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FAST TRACK

## REVIEW OF THE SUITABILITY OF THE THRESHOLD FOR THE SIMPLIFIED TRADE REGIME



Funded by the  
European Union



# REVIEW OF THE SUITABILITY OF THE THRESHOLD FOR THE SIMPLIFIED TRADE REGIME

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# ACRONYMS AND ABBREVIATIONS



CBTA	Cross Border Traders Association
CD1	Customs Declaration Form
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EU	European Union
EDF	European Development Fund
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
OLS	Ordinary Least Squares
OSBP	One Stop Border Post
SACCO	Saving and Credit Cooperatives
STR	Simplified Trade Regime
TIDO	Trade Information Desk Officer
ToRs	Terms of Reference
VAT	Value Added Tax
WTO	World Trade Organisation

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## EXECUTIVE SUMMARY

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme with financial support from the European Union under the EDF 11. Among the activities under the programme is to review and monitor the implementation of the COMESA Simplified Trade Regime (STR) and related challenges as well as regular reviews of some STR features such as the product coverage and the applied thresholds.

There has been expression from Member States to review the current STR threshold. Whilst DRC wants the current STR to be reduced to US\$500, other Member States need the STR threshold value to be reviewed upward. A decision was made to undertake a study to review the suitability of the current STR threshold value of US\$2000. This decision was made by the Council of Ministers at the 40<sup>th</sup> Council of Ministers meeting, held in Lusaka, Zambia, in November 2019 (COMESA, 2019). In line with the 40<sup>th</sup> Council of Ministers' decision, this study reviewed the suitability of the current COMESA STR threshold of US\$2000. The study:

- i. Established the current scope of goods traded under the STR at each of the targeted borders;
- ii. Determined the average value of consignments declared by small-scale cross border traders;
- iii. Engaged small-scale cross border traders, border agency officials and relevant policy makers on the suitability of the current STR threshold at the selected borders;
- iv. Determined the suitability of the current STR threshold in facilitating regional trade and integration in countries implementing the STR;
- v. Assessed the impact of the current STR threshold on trade flows, traders' incomes and government revenues between selected countries;
- vi. Used an objective method to determine and propose adjustments if any, to the current threshold that would be appropriate for enhanced implementation of the STR; and
- vii. Recommended an appropriate level of the STR threshold and strategies as well as actions required to be taken by COMESA and Member States.

Primary data was collected through interviews and questionnaires whilst secondary data was obtained from reports and desk research. The study employed both qualitative and quantitative methods of data analysis.

## **Key Findings**

Key findings of the study are as follows:

- i. The study determined the scope of traded products under STR at each targeted border. At Chirundu and Mwami/Mchinji Border Posts, originating manufactured products dominated the trade and trade flow is mainly one way from Zambia to Zimbabwe and Malawi respectively. At Kasindi/Mpondwe and Goma/Rubavu trade is mainly in agricultural products and livestock. Mostly processed agricultural products and other manufactured products are traded between Kenya and Uganda via Malaba Border Posts. The trade between Zambia and DRC was established to be mainly in one direction, from Zambia to DRC and this trade is mostly livestock; agricultural produce and manufactured products. In general, the scope of products being traded at the targeted border posts constitute approximately less than 54% of the agreed product scope in the respective common lists;
- ii. Where the current COMESA STR threshold value of US\$2000 is applied on both sides of the

border, it was established that most declaration values are at the brim of the current COMESA threshold value. At borders where the current COMESA STR threshold is not harmonised, most transaction values are far below the current COMESA STR threshold value. Countries that have not harmonised their STR threshold value to the COMESA STR threshold value are hurting intra-COMESA trade and therefore trade integration;

- iii. Most government respondents are in agreement that the current STR threshold has reasonably led to formalisation of small-scale cross border trade. Respondents also are in agreement that the current COMESA STR threshold is adequate to enable economies of scale and opportunities for small-scale cross border traders to grow their business and they proposed that the current COMESA STR threshold value remains at US\$2000 whilst at the same time it is very critical that efforts are made to ensure that other Member States harmonise their STR threshold to the US\$2000 value that was determined by Council. Consensus has also been established that more regional STR intra-trade has been recorded and the complementarity of goods (fruitful exchange of goods) between the Member States implementing the STR has strengthened the social cohesion of the communities. To enhance the capacity of the current threshold value, it is important to review or waive other taxes and non-tariff barriers faced by small-scale cross border traders;
- iv. Majority of stakeholders consulted are in agreement that the current STR threshold value resulted in increased trade under STR and had led to increases in the trader's income. Some of government ministries felt that there was loss in government revenue as the current STR threshold value increased the scope of import transactions on which import duty is free. This loss of revenue is possible when the Member State is not implementing the COMESA FTA. However, most trade is being done in a FTA environment for most countries except D R Congo. Under FTA duties are rated zero and the STR threshold value acts as a legitimate way of deliberately extending the benefits of FTA to small-scale cross border traders. Most customs administrations who responded to our questionnaire agree that the resultant increase in trade volume led to a surge in government revenue through taxes other than duty payments.
- v. Quantitative analysis revealed that the small-scale cross border trade profits are more sensitive to changes in the threshold value. The implication is that an increase by a unit in the threshold value would lead to a more than unit increase in profit. It has been also established that cumbersome border post procedures weigh down on traders' profits.
- vi. The study established that the current STR threshold value increased the probability of small-scale cross border traders to increase their trade volume. The effect varies with the level of threshold value. It was estimated that at threshold values of US\$500, US\$1000 and US\$2000 the probability that small-scale cross border traders would increase their trade is approximately 13%, 23% and 54% respectively. In light of this finding, the current STR threshold value of US\$2000 is very instrumental in increasing small-scale cross border trade and therefore regional trade integration. Countries implementing threshold values below US\$2000 are heavily restricting intra-COMESA trade by small-scale cross border traders. Zimbabwe is implementing a lower threshold due exchange control regulations restrictions. DRC is implementing a lower STR threshold probably because it is not under the COMESA FTA where import duties are rated zero;

- vii. It was also established that the probability to increase trade by small-scale cross border traders who are in full time employment relative to those in informal employment increases with increase in the threshold value. Descriptive analysis established that certain characteristics distinguish this group of traders. The majority of them are in the age group above 35, who are able to raise finance with ease, has business management training and have awareness of the current STR threshold value. Thus, the study concludes that these characteristics are the reason why they are most likely to grab the business opportunities that are availed by a higher STR threshold;
- viii. Similarly, it was established that the probability of increasing trade by traders vary with age groups as the STR threshold increases. Traders aged above 35 have a chance of approximately 50% of increasing their trade as the threshold value reaches US\$2000 relative to age group aged 35 and below. We have also noted that this age group has a higher proportion of respondents trained in business management, relatively larger proportion in full time employment, can easily raise business finance and has awareness of the STR threshold value. These characteristics could be important background factors explaining why this group is likely to increase trade when the STR threshold is raised. Inspection of the characteristics of the age group 35 and below made it much clearer. The group constitute more females, who solely rely on small-scale cross border trade, relatively have difficulties in raising business finance and that a higher proportion of them have never received business management training, though about 92% of the age group have awareness of the current STR threshold value. Thus, the study concludes that access to business finance, training in business management and increased awareness is very critical in making traders ready to exploit the business opportunities availed by the current COMESA STR threshold value;
- ix. Females continue to be less responsive to increasing their trade relative to males even when the STR threshold is increased. It was, therefore, concluded that the different demographic characteristics between females and males could be the reason behind the less responsive of females to raise their trade as STR threshold increases. Relatively, females dominate the age group 35 years and below compared to males. This age group solely rely on small-scale cross border trade and has been established to respond less to trade as STR threshold increases. Females have more difficulties in raising business finance relative to their male counterparts. More females are not trained in business management. These short comings make females not ready to raise their trade compared to their male counterparts when the STR threshold is raised; and
- x. It was established that the majority of consulted stakeholders prefer that the threshold value remains at US\$2000. In light of the above finding that most trade values have not exhausted the current COMESA STR threshold value of US\$2000. Therefore, the study concludes that it is reasonable to maintain the current STR threshold value of US\$2000 complemented by efforts to reduce traders' compliant costs faced at borders.

## **Recommendations**

Several recommendations have been proffered based on the findings of this study. The recommendations are as follows:

- i. The current STR threshold value of US\$2000 be maintained. However, the Secretariat should engage Member States and support them to review border crossing compliance costs faced by small-scale cross border traders;
- ii. Member States should implement the COMESA Free Trade Area (FTA) to enhance implementation of the STR threshold value of US\$2000;
- iii. Member States to harmonise their STR threshold value to the current COMESA STR threshold value of US\$2000. COMESA Secretariat should encourage and support Member States in this endeavour;
- iv. Member States implementing the STR to regularly review their STR common list of products to include other COMESA originating products of interest to traders;
- v. Member States to review or waive other taxes and non-tariff barriers faced by small-scale cross border traders at border posts in order to reduce compliance costs;
- vi. Member States to develop a small-scale cross border trade finance loan facility to assist traders to raise business finance; and
- vii. Secretariat to develop and roll out business management training and STR awareness capacity building programmes.



## **Chapter 1:**

### **The COMESA Simplified Trade Regime (STR) Threshold**

## 1.1 Introduction

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme which is financed by the European Union under the 11 EDF. All result areas of the programme are aimed at increasing the formal small-scale cross border trade flows in the COMESA/Tripartite region leading to higher revenue collection by governments and increased incomes by small-scale traders.

One of the activities under the programme is to review and monitor the implementation of the COMESA Simplified Trade Regime (STR) and related challenges as well as regular reviews of some STR features such as the product coverage and the applied thresholds. This Report presents the findings of a study to review the current COMESA STR threshold value of US\$2000.

## 2.2 Background to the Study

Small-scale cross border trading is a major feature in African economic and social landscape. It is estimated to contribute to income of about 43% of the continent's population. Thus, it is an essential phenomenon for welfare enhancing and poverty reduction, (Brenton & Soprano, 2018). Furthermore, small-scale cross border trading helps generate solidarity between border communities, contributing to promoting peace and stability. Women are estimated to constitute about 70% of small-scale cross border traders in Africa. This gender dimension demonstrates that trade can be a crucial factor for economic empowerment of African women. In terms of trade, small-scale cross border trade contributes about 40% of total intra-regional trade in the Common Market for Eastern and Southern Africa (COMESA) region, (Sommer & Nshimbi, 2018).

Though the importance of small-scale cross border trade is apparent for Africa's socio-economic development, it is faced with many challenges. These include complex border crossing procedures, long border queues, border delays, high import duty rates, unnecessary border inspections, corruption, inadequate border infrastructure, limited access to finance, lack of market information and cumbersome regulatory requirements, (Muqayi, 2015). Small-scale cross border traders also have limited knowledge, education and business management skills. Since the attainment of the free trade status by COMESA in 2000, only large businesses were benefiting from the FTA preferential treatment as they could easily comply with the procedural and regulatory requirements, (Muqayi, 2015). Small-scale cross border traders, despite being eligible, were not benefiting from the tariff preferences availed under regional integration as they found it difficult to comply with procedural and regulatory requirements to move goods across borders.

There is increasing recognition at continental, regional and at national level of the importance of small-scale cross border trade and the challenges it faces. Trade facilitation initiatives are being implemented in Africa to reduce the challenges facing small-scale cross border trade. In 2010, COMESA implemented a trade facilitation tool, the Simplified Trade Regime (STR), tailored to simplify procedural and documentary requirements, thus, enabling small-scale cross border traders to benefit from the region's FTA preferential tariff treatment.

Implementing the COMESA STR is expected to promote formalisation of small-scale trade flows across borders, increase the number of participants in small-scale cross border trade (extensive margin of trade), increase small-scale trade volume (intensive margin of trade), increase traders' income, and government revenue. Several economic theories substantiate that STR implementation may lead to attainment of the aforementioned benefits. The heterogeneous firm trade theory proposes that trade facilitation enables less productive firms to enter into cross border trade through reducing fixed cost, (Melitz & Redding, 2003). Furthermore, there is a general consent in trade literature that trade facilitation reduces bilateral trade costs. The iceberg model of trade costs argues that only a fraction of the exported goods reaches its destination since a portion of the traded goods will be expended to meet trade costs along the way, (Samuelson, 1954). Put differently, to get a unit of the exported good reach its destination, more than a unit of the good must be exported since a proportion of the exported good will be used to pay bilateral trade costs, (Ferguson & Forslid, 2011). Trade facilitation reforms such as the STR reduces the bilateral trade costs resulting in increased trade volume and subsequent increases in government revenue and traders income. The responsiveness of trade volumes to bilateral trade costs is well articulated in the structural gravity trade theory, (Groenewald, 2014).

At launch in 2010, the COMESA STR constituted four general features which are the threshold value of the consignment per entry, the simplified customs document, the simplified certificate of origin, and the common list of products. The features were designed to simplify the customs clearing procedures for low-value-goods often moved by small-scale cross border traders. The threshold value for the COMESA STR was US\$500 in 2010. It was raised by the COMESA Council of Ministers to USD1000 in 2011 citing the need to offer opportunity to grow the business and trade income for small cross border traders. At the same time, the simplified certificate of origin was removed on the ground that the products on the common lists qualify for duty free trade, (COMESA, 2011). In 2014, the Council of Ministers further reviewed up the STR threshold to US\$2000, (COMESA, 2014). Thus, the COMESA STR currently has three features which are:

- i. the threshold value of goods per entry of US\$2000;
- ii. the common list of goods to be traded under the regime; and
- iii. the simplified customs declaration document.

The COMESA STR is being implemented in eight Member States<sup>1</sup>. There is a general interest in the implementing Member States to review the STR threshold. The Democratic Republic of Congo (DRC) requested that the STR threshold be revised downwards to US\$500 (COMESA, 2020). Its interest could be traced back to the fact that DRC is not in COMESA FTA where trade is zero duty rated for originating products. So a higher STR threshold could be perceived eroding government revenue. At the Policy Dialogue on the STR held in October 2019 in Nairobi, Kenya, several Member States expressed concern that there is need to review the STR threshold upwards to offer economies of scale. Noting that there was no compelling justification for the revision of the threshold, the meeting proposed that a study to review the suitability of current threshold of US\$2000 be carried out. This decision was endorsed by the Council of Ministers at the 40<sup>th</sup> Council of Ministers meeting, held in Lusaka, Zambia, in November 2019 (COMESA, 2019). In line with the 40<sup>th</sup> Council of Minister's decision, this study reviewed the suitability of the current COMESA STR threshold of US\$2000.

### **1.3 Main Objective of the Study**

The objective of this study is to review the current STR threshold of US\$2000 with a view to recommending

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COMESA Member States implementing the STR are Burundi, D R Congo, Kenya, Malawi, Rwanda, Uganda, Zambia and Zimbabwe.

a threshold that facilitates regional trade and integration in Member States implementing the STR and those Member States that intend to implement the STR.

In specific terms, the study sought to:

- i. Establish the current scope of goods traded under the STR at each of the targeted borders;
- ii. Determine the average value of consignments declared by small-scale cross border traders;
- iii. Assess the suitability of the current STR threshold at the selected borders from the perspective of small-scale cross border traders, border agency officials and relevant policy makers;
- iv. Determine the suitability of the current STR threshold in facilitating regional trade and integration in countries implementing the STR;
- v. Assess the impact of the current STR threshold on trade flows by direction (imports/exports) volume, value, traders' incomes and government revenues between selected countries;
- vi. Use an objective method to determine and propose adjustments if any, to the current threshold that would be appropriate for enhanced implementation of the STR; and
- vii. Recommend an appropriate level of the STR threshold and strategies as well as actions required to be taken by COMESA Policy organs in order to streamline and enhance implementation of the STR.

#### **1.4 Geographical scope of the Study**

The study was confined to the targeted border posts which were specified in the ToRs and these border posts are:

- i. Kasindi (DRC) / Mpondwe (Uganda)
- ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda)
- iii. Chirundu (Zambia/Zimbabwe)
- iv. Mchinji/Mwami (Malawi/Zambia)
- v. Malaba (Kenya/Uganda)
- vi. Kasumbalesa (D R Congo/Zambia)

#### **1.5 Report Outline**

The methodology applied in this study is outlined in Chapter 2. Chapter 3 investigates the scope of products and the average value of consignments being traded under the COMESA STR. Suitability of the STR is the objective of Chapter 4. Chapter 5 focuses on examining the effects of the current STR threshold on trade flows, traders' income and government revenue. Chapter 6 summarises the key findings and concludes by giving recommendations.

## **Chapter 2:**

### **Study Methodology and Approach**

The methodological approach adopted in this study enabled effective involvement of stakeholders in exploring and assessing the suitability of the current STR threshold to safeguard ownership of the results by the stakeholders.

## 2.1 Methodology

This study adopted the use of questionnaires, interviews and desk research as major data collection methods. Both qualitative and quantitative data analysis methods were applied. Primary data was collected from relevant government ministries, government border agents, small-scale cross border traders, Cross Border Traders Association (CBTA) and civil organisations. A systematic random sampling method was applied in data collection from small-scale cross border traders at border posts considered in this study.

## 2.2 Data Analysis

Content analysis method was employed to analyse qualitative data. The method enabled categorisation of similar responses in order to come up with emerging themes. The Stata Software was used to carry out quantitative data analysis.

Uni-variate and Bi-variate analysis was employed in descriptive statistics that include frequency tables, means, variances, totals and cross tabulations (to expose how variables of interest relate to demographic characteristics of respondents. Multi-variate analysis was employed to estimate the effects of current STR threshold on trade flows, and traders' income.

### 2.2.1 Traders' income model:

To assess the effects of the current STR on small-scale cross border traders' income, this study adopted Ama, Mangadi, Okurut, & Ama (2013) multiple regression model and augmented it by adding the STR threshold variable. The estimated model was specified as follows:

$$\pi_i = \beta_0 + \beta_1 Age_i + \beta_2 LEdu_i + \beta_3 Emp_i + \beta_4 Gender_i + \beta_5 Marit_i + \beta_6 Exp_i + \beta_7 FriqT_i + \beta_8 K_i + \beta_9 BM_i + \beta_{10} Border_i + \beta_{11} strTH_i + \varepsilon_i \quad (2.1)$$

Where  $\pi_i$  is the monthly profit of an individual small-scale cross border trader;

$Age_i$  is the age of the trader;

$LEdu_i$  is the level of education of the trader;

$Emp_i$  the employment status of the trader;

$Gender_i$  refer to the sex of the trader;

$Marit_i$  is the marital status of the trader;

$Exp_i$  refers to the experience of an individual trader. The number of years one had in cross border trade was taken to proxy the level of experience;

$FriqT_i$  is the number of trips a trader makes in a month;

$K_i$  is the trader's business start-up capital. This proxy the ability of a trader to raise business finance;

$BM_i$  attending business management course;

$Border_i$  is the border through which a trader is importing the goods;

$strTH_i$  is the STR threshold level applied at the border through which the trader imports; and  $\epsilon_i$  is the error term.

Model (2.1) was estimated using OLS estimator.

