

***Informal Cross Border Trade Survey***

***Second Quarter 2011 Report***



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A.K.M. Kilele, MBS  
**DIRECTOR GENERAL**

## ACRONYMS

BOP	Balance of Payments
CBK	Central Bank of Kenya
EAC	East African Community
HS	Harmonised Commodity and Description System
ICBT	Informal Cross Border Trade
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
NSS	National Statistical System
SCD	Single Customs Declaration Document
UBOS	Uganda Bureau of Statistics
UN	United Nations

## **EXECUTIVE SUMMARY**

External Trade Statistics are macro-economic statistics compiled from the normal administrative process of customs authorities and other agencies. Trade information is crucial in monitoring the flow of resources across international boundaries and is used for compilation of Balance of Payments and National Accounts Statistics.

Under the United Nations (UN) general framework of compiling international merchandise trade statistics, all goods entering or leaving a country are recorded in External Trade Statistics, except transit goods. At the moment, Kenya Revenue Authority (KRA) collects data for formal trade transactions using the Single Customs Declaration (SCD) Document. However, all transactions involving inflow or outflow of goods under informal trade arrangements are largely unrecorded. Hence, External Trade Statistics, National Accounts Statistics and Balance of Payments Statistics are incomplete, due to lack of data on the informal trade component.

The need for comprehensive, reliable, consistent and complete trade statistics cannot be emphasized. Trade information is useful for monitoring performance of the trade sector and formulation of sound trade policies necessary for economic development. The information is essential for regional economic integration and could also be used for settling trade disputes, monitoring trade agreements and computing import and export indexes.

This report is based on estimates of the survey carried out during the second and third weeks of June in 2011. The ICBT monitoring covered fifteen (15) border stations that were selected out of the existing twenty four (24) official border stations. Previous fact finding mission had established that the selected 15 border stations experience large informal trade flows.

The specific objective of the survey was to collect benchmark information at the border stations on the commodities transacted with a view to establishing the magnitude of unrecorded transactions.

### **Direction of Trade**

Kenya's informal exports and imports were estimated at KSh 1,469.0 million and KSh 1,285.9 million respectively, for the 2<sup>nd</sup> quarter of 2011 (April to June, 2011). The major destinations of informal exports were Tanzania (accounting for 61.9 per cent), Uganda (accounting for 13.9 per cent) and Ethiopia (accounting for 12.4 per cent) of the total informal exports. Tanzania, Somalia and Uganda were the three leading sources of Kenya's informal imports in that order. The total estimated value of imports from Tanzania and Somalia were KSh 537.5 million and KSh 311.6 million respectively, in the second quarter of 2011.

### **Flows by Country and Broad Product Category**

Industrial products dominated Kenya's informal exports accounting for 75.2 per cent of the total informal exports followed by agricultural products. Majority of the industrial products were destined to Tanzania and Uganda with a share of 56.2 per cent and 12.1 per cent of the total informal exports, respectively. Ethiopia and Somalia were the major destinations of

the country's agricultural products accounting for 8.6 per cent and 7.3 per cent of the total informal exports, respectively. Agricultural products' imports were more than imports of industrial products with an estimated value of KSh 836.0 million. Somalia was the leading source of agricultural products with a share of 20.7 per cent, followed closely by Tanzania with a share of 20.4 per cent of the total informal imports. In terms of imports of industrial products, Tanzania was the dominant origin with an estimated value of KSh 250.3 million in the second quarter of 2011.

### **Informal Trade Flows by Product Category**

The leading industrial products' exports were paints with a share of 24.5% followed by utensils with a share of 7.5% of the total informal exports, during the second quarter of 2011. Out of the country's total agricultural products informal exports, miraa recorded the highest share of 8.8% of the total informal exports mainly destined to Somalia. Most of the agricultural imported products comprised of dry maize, onions, cattle, camel and goats in that order, while industrial products' imports were mainly artificial flowers and petroleum products.

### **Flows by Border Station**

From the 13 borders stations where data collection was done, Busia, Malaba, Isebania, Mandera, Namanga and Taveta borders recorded the bulk of ICBT transactions. Isebania registered the highest value (KSh 775.8 million) of informal exports. Mandera (KSh 245.5 million) and Busia (KSh 132.7 million) followed in that order. The value of informal imports through Mandera, Namanga, Busia and Taveta were KSh 328.6 million, KSh 283.2 million, KSh 209.0 million and KSh 116.3 million, respectively.

During the second quarter of 2011, Kenya informally exported goods estimated at KSh 1,469.0 million and informally imported goods estimated at KSh 1,285.9 million. The trade surplus from this merchandise trade is estimated at KSh 183.1million. From customs captured transactions, both exports and imports were valued at KSh 36,148 million and KSh 7,894.8 million respectively, during the same period. The share of unrecorded informal trade between Kenya & Ethiopia and Kenya & Somalia was 25.7 per cent and 13.4 per cent of the recorded formal trade, respectively. This means that there are huge amounts of imports from Somalia and Ethiopia that are not captured in the formal trade statistics leading to underestimation of the total trade between Kenya and these countries.

### **Conclusion and Recommendations**

The survey revealed informal cross border trade between Kenya and her neighbours is significant, involving transactions of large amounts of both agricultural and industrial products. Total estimated informal exports and imports in the second quarter of 2011 were KSh 1,469.0 million and KSh 1,285.9 million, respectively. The informal traders mostly engaged in the agricultural produce and manufactured/industrial goods. Most of the informal trade transactions were recorded in the Tanzania, Uganda and Somali borders. Busia, Malaba, Isebania, Mandera, Namanga and Taveta borders had the highest concentration of informal trade activities. Most of the commodities were transported by push carts, bicycles, motor cycles and persons (hand/head luggages).

The main exported industrial products were paints, utensils, cooking fats and oils, buckets and iron sheets. Miraa, irish potatoes and tea were the main exported agricultural goods. On the other hand, the main imported agricultural products were dry maize, onions and animals (cattle, camel, and goats), fish and beans. Artificial flowers topped the list of industrial products' imports valued at KSh 134.9 million.

Trade is important to a country's economic growth and thus comprehensive, consistent, reliable and complete trade statistics are essential to monitoring economic performance. Quality trade statistics are important for policy formulation regarding regional economic integration and settling trade disputes among others. This therefore calls for complete coverage of the international merchandise trade which includes informal cross border trade. Kenya engages majorly on agricultural products which are seasonal depending on the rainfall patterns. There is need to consistency carry out ICBT Survey activities on a full calendar year basis, in order to capture seasonality to enable useful estimation. As a consequence, the remaining three cycles (2nd, 3rd and 4th cycles) of the ICBT surveys should be conducted in order to obtain quality informal trade statistics. This would feed into the existing data gaps in External Trade Statistics, Balance of Payment Statistics and National Accounts Statistics.

## CHAPTER 1: INTRODUCTION

### 1.1 Background

External Trade Statistics are macro-economic statistics compiled from the normal administrative process of customs authorities and other agencies. Trade information is crucial in the monitoring of the flow of resources across international boundaries and is used for compilation of Balance of Payments and National Accounts statistics.

The need for comprehensive, reliable, consistent and complete trade statistics cannot be emphasized. Trade information is useful for monitoring the performance of the trade sector and formulation of sound trade policies necessary for economic development. The information is essential for regional economic integration and could also be used for settling trade disputes, monitoring trade agreements and computing import and export indexes.

