

**THE IMPLICATION OF SIMPLIFIED TRADE REGIME ON
INFORMAL CROSS-BORDER TRADE AMONG SMALL SCALE
TRADERS IN NAMANGA**

**BY
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T51/86971/2016**

**A Research Project Submitted to the Institute for Development Studies, University
of Nairobi, in Partial Fulfilment of the Requirements for the Award of the Degree of
Master of Arts in Development Studies**

NOVEMBER, 2018

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DEDICATION

I dedicate this research project to God Almighty and my entire family. Most especially my mother, *Agnes Gatheru* for her continuous words of encouragement and prayers.

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my supervisor Dr. Paul Kamau for working tirelessly to ensure this research project is a success. Your patience and dedication is to be admired.

I am also thankful to the Kenya School of Revenue Administration (KESRA) for offering me an opportunity to learn about customs and from which the idea of this research topic was born. In addition, I am grateful to all the small scale cross-border traders and key informants at Namanga who whole heartedly accepted to respond to the questions which helped enrich this study.

Finally, I am thankful to my parents for their financial support and my friends and colleagues for their support and sharing of information and relevant materials that made this research a success.

Despite of the following acknowledgments, I take full responsibility for all the errors and omissions that might be in this project report.

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ACRONYMS

CBT	Cross-Border Trade
ICBT	Informal Cross-Border Trade
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
SADC	Southern African Development Community
STR	Simplified Trade Regime
SCOO	Simplified Certificate of Origin
RTA	Regional Trade Agreement
GATT	General Agreement on Trade and Tariffs
SPS	Sanitary and Phyto – Sanitary
TID	Trade Information Desk
UBOS	Uganda Bureau of Statistics

ABSTRACT

This study was carried out to examine the implications of Simplified Trade Regime on informal cross-border trade among small scale traders in Namanga. The objectives of this study were to find out the level of uptake of simplified trade regime, understand how the level of uptake of simplified trade regime influenced informal cross-border trade and to find out the challenges and incentives of uptake of simplified trade regime.

This study used descriptive research design, in which both qualitative and quantitative methods were used to collect information. The study was conducted at Namanga border located between Kenya and Tanzania, whereby the unit of analysis was the small scale cross-border traders. Random sampling technique was used to select a sample size of 80 respondents to participate in the study. Both primary and secondary data was collected. Primary data was gathered using a semi-structured questionnaire and a key informant interview guide. Secondary data was gathered through reading relevant literature materials.

Validity and reliability of data was established through pilot test. Both qualitative and quantitative techniques were used in analysing the data. Data was presented in tables and charts. The study findings show that uptake of Simplified Trade Regime was at 25.76%, with a high frequency of usage of simplified trade regime among the adopters. Simplified Trade Regime has increased the volumes of goods traded, reduced cost of transactions and increased the level of security while crossing the border. Among the challenges faced by the respondents were high taxes, harassment, corruption and discrimination.

The study recommends a need for the government to create more awareness on the Simplified Trade Regime among traders. In addition, the government in collaboration with border enforcement officials need to address business malpractices such corruption, bribery and the smuggling of counterfeit goods. The Kenya Revenue Authority should recommend a reduction in the level of taxation to encourage as many traders as possible to participate in simplified trade regime. The government and the East Africa Community should provide more information through seminars, publications and civic education as well as increase the level of collaboration between Kenya and Tanzania in order to promote uptake of Simplified Trade Regime.

CHAPTER ONE

INTRODUCTION

1.1 Background

Trade is at the heart of a country's economic growth as growth in trade can lead to development and poverty reduction. Trade reduces vulnerability of households by providing a source of income; it contributes to employment creation, food security and to the overall GDP growth of a country. Trade brings on board the aspects of specialization, adoption of appropriate technologies to enable competition and economies of scale (Brenton, Dihel, Hoppe, & Soprano, 2014). Informal cross-border trade (ICBT) contributes to a significant bulk of the economic activities in Africa despite it being almost entirely undocumented. For instance, Makombe (2010) states that 40 percent of intra-regional trade in the SADC region is informal. In Kenya, the volume of maize traded informally is estimated to be 68 percent, this exceeding the volumes formally traded (Gor, 2015).

There is no universal agreed definition of informal trade. Different authors have given different definitions to informal cross-border trade. Gor (2015), defines ICBT as unrecorded business transactions operating outside the formal economy. Traders in this case do not file their tax returns hence are not captured in the national statistics. On the other hand, Ajumbo and Afrika (2012) define ICBT as trade in processed or non-processed commodities which may be legal exports or imports depending on which part of the border the commodity passes escaping border formalities. However, in this study we define ICBT as both registered and unregistered traders, trading in legitimate goods but avoiding trade related regulations and duties by avoiding official border crossing points (Lesser, 2009).

Small scale cross-border traders in the past have had to grapple with numerous documents and delays at the border, high taxes and high clearance charges, lack of information and transparency on documentation requirements, rent seeking behaviour, physical and sexual harassment by border officials. All these experiences have to some extent forced the small scale traders to use informal routes (Aluoch, 2014; Kugonza, 2016; Mbo, Karugia, Mulei, & Nyota, 2016a; Ogalo, 2010). This has led to concerns by African governments who in-turn have put in place initiatives to reduce these numbers and reduce the challenges that small

scale cross-border traders face such as access to credit, complex customs procedures and documentary requirements. These governments through Regional Trade Agreements (RTAs) have put in place measures to encourage trade formalization through the implementation of the Simplified Trade Regime programme (Korma, 2017; Ministry of Trade and Industry, 2012; Republic of Kenya, 2017). The Simplified Trade Regime (STR) is founded on the principles of free trade. It is a simplified trade procedure that aims to transform and mainstream informal cross-border trade into formal cross-border trade by facilitating trade for small scale traders. It recognizes that majority of the small scale traders in Africa find it difficult to meet the conventional customs procedures and requirements and hence tries to make the process easier for them (COMESA, 2016; Republic of Kenya, 2017).