## 2.2.2: Effects of the current STR threshold value on trade flows

The successive increases in the COMESA STR threshold from US\$500 in 2010 to US\$2000 in 2014 increased the value of trade in eligible products that can be imported duty free creating a saving for traders that can be further invested into the business. Implementation of the current STR threshold value should, therefore, have influenced the decision of small-scale traders to trade more. The empirical methodology applied in this section sought to model traders' decision to increase their trade volume in relation to the STR threshold value.

The threshold value induced decision to import more or not precedes the observation of import flows, thus more imports are observed only after the decision to import more has been made. The decision cannot be observed but we assume that it has taken place if we observe more import flows by small-scale cross border traders after implementation of the STR threshold value.

The decision making by small-scale cross border traders has been modelled using latent variable models as follows:

$$y_1^* = \beta Y + \varepsilon_1 \quad \varepsilon_1 \sim N(0, \delta_\varepsilon^2) \quad \dots\dots\dots (2.2)$$

$$x_1^* = \alpha X + \varepsilon_2 \quad \varepsilon_2 \sim N(0, \delta_\varepsilon^2) \quad \dots\dots\dots (2.3)$$

Where  $X$  and  $Y$  are vectors of independent variables that explain imports flows.  $x_i^*$  and  $y_i^*$  are unobserved dependant variables that we know to have taken place after we observe actual import variables which shall be represented by  $x_i$  and  $y_i$ .

The latent variables and actual observations relate to each other as follows:

$$y_1 = 1 \text{ if } y_1^* > 0; \text{ otherwise } y_1 = 0 \quad \dots\dots\dots (2.4)$$

$$x_1 = x_1^* \text{ if } y_1^* > 0; \text{ otherwise } x_1 = 0 \quad \dots\dots\dots (2.5)$$

The observed variables  $x_i$  are imports flows and  $y_i$  is a dummy variable assuming the value 1 when more imports are observed and zero otherwise. In this study, more import values are taken as values greater than the median value of the imports flows. Thus  $y_i$  will assume the value 1 when a trader's import value is greater than the median value of import flows and zero when the value of the trader's imports is equal or less the median value.

Therefore, equation (2.2) has been re-specified into a logit model as follows:

$$y_{ij} = \beta_0 + \beta_1 GDP.c_i + \beta_2 GDP.c_j + \beta_3 Dist_{ij} + \beta_4 Border_i + \beta_5 Comlang_{ij} + \beta_6 Comcol_{ij} + \beta_7 Gender_i + \beta_8 Marital Status_i + \beta_9 EMP_i + \beta_{10} BMT_i + \beta_{11} STR Awareness_i + \beta_{12} Experience_i + \beta_{13} Age Group_i + \beta_{14} strTH_i$$

Where  $y_{ij}$  is a dummy variable taking on 1 if the trader's imports value from country  $j$  to country  $i$  is greater than the median value and zero if the value of the trader's imports is equal to or less than the median value;

$GDP.c_i$  is the exporting country per capita gross domestic product. A proxy for export supply potential and measured in US\$;

$GDP.c_j$  is the importing country per capita gross domestic product. A proxy for imports absorption potential and measured in US\$;

$Dist_{ij}$  is distance between exporting and importing country capitals measured in kilometres.

$Border_i$  is the border through which the trader imports and a COMESA STR is being implemented.

$Comlang_{ij}$  a dummy variable taking on 1 if trading countries share a common official language and zero otherwise;

$Comcol_{ij}$  a dummy variable taking on 1 if trading countries share a common colonial history and zero otherwise;

$Gender_i$  is a dummy taking 1 when the respondent is female and zero otherwise;

$Marital Status_i$  is a variable showing the civil status of the respondent, it is coded 1 to 4 for Married, Divorced, widowed, and Single respondents respectively;

$EMP_i$  is the employment status variable. It is coded 1 to 4 for full time employed, part time, informal and unemployed respondents respectively;

$BMT_i$  is the business management training variable taking on 1 when the respondent is trained or otherwise;

$STR Awareness_i$  is a dummy variable taking on 1 when the respondent is aware of the STR threshold value or otherwise;

$Experience_i$  is the variable that capture the time period a respondent has been involved in cross border trade;

$Age Group_i$  is a dummy variable that takes on 1 if the respondent is above 35 years and otherwise zero;

$strTH_i$  is the STR threshold level applied at the border through which the trader imports; and  $\epsilon_i$  is the error term.

### 2.3 Data

Response to our questionnaire or request for interview was quite well. About 17 questionnaires were issued to government ministries and other border agencies of the seven countries covered by this study. Thirteen questionnaires were responded to and that constitute a 76% response rate. Seven questionnaires we issued to customs administrations and 6 responded. About 5 Business Membership organisations



responded and a total of 793 small-scale cross border traders were interviewed across all the border posts and countries focused by this study. Three out of seven questionnaires were responded to by central banks. Supplementary secondary data was provided by TIDOs at various borders targeted by the study.

It is acknowledged that it was difficult to ascertain the population of small-scale cross border traders crossing the targeted borders daily due to the Covid-19 pandemic and its containment measures with the implication that determination of a reasonable sample size was a challenge. This study following Muqayi (2015) who established that the population of small-scale cross border traders at one of the busiest targeted border (Chirundu OSBP) was about 400 per day and he employed a systematic random sampling method to draw a sample of 100 small-scale cross border traders. This study, therefore, used a systematic random sampling method aiming to interview at least 100 small-scale cross border traders at each targeted border post. With a total of 793 small-scale cross border traders interviewed, an average sample size of 99 was achieved at each target border where interviews were conducted. The breakdown of small-scale cross border traders interviewed at each border is given in annex 6 of this Report. Thus, the response rate by traders was good. Furthermore, response rate for other stakeholders was above 30% which was also good. In that regard, the quality of data used in this study is reasonable and the findings of the study should be considered valid and reliable. Also all the responses by category of stakeholders are reported in annex 6 of this Report.

## **Chapter 3:**

### **Scope of Goods Traded and Average Value of Declarations under STR**

The operation of the COMESA STR is guided by its three features which are the common list, the threshold value and the simplified customs declaration form. A consignment declared under the STR should comprise of products in the common list and its value should not exceed the threshold value of US\$2000. This Chapter presents the findings on the scope of products and the average value of consignments being traded under the COMESA STR at the borders that are implementing the regime<sup>2</sup>.

### **3.1 Scope of Goods Traded Under the STR**

COMESA Member States implementing the STR negotiated bilaterally the common list of products eligible to be traded under the regime. Generally, the common list constitute agricultural, livestock and manufactured products. This subsection presents the scope of products being traded at each respective border that is implementing the regime.

#### **3.1.1 Goods being traded under STR at Chirundu OSBP (Zambia and Zimbabwe)**

Analysis of secondary data obtained from the Trade Information Desk Officer (TIDO) at Chirundu OSBP (Zimbabwe) established that both female and male small-scale cross border traders trade more in similar products save for male traders who outstandingly trade in cement and hair food products. Beverages (such as soft drinks and juices); stationary such as (exercise books); cement; empty bags; body lotion and madora (Mopani worms) are the most products of Zambian origin being imported into Zimbabwe by small-scale cross border traders under STR.

Interviews conducted at Chirundu OSBP on the basis of a random sampling also confirmed that cement; beverages, braids; cotton wool; empty bags; plastic ware; plastic bags; madora; stationary and sweets are the most frequently imported products into Zimbabwe under STR. Given the probabilistic nature of systematic random sampling, the established products could to a reasonable degree represent the scope of goods of Zambian origin that are imported into Zimbabwe under STR. Manufactured products originating from Zambia are dominant.

Generally, the finding is in line with (Southern Africa Trust, 2014) which established that small-scale cross border traders in Southern African countries deal mainly in handicrafts, food and non-food staff. The same is also corroborated by the study conducted by Imani Development (International) Ltd (2017) which found out that 60% of Zambian origin products imported into Zimbabwe by small-scale cross border traders are manufactured products. These include non-alcoholic beverages; sweets and other confectioneries; plastic shoes and flip-flops; glycerine, petroleum jelly and similar personal care products; plastic kitchen utensils; cotton thread and knitting yarn; counter books and other stationery; new clothing and shoes.

Fabric and oranges dominate Zambia STR imports of Zimbabwean origin. Bananas; margarine; cleaning detergents; cotton wool; Dpc; empty bags, fabric; oranges; plastic ware and ploughs constitute the product scope imported into Zambia from Zimbabwe under STR.

Primary data gathered through interviews at the border indicates that buttercup margarine; madora;

<sup>2</sup> Border posts at which the COMESA STR is being implemented include Kasindi/ Mpondwe ((DRC/Uganda); Goma / Petite Barrière Rubavu (DRC/ Rwanda); Chirundu (Zambia/Zimbabwe); Mchinji / Mwami (Malawi/Zambia); Malaba (Kenya/Uganda) and Kasumbalesa (D R Congo/Zambia)

oranges; fabric; spices; damp course; beverages; and empty sacks are STR products being imported into Zambia from Zimbabwe. Zambia imports a limited range of products from Zimbabwe relative to what Zimbabwe imports from Zambia under STR. Imani Development (International) Ltd (2017) also concluded that there is a limited range of small-scale cross border trade from Zimbabwe to Zambia.

A comparison of the products traded between Zambia and Zimbabwe via Chirundu OSBP with the agreed common list of STR eligible products reveals that small-scale cross border traders are dealing in only 34% of the agreed products. This could indicate the need to review the common list as traders are not dealing in the majority of the listed products. Annex 1 graphically presents the scope of products traded under STR at Chirundu OSBP.

### **3.1.2 Goods being traded under STR at Mwami/Mchinji (Zambia and Malawi) Border**

Small-scale cross border traders import quite a number of products from Zambia to Malawi. The most traded products are biscuits; beverages such as soda, juices and water; eggs trays; snacks; kombucha tea; mesh; peanut and sweets. The secondary data reveals that processed goods dominate the trade.

Interviews conducted at Mwami/Mchinji Border revealed that most small-scale cross border traders are importing into Malawi beverages; biscuits; eggs; fish feed; ginger; honey; mesh; plastic shoes; snacks and sweets. Beverages and biscuits are the most traded products. About 50 percent of all respondents (30.3% female and 19.51% male) indicated that they import beverages of Zambian origin into Malawi whilst 30 percent of respondents (17.17% female and 12.2% male) answered that they import biscuits.

In relative terms, a limited product range mostly comprising agricultural products was indicated to be imported into Zambia from Malawi and these products include avocados; beans; beverages; cabbages; carrots; cane (chairs materials); dry fish; groundnuts; rice; sausage; sorghum; soya pieces; soya beans and tomatoes. This finding is confirmed by a study by Imani Development (International) Ltd (2017) which established that the scope of small-scale cross border trade from Malawi into Zambia comprises more of agricultural commodities.

Overall, the scope of products being traded by small-scale cross border traders between Malawi and Zambia via Mwami/Mchinji border constitute approximately 53% of the eligible STR products in the common list accounting for the 2019 revision. Data visuals of the scope of products being traded at Mwami/Mchinji border are presented in Annex 1.

### **3.1.3 Goods being traded under STR at Kasindi/Mpondwe (DRC/Uganda) Border**

Trade under STR between DRC and Uganda via Kasindi/Mpondwe border is mainly on raw and processed agricultural products. Interviews at the border indicates that beans; cocoa; coffee; cosmetics; local broom; maize; palm oil; plantains; rice and timber are the main products imported into Uganda from DRC by small-scale cross border traders. DRC imports from Uganda include raw agriculture products and livestock. The Southern Africa Trust (2014) supports the finding that small-scale cross border trade between DRC and Uganda is mainly in food and non-foodstuff; livestock; manufactured and processed agricultural products.

The scope of products being traded by small-scale cross border traders between Uganda and DRC via Kasindi/Mpondwe Border constitute approximately 44.6% of the products listed in the agreed STR

common list. Visual presentations of the scope of the products traded under STR at Kasindi/Mpondwe Border are given in Annex 1.

### **3.1.4 Goods being traded under STR at Goma/ Rubavu (DRC/Rwanda) Border**

Small-scale cross border trade between Rwanda and DRC via Goma/Rubavu Border is mostly on agricultural products and women dominate the cross border trade business. Whilst our survey indicated that more than 45 products are being traded across this border, most respondents informed that they trade in beef; cabbages; eggs; goat meat; goats; guinea pigs; onions; tomatoes; water melons and other vegetables. Men are more likely to trade livestock and meat, whilst women are more engaged in agricultural commodities.

A limited scope of products was established to be imported into Rwanda from DRC and these include bananas; bananas plants; beans; eggs; pastry; plastic shoes; sorghum; soybeans and tomato sauce. Reinforcing the findings from our primary data analysis is Search for Common Ground (2019) which established that small-scale cross border trade in the Great Lakes region is more on agricultural products and that men trade more on livestock and women in other agricultural commodities. The established nature of trade and scope of products traded by small-scale cross border traders across Goma/Rubavu is further supported by Titeca & Kimanuka (2012) who established that small-scale cross border trade in the Great Lakes region is mainly in fish; corn; eggs; meat; beer; second-hand clothing; sandals; body wraps; firewood; palm oil; plantains; forage and soap. They also argued that the mainly one directional flow of trade from Rwanda to DRC could be a result of the fact that Rwanda does not tax exported produce while DRC taxes both exports and imports.

Overall, the scope of products being traded between DRC and Rwanda by small-scale cross border traders via Goma/Rubavu Border constitute approximately 41% of the eligible STR products in the harmonised STR common list. The general scope of products traded at Goma/Rubavu Border is summarised in Annex 1.

### **3.1.5 Goods being traded under STR at Malaba OSBP (Kenya/Uganda)**

Small-scale cross border trade between Kenya and Uganda via Malaba Border is mainly of agricultural products that include beans and maize, (Imani Development (International) Ltd, 2017). Akaezuwa, et al. (2020) also established that trade between Kenya and Uganda via Malaba is primarily on agricultural goods that include maize, sorghum, and animal livestock. They presented that Kenya small-scale cross border exports to Uganda comprise mineral fuels and oils; pharmaceutical products; machinery; plastics; electrical and electronic equipment. Uganda exports to Kenya are summarised as tea and coffee; raw tobacco; salt and sulphur; iron and steel; and animal and vegetable fat. An interview with the Uganda Clearing Industry and Forwarding Association (UCIFA) also confirmed that dairy products and agriculture manufactured products such as wheat, cooking oil, and juices are imported from Kenya whilst Kenya imports agriculture products (maize, beans, tomatoes, cabbages, bananas, and fish), dairy products (milk), poultry products (eggs), and locally manufactured beverages from Uganda.

### **3.1.6 Goods being traded by Small-scale Cross border Traders at Kasumbalesa (DRC/Zambia) Border**

Interviews at Kasumbalesa border established that the flow of small-scale cross border trade between Zambia and DRC is mainly one directional, from Zambia to DRC. The scope of Zambia's exports to DRC were established to comprise livestock; agricultural produce and manufactured products. The scope of the traded products is pictorially summarised in Annex 1. It should be noted that STR is not yet being implemented at this border.

## **3.2 Average Value of Declarations of Small-scale Cross Border Trade under STR**

The value of the STR threshold forms the value cap of declarations to be made under the regime. Thus, the value of a consignment declared under the COMESA STR should not exceed the threshold value of US\$2000. However, the applicable STR threshold value vary among countries. Whilst Kenya, Rwanda, Uganda and Zambia are employing a threshold value of US\$2000, Zimbabwe and DRC are applying US\$1000 and US\$500 respectively. The threshold value implemented by Zimbabwe is restricted by the exchange control regulations. Zimbabwe's exchange control regulations require that traders complete Form CD1, a customs declaration form, if they are crossing the border with money in excess of US\$1000 or exporting goods in excess of US\$1000. Although the Reserve Bank of Zimbabwe advised that the amount required to complete a Form CD1 has been raised to US\$2000, this was not being implemented at the border during the data collection time. In July 2021, Malawi started implementing the STR threshold value of US\$3000. This subsection presents the findings on the average values of declarations by small-scale cross border traders at the targeted border posts.

### **3.2.1 Average Value of Declarations under STR: Chirundu OSBP**

Analysis of primary data obtained through interviews conducted at Chirundu OSBP established that the average value of small-scale cross border trade (imports) of Zambian origin to Zimbabwe is approximately US\$786 with a minimum of US\$50 and Maximum of US\$2000. Zambian imports from Zimbabwe were also estimated to have an average value of US\$523 and a range of between US\$15 and US\$2300.

Declaration values for imports into Zimbabwe vary by gender. Consignment values of approximately US\$250 and US\$1000 are most common for females whilst transaction of US\$1000 are most common for males. Both males' and females' transactions of above US\$1000 are outliers. The distribution of declarations by females depicts multiple peaks or modes. We interpret the distribution to show existence of both capital-to-capital traders and border town traders. Capital to capital traders are likely to declare higher values compared to border town traders. Imani Development (International) Ltd (2017) also established that most small-scale cross border trade at Chirundu OSBP is capital-to-capital (Lusaka-Harare trade).

In the case of Zambia imports, declarations, of less than US\$250 and of around US\$900 are most common for both males and females. Though Zambia apply the STR threshold value of US\$2000, our sample indicate that declaration values of above US\$1000 are outliers.

The median value of Zimbabwe imports declarations is no different from the mean and approximately

middle 50% of all the declarations fall within the range US\$500 to US\$1000. The median value of Zambia imports is US\$500 and middle 50% of all the declaration fall within the approximate range of between US\$200 and US\$900.

In summary, average declaration values at Chirundu OSBP are established to be US\$786 for Zimbabwe imports and US\$523 for Zambia imports. The value of middle 50% of declarations both ways fall within the range US\$200 to US\$1000. Declarations above US\$1000 are outliers and this could indicate the constraint imposed by the STR threshold value of US\$1000 being employed by Zimbabwe. Therefore, most small-scale cross border trade declarations at Chirundu OSBP are far below the COMESA STR threshold value. Annex 2 presents the data visuals of the distribution of declaration values at Chirundu OSBP.

### **3.2.2 Average Value of Declarations under STR: Mwami/Mchinji Border**

Small-scale cross border trade values of imports into Malawi averaged at US\$679 with a minimum value of US\$5 and maximum value of US\$4000. Imports into Zambia averaged US\$1119 with a minimum of US\$4 and Maximum of US\$3219. Declarations of estimated values of US\$1000 and US\$1900 are more common for both male and female respondents importing into Malawi. The distribution of declaration values of Zambian imports from Malawi indicates that the values of less than US\$250 and US\$1500 are more frequent for females whilst declarations of less than US\$250 and US\$2000 are common for males. In relative terms, declarations valued US\$2000 are more frequent for males to females. Of all the Malawi imports declarations sampled, middle 50% of them fall within the value range US\$1000 to US\$1900. Approximately, middle 50% of the imports declarations into Zambia fall within the range US\$250 to US\$1900. The median value of imports declarations to Malawi and Zambia is almost the same, approximately US\$1300.

