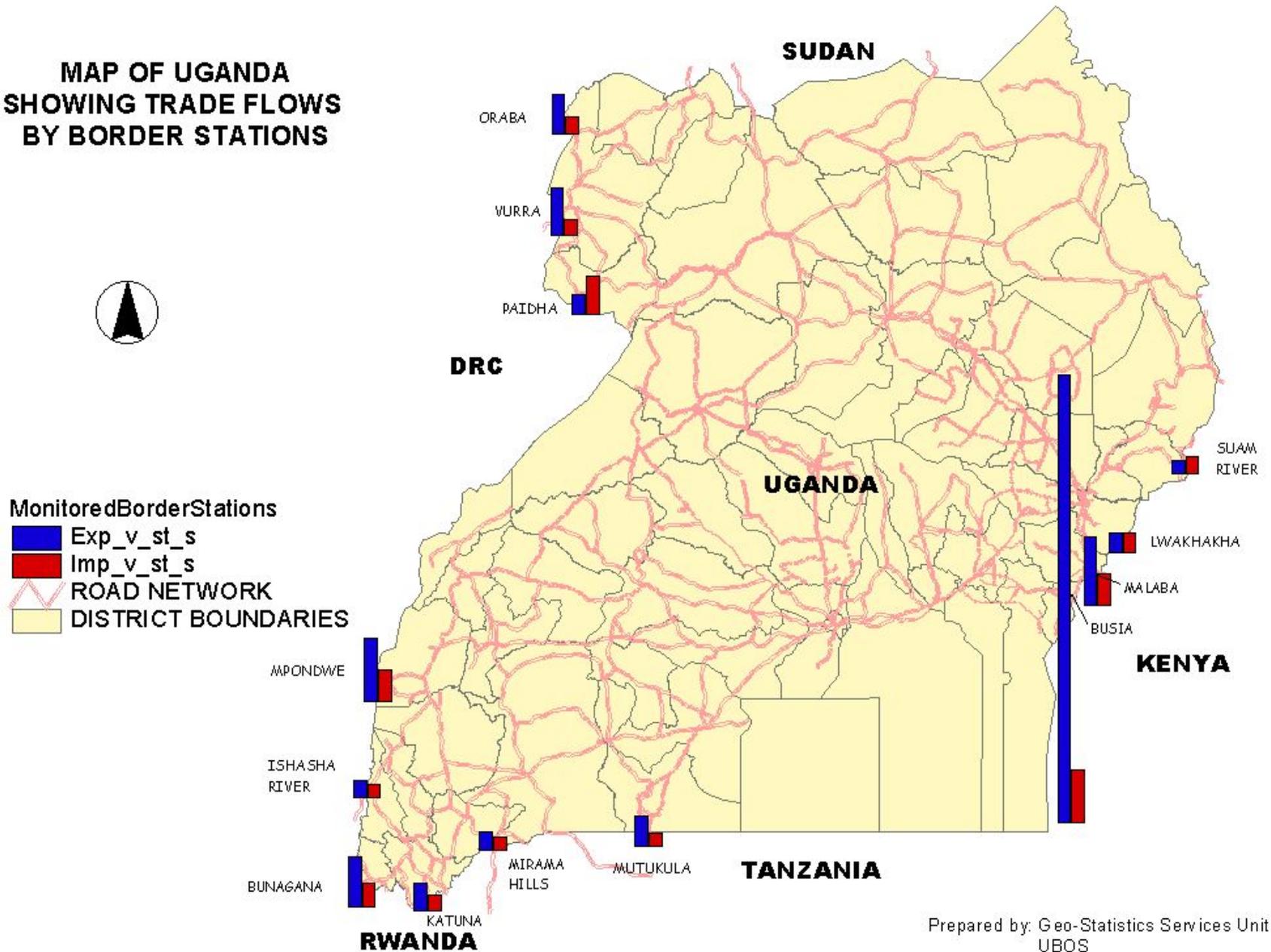


## Informal Exports & Imports by Border Station (Values in US\$ & % share)

Station	Exports	% share	Imports	% Share
Busia	4,159,333	61.9	388,413	28.4
Malaba	532,479	7.9	189,827	13.9
Mpondwe	481,376	7.2	176,587	13
Bunagana	361,434	5.4	119,361	8.8
Vurra	337,301	5	33,711	2.5
Oraba	260,420	3.9	43,277	3.1
Mutukula	182,643	2.7	13,507	1
Katuna	140,099	2.1	34,293	2.5
Paidha	75,514	1.1	242,264	17.7
Mirama Hill	65,220	1	6,411	0.5
Lwakhakha	64,406	1	62,904	4.6
Ishasha river	44,616	0.7	8,982	0.7
Suam river	11,191	0.2	46,756	3.4
<b>Total</b>	<b>6,716,031</b>	<b>100</b>	<b>1,366,303</b>	<b>100</b>