Under the United Nations (UN) general framework of compiling international merchandise trade statistics, all goods entering or leaving a country are recorded in External Trade Statistics, except transit goods. At the moment, the Customs Department of Kenya Revenue Authority (KRA) collects data for formal trade transactions, using the Single Customs Declaration (SCD) document and F88 forms, submitted by clearing agents on behalf of exporters and importers. However, all transactions involving inflow or outflow of goods under informal trade arrangements are largely unrecorded. Hence, External Trade Statistics, National Accounts Statistics and Balance of Payments Statistics are incomplete, due to lack of data on the informal trade component.

A clear distinction exists between Informal Cross Border Trade (ICBT) and smuggling. ICBT refers to transactions that involve residents and non-residents across the economic boundaries of two or more countries, and are largely not recorded by customs authorities. Under ICBT arrangement, goods cross territorial boundaries both in bulk and small quantities in broad day light. Therefore, goods involved are easily identified and can be recorded. Some of the goods involved, especially, informal exports do not attract duty. On the other hand, smuggling is an illegal undertaking which involves taking illicit trade in goods without paying lawful charges or duty to customs authorities. Smugglers usually transact their business at odd hours (usually at night) in a concealed manner. Smuggled goods are mostly in bulk and not easily accessible or estimated. Important to note is that, smugglers are sometimes armed thereby posing security risk to customs authorities and security officials at the frontiers.

The implementation of ICBT survey is as a result of the Trade Workshop held in 2008, and reinforced by the National Committee on Trade and Trade facilitation Statistics.

For Kenya to attain the status of a middle income country by 2030, KNBS is expected to play a critical role of enabling the Government to achieve its medium and long term development agenda, through collection, analysis, publication and dissemination of reliable statistical information for public use. Such statistical information includes External Trade Statistics which is used for compilation of Balance of Payments and National Accounts statistics.

In order to enhance the reliability, accuracy and timeliness of External Trade Statistics, the first cycle (out of the planned 4 cycles) of ICBT survey was conducted between 15<sup>th</sup> – 30<sup>th</sup> June, 2011. Therefore, the ICBT Survey was conducted to generate information on informal trade transactions to bridge the missing data gaps in order to improve the coverage and completeness of External Trade Statistics.

## **1.2 Objectives of the Survey**

The broad objective of conducting ICBT survey was to establish the magnitude of unrecorded trade. The specific objectives were to collect benchmark information at the border points on the commodities transacted under ICBT, the direction of trade (destination/origin) and the flows in terms of values and quantities.

## **1.3 Significance**

The survey will generate sufficient information on informal trade transactions that is necessary for improving the coverage and completeness of External Trade Statistics, and, for monitoring the implementation of EAC Customs Union. The study will highlight the economic interdependence between the regional states in terms of food security that is necessary for appropriate product-specific market research, including food accessibility studies. Furthermore, the survey will help review export performance of the country in terms of the product basket, growth of leading informal export products and the dynamics of international demand for these products.

## **1.4 Scope and Coverage of the Survey**

Out of the existing 24 border stations, 16 border stations were purposively selected. These comprised Lwakhakha, Malaba and Busia (along Kenya/Uganda border), Isebania, Namanga, Taveta, Lungalunga and Shimoni (along Kenya/Tanzania border), Rhamu, Lamu and Mandera (along Kenya/Somalia border), Mandera and Moyale (along Kenya/Ethiopia border), and Kapweta, Nandapal and Lokichoggio (along Kenya/Sudan border).

Out of the 16 selected border stations, data collection was done completely in 13 border points (Busia, Malaba, Isebania, Namanga, Taveta, Lungalunga, Moyale, Mandera, Lokichoggio, Shimoni, Nandapal, Rhamu and Lwakhakha). Due to insecurity concerns coupled with other logistical complications, Kapweta and Lamu border points were not operational. Hence, ICBT survey was not conducted in these areas.

## **1.5 Legislative, Regulatory and Institutional Framework**

The Kenya National Bureau of Statistics is mandated by the Statistics Act, 2006 to collect, analyze and disseminate statistical information, as well as coordinate the National Statistical System (NSS). Sections 20 and 21 of the Act further mandates KNBS to collect data from individual persons, households and firms for official use, while guaranteeing confidentiality of information collected.

Section 6(2) empowers the Board of KNBS to “collaborate with such other bodies within or outside Kenya as it may consider desirable or appropriate in furtherance of the purpose for which KNBS is established.” Thus, the survey was carried out in collaboration with other relevant organizations whose input was considered crucial to the success of the survey, and

also envisaged to benefit from the information obtained from the survey. These include the Central Bank of Kenya (CBK), Ministry of Trade and Kenya Revenue Authority (KRA).

### **1.6 Survey Limitations**

Some border stations were insecure leading to closure of the same. Hence, such stations were rendered non-operational. Thus, not all the selected customs stations were covered as per the survey design. Monitoring of two weeks instead of four weeks in a month was also a survey limitation since the remaining two weeks were estimated in spite of different ICBT activities conducted. Also, direct observation method could not estimate accurately the quantities of assorted goods. It is important to note that the open stretch of the borders made it difficult for Research Assistants to monitor all the exit and entry points. Most border stations had quite a number of “panya” routes warranting additional personnel which was not available. Apparently, it emerged out that most traders preferred using such routes for fear of taxation. Also, security threats at some border points discouraged traders to use official entry/exit routes. Further, some substantial quantity of goods entered/left the country unrecorded through very many routes available and at times the traders could change routes when they noticed that the ICBT survey team was at some particular route recording the transactions. In certain cases, some border stations operated for 24 hours. These stations were a challenge in terms of data collection during night time. Further, some respondents were suspicious of the ICBT survey teams; hence they concealed the required information. In some cases, majority of the persons who were transporting goods were hired and could not divulge the prices of commodities. At times the goods were packed in such a way that the wrapping prevented the team from ascertaining what was actually being transported. Also, it is worth noting that in some border stations, KRA custom officials were not comfortable with the team taking photographs within the custom premises/zone.

## **CHAPTER 2: SURVEY METHODS AND TECHNIQUES**

### **2.1 Selection of customs stations for monitoring**

Although a complete enumeration (census) is recommended for all customs stations, it was practically impossible due to cost implications. This called for purposive selection of some border stations to yield the desired results. There are many customs stations that are officially gazetted with most of them having no evidence of ICBT activities taking place within their vicinity.

The first stage involved determining the total number of customs stations to constitute the population size (population sampling frame). The customs stations that were known to have informal trade transactions and were strategically situated at the frontier between Kenya and her neighbours, comprised the entire population. Custom stations located in insecure places and which did not experience any informal trade activities were excluded from the population sampling frame. Other considerations in defining the population were availability of supporting government institutions (like immigrations, revenue offices and police stations), accessibility and the volume of unrecorded trade involved.

The sampling frame therefore consisted of a list of 24 customs stations in the population domain selected using the above criteria. This was made possible by prior assessment visits mounted by the Survey Technical Team. Ultimately, 15 out of the existing 24 border stations were selected purposively for the ICBT survey.

### **2.2 Selection of weeks for monitoring**

Continuous monitoring of ICBT activities throughout the entire month would have yielded realistic estimates of informal trade transactions. However, due to resource constraints, it was not possible to monitor ICBT activities for a full month. Therefore, the 2nd and 3rd weeks of the month of June, 2011 were randomly selected for the survey. The method devised was to divide the month into four weeks, whereby two weeks in a month were monitored and the flows for the remaining 2 weeks estimated. The techniques for data collection took into account the characteristics and prevailing habits of informal trade practitioners at the borders. These techniques were deemed most appropriate for the circumstances in Kenya as experimented earlier in the fact finding mission of December, 2011 (see Appendix II).