The analysis of trade declarations at Mwami/Mchinji established that trade declarations averaged US\$679 for Malawi imports and US\$1119 for Zambia imports. The values of the 50% of the middle declarations of trade both ways fall within the range US\$250 to US\$1900. Declaration values of US\$1000 and US\$1900 are most frequent for Malawi imports whilst the declaration values of below US\$250 and US\$1900 are frequent for Zambia Imports. These statistics, to a reasonable extent, imply that most of the small-scale cross border trade transactions at Mwami/Mchinji border are still within the scope of the COMESA STR threshold value of US\$2000. However, most transactions of trade entering Malawi are at the brim of the COMESA threshold value. This could be the reason why Malawi reviewed upward its STR threshold value to US\$3000 in July 2021, (Ministry of Finance, 2021). The data visuals of the distribution of declaration values at Mwami/Mchinji Border are given in Annex 2.

### **3.2.3 Average Value of Declarations under STR: Kasindi/Mpondwe Border**

At Kasindi/Mpondwe Border the applicable COMESA STR threshold value is US\$500 and US\$2000 for DRC and Uganda respectively. Interviews conducted at the borders established that average value of declarations by small-scale cross border traders importing into DRC is US\$651 and US\$585 for those importing into Uganda. Declaration values of US\$500 or less are most common for female respondents importing into Uganda whilst for male respondents values of US\$500 to US\$1200 were common. Regarding consignments imported into DRC, declarations of values US\$500 are the most common for both females and males.

Whilst the median values of declarations of imports into both DRC and Uganda are close to US\$500, approximately the middle 50% of imports declarations to Uganda are in the range US\$200 to US\$800 and those to DRC are in the range US\$450 to US\$700.

Overall, the analysis established that the average declaration values averaged US\$651 for DRC and US\$585 for Uganda. The values of the middle 50% of declarations both ways fall within the range US\$200 to US\$800. Declaration values of US\$500 are most frequent for DRC imports. Thus, most transactions for imports into DRC exhaust the scope created by the US\$500 STR threshold implemented by the DRC Government. Whilst the COMESA STR threshold value of US\$2000 provides a larger scope for small-scale cross border trade to enjoy the benefits of the FTA, the applicable STR threshold at Kasindi Border proved to be a constraint, at least based on the analysis carried out so far in this study. The distribution of declaration values at Kasindi/Mpondwe Border are pictorially presented in Annex 2.

### **3.2.4 Average Value of Declarations under STR: Goma/Rubavu Border**

Goma/Rubavu is a border between DRC and Rwanda. The STR threshold value applicable at Goma (DRC side) is US\$500 and at Rubavu (Rwanda side) is US\$2000. Average value of declarations for imports into DRC was established to be US\$356 and for Rwanda US\$389. Rwanda imports declaration of less than US\$250 are most common for females whilst most declarations by males are US\$500 and less. The most common values of import declarations into DRC are less than US\$500 for both male and female small-scale cross border traders. The median value of import declarations into Rwanda is approximately US\$100 whilst the values of the middle 50% of all the declaration fall within the range US\$50 to US\$500. Similarly, the median value of DRC import declarations is about US\$450 and the middle 50% of the declarations have values that are within the range US\$200 to US\$500.

The analysis of declaration values at Goma/Rubavu, thus, established that the average value of imports declarations is US\$356 for DRC and US\$389 for Rwanda. Approximately the middle values of 50% of trade declarations both sides fall within the range US\$50 to US\$500. Transactions valued US\$500 dominates the trade flows into DRC. Though values of most declarations exhausted the STR threshold value applied by DRC, much scope remains untapped when we relate to the COMESA STR threshold value of US\$2000. The visuals of the declaration values distribution are given in Annex 2.

### **3.2.5 Average Value of Declarations under STR: Malaba Border**

The researcher could not interview small-scale cross border traders at Malaba Border. This sub-section relies on information obtained from interviews with other stakeholders. Interview with the Uganda Clearing Industry and Forwarding Association (UCIFA) established that the small-scale cross border trade declarations at Malaba Border averages around US\$1700. The Customs and Border Control Department of the Kenya Revenue Authority indicated that the average declarations of small-scale cross border trade is around US\$1800.

### **3.2.6 Average Value of Declarations: Kasumbalesa Border**

Kasumbalesa border is not implementing the COMESA STR. The border has a channel for small-scale



cross border trade. About 110 Zambia exports transactions to DRC were sampled at this border using the systematic random sampling technique. It was established that the average value of sampled declarations was US\$2220 with a minimum value of US\$50 and a maximum of US\$9000. Declaration values of between US\$2000 to US\$3000 were common for females whilst declaration values of US\$1000 and US\$3000 were common for male traders. The median value of declarations is approximately US\$2200 and the middle 50% of all sampled declarations have values between US\$1000 and US\$2500. Annex 2 presents the visuals of the distribution of declaration values at Kasumbalesa Border.

### **3.4 Conclusion**

The Chapter's objectives was to establish the current scope of goods traded under the STR at each of the targeted borders and determine the average value of consignments declared by small-scale cross border traders.

The scope of traded products under STR was established at each targeted border. At Chirundu OSBP, originating manufactured products dominate the trade. Zambia imports a limited range of products from Zimbabwe relative to what Zimbabwe imports from Zambia. A relatively wider scope of products is traded from Zambia to Zimbabwe compared to the scope coming from Zimbabwe to Zambia. Malawi imports more of processed goods from Zambia via Mwami/Mchinji Border, whilst Zambia imports more of agricultural commodities. Trade under STR between DRC and Uganda via Kasindi/Mpondwe border was established to be mainly on raw and processed agricultural products. Trade between Rwanda and DRC via Goma/Rubavu Border is mostly in agricultural products and livestock. Women dominate the cross border trade business. Mostly agricultural products are traded between Kenya and Uganda via Malaba Border Posts. The trade between Zambia and DRC was established to be mainly one directional, from Zambia to DRC. Zambia's exports to DRC were established to comprise livestock; agricultural produce and manufactured products. In general, the scope of products being traded at the targeted border posts constitute approximately less than 55% of the agreed product scope in the respective common lists.

Most declaration values at Chirundu OSBP are far below the COMESA STR threshold value. At Mwami/Mchinji most of the small-scale cross border trade transactions are still within the scope of the COMESA STR threshold value of US\$2000. However, most transactions of trade entering Malawi are at the brim of the COMESA threshold value. In the case of Kasindi/Mpondwe, most transactions for imports into DRC exhausted the scope created by the US\$500 STR threshold implemented by the DRC Government. Whilst the COMESA STR threshold value of US\$2000 provides a larger scope for small-scale cross border trade to enjoy the benefits of the FTA, the applicable STR threshold at Kasindi Border proved to be a constraint. The same goes for Goma/Rubavu. The values of declarations were established to be US\$1700 at Malaba Border and US\$2220 at Kasumbalesa. The established average declarations value at Kasumbalesa is a compelling case signalling that if DRC honours the COMESA STR threshold of US\$2000 at Goma/Rubavu and Kasindi/Mpondwe, small-scale cross border trade between DRC and Rwanda, and Uganda and DRC would significantly rise.

## **Chapter 4:**

### **Suitability of the Current STR Threshold**

This Chapter presents the results of the assessment of the appropriateness of the current COMESA STR threshold. The suitability of the STR threshold was reviewed from different stakeholders' perspectives. The stakeholders consulted include government ministries and other border agencies; customs administrations; central banks; small-scale cross border traders; Cross Border Traders associations; and the civil society.

#### **4.1 Government Ministries and other border agencies**

Government ministries/departments as policy makers are interested in whether the STR threshold promotes formalisation of small-scale cross border trade, thus, enabling trade within the COMESA countries implementing the STR which deepens the integration of the region. A considerable proportion of responses from government ministries (69%) acknowledged that the current STR threshold facilitated formalisation of small-scale cross border trade. About 31% of the respondents argued that although the current threshold encouraged formalisation of cross border movement of small-scale trade, it did not reach its maximum potential due to several reasons. The reasons pointed out include that there is lack of awareness; customs officials are taking advantage of the cross border traders who are mostly illiterate and make them pay duty on eligible products; the rules are in English hence cannot be comprehended by most of small-scale traders; the list of eligible products needs to be reviewed as customers taste change with time; sustainability of trade information desk officers (TIDOs); and that the threshold is also a strong facilitator of fraud for large traders normally not eligible for the STR who use small-scale traders. Addressing the mentioned challenges was regarded as an important ingredient in formalising small-scale cross border trade that complement the current STR threshold. Approximately 23% of the respondents reported that the current threshold does not encourage formalising small-scale cross border trade whilst 8% of the respondents could not tell whether it facilitated formalisation or not.

The argument that the COMESA STR threshold value promotes smuggling by large traders not eligible for STR may not hold when viewed from the fact that countries considered in this study are under COMESA FTA (save for DRC) where customs duties are zero for originating products whether imported by big or small companies. STR is applicable on originating products. There is no incentive for a large company to declare under STR for originating goods as the duty free treatment is also available for them. In that regard, the smuggling cannot be justifiably attributed to the COMESA STR threshold value.

The government ministries also commented on the adequacy of the current STR threshold to offer economies of scale and opportunities for small-scale cross border traders to grow their business. Most of the respondents (83%) were in agreement that the current threshold is adequate to enable economies of scale and opportunities for small-scale cross border traders to grow their business. They argued that most of the small-scale traders deal with goods within the region of US\$300 and US\$1000. Their nature of transportation, working capital and goods they deal in and the nature of their supply chains require faster turnaround that is more possible by dealing in smaller quantities. Once the supply chain is more certain and the small-scale importer desires to have economies of scale for increased growth beyond the current threshold, transition is possible to the next level. Opportunities are there but the small-scale traders should be allowed to grow into them organically to ensure ability to effectively compete and sustain the supply chain demands. About 8% of the respondents felt that the current threshold is too low to generate economies of scale whilst 17% of the respondents pointed out that the current threshold is promoting tax evasion. Attributing the tax evasion argument to the COMESA STR threshold is, however, debatable. It is not clear how the STR threshold value promotes tax evasion given that under the COMESA FTA

originating goods are exempted from import duty unless it is the other domestic taxes which is beyond the STR. In the latter case, the tax evasion issue is not induced by the threshold value.

Whilst the COMESA STR offers FTA preferential tariff treatment and simplified customs procedures, small-scale cross border traders are still faced with other taxes and regulatory certificates fees leaving them with disproportionate costs relative to a fixed threshold value. An inquiry was made on whether there are any policy dialogue going on to review, waive or reduce these other taxes and regulatory certificates fees. Nearly 67% of the respondents reported that there is dialogue in their countries to either review, waive or reduce the other taxes and non-tariff barriers faced by small-scale cross border traders. Only 25% of the respondents stated that they are not aware of any policy dialogue going on regarding the review of the other taxes.

Implementing the current STR threshold is not without challenges. Respondents were asked to state implementation challenges they are facing. The following challenges were mentioned:

- i. There is general lack of awareness of the current STR threshold value. This was stated by 23% of the respondents;
- ii. There are limited capacities at the borders implementing the STR. The limited capacities are in terms of workforce and technology. Generally, customs officials change regularly and are replaced by new officials with scanty information about STR making its implementation difficult. There is also no capacity to sustain the TIDOs offices. Capacity challenges were highlighted by about 31% of the respondents;
- iii. The STR is being implemented bilaterally, however, cross border traders ply their trade with other neighbouring countries hence there is need to integrate the regime;
- iv. Verification of the authenticity of the various documentations provided by the small-scale cross border traders proved to be difficult especially for those dealing in agricultural produce. About 15% of the respondents stated that most small-scale cross border traders dealing in agricultural products live near the border areas and sometimes the infrastructure for issuing the relevant documentations, other than those issued at the border, are not easily accessible to the small-scale traders especially where conformity assessment procedures may be mandatory;
- v. Application of different threshold values has complicated the implementation of the STR. For example threshold values of US\$500, US\$1000 and US\$2000 are applied by DRC, Zimbabwe and Zambia respectively. In that regard, whilst a consignment of more than US\$1000 but below US\$2000 is declared as STR import in Zambia, the same is deemed commercial importation in Zimbabwe, and would require clearance on a conventional Bill of Entry and CD1 Forms. However, Zimbabwe have just raised the CD1 form threshold from US\$ 1000 to US\$2000. This has increased the possibility that Zimbabwe may soon implement the US\$2000 STR threshold value; and
- vi. Lack of constant engagements and updating of the common list among other challenges was blamed on lack of resources to bring the concerned stakeholders together.

An assessment was made on the effectiveness of the current threshold in promoting regional trade and social cohesion of border communities where the STR is being implemented. About 62% of the respondents reported that the current STR threshold has attracted traders to use formal routes in conducting their trade which led to an increase in regional trade. The complementarity of goods (fruitful exchange of goods)

between the Member States implementing the STR strengthens the social cohesion of the communities. The other proportion of respondents felt that trade integration and social cohesion is being limited by the challenges mentioned above.

Government ministries expressed varying opinions regarding adjustments to the current threshold. Almost 23% of the respondents are of the opinion that the current threshold should be raised to values between US\$2000 and US\$4000. About 31% of the respondents reported that the current threshold should remain unchanged. They argued that any increase beyond US\$2000 would crowd-out the majority of small-scale cross border traders by introducing them into the dynamics of much bigger traders and this would probably send the small-scale traders back to the informal domain. Nearly 15% of the respondents stated that the current threshold should be reduced to US\$500 in order to reduce splitting of consignments by larger scale traders. Regarding splitting of consignments, we argue that this can happen at any level of threshold. Consignment splitting is not determined by threshold value especially under FTA arrangements. There should be other factors to explain consignment splitting. About 46% of the respondents were neutral regarding the adjustments to the current STR threshold.

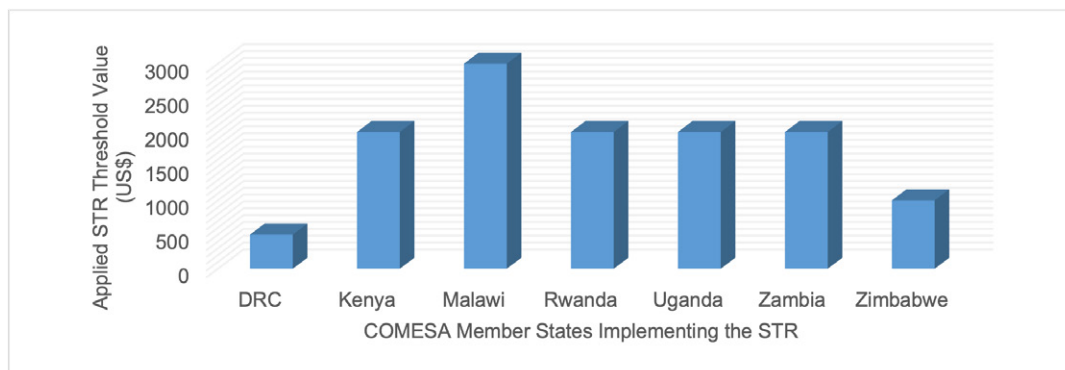
Several incentives were proposed by government ministries to persuade small-scale cross border traders to graduate from the STR. These include:

- i. Providing cheap trade loans and cheap storage facilities;
- ii. Market access assistance. Accessing larger markets may persuade traders to think big and go beyond the current STR threshold;
- iii. Availing business support services such as business management trainings. When this is complimented with appropriate funding can incentivise small-scale traders to grow their business beyond the current STR threshold;
- iv. Elimination of tariff and non-tariff barriers that adds to the costs of doing business by small-scale cross border traders;
- v. Put in place a cooperative programme that group traders into small groups of a defined number that can declare goods together under STR. A data base of these groups should be maintained, and they should receive business support services. A monitoring mechanism should be put in place to track progress which then informs the graduation of the groups to the next level of traders' category.

## **4.2 Customs Administrations**

Customs Administrations are implementers of the STR threshold at border posts. They are in a better position to comment on the suitability of the current STR threshold regarding the ease of implementation, facilitating regional trade and implications on government revenue.

There is variability in terms of the STR threshold values being applied by COMESA Member States. Figure 1 presents the actual STR threshold values being applied. DRC is employing the threshold value of US\$500. Zimbabwe is implementing a threshold value of US\$1000. The threshold value of US\$2000 is being implemented by Rwanda, Kenya, Uganda and Zambia. Malawi is implementing a threshold value of US\$3000.

**Figure 1: Actual Values of STR threshold being applied by COMESA Member States**

Source: Author compiled.

An inquiry was made to understand whether the customs administrations consider the current STR threshold as a trade facilitation measure targeting to facilitate small-scale cross border trade. About 80% of the respondents stated that they consider the current STR threshold as a trade facilitation initiative tailored to promote small-scale cross border trade. The other 20% of the respondents regard the STR threshold as the concept of *de minimis* value meant to facilitate clearance of small value parcels moving across international borders. Thus, they are more concerned with minimising customs administration costs relative to trade facilitation.

The greatest proportion of the respondents (80%) regard the current STR threshold as encouraging non-compliance by small-scale cross border traders; that is, traders engaging in 'under-invoicing', or 'splitting consignments' and other forms of valuation fraud in order to declare under STR. Only 20% of the respondents reported that they do not perceive the current STR threshold to encourage non-compliance.

Customs administrations have put in place several measures to minimise cases of non-compliance and these include:

- i. Physical inspections of consignments;
- ii. Use of other WTO GATT Valuation Articles other than Article 1;
- iii. Limiting the STR to only home-grown products of plant and animal kingdom;
- iv. Insisting that clients have individual Invoices/Receipts as a requirement to clearance; and
- v. Setting up a Values Committee which sets specific minimum values for most traded commodities and reviewing this values on a quarterly basis.

The greatest proportion of customs administrations' (80%) consider the current STR threshold instrumental in facilitating regional trade and integration between countries implementing the STR. Numerous reasons were put forward to support the assertion that the current STR threshold is instrumental in facilitating regional trade and integration and these are:

- i. The threshold is big enough to enable economies of scale. It is US\$3000 in the case of Malawi;
- ii. It generates savings for small-scale cross border traders as they do not pay import duty when the value of imported goods is below or equal to \$2000. The savings boost the traders' profits as the costs of doing business are reduced;
- iii. The current threshold offers scope for reasonable quantities of goods on which duty is exempted and therefore attractive compared to the use of ungazetted routes; and

- iv. The current threshold brought with it faster clearance at border posts, reduced clearance costs, improved collecting of trade statistics and has helped to curb illicit trade.

Regarding the adjustments to the current COMESA STR threshold, 80% of the respondents stated that the current STR threshold value of US\$2000 should not be adjusted. About 20% of the respondents expressed concern that the US\$500 threshold value being applied by DRC be harmonised with other Member States to US\$2000. On the same note, the DRC customs administration proposed that the threshold be set at US\$500.

An examination on the suitability of the STR threshold value relative to values that legally requires the use of a clearing agent has shown that values above US\$2000 would require the services of a clearing agent in Uganda and Kenya. Minimum value of a consignment for which declaration by an agent (clearing agent) is required in Malawi is MK 500,000.00, (US\$615), in Rwanda is 500,000Frw (approximately US\$587) and in Zimbabwe is US\$1000. Use of a clearing agent increases doing business costs to small scales cross border traders.