# Map of Uganda showing Trade Flows by Border Stations

## MAP OF UGANDA SHOWING TRADE FLOWS BY BORDER STATIONS



# Findings

- The commonest modes of transport used to convey unrecorded trade are Bicycles, Head/Hand and Vehicles conveying over 89 percent of exports and 93 percent of imports
- Bicycles were the leading modes of transport conveying a share of 59.3 percent of exports and 28.4 percent of imports.
- Head/Hand conveyed goods worth a share of 18.6 percent of exports and 42.9 percent of imports. Motor vehicles rank third in conveyance of goods with a share of 11.2 percent of exports and 21.7 percent of imports.



# UPDATED ESTIMATES

<b>Product Category</b>	<b>Exports (‘000 US \$)</b>	<b>Imports (‘000 US \$)</b>	<b>Net balance (‘000 US \$)</b>
Agricultural products	11,355.00	1,340.50	10,014.50
Industrial & Other products	6,418.70	2,115.50	4,303.10
Other near by crossing points (combined)	5,924.60	1,152.00	4,772.60
<b>Estimated Informal Overall</b>	<b>23,698.30</b>	<b>4,608.00</b>	<b>19,090.30</b>
<b>Recorded (official) Overall</b>	<b>47,842.50</b>	<b>107,514.20</b>	<b>-59,671.70</b>
<b>Total trade</b>	<b>71,540.80</b>	<b>112,122.20</b>	<b>-40,581.40</b>

# UPDATED ESTIMATES

- The informal exports amount to 49.5 percent of the official exports whereas informal imports amount to only 4.3 percent of official imports.
- The informal export component is estimated to be 33.1 percent of overall exports.
- The low percentage levels of informal imports, estimated at 4.1 percent of overall imports.
- The tax revenue loss arising from the estimated US \$ 4.6 Million of informal imports during the four months of the survey is estimated to be Uganda Shilling 1.9 Billion.

# CONCLUSIONS

- The Informal cross border trade activities between Uganda and her neighbours are significant. They involve transaction of large amounts of both agricultural and industrial products.
  - There exists a high variation in the official export statistics with respect to the traded commodities.
  - Uganda is mainly an exporter of foodstuff (mainly maize and beans) and the biggest recipient being Kenya.
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# CONCLUSIONS

- The unit prices offered to informal exports are much lower than under official trading arrangement.
- Therefore, policy makers have got to be cautious about widespread poverty and increasing disparities in price distortions which may undermine the gains for trade liberalization.
- ICBT plays an important food security role in moving food from surplus to deficit areas.

# RECOMMENDATIONS

- i. To the extent that informal trade has been found to be of a larger magnitude than was previously acknowledged, implications are that contribution of informal sector to GDP and balance of payment may be revised in view of these findings.
- However, this will be made possible if longer time series data, covering at least 12 months period catering for seasonal variations are generated.

# RECOMMENDATIONS

- ii. Emphasis should be given to elimination of trade obstacles particularly non tariff barriers and reduced role of public sector (institutional barriers).
- iii. The issue of agricultural prices must be carefully investigated and addressed as producers of these products are faced with low prices at the border than those traded through official means.
- iv. The regional integration initiatives are highly welcome given the above food security implications and infrastructural investments within member states should be tackled.

# Future work and challenges

- More work remains to be done in order to cover the whole planned period for the survey.
- Analysis of data collected from baseline survey will only be possible after the remaining two phases have been completed.



# Future work and challenges

- Given the circumstances of timing and resource unavailability, the subsequent phases of border monitoring is in balance.
- The team is anticipating cooperation and financial assistance from Government of Uganda and development partners to support this initiative.



THANK YOU VERY MUCH