The STR consists of four main instruments, namely: a simplified customs document, a simplified certificate of origin, a common list of products and a threshold for the value of the consignment (Brenton et al., 2014). The EAC introduced a Simplified Certificate of Origin (SCOO) in 2007 to be issued by customs officers at the border for goods whose commercial value is US\$2000 and below. The general rule being that the goods have to be produced or manufactured in one of the EAC countries and must be referenced in the common list of approved products. The STR in this case is simply a programme designed for small scale traders to help them overcome the issues they face when proving the originating status of goods that allows them to benefit from exemption of import duties under the EAC Customs Union. For these traders to benefit, their consignments have to be below US\$2000. These traders are then required to fill a simplified customs document, which is accepted by customs officials at the border instead of having to go through the full documentation process that must be filled by customs clearing agents. In addition, the normal proof of origin required at the EAC border post is relaxed only for certain products. Instead, a simplified certificate of origin is used if the goods meet EAC originating requirements.

The EAC origin certificates are normally issued by customs officials in capital cities at a fee and must be stamped. A trader then presents it at the border together with an invoice and the customs document declaring the goods to the customs officer at the country of importation. However, with the STR, governments agree bilaterally on a list of products that do not require ordinary origin certificates for small consignments but can instead use the simplified

certificate of origin. The lists of eligible products are supposed to be displayed at the relevant border posts, and the simplified certificates of origin can also be obtained there and are signed by the customs officer. If the goods do not appear on the common list, then a normal certificate of origin must be obtained and certified (Brenton, Gamberoni, & Sear, 2013).

1.2 Problem Statement

The Simplified Trade Regime is a trade facilitation initiative based on the principles of free trade. It is in line with Article VIII of the World Trade Organisation GATT Agreement and Provisions of the Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures. The STR advocates for the implementation of simplified trade procedures for eligible small scale traders to help them overcome the challenges they face at the border, that have contributed to the low levels of intra-regional trade and to informal trade (Nzohabonimana, 2017). Therefore the STR is an initiative that aims to transform and mainstream informal cross-border trade into formal cross-border trade by facilitating trade for small scale traders (COMESA, 2016; Republic of Kenya, 2017).

Previous research has shown that both formal and informal trade has been faced by numerous challenges due to inadequate trade facilitation measures (Ajumbo and Afrika, 2012). Lack of trade facilitation is evidenced as traders have to comply with complex documentary requirements, inspections and customs procedures such as permits, certificate of origin, licences, declaration forms, lack of information, corruption and harassment by officials among others. This poses a huge burden to traders and more specifically to the small scale traders due to high additional costs which has resulted in traders resorting to informal routes (Ajumbo and Afrika, 2012; Brenton et al., 2014; Kugonza, 2016; Lesser, 2009).

Although these studies have shown how inadequate trade facilitation measures have contributed to informal trade especially among small scale cross-border traders and have acknowledged the existence of the STR programme as a trade facilitation measure, they have not analysed the STR initiative and its implication on trade formalization (Ajumbo and Afrika, 2012; Brenton et al., 2014; Gor, 2015; Kugonza, 2016; Ogalo, 2010). According to a survey carried out by the EAC Cross Border Desk in 2014, the number of traders utilizing the STR has risen averaging to about 1,000 transactions per month translating into a trade

volume of over US\$500,000 per month which is a milestone when it comes to trade formalization. However, the report regards this as a small share in comparison to the total number of small scale cross-border traders in the region which is between 10,000 and 30,000 (COMESA, 2013; Otieno, 2016). In spite of the government's efforts to reduce informal trade by introducing the STR initiative in 2008 among small scale cross-border traders, the uptake remains low. A need therefore, arises to investigate why the low uptake levels persists despite these efforts. In this regard, since the STR programme is an important policy initiative, the study suggests ways in which the level of uptake can be increased to achieve the programmes intended goal.

1.3 Research Objectives

The broad objective of this study was to understand the implication of the Simplified Trade Regime (STR) on informal cross-border trade among small scale traders in Namanga.

The specific objectives included;

- a) To establish the level of uptake of the Simplified Trade Regime.
- b) To understand how the level of uptake of the Simplified Trade Regime has influenced informal cross-border trade.
- c) To establish the challenges and incentives of uptake the Simplified Trade Regime.

1.4 Research Questions

The overall research question that this study intended to ask is “what are the implications of the Simplified Trade Regime on informal cross-border traders among small-scale traders in Namanga?”

Specifically, we sought to answer the following questions:

- a) What is the level of uptake of the Simplified Trade Regime (STR)?
- b) How has the level of uptake influenced informal cross-border trade?
- c) What are the challenges and incentives of STR uptake?

1.5 Justification

This study aimed to add to the body of knowledge in the area of informal trade among small scale cross-border traders as majority of the literature on Simplified Trade Regime is found on newspaper publications, websites pages and non-peer reviewed internet sources which may lack academic professionalism (Muqayi, 2015). The study brought out issues that cross-border traders faced and therefore, have helped in understanding the strategies and programmes that the government and other trade related agencies need to put in place to enhance the implementation of the Simplified Trade Regime and bring out the policy gaps that need to be filled to enhance the goals that this programme intends to achieve.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section contains the theoretical literature reviewed as well as the empirical literature review. The theoretical literature review contains theories that best inform the subject matter while the empirical literature review is a review of the available literature done that helped inform this study.