### **4.3 Central Banks**

The opinion of central banks was sought regarding the suitability of the COMESA STR threshold value in the context of exchange control regulations. The Bank of Uganda has fully liberalized current and capital accounts. The Bank of Zambia indicated that Zambia does not have exchange controls. However, the COMESA STR threshold is still within the prescribed limits for small value consignments of goods imports valued at more than US\$1,000.00 but not exceeding US\$2,000.00 for which the services of a clearing agent are not required to make a declaration with Customs. Thus, the STR is compatible with existing customs limits on import values. On the export side, the STR has simplified the process for the small-scale cross border traders. The Reserve Bank of Zimbabwe reported that the threshold to raise a Form CD1 was raised from US\$1000 to US\$2000. In this regard, in terms of the current exchange control regulations, cross border traders can export goods below the US\$2000 without completing export documentation. The Form CD1 is an exchange control requirement for any amount for export by corporates.

The central banks interviewed indicated that an individual is allowed to carry US\$5000 out of Zambia without having to complete customs declaration forms whilst US\$2000 is allowed for Zimbabwe. Uganda has no limits, however, the security personnel at the borders may require anyone crossing to declare how much cash they are carrying, under the precincts of anti-money laundering.

### **4.4 Small-scale cross border traders**

A suitable threshold value should offer opportunity to grow the business and trade income for small-scale cross border traders. Lesser & Moisé-Leeman (2009) argued that the STR threshold value should not become a refuge where small businesses stagnate. It should be set at a level that induce sufficient incentives for small-scale cross border traders to want to formalise their trade and outgrow from the regime. Traders were asked whether the current COMESA STR threshold value gives them enough scope to expand their business and operate profitably. Whilst about 25% of respondents felt that the current threshold was not adequate, the majority (75%) said that the COMESA threshold value of US\$2000 was good enough to support their operations as it enables economies of scale.

When asked whether they would recommend a review to the current COMESA STR threshold value of

US\$2000, 58% of the respondents answered 'Yes' and 42% preferred the threshold to remain as is. Of the 25% (205) respondents who reported that the current threshold value does not give them scope to expand their bussiness, 78% (160) recommended a review of the current STR threshold. Again, a considerable number, (300 respondents or 51%) of those who reported that the current threshold was reasonable still recommended a review. The responses are summarised in Table 1

**Table 1: Respondents recommending a review of the current STR threshold**

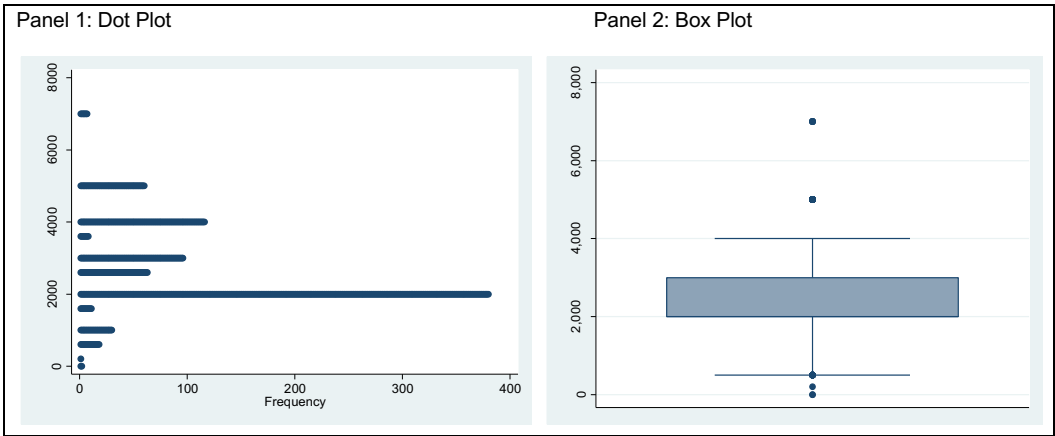
Do you recommend a review to the current COMESA STR threshold			
Does the Current STR threshohold give scope for expanding your business	No	Yes	Total
No	45	160	205
Yes	286	300	586
Total	331	460	792

*Author compiled*

Respondents were then asked to state the reasons why they need a review of the current threshold. It emerged from the analysis of the responses that a greatest proportion of traders operating at border posts where the applied threshold value is lower than US\$2000 want their governments to implement the COMESA STR threshold value of US\$2000. They argued that the applied threshold is disproportionate to the costs they incur, therefore, to remain in business they resort to fraudulent activities. Others felt that they have exhausted the US\$2000 threshold and would want a high threshold to futher expand their business.

The inquiry went further to ask respondents to state the STR threshold value they would recommend. Their responses are summarised in Figure 2. Panel 1 of Figure 2 shows that the threshold value of US\$2000 was recommended by the majority of respondents. Panel 2 presents that the middle 50% of recommended values are in the approximate range of US\$2000 to US\$3000.

**Figure 2: Recommended STR Threshold Values**



*Author compiled*

Finally, respondents were asked to recommend other incentives that can assist to expand their cross border trade business and graduate from the STR programme. The following summarises their responses:



- i. Access to trade support loans;
- ii. Enhance market access, including construction of the cross-border markets;
- iii. Business management training (training should include financial management and taxation);
- iv. Reduce other taxes and fees. The outright removal of VAT on raw agricultural products;
- v. Expand the common list to include manufactured products; and
- vi. Promote trust between traders and customs officials through supporting engagements among the two groups. Whilst traders feel that customs officials do not respect them as business people, customs officials also feel that small-scale cross border traders are fraudulent and/or vehicles of smuggling.

#### **4.5 Conclusion**

The Chapter presented the findings from engagements with small-scale cross border traders, border agency officials and relevant policy makers on the suitability of the current STR threshold and whether the threshold facilitated regional trade and integration in countries implementing the STR.

It emerged that the engaged stakeholders believed that the current STR threshold has reasonably led to formalisation of small-scale cross border trade. However, more still needs to be done to harness the full potential. Furthermore, there is general consensus that the current threshold is adequate to enable economies of scale and opportunities for small-scale cross border traders to grow their business. Thus, there is general consensus that the current COMESA STR threshold value remain at US\$2000 and effort should be made to ensure that it is implemented uniformly by Member States. More regional STR intra-trade has been recorded and the complementarity of goods (fruitful exchange of goods) between the Member States implementing the STR strengthens the social cohesion of the communities. To enhance the utility of the current threshold value, respondents reported that there is dialogue in their countries to either review, waive or reduce the other taxes and non-tariff barriers faced by small-scale cross border traders. Whilst other stakeholders regard the current STR threshold as encouraging non-compliance, they have put in place measures to minimise the risk.

## **Chapter 5:**

Effects of the Current STR Threshold  
on **Trade Flows; Traders' Income** and  
**Government Revenue**

This Chapter presents the findings on the effects of the STR threshold value on trade flows, traders' income and government revenue. The Chapter mainly relied on primary data obtained from interviewing officials of government ministries, government border agents, and cross border traders. The characteristics of the small-scale cross border traders who responded to our questionnaire are presented first. The effects of STR threshold on traders' income are presented second, followed by the effects on trade flows. The effects on government revenue are presented last.

## **5.1 Demographic Characteristic of Small-scale Cross Border Traders Interviewed**

The sample constituted more females (65%) and 35% males. Of the small-scale cross border traders, 60% were 35 years old and above whilst 40% were less than 35 years. The minimum age was 18 and the maximum 68. At least 60% of small-scale cross border traders had high school education whilst 74% were married. On average, the small-scale cross border traders who responded to our questionnaire had 7.5 years of experience in small-scale cross border trade and makes an average of about 7.5 business trips per month.

To get a deeper understanding of the demographic characteristics of the small-scale cross border traders in our sample, a cross tabulation was undertaken and the tabular form of the results are displayed in Annex 3. The sample had 274 males, of these 82 were aged 35 and below whilst 192 were above 35 years old. A total of 518 were females, of these 238 were aged 35 and below whilst 280 were aged above 35.

The distribution of age groups varies considerably across employment status. The sample had 244 full time employed respondents, of these, 159 were above 35 years old and 85 were 35 years old or below. Those in informal employment were 239 and 155 of them were aged above 35 years old. The category unemployed, which describes those respondents who solely rely on cross border trade, had 284 respondents. Of these 140 were aged 35 and below. This implies that majority of youths depends on small-scale cross border trade and females dominate (74%) this category.

Almost 50% of each age group started their cross border trade with capital of US\$250 or less. However, a considerable number of respondents who are aged above 35 started their business with a little higher capital. This implies that the age group 35 and below have difficulty in raising finance to start a business. This age group is the one in unemployed category that depends solely on cross border trade.

Given that about 50% of the age group 35 and below started their business with US\$250 or less and that females are the majority of this group. It can, therefore, be concluded that females who depend solely on cross border trade and are aged 35 and below have difficulties in financing their business. Of those who started their business with higher capital (above US\$500), males dominate. This may indicate that males have little difficulty in raising business finance relative to females.

The majority of respondents in our sample have never received any business management training. Cross tabulation of age group and being trained in business management shows that respondents who are not trained in business management exceeds those who are trained in both age categories.

Our analysis have shown that of those who are trained in business management, the majority of them are in full time employment. Most of the untrained respondents are unemployed or informally employed. We have noted earlier that most female respondents who are 35 years and below are unemployed. It therefore, follows that, most young females are also not trained in business management.

About 75% (589) of our sample are married people, of these 43% (254) are trained in business management. The cross tabulation also revealed that most of both female and male respondents are not trained in business management.

Awareness of the COMESA STR threshold value was also assessed using cross tabulation. Most males and females in our sample were aware of the current STR threshold value. Awareness is higher even across age groups. The majority of respondents who are married indicated that they were aware of the current STR threshold relative to all other marital status categories. Variability of awareness of the current STR threshold value was noted among employment categories. The full time employed and the unemployed categories had most respondents who were aware of the STR threshold value.

## **5.2 Effects of the Current STR Threshold on Small-scale Cross Border Trader's Income**

The STR threshold value is argued to increase traders' profit as it increases the scope of consignment values that are not liable for import duty, creating a costs saving for traders. The researcher engaged relevant government ministries, business membership organisations and the small-scale cross border traders soliciting their opinion regarding the effects of the current STR threshold on the traders' income as measured by profit.

The government ministries were asked to give their opinion on whether the current STR threshold value has a positive impact on small-scale cross border traders' income. About 92% of the respondents are in agreement that the current STR threshold value led to increased traders' incomes. They argued that the current threshold value enabled scope for economies of scale. Small-scale cross border traders have exploited this opportunity to mobilise and form associations, cooperatives and women groups that enable them to negotiate for better terms for STR eligible goods. Women's group of cross border traders went further to form associations that enabled them to eventually create a savings and credit cooperative (SACCO) where members put their savings together and provide loans at reasonable rates. Beyond the SACCO, the women's group have been able to negotiate their supplier and transportation costs at a much cheaper rate thereby increasing their business incomes.

Most small-scale cross border traders associations and other business membership organisations who responded to our questionnaire are of the opinion that the current COMESA STR threshold value improved trader's income and reduced border crossing transaction costs and time to cross a border. Four out of five responses received confirmed that there is a positive relationship between the current STR threshold value and the incomes of traders. They stated that on average their profit ranged between 10% and 15% of the value of consignments. Regarding the border crossing transaction costs, they pointed out that though the free duty reduced costs, there still remains other charges such as VAT and inspection fees that weigh down profits. All the respondents are in agreement that the time to clear goods at borders has been indeed reduced as a result of STR implementation.

Small-scale cross border traders' view was sought regarding the effect of the current STR threshold value on their income and on some of the income's determinants. Their responses are summarised in Table 2. About 79% of the respondents reported that the current STR threshold value increased their trade income (profit). Approximately 74% of respondents said their border crossing transaction costs were reduced and 79% believed that their time to cross the border was reduced as a result of the current STR threshold value. Almost 73% of the respondents are in agreement that the current STR threshold value reduced the amount of duty they used to pay. There is some consistence in the proportion of responses supporting the

favourable effects of the STR threshold value, which to a reasonable degree, substantiate these opinions to be reflecting what is obtaining on the ground.

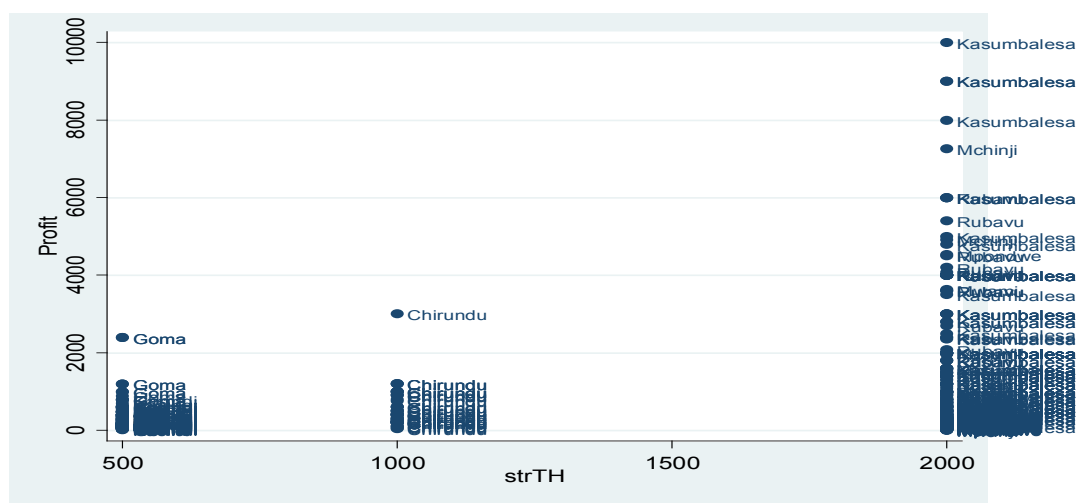
**Table 2: STR Threshold Value Effects on Profit and its Determinants**

Question	Yes	No
Has the current STR threshold increased your trade income (profit) per trip?	78%	22%
Has the current threshold reduced your border crossing transaction costs?	74%	26%
Has the current threshold reduced the time taken to clear goods?	79%	21%
Has the current threshold reduced the duty payments you used to pay?	73%	27%

Source: Author compiled

Small-scale cross border traders were further asked to state the average profit they make per business trip and how many trips they make in a month. An analysis of their responses has shown that a trader makes an average profit of US\$607.76 per month. A correlation analysis between the monthly profits and the STR threshold value applied at various borders established a positive association with a coefficient of 0.1789. This association was also further investigated through a scatter plot in Figure 3. The positive association between STR threshold value and profit is again confirmed. Traders trading through Goma have lower profits as the applied threshold is US\$500. Those trading through Chirundu have relatively higher profits compared to Goma as Chirundu applies a US\$1000 STR threshold. Profits realised by traders using borders at which the US\$2000 STR threshold value is implemented are higher relative to Goma and Chirundu. Profits values at Kasumbalesa are outliers.

**Figure 3: STR Threshold Value and Traders' Profit**



Source: Author compiled.

Following Ama, Mangadi, Okurut, & Ama (2013), a multiple regression model augmented by STR threshold variable was fitted to empirically assess the nexus between trader's profit and the STR threshold value. The results show that having at least high school education; being in full time employment; being married, divorced, and widowed relative to single; experience in cross border trade; frequency of trips per month; and start-up capital are positively related to profit. Cumbersome border procedures are shown to reduce traders' profits.

The results also confirmed the positive association between STR threshold value and traders' profit. The coefficient of the natural log of STR threshold value is statistically significant and carrying the expected positive sign. A unit increase in the threshold value is associated with a 1.28% increase in profit. Given the average profit of US\$607.76, a unit increase in the threshold value would lead to an increase in traders' profit by about US\$7.78. This is a more than proportionate increase which demonstrates that small-scale cross border trade profit is highly sensitive to small changes in the STR threshold value. The overall regression results of the nexus between trader's profit and STR Threshold value are given in Annex 4.

Our model has r-squared of 0.4796 and the adjusted r-squared of 0.4654. The predictive power of the model is somehow low. Our model is predicting human behaviour which is a difficult field to predict relative to physical processes and the human behaviour field has often shown to have inherently greater amount of unexplainable variation hence r-squared values are bound to be lower, less than 50%<sup>3</sup>. There is no evidence of multicollinearity in the model. The variance inflation factor (VIF) averaged 6.78 which is less than 10. We plotted a kernel density with a normal density overlaid on it, and we interpreted the plot to depict that the residuals are close to a normal distribution. Whilst the IM-test suggest the presence of heteroscedasticity, the Breusch-Pagan / Cook-Weisberg test indicated that there is no heteroscedasticity as it gave a p-value of 0.7036. We then minimised chances of heteroscedasticity by using the robust option. Thus we conclude that statistically significant coefficients in our model continue to represent the mean change in the dependent variable and conclusions drawn about the relationships between variables are valid and vital.

### 5.3 Effects of the Current STR Threshold on Small-scale Cross Border Trade

This section presents the results on the analysis of the impact of STR threshold value on trade. This was also approached from both qualitative and quantitative perspectives. Several stakeholders that include government ministries, customs administrations and the small-scale cross border traders were interviewed to seek their thoughts on whether the current STR threshold value influenced small-scale cross border traders to trade more.

The government ministries were asked to share their perceived impact on exports and imports of the current COMESA STR threshold value at the borders applicable to them. Their responses are summarised in Table 3. There is a general agreement among government ministries that the STR threshold value led to increase in small-scale cross border trade at the borders that this study focussed on.

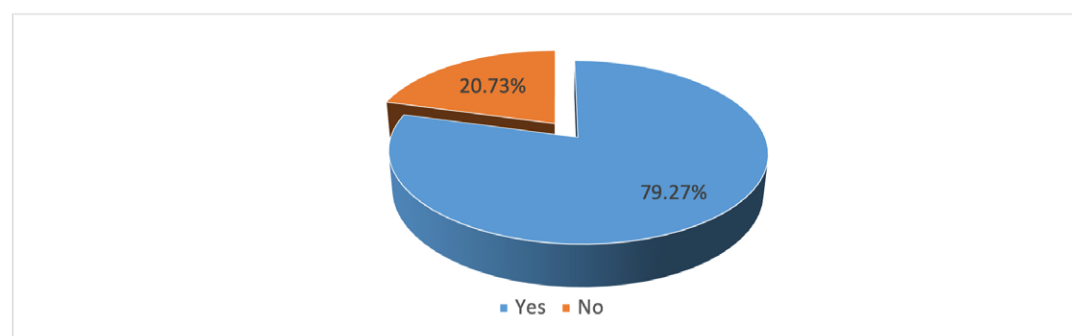
**Table 3: Effects of current STR Threshold Value on Trade -Government Perspective**

Border	Comment from Government Ministries
Malaba (Kenya/Uganda)	Both exports and imports of small-scale cross border trade increased
Mchinji/Mwami (Malawi/Zambia)	Trade increases but it was more of one sided flow from Zambia to Malawi.
Kasindi / Mpondwe ((DRC /Uganda)	Imports increased on both sides of the border
Chirundu (Zambia/Zimbabwe)	Whilst imports increased on both sides of the border, the flow was unbalanced. More imports of Zambian origin were realised in Zimbabwe.
Kasumbalesa (D R Congo/Zambia)	The STR threshold is not yet in force at the border. However, DRC realise more imports of small-scale trade from Zambia.
Goma /Petite B rear Rubavu (DRC/ Rwanda)	Imports increased in both sides of the border. However there is more trade moving from Rwanda to DRC.