### **2.3 Data Collection**

The direct observation method of data collection was deemed to be the most cost-effective way of gathering data under border conditions which was far from ideal. Under this technique, Research Assistants positioned themselves strategically at border posts to record all merchandise entering or leaving the country by observation. Daily transactions were first recorded in the counter books. Thereafter, summarized in a predesigned questionnaire "Summary Form A" (see Appendix III).

### **2.4 Up-rating of results**

This was necessary in order to generate quarterly estimates from the two weeks of June, 2011 data for the second quarter of 2011 (April-June, 2011).

The up-rating of survey results was based on the following assumptions:

(a) The supply and demand of industrial and other products from either side of the border is fairly constant throughout the month of June, 2011 of border monitoring.

(b) The supply and demand of agricultural products fluctuate depending on the season, whether planting or harvesting season and day of the week (e.g. market day). The average value of flows (informal imports/ exports) for a day of the week, say Tuesday is multiplied by the number of times Tuesday occurs in the month of June, 2011. The procedure was repeated for all the days of the week and a sum of the values estimated to get the monthly estimates.

### 2.4.1 The Up-rating Model

Under assumption (a) above, for industrial and other products with constant trade flows, during the month of June, 2011 with  $n$  days (i.e  $n=30$  days) and having a daily average value of industrial and other products of  $\mu_i$ , the total value of inflows/outflows of industrial and other products during the month of June, 2011 were mathematically presented as:

$$A_i = n \mu_i \text{-----} \quad (1)$$

Equation (1) shows that to get the monthly value estimates for the month of June, 2011, the average daily values of industrial and other products from survey figures were multiplied by number of days in the month of June, 2011. Hence, equation (1) represents estimated total value of informal exports/ informal imports of the industrial and other products traded during the month of June, 2011.

Therefore, the estimated total value of informal exports/ informal imports of the industrial and other products traded during the period of three months (April-June, 2011) were expressed mathematically as:

$$A_T = \sum_{i=1} n \mu_i \text{-----} \quad (2)$$

Where  $i$  = month and  $A_T$  are total export/import flow for industrial and other product categories.

To up rate informal trade flows of agricultural and other agricultural products during the month of June, 2011 of the survey, assumption (b) was taken into consideration. The monthly aggregate of agricultural trade flows was expressed as the sum of product of the number of particular days in the month of June, 2011.

Let  $d_j$  represent the number of particular days in the month of June, 2011, say four Mondays and  $\mu_j$  the daily average value of agricultural informal exports/informal imports of a given day computed from the observed trade figures. Then,

$$B = d_j \mu_j \text{-----} \quad (2)$$

Where  $B$ , stands for the monthly total value of trade for a given day, say Monday in the month of June, 2011 of agricultural informal exports/informal imports (i.e. total of all Mondays).

Therefore, the monthly informal agricultural informal exports/informal imports aggregate for all days in the month of June, 2011 were estimated as:

$$B_T = \sum_{j=1} d_j \text{ ¥}_j \text{-----}(3)$$

Where j represents days of the week, i.e. Monday, Tuesday... Sunday.

The estimated total value of informal exports/ informal imports of the agricultural products traded during three months (April-June, 2011), was expressed mathematically as:

$$\sum_{k=1} \sum_{j=1} d_j \text{ ¥}_j \text{-----}(4)$$

Where k, stands for the month.

## CHAPTER 3: SURVEY FINDINGS ON ICBT

### 3.1 Overview

The survey findings indicated that merchandise cross the official boundaries both in bulk and small quantities. Informal cross border trade between Kenya and her neighbours is significant, involving transactions of large amounts of both agricultural and industrial products. The survey findings revealed that the estimated informal exports and informal imports for 3 months of April-June, 2011 were KSh 1,469.0 million and KSh 1,285.9 million, respectively accounting for 53.3 per cent and 46.7 per cent of the total informal trade. The informal traders mostly engaged in the agricultural produce and manufactured/industrial goods. The industrial and agricultural products accounted for 54.5 per cent and 43.4 per cent of the total informal trade, respectively, during the same period. A lot of ICBT transactions were along Kenya/Tanzania, Kenya/ Uganda and Kenya/Somalia borders, and accounted for 52.5, 17.9 and 15.7 per cent of the total informal trade, respectively. The bulk of ICBT was concentrated at Busia, Malaba, Isebania, Mandera, Namanga and Taveta borders. The main modes of transport for the ICBT commodities were push carts, bicycles, motor cycles and persons (hand/head luggages).

### 3.2 Direction of trade

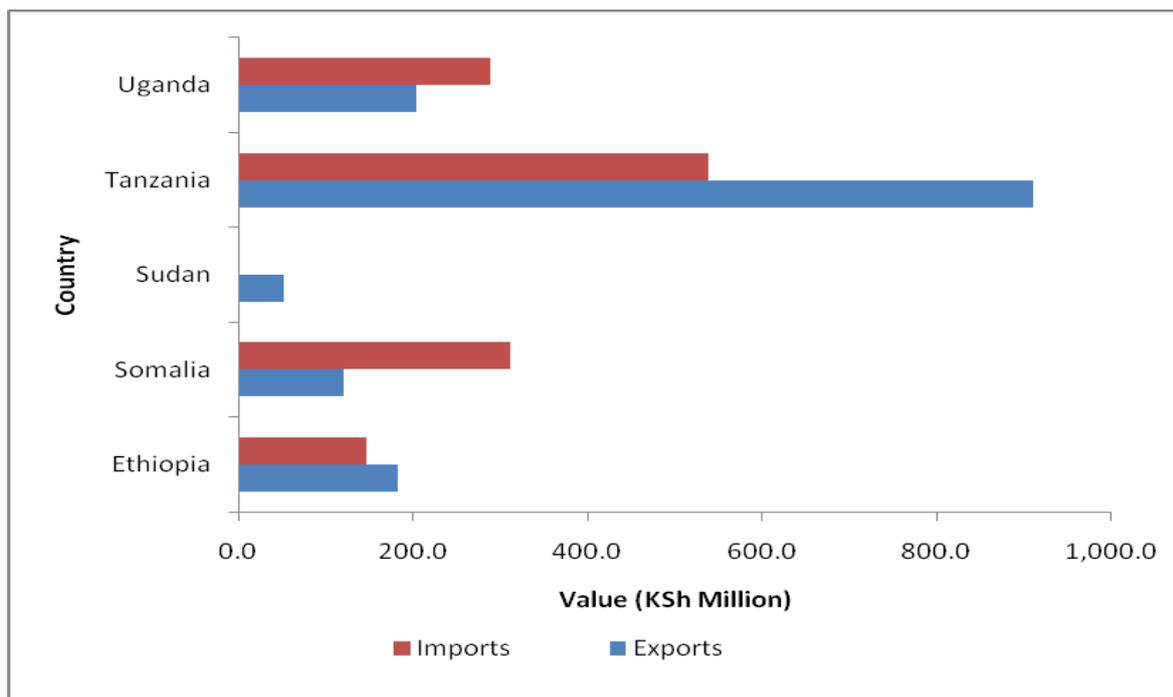
During the 3 months of April-June, 2011(2<sup>nd</sup> quarter of 2011), the major destinations of Kenya's informal exports were Tanzania, Uganda and Ethiopia. The total estimated value of informal exports to Tanzania, Uganda and Ethiopia were KSh 909.9 million, KSh 203.7 million and KSh 182.4 million respectively, and accounted for 61.9, 13.9 and 12.4 per cent of the total informal exports, respectively, as indicated in Table 3.1 and Figure 3.1. The major origins of the Kenya's informal imports were Tanzania, Somalia and Uganda. The total estimated value of informal imports from Tanzania, Somalia and Uganda were KSh 537.5 million, KSh 311.6 million and KSh 289.3 million respectively, and accounted for 41.8, 24.2 and 22.5 per cent of the total informal imports, respectively.