2.2 Theoretical Literature Review

2.2.1 The Institutional Theory

Most issues to do with trade can be explained through the institutional theory. Cross-border trade involves two or more countries and therefore, must be governed through a regulatory framework to help safeguard the interests of the parties involved. North (1991) argues that in a society, there is presence of both formal and informal institutions. The formal institutions have codified laws and regulations that define the rules of the game. On the other hand, informal institutions have socially shared rules. These are norms, rules, beliefs and values that shape and control social behaviour. In the context of trade, there are regional institutions that have been created to ensure that norms, rules and regulations are being adhered to and that ensure trade is legitimate and formal.

North (1991) further argues that institutions help reduce transactional costs and production costs per consignment of goods enabling the potential gains of trade to be realized. From this analysis, Regional Trade Agreements (RTAs) such as COMESA and EAC Simplified Trade Regime (STR), which are formal institutions of international trade, should assist towards the reduction and possible elimination of trade barriers and transactional costs of participating parties who in this regard are cross-border traders. The institutional theory also helps us to explain the challenges that small scale cross-border traders face that has led to the slow growth of formal trade. When two or more countries are involved in an institutional arrangement, there are bound to be complex variety of legal rules and procedures in the host country which directly or indirectly affects traders (Scott, 2004). For example, between the

Kenya and Tanzania border, there have been instances where the customs officials of both countries have failed to recognise the STR (COMESA, 2016; EAC; World Bank, 2017).

This is a major challenge in the implementation of the STR programme because if countries fail to recognise the STR, small scale traders are forced to pay duty for their consignments. This experience may deter them from using formal routes which negates the efforts of STR to reduce informal cross-border trade. Ang and Michailova (2008) argue that harmonizing of trade rules and procedures would help facilitate cross-border trade. However, they argue that the process has been slow creating a 'regulatory gap' which cross-border traders take advantage of which then creates informality (Ang and Michailova, 2008). The institutional theory in this study helps to explain firm behaviour and the ways in which traders conduct business to help achieve survival. One of the ways is to engage in informal cross-border trade especially when institutional enforcement is weak. However, this theory fails to fully explain trade facilitation measures such as STR and how they help boost formal trade.

2.2.2 Heterogeneous Firm Trade Theory

There exist significant gains from trade and investment. Firm's profitability usually determines whether they engage in the informal sector or not. In this case informality is a choice to maximize firm profits (Seck, 2017). Small scale cross-border traders find it difficult to meet the conventional customs requirements at the border which directly affects their profitability. As a result, traders choose to use informal routes to evade taxes and other regulations to maximize on profits. The heterogeneous firm trade theory states that trade facilitation allows less productive firms to engage in cross-border trade by reducing the fixed costs (Melitz & Redding, 2003). Trade facilitation aims to ease the flow of goods across borders through the simplification and harmonization of international trade procedures. Trade facilitation reforms are able to reduce trade costs and increase trade participation and trade volumes of firms which then translates to higher revenue for the government (Seck, 2017). Here, when trade costs are reduced, it encourages existing firms to increase their volumes of trade while those who previously did not engage in trade are now able to become exporters.

The simplified trade regime is a trade facilitation initiative that advocates the simplification and harmonization of international trade procedures. It simplifies the trade procedures for

eligible small scale cross-border traders and eliminates the duty payable for certain commodities mutually agreed upon by countries. This helps increase their profitability by reducing both the fixed costs and transactional costs. According to Ferguson & Forslid, (2011) trade facilitation raises competitiveness and reduces incidences of informal cross-border trading. The Simplified Trade Regime in this case comes as a targeted trade facilitation measure to help improve the welfare gains of the participants. When trade facilitation measures are implemented, they minimize the costs involved in cross-border trade. This action has the potential to boost inter-regional trade, as well as encourage formal cross-border trade (Lesser, 2009).

2.3 Empirical Literature Review

2.3.1 Rationale for the Simplified Trade Regime

The Simplified Trade Regime is a trade facilitation initiative that is in line with Article VIII of the World Trade Organisation's GATT Agreement and Provisions of the Revised Kyoto Convention for the Simplification and Harmonization of Customs Procedures. It advocates for the implementation of simplified trade procedures for eligible small scale traders so as to help them overcome the challenges they face at the border, that lead to low levels of intra-regional trade and further contribute to informal trade (Nzohabonimana, 2017). The Simplified Trade Regime (STR) has been formulated and is being implemented in different regions in Africa. The STR is specifically targeted towards small scale traders who transact in low value consignments and works by exempting them from customs duties and other related taxes (Nzohabonimana, 2017).

Kenya is a member of both the COMESA and EAC Regional Trade Agreement (RTA) which are already implementing the STR. The COMESA STR was introduced in 2010 and includes a Simplified Customs Procedure for its member states for goods that have been wholly produced or grown in the COMESA Region and appear on a negotiated Common List. The value of consignment for them to benefit should be below US \$1,000. In this case, traders benefit by completing a Simplified Customs Document and a Simplified COMESA Certificate of Origin. On the other hand, the EAC Customs Union STR was introduced in 2007 and is applicable to small scale traders who benefit by completing the approved

Simplified Certificate of Origin (SCOO) for goods that originate from EAC and are valued under US \$2,000 (Nzohabonimana, 2017; Makombe, 2010).