Source: Author compiled

In order to get varied views, the customs administrations of the countries implementing the COMESA STR were also asked to share their perception regarding the effects of the current STR threshold on small-scale cross border imports and exports. Approximately 80% of the respondents reported that they have experienced a surge in small-scale cross border imports and exports as a result of the combined effect of the simplified STR procedures, trading in eligible products and the STR threshold value. The 20% of the respondents felt that there was no effect on trade, instead, the threshold created room for smuggling through splitting of consignments.

The researcher further inquired on the small-scale cross border traders' opinion on the impact of the threshold on trade volumes. Approximately 79% of the respondents reported that their trade volume increased as a result of the current STR threshold value as summarised in Figure 22.

**Figure 4: STR Threshold Value's Effects on Trade Volume**

Source: Author compiled

When a threshold value is set and implemented, traders must first perceive the policy initiative as an opportunity and when they embrace it, then later we realise an increase in trade volume. This behavioural change which is thought to be induced by the STR threshold value has been further modelled in this section. A logit model was estimated to model how traders' decisions to trade more is influenced by the STR threshold value. The results show that several traders' socio-economic characteristics have a bearing

on their decision to trade more. Whilst the results report that female traders are less likely to increase their trade relative to their male counterparts, a trader who is in full time employment has high chance of increasing their trade relative to those in informal employment. Experience as measured by number of years in small-scale cross border trade is also positively associated with the decision to trade more. Respondents in the age group above 35 years are more likely to trade more relative to those 35 years and below.

The coefficient of the STR threshold value applied at the borders was also found to be carrying the expected sign and statistically significant. Thus the applied STR threshold increases the likelihood of small-scale cross border traders to trade more. The overall regression results of the effects of STR threshold value on decision to trade more are reported in Annex 5.

Table 4 reports the marginal effects of these socio-economic variables. Traders who are in full time employment have about 17% chance to increase their trade relative to those in other employment categories. Our sample has approximately 30% of traders in full time employment. Having more years of experience increases the probability of trading more by 7%. Traders in the age group above 35 have almost 28% more chances of increasing their trade relative to the age group 35 and below. The log of the applied STR threshold value increases the probability of traders to trade more by approximately 43%. However, the chance that female traders are less likely to increase their trade relative to male traders is about 12%.

**Table 4: Average Marginal Effects**

<i>Employment Status (Full Time Employed)</i>	0.1740015*
<i>Experience in cross border trade (log of years in cross border trade)</i>	0.0697716**
<i>Age Group (&gt; 35 years)</i>	0.2750885***
<i>Applied STR Threshold</i>	0.4329727***
<i>Gender</i>	-0.1157508**

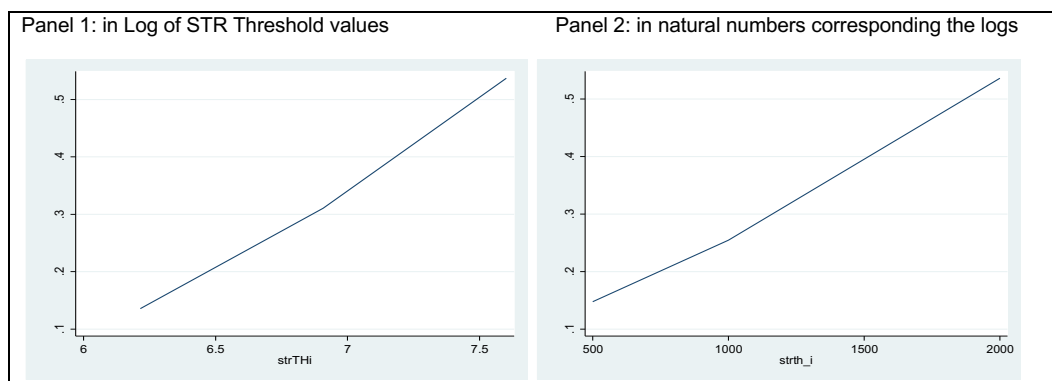
Source: Author compiled.

The analysis went further to estimate predicted probabilities on how the socio-economic characteristics of the traders influence their decision to increase their trade in relation to the STR threshold value. We again explored the nexus between the decision to trade more and the STR threshold value. In Figure 5 we present that as the log of STR threshold goes up, the probability that traders will trade more also increases. Reading in logs may not be common. We have put Panel 2 adjacent which is showing the corresponding value of STR threshold for each value of the natural log STR threshold value. It is more interesting to note that the STR threshold value of US\$2000, which is equivalent to the current COMESA STR threshold value, increases the probability of small-scale cross border traders to increase their trade by more than 50%. In comparison, the probabilities are around 13% and 23% at US\$500 and US\$1000 STR Threshold value respectively. Put differently, if we randomly pick a small-scale cross border trader using a border that applies a US\$500 STR threshold value (e.g. Goma and Kasindi) the likelihood that he/she increases trade due to the STR threshold value is only 13%. Whereas this probability shoots to approximately 50% if the trader is using a border at which the current COMESA STR threshold value of US\$2000 is being implemented. This could be evidence that countries that are implementing the STR threshold value less



than the current COMESA threshold value are limiting trade growth and therefore regional integration.

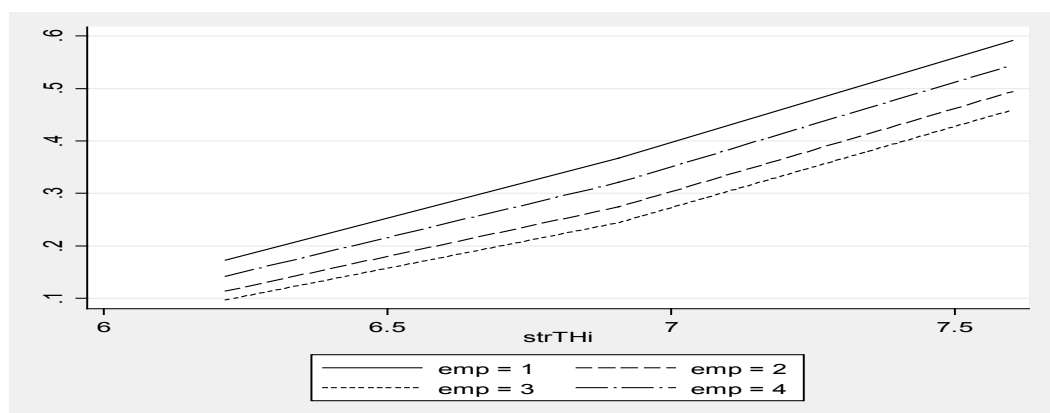
**Figure 5: Trading more and STR Threshold Value-Predicted Probabilities**



Source: Author compilation

We have noted above that traders in full time employment have about 17% more chances to increase their trade relative to those in informal employment. It is more interesting to see that this likelihood to trade more of full time employed traders is small at lower STR threshold value (around 12% at US\$500; the antilog of 6.2). However, it increases greatly to about 60% as the STR threshold value reaches the US\$2000 value, (antilog of 7.5), as shown in Figure 6. We recall that this group of traders (Full time employed), majority of them are in the age group above 35, started their business with relatively higher capital, has business management training and has relatively greater proportion of respondents who had awareness of the current STR threshold value. These characteristics could be behind the reason why they are most likely to grab the business opportunities that are availed by a higher STR threshold.

**Figure 6: STR Threshold Value and Employment Status (emp)**



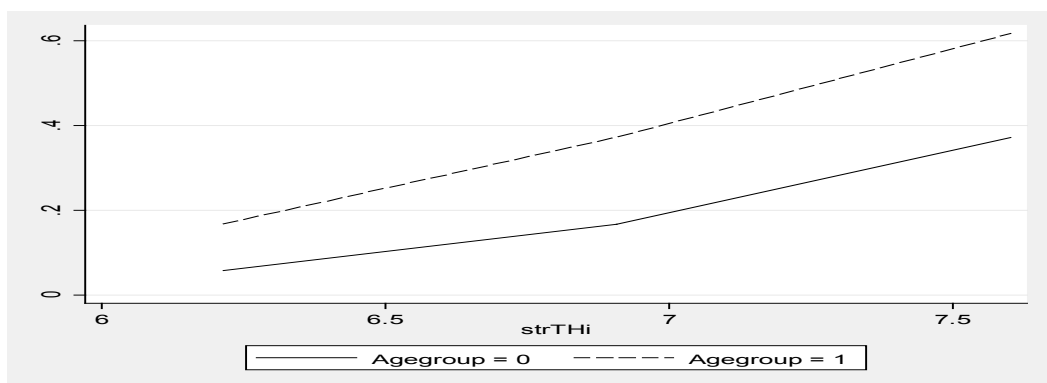
Source: Author compilation

Similarly, the probability of increasing trade by traders in the age group above 35 (age group 1 in Figure 7) also increase as the log of the STR threshold value increases as presented in Figure 7. The probability reaches approximately 50% when the log of STR threshold value reaches 7.5. We have also noted that this age group has a higher proportion of respondents trained in business management, relatively larger

proportion in full time employment, can easily raise business finance and has awareness of the STR threshold value.

The rate of increase of the probability to trade more by the age group 35 and below (age group 0) is low at lower threshold values, the rate of increase accelerates after the threshold value of US\$1100 (equivalent to antilog of 7). Thus, one can conclude that the COMESA STR threshold value of US\$2000 is at a level that, reasonably, can encourage the youthful traders to increase their trade. The characteristic of this age group could help explain why they are slow to respond to the opportunity availed by raising the threshold value. It has been demonstrated in Sub-section 5.1 that the age group 35 and below constitute more females, mostly rely solely on small-scale cross border trade, relatively have difficulties in raising business finance and that a higher proportion of them have never received business management training, though about 92% of the age group have awareness of the current STR threshold value.

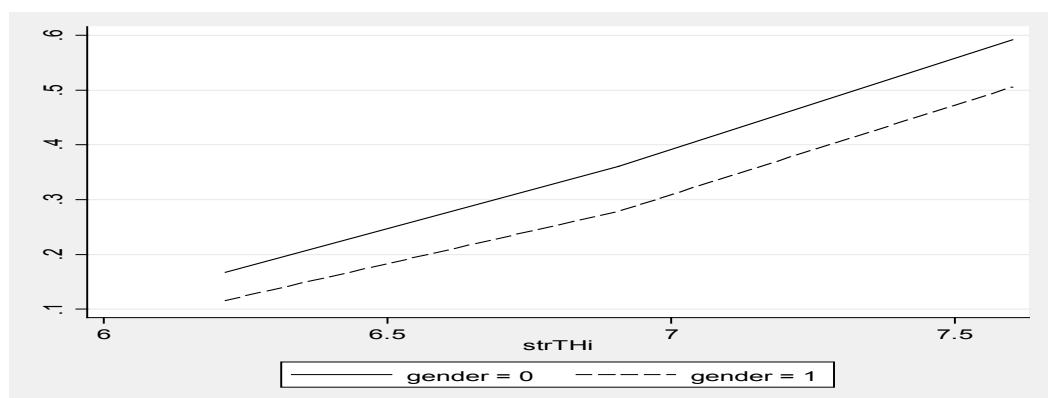
**Figure 7: STR Threshold and Age Group**



Source: Author compiled

Female respondents continue to be less responsive to increasing their trade relative to males even when the STR threshold is increased. Figure 8 shows that as the log of threshold value increases, the probability that respondents will increase their trade is higher for males (gender =0) relative to women (gender =1). What could be the reason women respond less to the business opportunity availed by raising the threshold. An analysis of the characteristics of the two gender categories seems to tell it all. Females dominates the age group 35 years and below. This age group solely rely on small-scale cross border trade and has been singled out to respond less to trade as STR threshold increases, (Figure 7). In relative terms, females have more difficulties in raising business finance to their male counterparts, (Section 5.1). More females are not trained in business management. Addressing these short comings in females could make them more responsive to increasing their trade as the threshold is raised.

**Figure 8: Gender and STR Threshold Value**



Source: Author compiled

## 5. Effects of the Current STR Threshold on Government Revenue

The effects of the current STR threshold on government revenue was analysed using the qualitative approach. Interviews were conducted with government ministries and customs administrations soliciting their opinion regarding the effect of the current STR threshold on government revenues.

Government ministries gave varying responses regarding the effect of the current STR threshold on government revenue. Approximately 39% of the respondents reported that the current STR threshold value led to massive loss of government revenue. They argued that the implementation of the current STR threshold value increased the scope of import transactions on which import duty is free resulting in revenue loss. Whilst this argument was presented, it has less credence. Trade is being done in a FTA environment for most countries except D R Congo. Under FTA duties are rated zero. Government ministries also felt that most of the small-scale cross border traders do not pay the relevant import inspection fees that supports further development of the quality infrastructure within the respective countries. They also stated that the current STR threshold value is used as a source of smuggling and corruption as most of the traders want short cuts and have a tendency of under-declaration. In the process government revenue is lost.

Of the respondents, 31% reported that the current STR threshold had a positive effect on government revenue. They argued that though the import duty waiver is a loss of government revenue, the increase in trade volume that resulted boosted other taxes and import inspection fees. Revenue even increased further for government or counties that operate markets for small-scale cross border trade through charging market access fees. They reported that cross border traders have increased in number, there are more participants in public markets which increased collected fees for the government. In the event a trader has goods of value above the STR threshold, for that consignment, the trader is not eligible to use the STR. These respondents also argued that impact on government revenue should not be viewed as "direct only" in the form of duty payments. The increase in small-scale cross border trade as a result of the STR threshold have boosted incomes of many traders lifting their families out of poverty and meeting their medical and educational bills. This, in a way, has saved the government expenditure on social safety nets.

Approximately 23% of the respondents referred the question to customs administration and 8% of respondents reported that they do not know.

Most of the customs administrations who responded to our questionnaire (80%) are in agreement that the

resultant increase in trade volume led to a surge in government revenue through taxes other than duty payments. About 25% of these respondents suggested that further analysis is needed to attribute the proportion of the increase that is accounted for by the STR threshold value. As it is, the observed increases are a result of the total STR programme.

#### **5.4 Conclusion**

The Chapter assessed the impact of the current STR threshold value on trade flows, traders' incomes and government revenues between selected countries. Both qualitative and quantitative methodologies were employed. There is general consensus among the majority of stakeholders consulted that the current STR threshold value resulted in increased trade under STR and had led to increases in the trader's income. Whilst the majority of government ministries felt that there was loss in government revenue, most customs administrations who responded to our questionnaire agree that the resultant increase in trade volume led to a surge in government revenue through taxes other than duty payments.

Quantitative analysis revealed that the small-scale cross border trade profits are more sensitive to changes in the threshold value. The implication is that an increase by a unit in the threshold value would lead to a more than unit increase in profit. It has also been established in this analysis that the current COMESA STR threshold value has increased the probability of small-scale cross border traders to increase their trade volume by more than 50%.

## **Chapter 6:**

### Conclusions and Recommendations

The Study reviewed the current COMESA STR threshold of US\$2000 with a view to recommend adjustments, if any, to the current level of the STR threshold and strategies as well as actions required to be taken by COMESA Policy organs in order to streamline and enhance implementation of the STR. The specific objectives of the study were to:

- i. Establish the current scope of goods traded under the STR at each of the targeted borders;
- ii. Determine the average value of consignments declared by small-scale cross border traders;
- iii. Engage small-scale cross border traders, border agency officials and relevant policy makers on the suitability of the current STR threshold at the selected borders;
- iv. Determine the suitability of the current STR threshold in facilitating regional trade and integration in countries implementing the STR;
- v. Assess the impact of the current STR threshold on trade flows by direction (imports/exports) volume, value, traders' incomes and government revenues between selected countries;
- vi. Use an objective method to determine and propose adjustments if any, to the current threshold that would be appropriate for enhanced implementation of the STR; and
- vii. Recommend an appropriate level of the STR threshold and strategies as well as actions required to be taken by COMESA Policy organs in order to streamline and enhance implementation of the STR.

Questionnaires, interviews and desk research were the major methods used for data collection. Both qualitative and quantitative methods of data analysis were employed.