Overall, the total trade balance between Kenya and her neighbours recorded a surplus of KSh 183.1 million in which case trade balance between Kenya and Tanzania recorded the highest surplus of KSh 372.3 million during the 2<sup>nd</sup> quarter of 2011. On the other hand, trade balance between Kenya and Somalia recorded the biggest deficit of KSh 190.2 million during the same period.

**Table 3.1: Informal exports and imports by Country for 3 Months, April-June, 2011 (KSh Million)**

Country	Exports	Imports	Total Trade	Trade Balance	% Share_Export	% Share_Imports
<b>Ethiopia</b>	182.4	147.4	329.8	35.0	12.4	11.5
<b>Somalia</b>	121.4	311.6	433.0	-190.2	8.3	24.2
<b>Sudan</b>	51.6	0.1	51.7	51.5	3.5	0.0
<b>Tanzania</b>	909.8	537.5	1,447.4	372.3	61.9	41.8
<b>Uganda</b>	203.7	289.3	493.1	-85.6	13.9	22.5
<b>Total</b>	<b>1,469.0</b>	<b>1,285.9</b>	<b>2,754.9</b>	<b>183.0</b>	<b>100.0</b>	<b>100.0</b>

**Figure 3.1: Informal exports and Informal imports by Country, April – June, 2011**



### 3.3 Flows by Country and Broad Product Category

Overall, during the 3 months of April-June, 2011 (2<sup>nd</sup> quarter of 2011), industrial products dominated Kenya's informal exports as reflected in Table 3.2 and Figure 3.2. They accounted for 75.2 per cent of the total informal exports, while agricultural products accounted for 24.6 per cent of the total informal exports. Most of the industrial products were exported to Tanzania and Uganda and accounted for 56.2 per cent and 12.1 per cent of the total informal exports, respectively. Kenya's agricultural products exported to Ethiopia and Somalia accounted for 8.6 per cent and 7.3 per cent of the total informal exports, respectively. Imported agricultural products accounted for 65.0 per cent of Kenya's total informal imports, while imported industrial products accounted for 30.9 per cent of the total informal imports. Most of the agricultural products were imported from Somalia, Tanzania and Uganda, accounting for 20.7, 20.4 and 17.1 per cent of the total informal imports, respectively. Imported industrial products from Tanzania, Uganda and Ethiopia accounted for 19.5, 4.7 and 4.6 per cent of the total informal imports, respectively. The following is the detailed estimates of informal trade with Kenya's neighbours:

#### Ethiopia

During the second quarter of 2011, Kenya exported to Ethiopia goods worth KSh 182.4 million, of which, agricultural products accounted for KSh 126.7 million. On the other hand, Kenya's informal imports from Ethiopia were estimated at KSh 147.4 million, out of which, agricultural and industrial products accounted for KSh 87.1 million and 58.9 million, respectively. Overall, Kenya recorded an estimated trade surplus of KSh 35.0 million. The main agricultural and industrial products exported to Ethiopia were miraa, tea, cooking fats and oils, articles of apparels and clothing accessories, while the main agricultural and industrial products imported from Ethiopia were cattle, maize, milk, petroleum products and wheat flour. Overall, Kenya had a comparative advantage in export of agricultural products, whereas Ethiopian informal exports to Kenya had a competitive advantage over industrial products.

#### Somalia

The total informal trade with Somalia was estimated at KSh 433.0 million with a trade deficit of KSh 190.2 million, during the review period. Informal exports to Somalia were dominated by agricultural products valued at KSh106.8 million. Similarly, informal imports from Somalia were dominated by agricultural products valued at KSh 265.9 million. It is important to note that the flow of agricultural goods was in both directions, emphasizing the economic interdependence of both countries in terms of food security. The main agricultural and industrial products exported to Somalia were miraa, maize, tea, camels, cement and cooking fats and oils, whereas, the main agricultural and industrial products imported from Somalia were animals ( in particular, camels, goats and cattle), fodder, milk onions and rice. The busiest border station along the Somalia frontier was Mandera through which Kenya imported a lot of commodities vis-à-vis what she exported to Somalia.

### **Sudan**

During the period under review, the total informal trade between Kenya and Sudan was lowest compared to the other neighbouring countries. The volume of trade was valued at KSh 51.7 million, comprising mainly of industrial and agricultural export products which accounted for KSh 31.5 million and KSh 20.1 million, respectively. The survey findings revealed that Kenya exported mainly milk, spices, wheat flour and maize flour to Sudan.

### **Tanzania**

Compared to other neighbouring countries, Kenya's total unrecorded informal export trade with Tanzania was highest, valued at KSh 1,447.4 million, during the second quarter of 2011. The informal exports and informal imports were KSh 909.8 million and 537.5 million, respectively, in the same period. The industrial products worth KSh 825.9 million dominated Kenya's informal exports to Tanzania. The agricultural and industrial import products from Tanzania were valued at KSh 262.6 million and KSh 250.3 million, respectively, during the second quarter of 2011. The leading agricultural informal exports to Tanzania were irish potatoes and coconuts. Under industrial products category, the main exported commodities to Tanzania comprised building materials (paints, iron sheets, cement, steel bars, ceiling boards and nails), utensils, beer, soft drinks, margarine, wire wares, plastic buckets and basins and bread. Dry maize, onions, rice, fruits (oranges) and fish were the main imported agricultural products from Tanzania, under unrecorded informal trade during the second quarter of 2011. The leading imported industrial products from Tanzania were artificial flowers, gas, maize flour and articles of apparel and clothing accessories.