The rationale behind the STR programme is that it aims to transform and mainstream informal cross-border trade into formal cross-border trade by facilitating trade among small scale traders. It also aims to work as an incentive to enhance intra-regional trade. It recognizes that majority of the small scale traders in Africa find it difficult to meet the conventional customs procedures and requirements (COMESA, 2016; Ministry of Trade and Industry, 2012; Republic of Kenya, 2017). Informal cross-border trade (ICBT) forms a major part of the economic activities in Africa. For example, in the SADC region it is estimated that ICBT makes up between 30-40 percent of the total intra-SADC trade bringing the estimated value to US \$17.6bn (Korma et al., 2017). In Kenya, the volume of maize traded informally is estimated to be 68 percent exceeding the volumes formally traded (Gor, 2015).

In Africa, most ICBT traders are women constituting about 70% (Suleymenova, 2017). These traders try so much to avoid formal border processes. ICBT is mainly practiced by small and medium enterprises and a few large firms. It is also practiced by the unemployed or even formal workers who are seeking to supplement their salaries (Korma et al., 2017). ICBT is seen to have major benefits to those who practice it. For instance, it provides access to goods that are unavailable domestically; some goods are also cheaper on the other side of the border translating to higher profits for the traders. These profits are mostly used to provide education, healthcare and also sustain families. Traders are also running away from complex customs procedures at the border which they often lack adequate knowledge about them.

On the other hand, ICBT faces challenges because it operates outside the legal framework. Some of these challenges include corruption where officials solicit bribes in order to allow the smuggled goods across the border, sexual abuse, confiscation of goods which lead to uncertain incomes and wage (Korma, 2017). Informal small scale cross-border traders also face attacks and robbery on their goods especially at night (Muqayi, 2015). Traders are also forced to bring consignments in small quantities and work at irregular hours so that they can easily pass undetected by border enforcement officials.

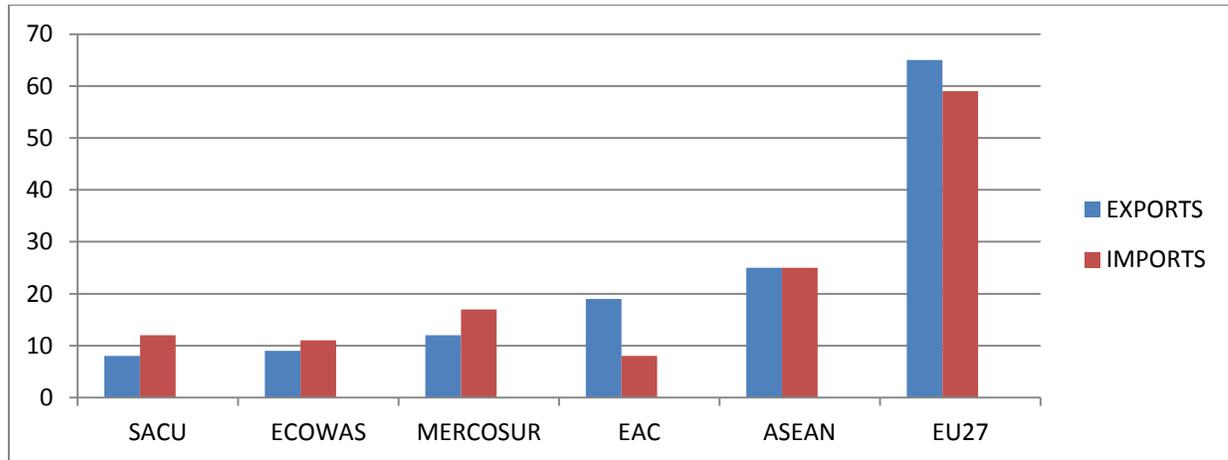
In this regard, there are some benefits that the STR is meant or foreseen to achieve among small-scale traders. STR is supposed to reduce transaction costs that come about in trade whereby small scale cross-border traders face financial resource constraints. The STR lowers the prices of goods and increases the earnings for traders. It reduces the human capacity to deal with administrative procedures by not necessitating the use of clearing agents to fill administrative documents and clear the goods (Nzohabonimana, 2017).

2.3.2 Experience of the Simplified Trade Regime

It has been estimated that 33% of the EAC region formal consignments for export are below US \$2000 (Ministry of Trade and Industry, 2012). However, despite the high percentage, it is estimated to contribute to less than 1% of the value of the total formal trade (Ministry of Trade and Industry, 2012). This means that the STR presents huge potential for these small scale traders to trade more and to boost these regional earnings. Intra-regional trade in Africa is argued to be lower than its potential especially in comparison to Asia and European regional blocs (Figure 2.1) (COMESA, 2016; EAC/World Bank, 2017).

Lack of trade facilitation increases trade costs and inhibit intra-regional trade. Majority of policy implementation towards regional liberalisation have been slow hence the need for facilitation. The majority of intra-regional trade is basic and occurs in simple informal cross-border deals (Suleymenova, 2017). Informal imports have led to loss of revenue for governments and also led to unfair competition with domestic industries. In addition, the products that are traded informally are at times counterfeit goods that are usually relatively cheaper compared to locally manufactured goods because they have not been subjected to import taxes. The government is also unable to protect its consumers from being sold contaminated food items due to lack of health and safety standards (Korma, 2017).