## **6.1 Summary of Key Findings and Conclusions**

Key findings and conclusions drawn are as follows:

- i. The study determined the scope of traded products under STR at each targeted border. Originating manufactured products are traded most at Chirundu Border Post. Trade is mostly one way, from Zambia to Zimbabwe. Malawi imports more of processed goods originating from Zambia via Mwami/Mchinji Border, whilst Zambia imports more of agricultural commodities. Trade is again mainly one way, from Zambia to Malawi. Trade under STR between DRC and Uganda via Kasindi/Mpondwe Border is mainly on raw and processed agricultural products. Trade between Rwanda and DRC via Goma/Rubavu Border is mainly one directional from Rwanda to DRC. Mostly agricultural products and livestock are traded and women dominate the cross border trade business. Mostly agricultural products are traded between Kenya and Uganda via Malaba Border Posts. The trade between Zambia and DRC was established to be mainly one directional, from Zambia to DRC. Zambia's exports to DRC were established to comprise livestock; agricultural produce and originating manufactured products. Traders, mostly, in the Great Lakes region propose that the STR common list of products be expanded to include originating manufactured products. In general, the scope of products being traded at the targeted border posts constitute approximately less than 54% of the agreed product scope in the respective common lists;
- ii. Where the current COMESA STR threshold value of US\$2000 is applied on both sides of the border for example Malaba and Mwami/Mchinji, most declaration values are at the brim of the current COMESA threshold value. At borders where the current COMESA STR threshold is not harmonised, which are Kasindi/Mpondwe, Goma/Rubavu and Chirundu, most transaction values are far below the current COMESA STR threshold value. However, most transaction values have

exhausted the lower threshold applied. It was therefore concluded that most small-scale cross border trade transaction values are below the current COMESA STR threshold value. Countries that have not harmonised their STR threshold value to the COMESA STR threshold value are hurting intra-COMESA trade and therefore trade integration;

- iii. It has been established that the current STR threshold has reasonably led to formalisation of small-scale cross border trade. To a greater extent, stakeholders agree that the current COMESA STR threshold is adequate to enable economies of scale and opportunities for small-scale cross border traders to grow their business. It was overwhelmingly proposed that the current COMESA STR threshold value remains at US\$2000 and that effort should be made to ensure that other Member States harmonise their STR threshold to the US\$2000 value. Consensus has also been established that more regional STR intra-trade has been recorded and the complementarity of goods (fruitful exchange of goods) between the Member States implementing the STR has strengthened the social cohesion of the communities. To enhance the capacity of the current threshold value, it is important to review or waive other taxes and non-tariff barriers faced by small-scale cross border traders;
- iv. Majority of stakeholders consulted are in agreement that the current STR threshold value resulted in increased trade under STR and had led to increases in the trader's income. Some of government ministries felt that there was loss in government revenue as the current STR threshold value increased the scope of import transactions on which import duty is free. This loss of revenue is possible when the Member State is not implementing the COMESA FTA. However, most trade is being done in a FTA environment for most countries except D R Congo. Under FTA duties are rated zero and the STR threshold value acts as a legitimate way of deliberately extending the benefits of FTA to small-scale cross border traders. Most customs administrations who responded to our questionnaire agree that the resultant increase in trade volume led to a surge in government revenue through taxes other than duty payments.
- v. Quantitative analysis revealed that the small-scale cross border trade profits are more sensitive to changes in the threshold value. The implication is that an increase by a unit in the threshold value would lead to a more than unit increase in profit. It has been also established that border post weigh down on traders' profits. This suggest that there is an opportunity to streamline the compliance processes at border posts which reduces costs.
- vi. The study established that the current STR threshold value increased the probability of small-scale cross border traders to increase their trade volume. The effect varies with the level of threshold value. It was estimated that at threshold values of US\$500, US\$1000 and US\$2000 the probability that small-scale cross border traders would increase their trade is approximately 13%, 23% and 54% respectively. In light of this finding, the current STR threshold value of US\$2000 is very instrumental in increasing small-scale cross border trade and therefore regional trade integration. Countries implementing threshold values below US\$2000 are heavily restricting intra-COMESA trade by small-scale cross border traders;
- vii. It was also established that the probability to increase trade by small-scale cross border traders who are in full time employment relative to those in informal employment increases with increase in the threshold value. Descriptive analysis established that certain characteristics distinguish this group of traders. Majority of them are in the age group above 35, are able to raise finance with ease, have business management training and have awareness of the current STR threshold value. We conclude that these characteristics are behind the reason why they are most likely to grab the

- business opportunities that are availed by a higher STR threshold;
- viii. Similarly, it was established that the probability of increasing trade by traders vary with age groups as the STR threshold increases. Traders aged above 35 have a chance of approximately 50% of increasing their trade as the threshold value reaches US\$2000 relative to age group aged 35 and below. We have also noted that this age group has a higher proportion of respondents trained in business management, relatively larger proportion in full time employment, can easily raise business finance and has awareness of the STR threshold value. These characteristics could be important background factors explaining why this group is likely to increase trade as STR threshold is raised. Inspection of the characteristics of the age group 35 and below made it much clearer. The group constitute more females, who solely rely on small-scale cross border trade, relatively have difficulties in raising business finance and that a higher proportion of them have never received business management training, though about 92% of the age group have awareness of the current STR threshold value. We conclude that access to business finance, training in business management and increased awareness is very critical in making traders ready to exploit the business opportunities availed by the current COMESA STR threshold value;
  - ix. Females continue to be less responsive to increasing their trade relative to males even when the STR threshold is increased. We concluded that the different demographic characteristics between females and males could be the reason behind the less responsive of females to raise their trade as STR threshold increases. Relatively, females dominate the age group 35 years and below compared to males. This age group solely rely on small-scale cross border trade and has been established to respond less to trade as STR threshold increases. Females have more difficulties in raising business finance compared to their male counterparts. More females are not trained in business management. These shortcomings make females not ready to raise their trade compared to their male counterparts when the STR threshold is raised.
  - x. It was established that the majority of consulted stakeholders prefer that the threshold value remains at US\$2000. In light of the above finding, therefore, this study concludes that it is reasonable to maintain the current STR threshold value of US\$2000 complemented by efforts to reduce traders' compliant costs faced at borders.

## 6.2 Recommendations

Several recommendations have been proffered based on the findings of this study as follows:

- i. The current STR threshold value of US\$2000 be maintained. However, the Secretariat should engage Member States and support them to review border crossing compliance costs faced by small-scale cross border trade;
- ii. Member States should implement the COMESA Free Trade Area (FTA) to enhance implementation of the STR threshold value of US\$2000;
- iii. Member States to harmonise their STR threshold value to the current COMESA STR threshold value of US\$2000. COMESA Secretariat should encourage and support Member States in this endeavour;
- iv. Member States implementing the STR to regularly review their STR common list of products to include other COMESA originating products of interest to traders;
- v. Member States to consider reviewing or waiving other taxes and non-tariff barriers faced by small-scale cross border traders at border posts in order to reduce compliance costs;



- vi. Member States to develop a small-scale cross border trade finance loan facility to assist traders to raise business finance; and
- vii. Secretariat to develop and roll out business management training and STR awareness capacity building programmes.

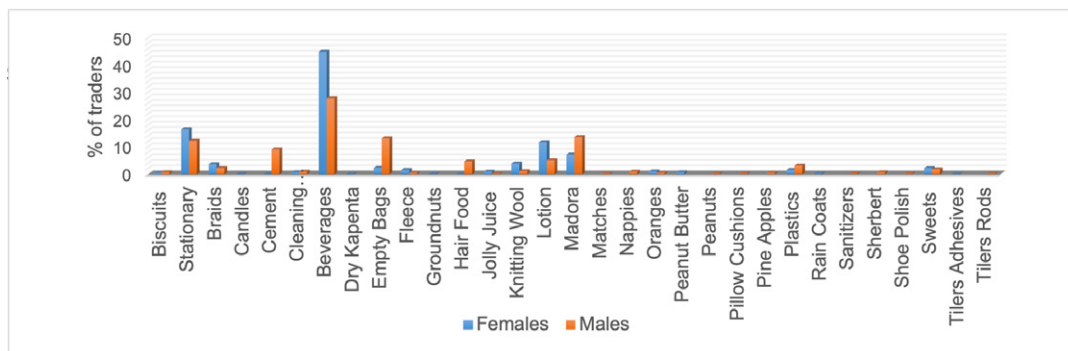
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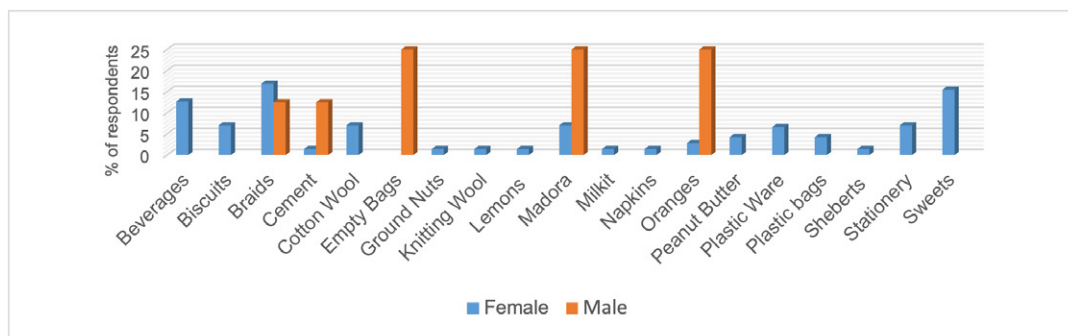
# **Annexes**

## Annex 1: Scope of goods being traded at border posts under this study



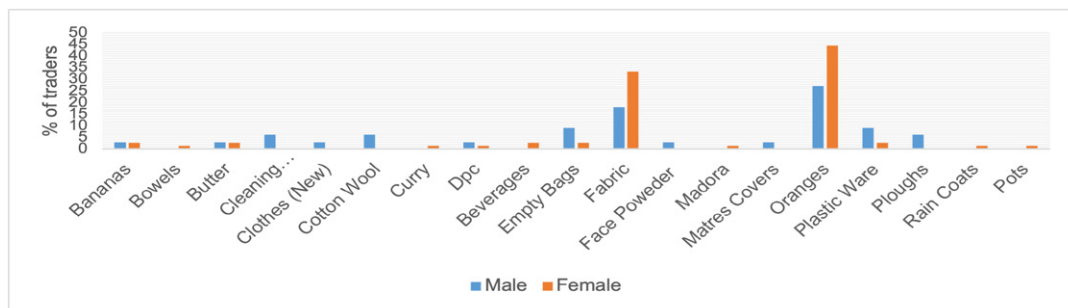
Source: Author compiled.

## Scope of Zimbabwe STR imports from Zambia via Chirundu OSBP (Primary Data)



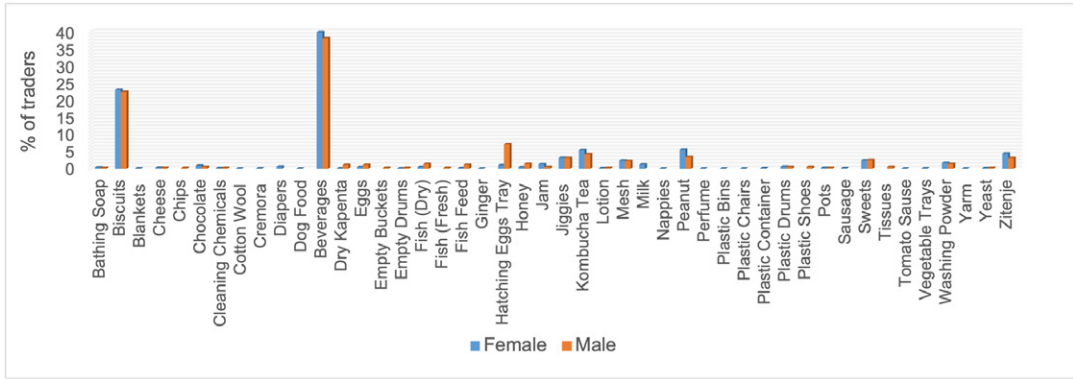
Source: Author compiled.

## Scope of Zambia STR imports from Zimbabwe via Chirundu OSBP (Secondary data)



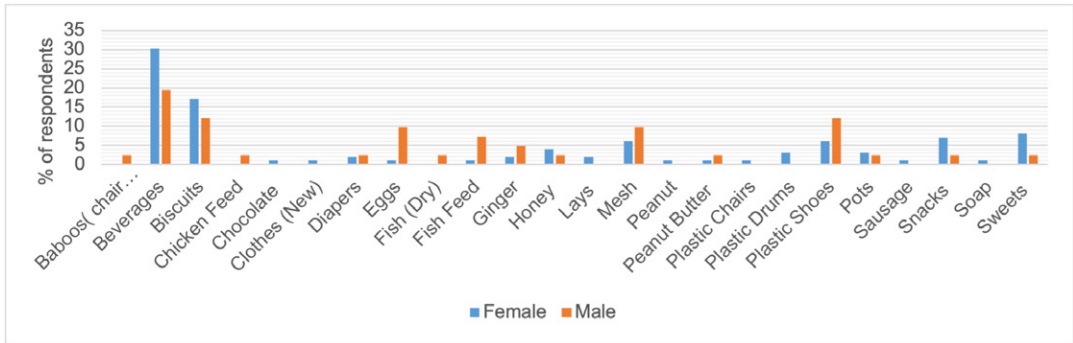
Source: Author compiled.

Goods imported into Malawi through Mwami/Mchinji Border under STR (Secondary data)



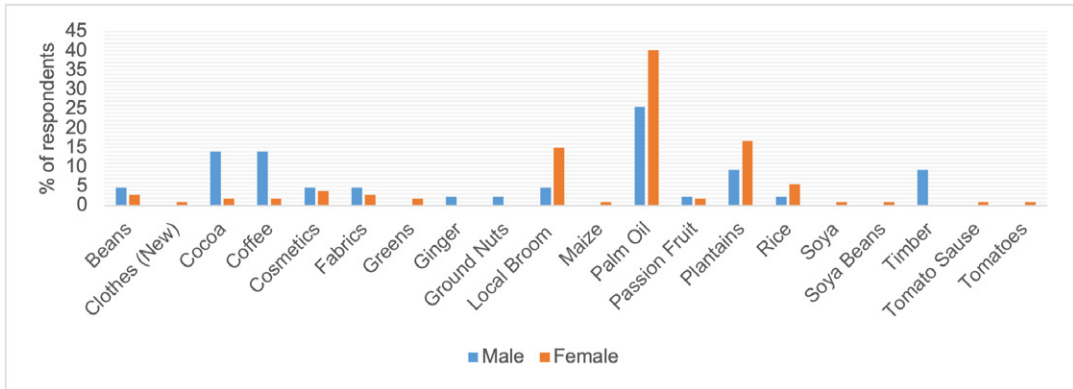
Source: Author compiled.

Goods imported into Malawi through Mwami/Mchinji Border under STR (Primary data)



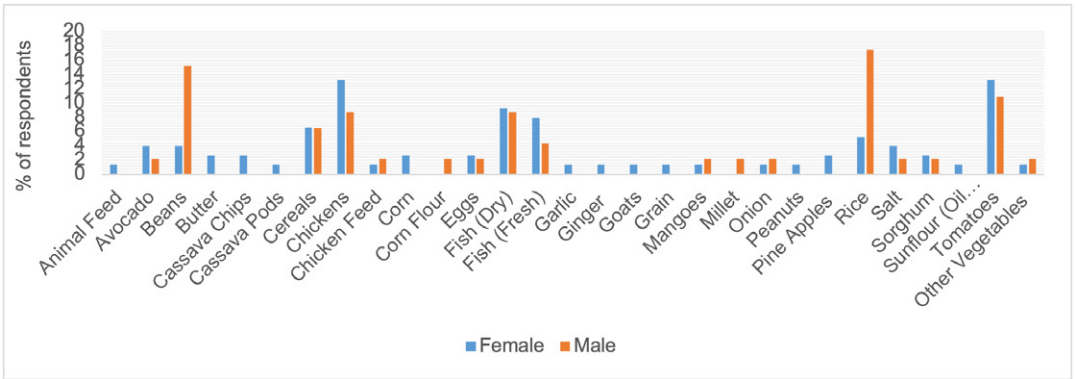
Source: Author compiled.

Scope of Uganda imports from DRC via Mponndwe Border



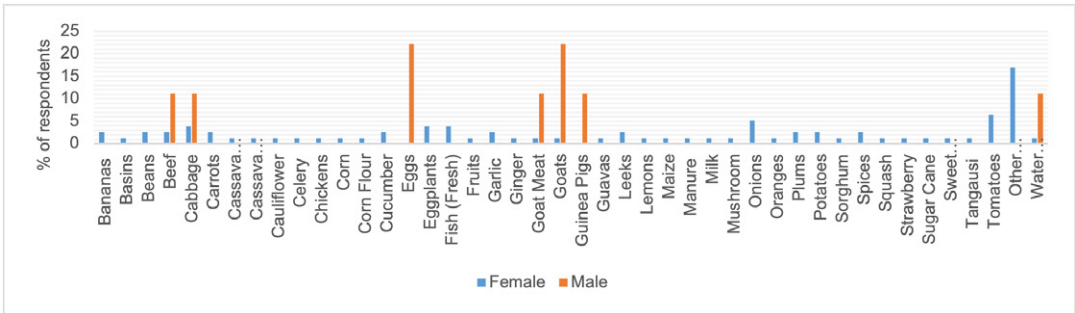
Source: Author compiled.

Scope of DRC imports from Uganda via Kasindi Border



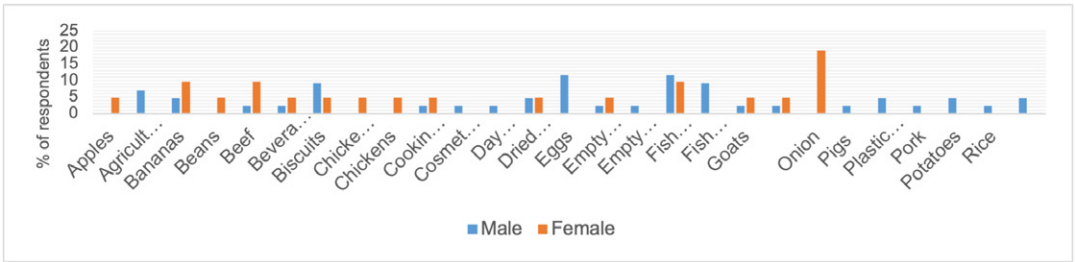
Source: Author compiled.

Scope of DRC imports from Rwanda via Goma/Rubavu Border



Source: Author compiled.

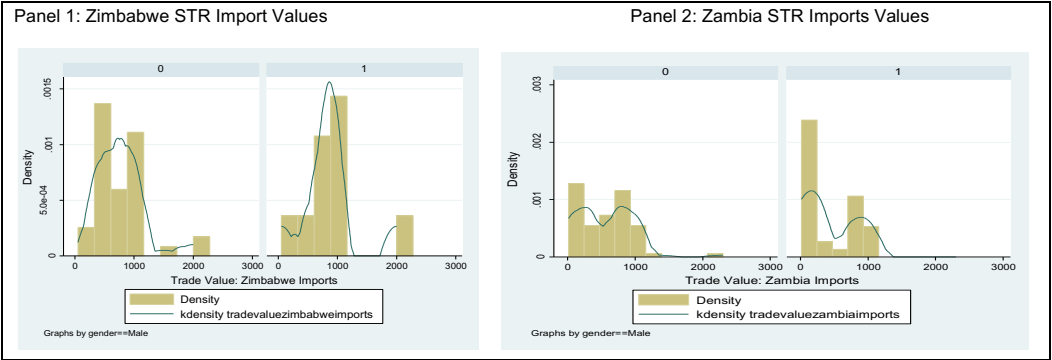
Scope of DRC imports from Zambia via Kasumbalesa Border



Source: Author compiled.

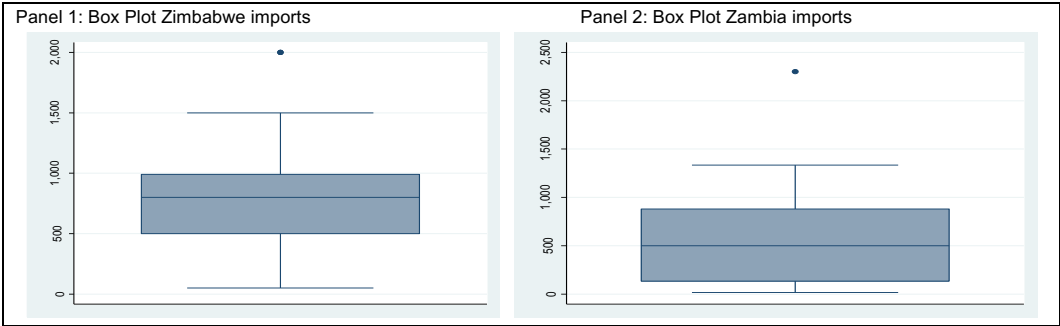
Annex 2: Distribution of STR Declaration Values at border posts under this study

Distribution of STR Declaration Values at Chirundu OSBP



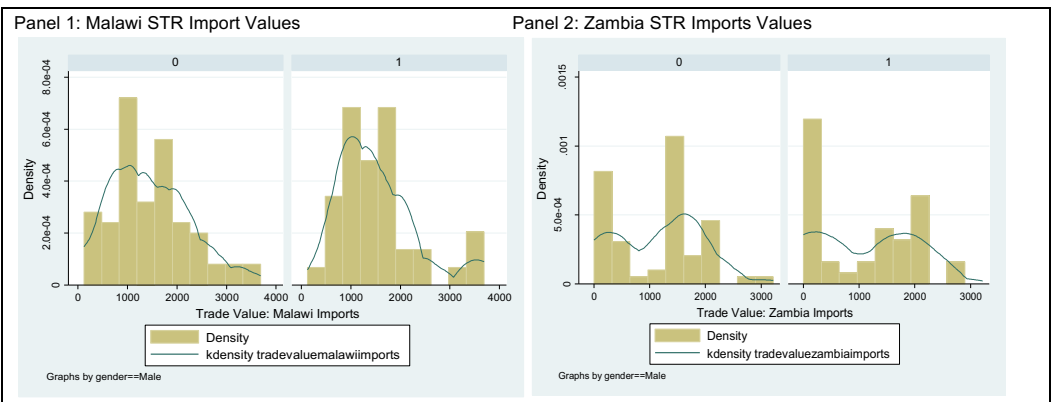
Source: Author compiled.