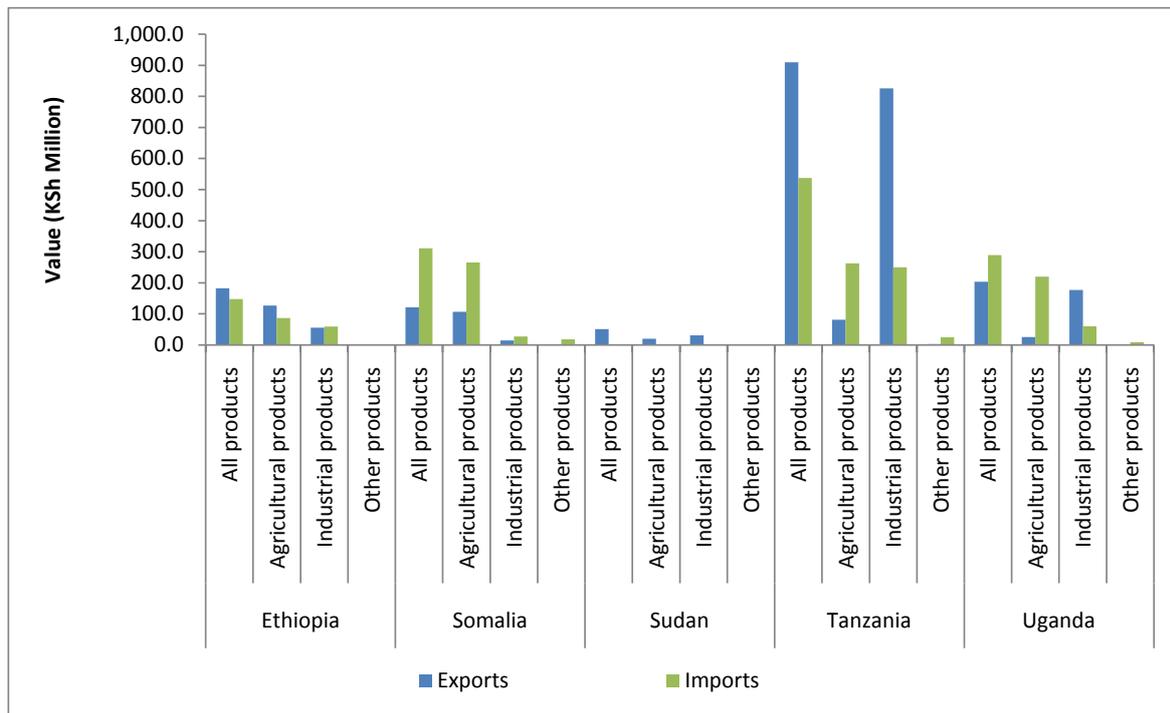
### **Uganda**

Uganda was the second largest destination of Kenya's informal trade valued at KSh 493.1 million, of which, informal imports and informal exports accounted for KSh 289.3 million and KSh 203.7 million, respectively, during the reference period. Industrial products dominated Kenya's informal exports to Uganda and accounted for KSh 176.9 million, while agricultural commodities dominated Kenya's informal imports from Uganda, accounting for KSh 220.3 million, during the same period. The leading agricultural product exported to Uganda was rice, while the main industrial products exported were cooking fats and oils, cement, soap, polythene bags and wheat flour. The main agricultural products imported from Uganda were fish, beans, cassava, millet, dry maize, maize seed, sorghum, groundnuts and fruits (in particular, bananas and mangoes). The main industrial products imported from Uganda were beer and articles of apparel and clothing accessories.

**Table 3.2: Informal exports and imports by Country and Product Category, 2nd Quarter of 2011 (KSh Million)**

Country	Product	Exports	Imports	Total Trade	Trade Balance	% Share_E xports	% Share_I mports
Ethiopia	<b>All products</b>	<b>182.4</b>	<b>147.4</b>	<b>329.8</b>	<b>35.0</b>	<b>12.4</b>	<b>11.5</b>
	Agricultural products	126.7	87.1	213.8	39.6	8.6	6.8
	Industrial products	55.6	58.9	114.5	-3.4	3.8	4.6
	Other products	0.1	1.3	1.5	-1.2	0.0	0.1
Somalia	<b>All products</b>	<b>121.4</b>	<b>311.6</b>	<b>433.0</b>	<b>-190.2</b>	<b>8.3</b>	<b>24.2</b>
	Agricultural products	106.8	265.9	372.7	-159.1	7.3	20.7
	Industrial products	14.5	27.6	42.1	-13.1	1.0	2.1
	Other products	0.1	18.1	18.2	-18.0	0.0	1.4
Sudan	<b>All products</b>	<b>51.6</b>	<b>0.1</b>	<b>51.7</b>	<b>51.5</b>	<b>3.5</b>	<b>0.0</b>
	Agricultural products	20.0	0.0	20.1	20.0	1.4	0.0
	Industrial products	31.4	0.1	31.5	31.4	2.1	0.0
	Other products	0.1	0.0	0.1	0.1	0.0	0.0
Tanzania	<b>All products</b>	<b>909.8</b>	<b>537.5</b>	<b>1,447.4</b>	<b>372.3</b>	<b>61.9</b>	<b>41.8</b>
	Agricultural products	81.2	262.6	343.8	-181.4	5.5	20.4
	Industrial products	825.9	250.3	1,076.2	575.6	56.2	19.5
	Other products	2.7	24.6	27.3	-21.9	0.2	1.9
Uganda	<b>All products</b>	<b>203.7</b>	<b>289.3</b>	<b>493.1</b>	<b>-85.6</b>	<b>13.9</b>	<b>22.5</b>
	Agricultural products	26.0	220.3	246.3	-194.3	1.8	17.1
	Industrial products	176.9	60.3	237.2	116.7	12.0	4.7
	Other products	0.8	8.8	9.6	-7.9	0.1	0.7
<b>Overall</b>	<b>All products</b>	<b>1,469.0</b>	<b>1,285.9</b>	<b>2,754.9</b>	<b>183.0</b>	<b>100.0</b>	<b>100.0</b>
	Agricultural products	360.7	836.0	1,196.7	-475.2	24.6	65.0
	Industrial products	1,104.4	397.2	1,501.5	707.2	75.2	30.9
	Other products	3.9	52.8	56.7	-48.9	0.3	4.1

Figure 3.2: Informal exports and imports by Country and Product Category, April – June, 2011



### 3.4 Informal exports by Product Category

Overall, industrial products dominated Kenya’s informal exports during the 3 months of April-June, 2011 (2<sup>nd</sup> quarter of 2011), as reflected in Table 3.3. They accounted for 75.2 per cent of the total informal exports, while agricultural products accounted for 24.6 per cent of the total informal exports. Most of the industrial products comprised paints (24.5% of the total informal exports), utensils (7.5% of the total informal exports), cooking fats and oils (3.4% of the total informal exports), buckets (2.7% of the total informal exports) soap (2.5% of the total informal exports) and iron sheets (2.4% of the total informal exports). These were exported mainly to Tanzania and Uganda. Kenya’s agricultural products exported comprised mainly miraa (8.8% of the total informal exports), irish potatoes (3.7% of the total informal exports), tea (2.0% of the total informal exports) and maize corn (2.0% of the total informal exports). These were mainly exported to Ethiopia and Somalia.

Table 3.3: Export Products by Category for 3 Months, April-June, 2011 (KSh Million)

Product	Value	% Share
<b>Agricultural Products</b>	<b>360.7</b>	<b>24.6</b>
Miraa	129.8	8.8
Irish potatoes	54.7	3.7
Tea	28.9	2.0
Maize (Corn)	28.8	2.0
Camel	23.9	1.6
Rice	19.9	1.4
Milk	15.0	1.0
Coconuts	14.1	1.0
Peas	11.4	0.8
Other Agricultural Products	34.3	2.3
<b>Industrial Products</b>	<b>1,104.4</b>	<b>75.2</b>
Paints	359.7	24.5
Utensils	110.5	7.5
Cooking fats/oils	50.6	3.4
Buckets	39.1	2.7
Soap	36.9	2.5
Iron sheets	35.2	2.4
Steel bars	26.5	1.8
Bread	25.5	1.7
Wheat flour	25.4	1.7
Beer	22.5	1.5
Cement	21.8	1.5
Articles of apparel and clothing accessories	21.1	1.4
Margarine	18.4	1.3
Polythene bags	17.5	1.2
Tyres (Motor vehicle)	15.3	1.0
Second hand clothing	14.8	1.0
Ceiling boards	14.1	1.0
Wirewares	14.0	1.0
Nails	13.4	0.9
Water containers (Water tanks)	12.7	0.9
Flasks	12.2	0.8
Shoes	12.0	0.8
Plastic Basins	11.8	0.8
Soda	11.7	0.8
Spices	11.2	0.8
Salt	11.0	0.7
Electricals and electronics	8.1	0.6
Maize flour	7.7	0.5
Sugar	7.0	0.5
Other Industrial Products	116.6	7.9
<b>Other Products</b>	<b>3.9</b>	<b>0.3</b>
<b>Total products</b>	<b>1,469.0</b>	<b>100.0</b>

### 3.5 Informal imports by Product Category

Overall, imported agricultural products dominated Kenya's informal imports during the 3 months of April-June, 2011, and accounted for 65.0 per cent of Kenya's total informal imports. Industrial products accounted for 30.9 per cent of the total informal imports, as shown in Table 3.4. Most of the agricultural imported products comprised dry maize (11.8% of the total informal imports); onions (8.1% of the total informal imports); cattle (7.3% of the total informal imports); camel (5.8% of the total informal imports); goats (5.4% of the total informal imports); fish (4.0% of the total informal imports); beans (3.4% of the total informal imports); cassava (2.9% of the total informal imports) and rice (2.6%

of the total informal imports). Most of the agricultural products were imported from Somalia, Tanzania and Uganda. Kenya's industrial products mainly comprised artificial flowers (10.5% of the total informal imports), petroleum products (3.4% of the total informal imports), articles of apparel and clothing accessories (2.9% of the total informal imports), charcoal (2.3% of the total informal imports) and beer (2.3% of the total informal imports). Most of the industrial products were imported from Tanzania and Uganda.