Figure 2. 1: Intra-Regional Trade in Goods and Services (2005– 2014 averages)



Source: East African Common Market Score Card 2016

2.3.4 Uptake of Simplified Trade Regime Since 2008

Current and up to date statistics on the level of uptake of the Simplified Trade Regime is unavailable. However, a conference presentation done in 2016 on Market Access for Small Scale Artisanal Fishers was able to provide statistics that show the monthly average uptake of STR in different countries in the COMESA Region since 2008 which has been rising averaging to about 10,970 in 2013 from 1,507 in 2011 (Otieno, 2016). The level of uptake has been low even though the programme has been hailed as being successful as the number of Simplified Certificate of Origins (SCOO) being issued has risen (EAC, World Bank, 2017).

In another report done by COMESA, it noted that the number of transactions utilising the STR has risen averaging to about 1000 traders per month with an average value of US \$580 consignments translating into a trade volume of over US \$500,000 a month. However, the report regards this as a small share of the total small scale cross-border traders in the region (COMESA, 2013). In this regard, the question that needs to be asked is whether the level of uptake of the STR has had any implication on informal cross-border trade.

While the intentions behind the Simplified Trade Regime are commendable, the process of implementation has faced some setbacks which may help explain the low level of uptake and whether the programme is achieving its intended goal to help reduce informal trade. The STR has attempted to address the issue of small scale traders having to use clearing agents. This

has presented a major source of savings for traders both in terms of time and financial resources. Despite this, clearing procedures have remained lengthy. The STR does not change various national border requirements that exist across EAC and COMESA member states such as immigration requirements (Ministry of Trade and Industry, 2012).

It also does not exempt the small scale traders from being asked for other documentary requirements such as the sanitary and phyto-sanitary (SPS) certificates, licences and other relevant certificates. On the other hand, other taxes related to the low value consignments still remain applicable such as VAT, excise duty and other local taxes. This is seen as a major driver for informality in small scale cross-border transactions which then leads to major revenue losses and the inability to collect reliable statistics (Agenda et al., 2016). In Rwanda for example, food and agricultural products can cross into Burundi and DRC borders with very light sanitary and phyto-sanitary (SPS) requirements with often little or no visual inspection. However, in other EAC and COMESA countries, the legal status of these arrangements remains unclear. This is attributed to the fact that countries are sovereign entities and they have the right to ensure the health and safety of their population through the enforcements of both safety and health standards at the borders (Ministry of Trade and Industry, 2012).

Ajumbo et al. (2012) state that despite the introduction of the STR, small scale traders are not able to access its benefits due to processing fees, low awareness and corruption. Similarly, Ogalo (2010) in his study found that small scale cross-border traders lacked the knowledge of the benefits that come with trading within the EAC. His findings similarly revealed that there is inadequate information being shared on the present trading opportunities along with absence of simplified written trade rules that the traders could refer to. This has made it difficult for small scale traders to know the rights and benefits they are entitled to when trading along the border. This situation has also led to exploitation by customs officers who demand duties on goods that generally do not attract any (Ogalo, 2010).

Numerous studies have also shown that small scale traders across Africa face many challenges which include rent seeking, physical and sexual harassments by customs officials, police, and council workers due to their lack of awareness and knowledge of the STR

(Aluoch, 2014; Brenton et al., 2014; Kugonza, 2016). Some authors have attributed these factors to increased informal cross-border trade. They argue that lack of information on documentation requirements as well as taxes payable on goods were the major reasons for the practice of informal trade which were also rated as difficult to obtain. The level of education also showed to have an influence on the business practices of informal traders as most lacked basic education which made it even difficult to understand the documentation requirements (Kugonza, 2016).

Brenton et al. (2014) reveal that there is centralization of procedures whereby the documents required are only found in offices located far away from the border. However other publications suggest that the STR is available at the border (COMESA, 2016; EAC, 2015; Ministry of Trade and Industry, 2012). In other studies, small scale traders have complained that some customs officials fail to recognise the STR forcing small scale traders to pay for their consignments (Muqayi, 2015).

According to the information found on the EAC and COMESA websites, duty free access of goods under the STR only applies if the goods appear on the Common List of products that have been agreed by the respective parties. This list normally should be available and displayed at all border posts but is often not. This has led to corrupt practices by customs officials who take advantage of unaware traders by demanding duty on goods that normally do not attract any duties (Ministry of Trade and Industry, 2012). Another issue highlighted is that there is a limited number of goods that can be commonly traded among member countries which is a major challenge to the STR implementation (Mbo, Karugia, Mulei, & Nyota, 2016b).

2.3.5 Informal Trade Volumes

The Uganda Bureau of Statistics (UBOS) has captured the volumes of trade being traded informally between Uganda and its neighbouring countries within the region for a period of five years (Table 2.1). The data shows that informal exports receipts from neighbouring countries declined except for DR Congo, Rwanda and Tanzania. Specifically, informal exports to Kenya and South Sudan fell significantly by 17.9 percent and 47.2 percent respectively. On the other hand informal exports to DR Congo grew by 21.5 percent (US

\$182.1million to US \$221.3 million, 2016), Rwanda by 53.9 percent (US \$21.8million to US \$33.5 million 2016), and Tanzania by 140.1 percent (US \$18.2 million to US \$43.8 million 2016) (UBOS, 2017).

The data also shows that Kenya retained its position as the leading source of Uganda's informal imports in 2016. Informal imports from Kenya reduced to US \$26.6 million, but still accounted for a 41.0 percentage share of the total informal imports in 2016, compared to US\$ 31.9 million recorded in 2015. DR Congo ranked second, with imports estimated at US\$ 20.3 million accounting for a 31.2 percent share. Others were Tanzania from US\$ 10.7 million to US \$13.0 million 2016, South Sudan from US \$2.3 million to US \$2.5 million, 2016, and Rwanda from US \$1.2 million to US \$2.5 million recorded in 2016 (UBOS, 2017).