Box Plots of STR Declaration Values at Chirundu OSBP



Source: Author compiled.

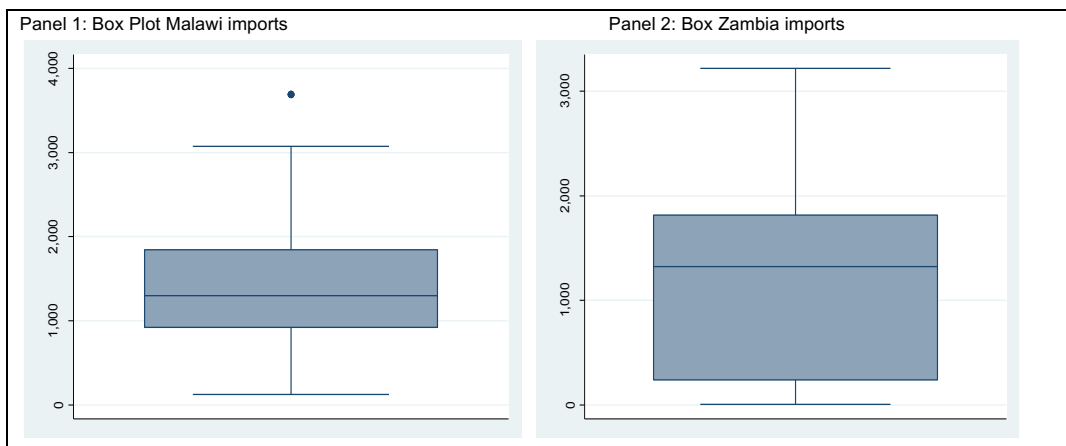
Distribution of STR Declarations Values at Mwami/ Mchinji Border



Source: Author compiled.

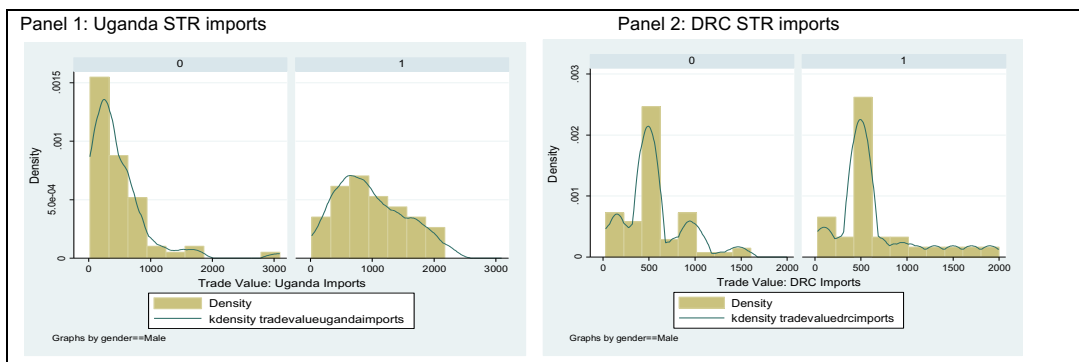


Box Plots of STR Declaration Values at Mwami/Mchinji Border



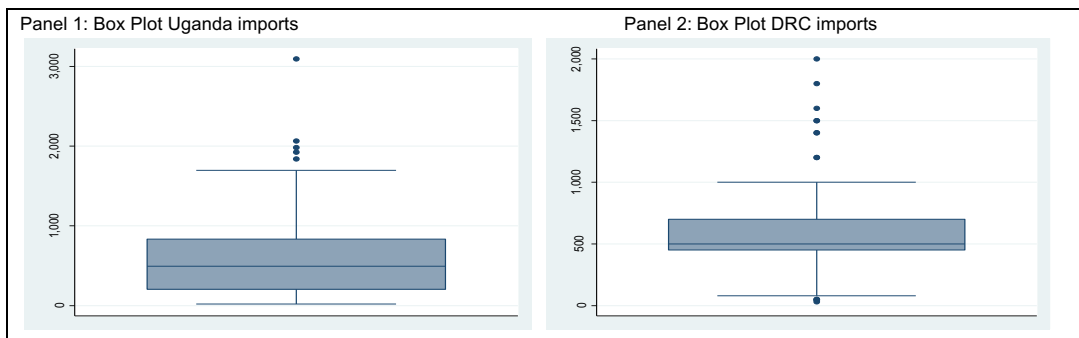
Source: Author compiled.

Distribution of STR Declaration Values at Kasindi/Mpondwe Border



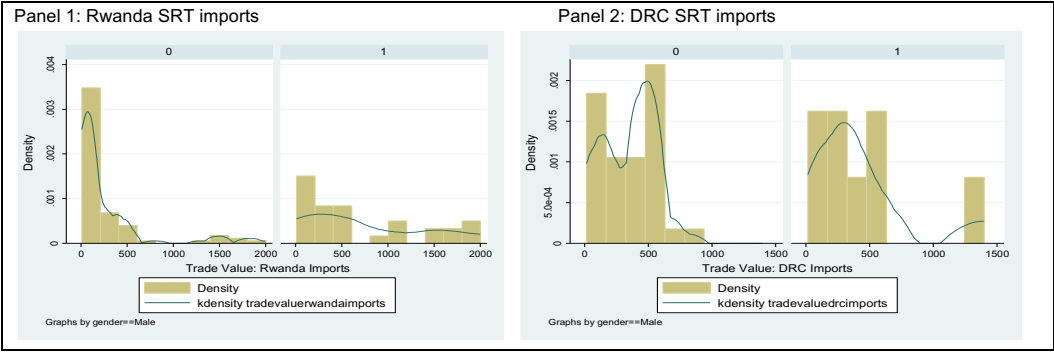
Source: Author compiled.

Box Plots of STR Declaration Values at Kasindi/Mpondwe Border



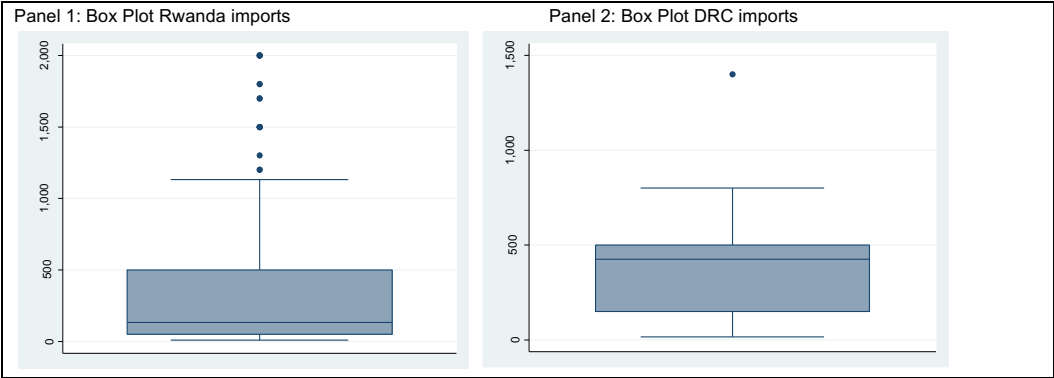
Source: Author compiled.

Distribution of STR Declaration Values at Goma/Rubavu Border



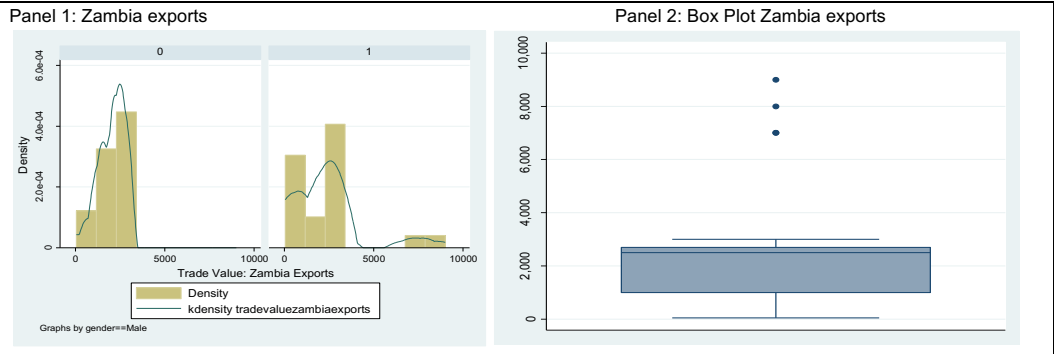
Source: Author compiled.

Box Plots of STR Declaration Values at Goma/Rubavu Border



Source: Author compiled.

Distribution of Zambia exports to DRC via Kasumbalesa Border



Source: Author compiled.

### Annex 3: Demographic characteristics of the interviewed small-scale cross border traders

#### Gender and Age Group

	Age Group		
Gender	35	35	Total
Male	82	192	274
Female	238	280	518
Total	320	472	792

Source: Author compiled

#### Age Group and Employment Status

	Employment Status				
Age Group	Full Time Employed	Part Time Employed	Informally employed	Unemployed	Total
35	85	11	84	140	320
35	159	14	155	144	472
Total	244	25	239	284	792

Source: Author compiled

#### Age Group and Business Start-up Capital

	Business Start-Up Capital			
Age Group	US\$250	US\$251 to US\$500	US\$501 and above	Total
35	205	61	54	320
35	208	96	168	472
Total	413	157	222	792

Source: Author compiled

#### Gender and Business Start-up Capital

	Business Start-Up Capital			
Gender	US\$250	US\$251 to US\$500	US\$501 and above	Total
Female	317	102	97	516
Male	96	55	125	276
Total	413	157	222	792

Source: Author compiled

#### Age Group and Business Management Training

	Trained in Business Management		
Age Group	Not Trained	Trained	Total
35	182	138	320
35	255	217	472
Total	437	355	792

Source: Author compiled

<b>Employment</b>	<b>Status</b>	<b>and</b>	<b>Business</b>	<b>Management</b>	<b>Training</b>
	<b>Employment Status</b>				
<b>Trained in Business Management</b>	Full Time Employed	Part Time Employed	Informally employed	Unemployed	Total
Not Trained	78	11	163	185	437
Trained	166	14	76	99	355
Total	244	25	239	284	792

Source: Author compiled

**Marital Status and Business Management Training**

	Trained in Business Management		
Marital Status	Not Trained	Trained	Total
Married	335	254	589
Divorced	27	29	56
Widowed	26	32	58
Single	49	40	89
Total	437	355	792

Source: Author compiled

**Gender and Business Management Training**

	Trained in Business Management		
Gender	Not Trained	Trained	Total
Male	163	111	274
Female	274	244	518
Total	437	355	792

Source: Author compiled

Gender	and	STR	Threshold	Value	Awareness
	Have you ever heard of STR Threshold Value				
Gender	No		Yes		Total
Male	75		199		274
Female	53		465		518
Total	128		664		792

Source: Author compiled

**Age Group and STR Threshold Value Awareness**

	Have you ever heard of STR Threshold Value		
Age Group	No	Yes	Total
35	26	294	320
35	102	370	472
Total	128	664	792

Source: Author compiled

<b>Marital Status and STR Threshold Value Awareness</b>			
	Have you ever heard of STR Threshold Value		
Marital Status	No	Yes	Total
Married	115	474	589
Divorced	4	52	56
Widowed	3	55	58
Single	6	83	89
Total	128	664	792

Source: Author compiled

<b>Employment Status and STR Threshold Value Awareness</b>			
	Have you ever heard of STR Threshold Value		
Employment Status	No	Yes	Total
Full Time Employed	5	239	244
Part Time Employed	2	23	25
Informally employed	114	125	239
Unemployed	7	277	284
Total	128	664	792

Source: Author compiled

**Annex 4: Multiple Regression Profit Model Results**

<b>Variables</b>		<b>LogProfit</b>
1.Agegroups		0.1199488 (0.077)
Level of Education:	Primary	Base
High School	0.2198415** (0.079)	
Tertiary	0.3000915** (0.104)	
Employment Status	Full Time Employment	0.4726345*** (0.134)
Part Time Employed		
Informally Employed	0.2267907 (0.199)	
Unemployed	Base	
	0.22888* (0.124)	
Marital Status	Married	0.2634874* (0.105)
Divorced		
Widowed	0.2833568* (0.151)	
Single	0.3563647* (0.157)	
	Base	
1.Gender		-0.087978 (0.072)
Years in Small-scale Cross Border Trade		0.0295391*** (0.007)
Trips per month		0.0434787**** (0.008)
Log of Start-up capital		0.2180084*** (0.031)
Log of applied STR threshold		1.275721*** (0.290)
Received a business management training		0.0875145 (0.073)
Border	Goma	Base
	Kasindi	-0.2264614* (0.132)
	Kasumbalesa	0.2536391 (0.336)

	Mchinji	-1.568581*** (0.315)
	Rubavu	-1.324389*** (0.401)
	Mpondwe	-1.576416*** (0.314)
	Mwami	-2.104469*** (0.307)
	Chirundu	(omitted)
cons		-5.067338** (1.922)
Number of obs		792
R-squared		0.4796
Adj R-squared		0.4654

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Annex 5: Regression Analysis Results for Trade Effects of STR Threshold Value**

		(1)
VARIABLES		
		-2.360052**
		(0.871)
		-.9522156
		(0.808)
		-.0038696***
		(.001)
		-3.137764***
		(.605)
		(omitted)
		-.5039257*
		(.208)
<i>Marital Status</i>		.2322766
		(.349)
		.1278816
		(.489)
<i>Employment Status</i>		.5030238
		(.488)
		Base
		Base
<i>Received Business Management Training</i>		.7879097*
		(.411)
		.2049605
		(.604)
<i>Received awareness about STR</i>		Base
		Base
		.5050827
		(.325)
<i>Experience in cross border trade (log of years in cross border trade)</i>		-.0454084
		(.232)
<i>Age Group ()</i>		-.009445
		(.447)
<i>Applied STR Threshold</i>		.3095592**
		(.141)
<i>Constant</i>		1.33821***
		(.238)
		1.920991***
		(.301)
		12.89382



	(0.139
<i>Observations</i>	792

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

# Annex 6: Lists of persons consulted/ interviewed

Name	Organisation	Designation	Contact Details
<b>Democratic Republic of Congo</b>			
Prof. Franck MUKANYA LUSANGA	Foreign Trade / Congolese Control Office (OCC)	Director , Head of MARKETING Department	franckmukanya.lusanga@gmail.com +243 81 501 72 75
Cirimwami Ntongo Hubert	Directorate General of Customs and Excise (DGDA)	Inspector	hubertntongo@gmail.com +243 994304762
Bora-KAZI	Platform of Associations and Cooperatives of small cross-border traders	Technical advisor	<a href="mailto:bora-kazi5@gmail.com">b o r a k a z i 5 @ g m a i l . c o m</a> +243993486331
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<b>Small-scale Cross Border Traders Interviewed</b>			
<b>Border</b>		<b>Number of Traders Interviewed</b>	
Chirundu		52	
Goma		88	
Kasindi		116	
Kasumbalesa		108	
Mchinji		111	
Mpondwe		100	
Rubavu		118	
Mwami		100	
<b>Total</b>		<b>793</b>	

## **Annex 7: Questionnaires/ Interview Guides**

### **Government Ministries/Agency Questionnaire/Interview Guide**

#### **1.0 BRIEF BACKGROUND**

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme which is financed by the European Union under the EDF 11. All key result areas of the programme are aimed at increasing the formal Small-scale Cross Border Trade flows in the COMESA/Tripartite region leading to higher revenue collection by governments and increased incomes by Small-scale Traders.

One of the activities under the programme is to review and monitor the implementation of the COMESA Simplified Trade Regime (STR) at the targeted border posts. This includes field assessments at the border posts to collect detailed baseline data related to the STR implementation and related challenges; as well as regular reviews of some STR features such as the products coverage and the applied thresholds. To carry out the review of the STR threshold, the Secretariat has engaged a consultant.

This questionnaire/ interview guide is a tool designed to obtain necessary information to support the STR threshold review. Information collected through this questionnaire/interview guide will be solely used for the purpose of this study. Your input to this process through your response will greatly contribute to the determination of an appropriate level of the STR threshold and strategies as well as actions required to be taken in order to streamline and enhance implementation of the STR.

Due to time constraint, the Consultant will arrange telephone, Zoom, Skype or WhatsApp calls with respondents, while those preferring to respond in writing are kindly requested to clearly indicate their answers to each question.

#### **2.0 RESPONDENTS CONTACT DETAILS**

*This part is included to help the consultant contact respondents in case of need to clarify issues*

1. Country .....
2. Government Ministry (full name).....
3. Name of Respondent: .....
4. Job Title: .....
5. Email: ..... Phone..... Skype.....

#### **3.0 Suitability of the current COMESA STR threshold**

- 3.1 May you please comment on whether the current COMESA STR Threshold of USD2000.00 facilitated achieving the policy objective of formalising small-scale cross border trade?  
.....
- 3.2 Would you comment on the adequacy of the current STR threshold to offer economies of scale and opportunities for small-scale cross border traders to grow their business? .....  
.....

3.3 Whilst the COMESA STR offers FTA preferential tariff treatment and simplified customs procedures, small-scale cross border traders are still faced with other taxes and regulatory certificates fees leaving them with disproportionate costs relative to a fixed threshold value. Are there any policy dialogue going on to review, waive or reduce these other taxes and regulatory certificates fees?

.....  
.....

3.4 Are there any challenges that you are facing in the implementation of the current COMESA STR threshold of USD2000.00?

.....  
.....

3.5 What is your comment regarding the efficacy of the current STR threshold in promoting regional trade and social cohesion of border communities where you are implementing the COMESA STR?

.....  
.....

3.6 Would you propose adjustments if any, to the current COMESA STR threshold that would be appropriate to enhance its implementation? State your proposals below:

.....

3.7 May you please propose any incentives that will persuade small-scale cross border traders to graduate from the STR?

.....

**4.0 Impact of current COMESA STR threshold**

4.1 Would you please comment on the impact the current COMESA STR threshold has on your government revenue?

.....

4.2 Do you think that the current STR threshold has a positive impact on small-scale cross border traders' income? Yes/No.....

4.3 Generally, what has been the impact on exports and imports of the current COMESA STR threshold at the following borders applicable to you?

- i. Kasindi (DRC) / Mpondwe (Uganda).....
- ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
- iii. Chirundu (Zambia/Zimbabwe).....
- iv. Mchinji/Mwami (Malawi/Zambia).....
- v. Malaba (Kenya/Uganda).....
- vi. Kasumbalesa (D R Congo/Zambia).....