**Table 3.4: Import Products by Category for 3 Months, April-June, 2011 (KSh Million)**

<b>Product</b>	<b>Value</b>	<b>% Share</b>
<b>Agricultural products</b>	<b>836.0</b>	<b>65.0</b>
Maize (Corn)	151.4	11.8
Onions	104.1	8.1
Cattle	93.7	7.3
Camel	74.9	5.8
Goat	69.4	5.4
Fish	51.3	4.0
Beans	43.7	3.4
Cassava	37.0	2.9
Rice	32.9	2.6
Sorghum	17.3	1.3
Milk	16.7	1.3
Oranges	16.7	1.3
Millet	14.9	1.2
Maize (Seed)	14.8	1.1
Bananas	12.4	1.0
Tomatoes	10.1	0.8
Mangoes	10.1	0.8
Fodder	9.0	0.7
Groundnuts	6.9	0.5
Peas	5.9	0.5
Other Agricultural products	42.8	3.3
<b>Industrial products</b>	<b>397.2</b>	<b>30.9</b>
Florages/Artificial flowers	134.9	10.5
Diesel	44.2	3.4
Articles of apparel and clothing accessories	37.3	2.9
Charcoal	29.4	2.3
Beer	29.2	2.3
Maize flour	24.1	1.9
Gas	12.9	1.0
Shoes	11.3	0.9
Sugar	10.6	0.8
Lubricant	7.5	0.6
Wheat flour	6.4	0.5
Spaghetti	6.3	0.5
Other Industrial products	43.0	3.3
<b>Other products</b>	<b>52.8</b>	<b>4.1</b>
<b>Overall</b>	<b>1,285.9</b>	<b>100.0</b>

### 3.6 Flows by Border Station

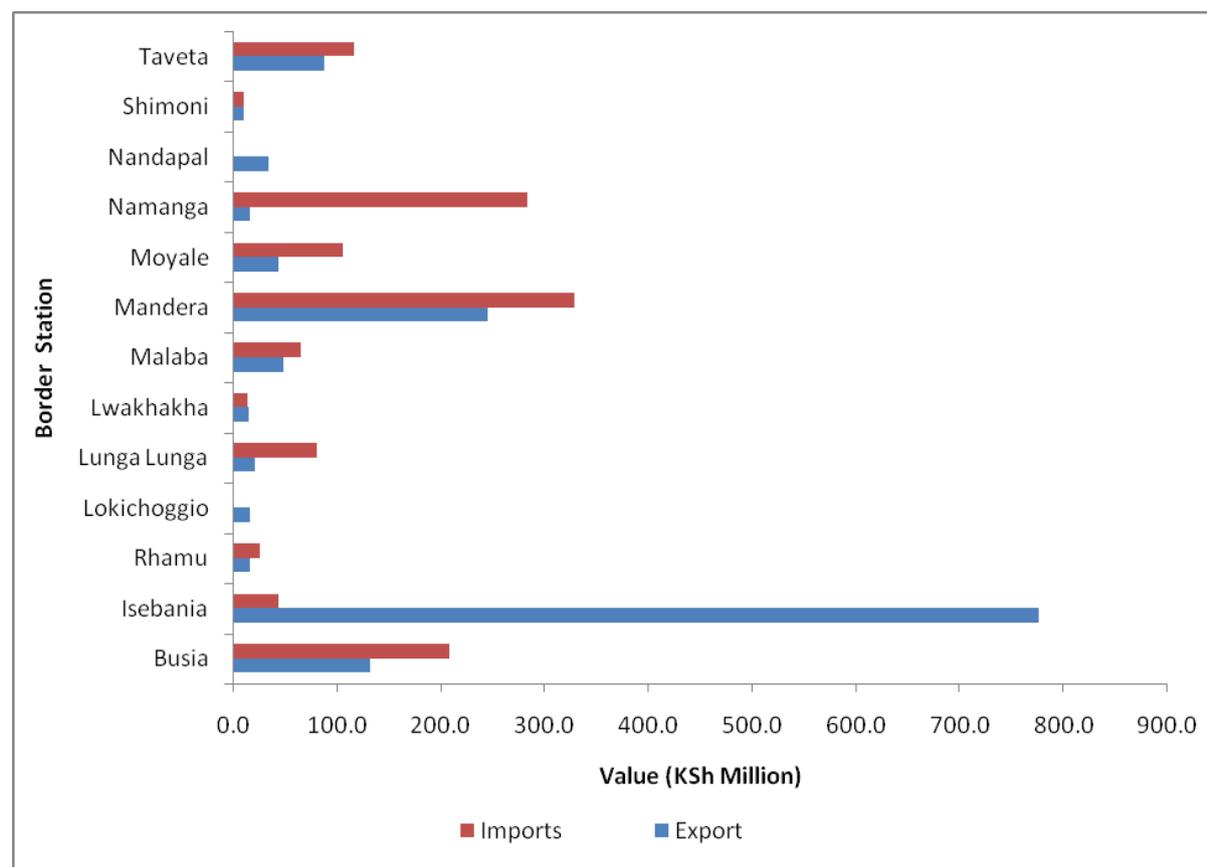
During the reference period, the bulk of ICBT transactions were concentrated at Busia, Malaba, Isebania, Mandera, Namanga and Taveta borders. The value of informal exports through Isebania, Mandera, Busia and Taveta were KSh 775.8 million, KSh 245.5 million, KSh 132.7 million and KSh 88.4 million, respectively, as shown in Table 3.5. The value of informal imports through Mandera, Namanga, Busia and Taveta were KSh 328.6 million,

KSh 283.2 million, KSh 209.0 million and KSh 116.3 million respectively, as shown in Table 3.5 and Figure 3.3.

**Table 3.5: Informal exports and imports by Border Station for the 2nd Quarter of 2011 (KSh Million)**

Station	Export	Imports	Total Trade	Trade Balance	% Share_Exports	% Share_Imports
Busia	132.7	209.0	341.7	-76.3	9.0	16.3
Isebania	775.8	44.4	820.3	731.4	52.8	3.5
Rhamu	16.1	25.7	41.8	-9.6	1.1	2.0
Lokichoggio	16.9	0.1	17.0	16.8	1.1	0.0
Lunga Lunga	21.3	81.1	102.4	-59.9	1.4	6.3
Lwakhakha	16.1	14.5	30.6	1.6	1.1	1.1
Malaba	49.4	65.4	114.8	-16.0	3.4	5.1
Mandera	245.5	328.6	574.2	-83.1	16.7	25.6
Moyale	44.5	106.5	150.9	-62.0	3.0	8.3
Namanga	17.3	283.2	300.5	-266.0	1.2	22.0
Nandapal	34.7	0.0	34.7	34.7	2.4	0.0
Shimoni	10.4	11.1	21.5	-0.6	0.7	0.9
Taveta	88.4	116.3	204.7	-28.0	6.0	9.0
<b>Total</b>	<b>1,469.0</b>	<b>1,285.9</b>	<b>2,754.9</b>	<b>183.0</b>	<b>100.0</b>	<b>100.0</b>

**Figure 3.3: Informal exports and imports by Border Station, 2nd Quarter of 2011**



### 3.7 Trade Flow by Mode of Transport

As depicted in Figures 3.4 and 3.5, the main modes of transport for the ICBT commodities during the 2<sup>nd</sup> quarter of 2011 were push carts, bicycles, motor cycles and persons (hand/head luggages). The shares of informal exports transported by push cart, bicycle and persons (hand/head) were 47.0 per cent, 14.5 per cent and 10.3 per cent of the total informal exports, respectively. The shares of informal imports transported by bicycle, persons (hand/head), motorcycle and push cart, were 30.9, 27.8, 11.8 and 11.7 per cent of the total informal imports, respectively.