Table 2. 1: Direction of Informal Trade, 2011-2016 (US\$ Millions)

EXPORTS																
VALUE IN US MILLION DOLLARS							PERCENTAGE CHANGE					PERCENTAGE SHARE				
Destination	2011	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Burundi	12.6	15.3	15.1	15	1.9		20.9	-0.8	-1.2	-87.6	-100	3.4	3.6	3.6	0.5	
D R Congo	126.6	157.9	135	139.5	182.1	221.3	25.2	-14.5	3.3	30.5	21.5	34.8	32	33.6	45.6	52.8
Kenya	69.5	80	69.7	92.9	96.4	79.1	15.1	-12.8	33.3	3.8	-17.9	17.6	16.5	22.4	24.2	18.9
Rwanda	35.1	38.1	27.9	24.5	21.8	33.5	8.6	-26.8	-11.9	-11.2	53.9	8.4	6.6	5.9	5.4	8
South Sudan	83.7	115.1	130.8	119.5	78.8	41.6	37.4	13.7	-8.7	-34.1	-47.2	25.8	31.1	28.8	19.7	9.9
Tanzania	28.8	47.5	42.8	23.3	18.2	43.8	64.5	-9.9	-45.6	-21.8	140.1	10.5	10.2	5.6	4.6	10.4
Total	355.8	453.7	421.3	414.6	399.13	419.24	27.5	-7.2	-1.6	-3.73	5	100	100	100	100	100
IMPORTS																
VALUES IN US MILLION DOLLARS							PERCENTAGE CHANGE					PERCENTAGE SHARE				
Origin	2011	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
D R Congo	21.5	20.3	17.7	21.3	18.3	20.3	-5.4	-12.7	20.2	-14.2	10.9	39.9	33	32.4	28.4	31.2
Kenya	27	24.5	26.5	30.8	31.9	26.6	-9.3	8	16.1	3.5	-16.5	50.1	49.4	46.7	49.6	41
Rwanda	1.7	3.1	2.5	2.2	1.2	2.5	84	-17	-12.2	-47.1	114.4	3.2	4.7	3.4	1.8	3.8
South Sudan	1.4	3.2	5.6	3.8	2.3	2.5	133.4	73.5	-30.8	-40.3	10.7	2.6	10.4	5.8	3.5	3.9
Tanzania	2.4	1.8	1.3	7.7	10.7	13	-21.8	-28.2	477.9	38.9	21.4	4.5	2.5	11.7	16.6	20
Total	53.9	53	53.7	65.8	64.3	64.9	-1.7	1.2	22.7	-2.3	0.9	100	100	100	100	100

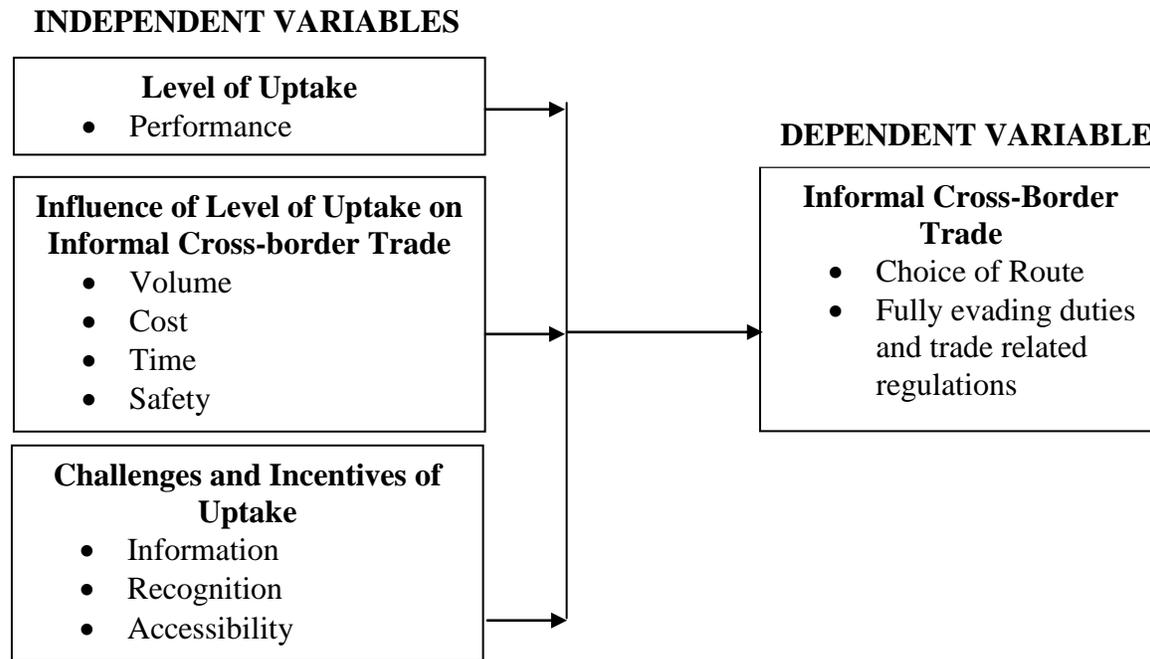
Source: Uganda Bureau of Statistics (UBOS), 2017.