## Small-scale Cross Border Traders Questionnaire/ Interview Guide

### 1.0 BRIEF BACKGROUND

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme which is financed by the European Union under the EDF 11. All key result areas of the programme are aimed at increasing the formal Small-scale Cross Border Trade flows in the COMESA/Tripartite region leading to higher revenue collection by governments and increased incomes by Small-scale Traders.

One of the activities under the programme is to review and monitor the implementation of the COMESA STR at the targeted border posts. This includes field assessments at the border posts to collect detailed baseline data related to the STR implementation and related challenges; as well as regular reviews of some STR features such as the products coverage and the applied thresholds. To carry out the review of the STR threshold, the Secretariat has engaged a consultant.

This questionnaire/ interview guide is a tool designed to obtain necessary information to support the STR threshold review. Information collected through this questionnaire/interview guide will be solely used for the purpose of this study. Your input to this process through your response will greatly contribute to the determination of an appropriate level of the STR threshold and strategies as well as actions required to be taken in order to streamline and enhance implementation of the STR.

Due to time constraint, the Consultant will arrange telephone, Zoom, Skype or WhatsApp calls with respondents, while those preferring to respond in writing are kindly requested to clearly indicate their answers to each question.

### 2.0 General Respondent information and demographic characteristic

- 2.1 Gender: Male/Female:.....
- 2.2 Age: .....
- 2.3 Family size: .....
- 2.4 Head of family: Yes/No .....
- 2.5 Bread winner: Yes/No.....
- 2.6 Marital Status: Married.....  
Divorced.....  
Widowed.....  
Single.....

- 2.7 Employment status: Full Time Employment.....  
Part Time.....
- I nformal Employment.....
- Unemployed.....

- 2.8 Level of education: Primary.....  
High school.....  
Tertiary.....
- 2.9 Country of residency .....
- 2.10 Number of years in cross border trade.....
- 2.11 Have you ever attended any business management training?  
Yes/No.....
- 2.12 What was your starting capital for the business? .....
- 2.13 Have you ever heard of and used the COMESA STR in your cross border trade?  
Yes or No.....

**3.0 Scope of goods traded under the STR at each of the targeted borders**

- 3.1 Through the border(s) applicable to you below, what are the products you import under STR?
- i. Kasindi (DRC) / Mpondwe (Uganda) .....
  - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
  - iii. Chirundu (Zambia/Zimbabwe).....
  - iv. Mchinji/Mwami (Malawi/Zambia).....
  - v. Malaba (Kenya/Uganda).....
  - vi. Kasumbalesa (D R Congo/Zambia).....
- 3.2 Through the border(s) applicable to you below, what are the products you export under STR?
- i. Kasindi (DRC) / Mpondwe (Uganda)
  - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda)
  - iii. Chirundu (Zambia/Zimbabwe)
  - iv. Mchinji/Mwami (Malawi/Zambia)
  - v. Malaba (Kenya/Uganda)
  - vi. Kasumbalesa (D R Congo/Zambia)
- 3.3 May you please indicate, if any, other goods that you trade which are not covered by the STR common list?  
.....  
.....

**4.0 Average value and volume of consignments declared by small-scale cross border traders**

- 4.1 What is the average value of your imports per trip? .....



4.2 What is the approximate average volume of your imports per trip? .....

4.3 What is the average number of trips that you make per month? .....

## **5.0 Suitability of the current COMESA STR threshold Value of USD2000.00**

5.1 What is the applicable STR threshold value at the border(s) that you are using? .....  
.....

5.2 Does the current COMESA STR threshold value give you enough scope to expand your business and operate profitably? Yes/No.....

5.3 Would you recommend a review to the current COMESA STR threshold value? Yes/No.....

5.4 If your answer to 5.3 is Yes, please state your reasons for recommending a review of the current COMESA STR threshold  
.....  
.....

5.4 Based on your experience of cross border trade, what is the appropriate level of STR threshold value you would recommend? .....

5.5 What other incentives would you recommend that can assist you to expand your cross border trade business and graduate from the STR programme?  
.....  
.....

## **6.0 Impact of the current COMESA STR threshold**

6.1 Do you think the current STR threshold has increased the volume of your imports per trip? Yes/ No.....

6.2 Has the current STR threshold increased your trade income (profit) per trip? Yes/No.....  
.....

6.3 What is the average value of your profit per trip? .....

6.4 Has the current threshold reduced your border crossing transaction costs? Yes/No.....

6.5 Has the current threshold reduced the time taken to clear goods? Yes/No.....

6.6 Has the current threshold reduced the duty payments you used to pay? Yes/No.....

6.7 On average how long does it take you to complete all customs clearance and border screening procedures through the STR channel?  
.....

6.8 On average how long does it take you to complete all customs clearance and border screening procedures through the general customs clearance channel, (non-STR)?  
.....

## **7.0 Compliance costs and others**

- 7.1 On average how much do you pay for customs processing fee per import consignment subject to customs duty? .....
- 7.2 On average how much do you pay per import consignment per trip on the following:
- i. Customs duty fees.....
  - ii. VAT.....
  - iii. Other Taxes.....
  - iv. Transport.....
  - v. Accommodation.....
  - vi. Food.....
  - vii. Tollgates fees
  - viii. Road blocks (facilitation fees).....
  - ix. Other unofficial payments (where no receipt is issued).....
  - x. To obtain certificates of origin for goods.....
  - xi. To obtain Sanitary and Phytosanitary certificate.....
  - xii. To obtain import license.....
  - xiii. Bio-Safety permits.....
  - xiv. Other certificates (specify the certificate and fees)  
.....  
.....  
.....

## Customs Administrations Questionnaire/ Interview Guide

### 1.0 BRIEF BACKGROUND

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme which is financed by the European Union under the EDF 11. All key result areas of the programme are aimed at increasing the formal Small-scale Cross Border Trade flows in the COMESA/Tripartite region leading to higher revenue collection by governments and increased incomes by Small-scale Traders.

One of the activities under the programme is to review and monitor the implementation of the COMESA Simplified Trade Regime (STR) at the targeted border posts. This includes field assessments at the border posts to collect detailed baseline data related to the STR implementation and related challenges; as well as regular reviews of some STR features such as the products coverage and the applied thresholds. To carry out the review of the STR threshold, the Secretariat has engaged a consultant.

This questionnaire/ interview guide is a tool designed to obtain necessary information to support the STR threshold review. Information collected through this questionnaire/interview guide will be solely used for the purpose of this study. Your input to this process through your response will greatly contribute to the determination of an appropriate level of the STR threshold and strategies as well as actions required to be taken in order to streamline and enhance implementation of the STR.

Due to time constraint, the Consultant will arrange telephone, Zoom, Skype or WhatsApp calls with respondents. Those respondents preferring to respond in writing are kindly requested to clearly indicate their answers to each question.

### 2.0 RESPONDENTS CONTACT DETAILS

This part is included to help the consultant contact respondents in case of need to clarify issues

1. Country .....
2. Customs Administration (full name).....
3. Name of Respondent: .....
4. Job Title: .....
5. Email: ..... Phone..... Skype.....

### 3.0 Scope of goods traded under the STR at each of the targeted borders

- 3.1 Would you please state the products imported under STR through the border(s) listed below, applicable to your customs territory?
  - i. Kasindi (DRC) / Mpondwe (Uganda) .....
  - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
  - iii. Chirundu (Zambia/Zimbabwe).....
  - iv. Mchinji/Mwami (Malawi/Zambia).....

- v. Malaba (Kenya/Uganda).....
  - vi. Kasumbalesa (D R Congo/Zambia).....
- 3.2 Would you please state the products exported under STR through the border(s) listed below, applicable to your customs territory?
  - i. Kasindi (DRC) / Mpondwe (Uganda).....
  - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
  - iii. Chirundu (Zambia/Zimbabwe).....
  - iv. Mchinji/Mwami (Malawi/Zambia).....
  - v. Malaba (Kenya/Uganda).....
  - vi. Kasumbalesa (D R Congo/Zambia).....
- 4.0 Average value and volume of consignments declared by small-scale cross border traders
- 4.1 May you please state the annual average (a) value and (b) volume of import declarations made by small-scale cross border traders at the borders applicable to your customs territory below?
  - (a) Value
    - i. Kasindi (DRC) / Mpondwe (Uganda) .....
    - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
    - iii. Chirundu (Zambia/Zimbabwe).....
    - iv. Mchinji/Mwami (Malawi/Zambia).....
    - v. Malaba (Kenya/Uganda).....
    - vi. Kasumbalesa (D R Congo/Zambia).....
  - (b) Volume
    - i. Kasindi (DRC) / Mpondwe (Uganda) .....
    - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
    - iii. Chirundu (Zambia/Zimbabwe).....
    - iv. Mchinji/Mwami (Malawi/Zambia).....
    - v. Malaba (Kenya/Uganda).....
    - vi. Kasumbalesa (D R Congo/Zambia).....
- 5.0 Suitability and impact of the current COMESA STR threshold
- 5.1 What is the applicable STR threshold value for small-scale cross border trade entering your country through borders implementing the COMESA STR? .....
- 5.2 Does your customs administration consider the current STR threshold as a trade facilitation measure targeting to facilitate small-scale cross border trade? Yes/No.....

5.3 Have you ever experienced a case where it was felt that the current STR threshold encourages non-compliance by traders; that is, traders engaging in 'under-invoicing', or 'splitting consignments' and other forms of valuation fraud to avoid customs formalities and the payment of duties and taxes? Yes/No .....

5.4 If your answer to 5.3 is Yes, what measures have you put in place to avoid or minimise such cases?

.....  
.....

5.5 Do you think that the current COMESA STR threshold is instrumental in facilitating regional trade and integration between your country and those you are implementing the STR with? Yes/No.....

.....

5.6 If your answer to 5.5 is Yes, please state the reasons why you think the current STR threshold is instrumental to facilitation regional trade and integration:

.....

5.7 May you please share with us your STR annual trade statistics (imports and exports), between your country and your COMESA STR implementing partner, passing through the following border post applicable to you? Data sets beginning 2010 to date will be preferable.

- i. Kasindi (DRC) / Mpondwe (Uganda)
- ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda)
- iii. Chirundu (Zambia/Zimbabwe)
- iv. Mchinji/Mwami (Malawi/Zambia)
- v. Malaba (Kenya/Uganda)
- vi. Kasumbalesa (D R Congo/Zambia)

5.8 Would you propose adjustments if any, to the current COMESA STR threshold that would be appropriate to enhance its implementation? State your proposals below:

.....

5.9 Stating your reasons, what has been the implications of the current COMESA STR threshold on the following?

a) Small-scale cross border imports (value and volume)

Effects.....

Possible Reasons.....

b) Small-scale cross border exports (volume and value)

Effects.....

Possible reasons.....

c) Government revenue

Effects.....

Possible reasons.....

## **6.0 Clearance Administration and other Costs**

An immediate effect of increasing the STR threshold is switching low value eligible transactions from a general customs clearance channel to a simplified regime which result in customs administration costs savings.

- 6.1 In your own opinion, would you think that the implementation of the current STR threshold reduced your clearance administrative costs? Yes/No .....
- 6.2 What is your average processing fee for a dutiable declaration (consignment subject to import duty), made by a small-scale cross border trader?.....
- 6.3 Roughly, what would you say is the estimated weighted average Customs Duty rate for small-scale cross border traders' dutiable consignments? .....
- 6.4 Approximately, what would be your estimate of the simple average Customs Duty rate for small-scale cross border traders' dutiable consignments? .....
- 6.5 On average, how many STR import declarations are made in a year at the following border posts that are applicable to your customs administration?
  - vii. Kasindi (DRC) / Mpondwe (Uganda) .....
  - viii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
  - ix. Chirundu (Zambia/Zimbabwe).....
  - x. Mchinji/Mwami (Malawi/Zambia).....
  - xi. Malaba (Kenya/Uganda).....
  - xii. Kasumbalesa (D R Congo/Zambia).....
- 6.6 Do you charge any processing fee for STR eligible declarations? If so, how much do you charge per import consignment?.....

## **7.0 Time spent processing STR declaration:**

- 7.1 Do you think the implementation STR procedure reduced the total time you spend processing import declarations? Yes/No.....
- 7.2 Approximately how long does it take you to process STR import declaration per consignment? .....
- 7.3 Generally how long does it take you to process dutiable import consignment declared by a small-scale cross border trader? .....
- 8.0 What is the minimum value of a consignment for which declaration by an agent (clearing agent) is required?.....

## Central Bank Questionnaire/ Interview Guide

### 1.0 BRIEF BACKGROUND

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme which is financed by the European Union under the EDF 11. All key result areas of the programme are aimed at increasing the formal Small-scale Cross Border Trade flows in the COMESA/Tripartite region leading to higher revenue collection by governments and increased incomes by Small-scale Traders.

One of the activities under the programme is to review and monitor the implementation of the COMESA STR at the targeted border posts. This includes field assessments at the border posts to collect detailed baseline data related to the STR implementation and related challenges; as well as regular reviews of some STR features such as the products coverage and the applied thresholds. To carry out the review of the STR threshold, the Secretariat has engaged a consultant.

This questionnaire/ interview guide is a tool designed to obtain necessary information to support the STR threshold review. Information collected through this questionnaire/interview guide will be solely used for the purpose of this study. Your input to this process through your response will greatly contribute to the determination of an appropriate level of the STR threshold and strategies as well as actions required to be taken in order to streamline and enhance implementation of the STR.

Due to time constraint, the Consultant will arrange telephone, Zoom, Skype or WhatsApp calls with the respondents. Those respondents preferring to respond in writing are kindly requested to clearly indicate their answers to each question.

### 2.0 RESPONDENTS CONTACT DETAILS

This part is included to help the consultant contact respondents in case of need to clarify issues

1. Country .....
2. Central Bank (full name) .....
3. Name of Respondent: .....
4. Job Title: .....
5. Email: ..... Phone..... Skype.....

### 3.0 Exchange Control Regulations and the current COMESA STR threshold

- 3.1 The COMESA STR threshold value evolved from USD500.00 to the current USD2000.00. What has been the implications of this evolution to your exchange control legal framework/regulations?

.....  
.....

- 3.2 In terms of the exchange control regulations, what is the maximum amount of money that may be taken out of your country by a person without having to complete customs declaration forms?

3.3 Does your exchange control regulations provides for a small-scale cross border traders specific threshold value of money that they are allowed to carry with outside your country for the purpose of buying goods for re-sale without having to complete customs declarations? Yes/ No.....

34. If your answer to 3.3 is Yes, please state the threshold value.....

3.5 Would you please comment on the implications, if any, of the current COMESA STR threshold on the inflow and outflow of foreign currency in your country?

.....  
.....

3.6 Given that small-scale cross border traders are moving considerable volumes of trade (imports and exports) making them an important source of foreign currency, how would the Bank facilitate the implementation of the COMESA STR should its threshold be reviewed above the current threshold of USD2000.00?

.....  
.....

3.7 Would you propose adjustments if any, to the current COMESA STR threshold that would be appropriate to enhance its implementation? State your proposals below:

.....

3.8 May you please propose any incentives that will persuade small-scale cross border traders to graduate from the STR?

.....



## **CBTAs/Chambers of commerce/women organisations Questionnaire/Interview Guide**

### **1.0 BRIEF BACKGROUND**

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) in conjunction with the Member States is implementing the Small-Scale Cross Border Trade Initiative Programme which is financed by the European Union under the EDF 11. All key result areas of the programme are aimed at increasing the formal Small-scale Cross Border Trade flows in the COMESA/Tripartite region leading to higher revenue collection by governments and increased incomes by Small-scale Traders.

One of the activities under the programme is to review and monitor the implementation of the COMESA Simplified Trade Regime (STR) at the targeted border posts. This includes field assessments at the border posts to collect detailed baseline data related to the STR implementation and related challenges; as well as regular reviews of some STR features such as the products coverage and the applied thresholds. To carry out the review of the STR threshold, the Secretariat has engaged a consultant.

This questionnaire/ interview guide is a tool designed to obtain necessary information to support the STR threshold review. Information collected through this questionnaire/interview guide will be solely used for the purpose of this study. Your input to this process through your response will greatly contribute to the determination of an appropriate level of the STR threshold and strategies as well as actions required to be taken in order to streamline and enhance implementation of the STR.

Due to time constraint, the consultant will arrange telephone, Zoom, Skype or WhatsApp calls with the respondents. Those respondents preferring to respond in writing are kindly requested to clearly indicate their answers to each question.

### **2.0 RESPONDENTS CONTACT DETAILS**

This part is included to help the consultant contact respondents in case of need to clarify issues

1. Country .....
2. Organisation's (full name) .....
3. Name of Respondent: .....
4. Job Title: .....
5. Email: ..... Phone..... Skype.....

### **3.0 Scope of goods traded under the STR at each of the targeted borders**

- 3.1 For your members who trade through the border(s) applicable to you below, what are the general products they import under STR?
  - i. Kasindi (DRC) / Mpondwe (Uganda) .....
  - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda).....
  - iii. Chirundu (Zambia/Zimbabwe).....
  - iv. Mchinji/Mwami (Malawi/Zambia).....

- v. Malaba (Kenya/Uganda).....
    - vi. Kasumbalesa (D R Congo/Zambia).....
  - 3.2 For your members who trade through the border(s) applicable to you below, what are the general products they export under STR?
    - i. Kasindi (DRC) / Mpondwe (Uganda)
    - ii. Goma (DRC) / Petite Barrière Rubavu (Rwanda)
    - iii. Chirundu (Zambia/Zimbabwe)
    - iv. Mchinji/Mwami (Malawi/Zambia)
    - v. Malaba (Kenya/Uganda)
    - vi. Kasumbalesa (D R Congo/Zambia)
  - 3.3 May you please indicate, if any, other goods that your members trade in which are not covered by the STR Common List?  
.....  
.....
  - 4.0 Average value and volume of consignments declared by small-scale cross border traders
  - 4.1 May you please state the average value of imports per trip for your members?  
.....
  - 4.2 May you please state the average volume of imports per trip for your members? .....
  - 5.0 Suitability of the current STR threshold
- The current COMESA threshold of the STR is USD2000
- 5.1 What is the applicable STR threshold value at the border(s) being used by your members? .....  
.....
  - 5.2 What is your opinion regarding the adequacy of the current STR threshold value in terms of enabling your members in cross border trade enough scope to expand their business and operate profitably?  
.....  
.....
  - 5.3 Would you recommend a review to the current STR threshold value? Yes/No.....
  - 5.4 If your answer to 5.3 is Yes, please state your reasons for recommending a review of the current STR threshold  
.....  
.....
  - 5.4 Based on your members' experience of cross border trade, what is the appropriate level of STR threshold value would you recommend? .....

5.5 What other incentives would you recommend that can assist your members to expand their cross border trade business and graduate from the STR programme?

.....  
.....

6.0 Impact of the current STR threshold

6.1 May you please comment on the impact the current COMESA STR threshold values of USD2000.00 has on the following:

a) Volume of your members' imports per trip?



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