In addition, vehicles (pick-ups and saloons) handcarts and wheel chairs (by disabled persons) were also used for transportation of goods.

Figure 3.4: Share of Informal Exports by Mode of Transport, 2nd Quarter of 2011

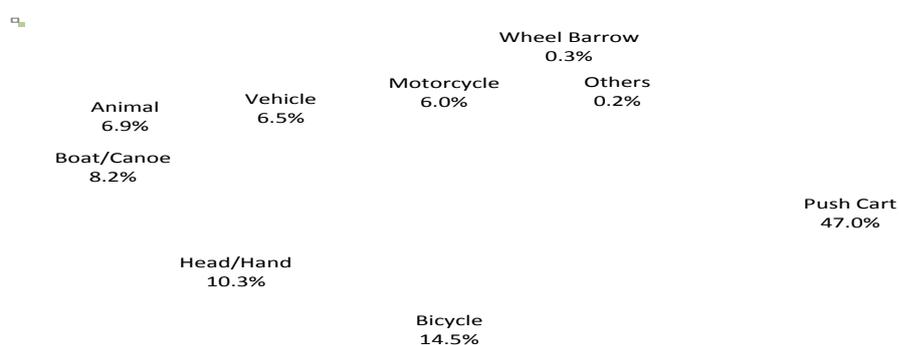
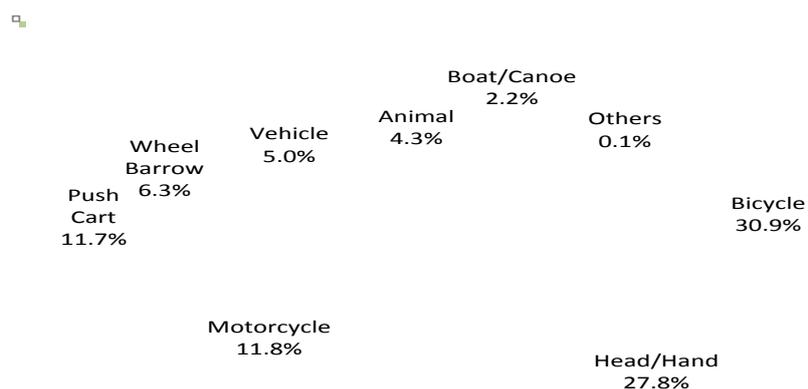


Figure 3.5: Share of Informal Imports by Mode of Transport, 2nd Quarter of 2011



### 3.8 Comparison between Formal and Informal Trade for 2<sup>nd</sup> Quarter, 2011

As reflected in Table 3.6, total value of the unrecorded informal trade was KSh 2,754.9 million which accounted for 6.3 per cent of the total recorded formal trade during the second quarter of 2011. During the same period, informal trade imports and informal exports accounted for 16.3 per cent and 4.1 per cent of the total formal trade imports and exports, respectively. The shares of the unrecorded informal trade between Kenya and Ethiopia; Kenya and Somalia and Kenya and Tanzania were 25.7, 13.4 and 10.3 per cent of the recorded formal trade, respectively, during the second quarter of 2011. The shares of the unrecorded trade between Kenya and Uganda and Kenya and Sudan were 2.5 per cent and 0.9 per cent, of the recorded formal trade, respectively, during the same period. The survey results revealed that huge amounts of informal imports from Somalia and Ethiopia were not captured in the formal trade statistics, leading to underestimation of the total trade between Kenya and these countries.

**Table 3.6: Comparison between Formal and Informal Trade for 2nd Quarter, 2011 (KSh Million)**

Country	Formal Trade Statistics			Informal Trade Statistics		
	Export	Import	Total Trade	Export	Import	Total Trade
Ethiopia	1,192.7	91.9	<b>1,284.6</b>	182.4	147.4	<b>329.8</b>
Somalia	3,226.2	5.4	<b>3,231.6</b>	121.4	311.6	<b>433.0</b>
Sudan	5,475.8	1.2	<b>5,477.0</b>	51.6	0.1	<b>51.7</b>
Tanzania	8,734.6	5,380.2	<b>14,114.8</b>	909.8	537.5	<b>1,447.4</b>
Uganda	17,518.7	2,416.2	<b>19,934.9</b>	203.7	289.3	<b>493.1</b>
<b>Total</b>	<b>36,148.0</b>	<b>7,894.8</b>	<b>44,042.8</b>	<b>1,469.0</b>	<b>1,285.9</b>	<b>2,754.9</b>

## **CHAPTER 4: CONCLUSION AND RECOMMENDATIONS**

### **4.1 Conclusion**

In order to get more comprehensive, reliable, accurate and complete ICBT statistics, the 2<sup>nd</sup> cycle of the ICBT survey is scheduled for this year (2012). The technical committee has finalized the necessary preparations and is waiting for funds for implementation of the same. It is envisaged that the 3<sup>rd</sup> and 4<sup>th</sup> cycles will be conducted on schedule after the 2<sup>nd</sup> cycle, in a bid to complete all the planned four cycles prior to consolidation of the reports. This calls for concerted efforts of all stakeholders and development partners to avail funds for the surveys.

### **4.2 Recommendations**

ICBT Survey monitoring should be done regularly on a full calendar year, in order to capture seasonality in a bid to enable useful estimation. Due to high costs of carrying out ICBT surveys, there is need for stakeholders and development partners to pool resources together to carry out ICBT surveys, regularly (on yearly basis). Further, since each border station has its unique ICBT activities, the sample of the selected border stations should be expanded to cover all the official border points. It is highly recommended that publicity and advocacy should be carried out prior to the commencement of the exercise, through seminars with representation from the informal cross border traders and other stakeholders. This can be reinforced by using advocacy materials (news papers, posters/pamphlets, and introductory letters) to convey the message on the importance of ICBT statistics.

## APPENDICES

### Appendix I

#### Glossary of Key Terms, Concepts and Definitions

**International Merchandise Trade:** This is the exchange of goods between residents of one economy and another economy at a certain period of time. These transactions are recorded by customs officials.

**Form F88:** These are forms that are used by KRA to record trade transactions based on direct assessment. These transactions are those whose values are below the threshold for tax payments.

**Balance of Payments Statistics:** Balance of Payments (BOP) records all of the many financial transactions that are made between consumers, businesses and the government of a particular country with people across the rest of the World. The BOP figures tell us about how much is being spent by resident consumers and firms on imported goods and services, and how successful resident firms have been in exporting to other countries and markets. It is an important measure of the relative performance of the country/economy in the global economy.

**Informal Cross Border Trade:** This is exchange of goods between residents of one economy and another economy that is not recorded by customs officials. Informal cross border trade is unrecorded exchange of goods between residents of different economies. ICBT entails transactions in goods across Kenya's borders that are not recorded, officially, by customs authorities. ICBT refers to transactions that involve residents and non-residents across the economic boundaries of two or more countries, and, are largely not recorded by customs authorities. Under ICBT arrangement, goods cross territorial boundaries both in bulk and small quantities in broad day light. Therefore, goods involved are easily identified and can be recorded. Some of the goods involved, especially, exports do not attract duty.