This data does not fully help to explain how the level of uptake has had an influence in cross-border trade. Ideally if the level of uptake of STR is increasing, it should show a reduction on informal trade or an increase in earnings from cross-border trade in the GDP specifically from small scale cross-border traders.

The lack of a significant reduction on the volumes of informal trade might be in relation to how information is made available to the traders at the border in regards to the STR programme. For instance, Mbo et al., (2016a) note that most traders form self-help groups. These groups help tackle issues regarding lack of information and transparency at the border points. While this is common with large scale traders who form associations, small scale traders tend to rely on informal networks for example, friends and relatives. Literature also reveals that traders desired to have information in advance, prior to arrival at the border. However, this was unavailable and they had to rely on middlemen. Traders could not independently retrieve or confirm validity of the demands made of them at the border which led to them being taken advantage of and forced to pay duty for consignments that exempt them from doing so (Ruiter, Hadley, & Li, 2017). Literature available also provides a lot of conflicting information on the STR programme. This is in regards to the processes involved for a small-scale trader, what the common list of items contains and what products require to be accompanied by licences and other documentary requirements. It is unclear how these challenges have affected the volumes being traded formally.

2.4 Conceptual Framework

Figure 2.2: Conceptual Framework



Source: Author Conceptualization (2018)

The independent variable in this study is the Simplified Trade Regime (STR), which as listed has been sub-divided into three namely: the level of uptake, influence of the level of uptake on informal cross-border trade and the challenges and incentives of cross-border trade. On the other hand, is the dependent variable which is informal cross-border trade. This is manifested through the choice of trade route (panya route) and by fully evading duties and trade related regulations at the border.

2.5 Summary of the Literature

The literature available mostly talks about informal trade, its characteristics and how and why informal cross-border takes place. The authors attribute the biggest challenge to formalization as the lack of awareness and knowledge of the customs procedures as well as the EAC initiatives such as STR that are meant to benefit small scale cross-border trades as a form of trade facilitation (Ajumbo G and Afrika J., 2012; Brenton et al., 2014; Kugonza, 2016; Lesser, 2009; Ogalo, 2010).

The literature also highlights the numerous challenges facing the implementation of the STR programme key being the lack of awareness by small scale traders, lack of information on the common list of products and presence of other documentary requirements and licences especially for agricultural products (Brenton et al., 2013). All these factors may have an effect on the uptake levels and volumes of goods being traded formally.

In order to supplement on the available literature on STR, it is important for this study to raise the following questions:

- 1) What is the level of STR uptake among small scale cross-border traders?
- 2) How has the level of uptake influenced informal cross-border trade?
- 3) What are the challenges and incentives of STR uptake?

Different policies have advocated for formation of Trade Information Desks (TIDs) as an incentive for STR uptake which will aid in disseminating of information (Ministry of Trade and Industry, 2012; Republic of Kenya, 2017), however it is unclear if they have been set up and what achievements they have made so far.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research methodology that was used in this study. It covers the research design, study site, unit of analysis, sampling procedure, sample size, data collection, Validity and Reliability of research instrument, data analysis and ethical considerations.

3.2 Research Design

According to Bryman (2012), the research design is a framework used in collecting and analysing data. The research design employed in this research used both qualitative and quantitative research methods. Qualitative methods were used to conduct key informant interviews through semi-structured interviews, whereas the quantitative methods were used to conduct a survey questionnaire. The survey questionnaire also had room for some open-ended questions. This helped gain an in-depth analysis of the phenomenon under study and also reveal some unexpected information (Refer to appendix I and II).

3.3 Study Site

The study was carried out at Namanga border between Kenya and Tanzania. The border is located approximately 180 kilometres from Nairobi. Namanga is one of the busiest border points in Kenya with an average of 2,486 trucks and vehicles passing every day (EAC; World Bank, 2017). Most of the goods traded across the border are agricultural food commodities especially dried cereals such as maize, beans, rice etc. The choice of Namanga is embedded in the fact that Tanzania is not a member of COMESA and hence avoiding biases when it comes to analysis of the EAC STR programme. In Namanga, there are communities that transcend borders which leads to strong social networks among which include cross-border trade with each other (Gor, 2015).

3.4 Unit of Analysis

The unit of analysis was the small scale cross-border traders as they are directly involved in the trade. Cross-border traders in our case are small scale traders who transact in consignments that do not exceed the value of US \$2000. For these traders to move products

from one country to the other, they require a Simplified Certificate of Origin (SCOO) from the customs officers at the border. The movement of these goods has to satisfy the condition that, the goods have to be produced or manufactured in one of the EAC countries and must be referenced in the common list of approved products.

3.5 Sampling Procedure

This study employed simple random sampling and purposive sampling. Simple random sampling was used to select the small scale cross-border traders to participate in the study. Purposive sampling was used to select key informants. Purposive sampling is based on the characteristics of the population. The choice of this method was because there was no existing list of key informants. This method also saves time and costs involved. Small scale trader characteristics were determined in terms of gender, commodities traded, the years they have engaged in cross-border trade and mode of transportation.

3.6 Sample Size

According to Kothari (2013), 30% and above sample is adequate to take part in the study. In this study, 50% of the estimated total small scale traders (160) were used. This sampling frame was provided by the County Government of Kajiado being the estimated number of traders within Namanga border area. This thus gave a sample size of 80 respondents from both sides of the border who participated in this study. From the sample size, 50 were from the Kenyan side while the remaining 30 were from the Tanzanian side of the border. This helps reduce the sampling error as well as leave room in case of non-respondents (Bryman & Bell, 2011). This sample size also helped reduce time and resources utilised in conducting the study. The researcher included 3 key informants which included border officials from customs and the EAC officials selected through purposive sampling.