**Smuggling:** This is an illegal undertaking which involves illicit trade in goods without paying lawful charges or duty to customs authorities. Smugglers usually transact their business at odd hours (usually at night) in a concealed manner. Smuggled goods are mostly in bulk and not easily accessible or estimated. Important to note is that, smugglers are sometimes armed thereby posing a security risk to customs authorities and security officials at the frontiers.

**Purposive Sampling:** The act, process, or technique of selecting an appropriate sample. Purposive sampling involves selecting sample units according to a purposive principle to achieve desired objectives. The use of purposive sampling technique in selecting border posts for monitoring is appropriate in this peculiar situation. Although this method is subject to bias and less efficient compared to stratified sampling, proper application of it with adequate knowledge of the population characteristics could provide a representative sample to generate sufficient information on the population parameters. The technique is useful in minimizing resource wastage on sampling units (border posts) that are insignificant or experiencing minimal informal activities which would have otherwise been selected in the random process.

**Random Sampling:** Is the process of obtaining a sample in which every element in the population has an equal chance of being selected. Random sampling a method is the process of selecting a sample (random sample) from a statistical population in such a way that every possible sample that could be selected has a predetermined probability of being selected. Random sampling method is normally used to avoid a sampling bias. Continuous monitoring of ICBT activities throughout the entire month would yield realistic estimates of informal trade transactions. However, due to resource constraints, it is not possible to monitor ICBT activities for a full month. Ideally, the selection of the weeks to be monitored is supposed to be random to avoid sampling bias.

**Single Customs Declaration Document:** Any importer or exporter must declare the imported or exported goods. The goods are declared through a detailed customs declaration. The Single Customs Declaration Document is a unified form for all customs declarations. This form is used for all customs statuses.

**Balance of Trade:** The net of exports over imports. This is the difference between the value of exports and the value of imports. If the trade balance is negative then the economy in question is experiencing unfavourable terms of trade and has a trade deficit. If the trade balance is positive, then the economy in question is experiencing favourable terms of trade and has a trade surplus.

**Direction of Trade:** This classification captures trade values by country of destination or country of origin. This classification shows the source of imports and where exports of an economy of region are destined to.

**Exports:** These are the values and quantities of products of the reporting economy that are sold to other countries.

**Imports:** These are the values and quantities of products of a foreign economy that are sold to the reporting/local economy.

**Flows by Country:** This classifies the value of trade by country. The classification captures the value of exports by country of destination and the value of imports by country of origin.

**Flows by Product Category:** This classifies the value of trade by product category. The categories in this context are industrial, agricultural and other products. The classification captures the value of exports and imports by product category.

**Flows by Border Station:** This classifies the value of trade by border station of entry or exit. The classification captures the value of exports and imports by border station.

**Trade Flows by Mode of Transport:** This classifies the value of exports and imports by mode of transport. The modes of transport include vehicles, motorcycles, wheel barrows, hand/head, push carts, animals, boats/canoes and others (e.g. wheel chair).

## **Appendix II**

### **REPORT ON THE INFORMAL CROSS BORDER TRADE INQUIRY (ICBT) FACT FINDING MISSION CONDUCTED IN DECEMBER, 2008 - PHASE II**

#### **Background**

ICBT entails transactions in goods across Kenya's borders that are not recorded by customs authorities. Hence, External Trade Statistics, National Accounts Statistics and Balance of Payments Statistics are incomplete due to lack of data on the informal trade component. In order to collect reliable, accurate and timely External Trade Statistics, it is imperative to enhance the collection of trade statistics by capturing ICBT Statistics in addition to the formal trade statistics.

#### **Nature of the Problem**

Kenya Revenue Authority (KRA) captures data for formal trade transactions using Simplified Customs Document (SCD). However, informal trade transactions are hardly recorded leading, leading to underestimation of economic statistics like Trade Statistics, Balance of Payments Statistics (BoP) and Gross Domestic Product (GDP).

#### **Overall Objective of the Inquiry**

To establish the magnitude of unrecorded trade.

#### **Specific Objectives**

To collect benchmark information from the Immigration Officials at the borders about:

1. The commodities transacted under ICBT.
2. The direction of Trade (Destination/Origin).
3. The flows in terms of values and quantities.

#### **Places visited**

The following places were visited:

- Busia;
- Malaba;
- Isebania;
- Namanga;
- Loitokitok;
- Taveta;
- Shimoni; and
- Lunga Lunga

## **The Mission Findings**

There exists a lot of cross-border trade between Kenya and her neighbours through the above border points. Merchandise cross the official boundaries both in bulk and small quantities without being recorded and included in the official external trade statistics. Thus, Kenya Revenue Authority (KRA) captures data for formal trade transactions using Simplified Customs Document (SCD), C63. On the other hand, although the informal trade transactions are recorded through direct assessment using form F88, a lot of them cross the border unnoticed. In addition, even the data captured in F88 is not incorporated in the official external trade statistics on the ground that the value doesn't meet the official threshold of US\$ 500.

The following is a summary of the report on the border points visited:

### **Busia**

The informal traders are mostly engaged in the agricultural produce and manufactured goods. The main imports are: maize, beans, millet, groundnuts, bananas, and cassava, shoes and clothing materials. The main exports include: soft drinks, cement, hard woven mats, pineapples, coffee berries, salt, cooking fats and Unga. The flows (transactions) in these commodities are extremely high (substantial). The modes of transport for these commodities are bicycles, vehicles (pick-ups and saloon) and natural persons (hand/head luggages).

### **Malaba**

The informal traders are mostly engaged in the agricultural produce and manufactured goods. The main imports are: maize, beans, mangoes, groundnuts, bananas, water melon, paw paws, lemon onions, green peas, fish and kales. The main exports include: household consumable goods (soft drinks salt, cooking fats and Unga) and plastic containers. The flows (transactions) in these commodities are extremely high (substantial). The modes of transport for these commodities are bicycles, vehicles (pick-ups and saloon), handcarts and natural persons (hand/head luggage).

### **Isebania**

The informal traders are mostly engaged in the agricultural produce and manufactured goods. The main imports are: cotton seed cake, fish (fish waste and omena), mineral water, rice, fruits and clothing materials. The main exports include: household consumable goods (soft drinks salt, cooking fats and Unga), paper bags, hardware material, shoes and plastic containers. The flows (transactions) in these commodities are quite substantial. The modes of transport for these commodities are bicycles, vehicles (pick-ups and saloon), handcarts and natural persons (hand/head luggage).

**Lunga Lunga**

The informal traders are mostly engaged in the agricultural produce and manufactured goods. The main imports are: pineapples, onions, groundnuts, and cashew nuts. The main exports include: fruits (mangoes, oranges, coconuts), building materials (iron sheets, cement) and plastic containers. The flows (transactions) in these commodities are extremely high (substantial). The modes of transport for these commodities are bicycles, vehicles (pick-ups and saloon), handcarts and natural persons (hand/head luggage).

**Taveta**

The informal traders are mostly engaged in the agricultural produce and manufactured goods. The main imports are: bananas, onions, tomatoes, maize, timber, rice, beans, pineapples, sisal twin, carrots, maize flour and clothing materials. The main exports include: coconuts, salt, cooking oil, blankets, sufuria, gumboots, slippers and plastic containers. The flows (transactions) in these commodities are substantial. The modes of transport for these commodities are bicycles, vehicles (pick-ups and saloon), handcarts and natural persons (hand/head luggage).