3.7 Data Collection

The researcher included both primary and secondary data. The secondary data was gathered from publications, articles, published theses, websites and books. The primary data was based on both quantitative and qualitative data relating to the issue of the implication of STR on informal cross-border traders. This data provided statistics on the level of uptake of the STR. The researcher conducted observations to enable her to capture the informal and formal

cross-border traders through their characteristics that have been mentioned in literature. The researcher also conducted interviews with border officials and small scale traders using questionnaires and interview guide.

3.8 Validity and Reliability of Research Instrument

3.8.1 Pilot Testing

Pilot test is done before the real data collection. It is aimed at refinement of the questionnaire and that the respondents do not encounter problems or ambiguity in filling the responses. Pilot study also helps in identifying variables of interest and in making a decision on how to operationalize them. Further, a pilot study is also used to estimate statistical parameters for later analyses. Certain statistical analyses require that the sample size is sufficiently large and contains enough variability to detect differences between groups, given there any real differences to be detected (Kenya Institute of Management, 2009).

In this study, 10% of the sample size which is equivalent to 8 respondents was chosen to take part in the pilot test. These respondents were drawn from the study locale but within a small area.

3.8.2 Validity

Validity refers to the extent of research instrument test what the researcher intends to measure. Different types of validity were evaluated in this study. First, face validity was used. This refers to type of validity where the measure is subjectively viewed by knowledgeable individuals as covering the concept. In this study, experts drawn from the Institute of Development Studies - University of Nairobi read the research instrument and gave their opinion.

Secondly, Content validity which seeks to determine whether the measure covers all generally accepted meaning of the concept was used. On this validity, the data collection tool was checked to ensure that, comprehensive content was covered for good quality of respondents.

3.8.3 Reliability

Reliability evaluates the stability of measure, internal consistency of measurement processes and reliability of instrument scores (Guest, MacQueen & Emily, 2012). In order to produce useful results, the researcher ensured that the research instruments were reliable. Test re- test method was used to measure the reliability of the instruments. The method was suitable for this study as the researcher had adequate time to carry out the pre- test. The questionnaire was issued to same respondents two times. After the first administration, some time was allowed to elapse, long enough to eliminate response by remembering responses given in the first round.

The scores on the two sets of measures were then correlated to obtain an estimated coefficient of reliability. The coefficient was computed using the Karl Pearson's product moment coefficient of correlation (r). Karl Pearson's product moment formula is as shown below.

$$r = \frac{N\sum xy - (\sum x)(\sum y)}{\sqrt{[N\sum x^2 - (\sum x)^2] - [N\sum y^2 - (\sum y)^2]}}$$

Where:

N = number of pairs of scores

$\sum xy$ = sum of the products of paired scores

$\sum x$ = sum of x scores

$\sum y$ = sum of y scores

$\sum x^2$ = sum of squared x scores

$\sum y^2$ = sum of squared y scores

The items were scored individually and aggregated to get the total score on the whole instrument for both test and pre-test administrations. The test –retest results were as shown below.

Table 3.1: Reliability Results

First administration (x)	85	88	80	86	90	87
Second administration (y)	85	89	88	87	92	90
Correlation coefficient (r)	1.00					
Reliability of the instrument	Very reliable					

Source: Field Data, 2018

Test-retest method required that a reliability coefficient between 0.8 - 1.0 be considered suitable for a data collection instrument (Kothari, 2013). The pilot results of this study showed a reliability coefficient of 1.0, showing that the data collection tool was reliable for data collection.

3.9 Data Needs

The data needs table is helpful in aligning research questions with the methodology. It helps in constructing data collection instruments as well as identifying the sources of data.

Table 3. 2: Data Needs Table

Research Questions	Data Needs	Type of Data	Source	Instrument
What is the level of STR uptake among small scale traders?	Performance	Quantitative	Small scale cross-border traders	Questionnaire
			Customs officials	Interview
How has the level of uptake influenced informal cross-border trade?	Volume	Quantitative	Customs officials	Interviews Observations Questionnaire
	cost			
	Time	Qualitative	Small scale cross-border traders	
Safety				
What are the challenges and incentives of STR uptake?	Information	Quantitative	Border officials	Questionnaire Observations Interviews
	Recognition		Small scale cross-border traders	
	Accessibility			

Source: Author

3.10 Data Analysis

The researcher analysed the collected field data through thematic analysis for the open-ended questions and key informant interviews. Codes were then developed based on the themes the researcher was looking for. The coded data was analysed using vivid description supported by empirical evidence to help enhance validity (Bhattacharjee, 2012). Coded data from the survey questionnaire was entered into the SPSS statistical program. Analysis of this data was analysed through inferential statistics such as correlation analysis and descriptive statistics such as percentages and frequencies methods.

3.11 Ethical Considerations

The researcher obtained permission letter from the University of Nairobi, Institute for Development Studies to collect data after thorough discussion of the research instrument with supervisors. This document was used for validation purposes while in the field. She also obtained a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). While on the field, she introduced herself and made it clear to the respondents that the research was for academic purposes only.

The researcher exercised absolute sensitivity and caution while collecting the data. On this aspect, she did not collect any personal or seemingly intrusive information from the respondents. In line with ethical data collection practices, the researcher did not force, cause harm or induce fear or conflict to the respondents while collecting data. Also, she ensured that participation on the data collection was purely voluntary whereby the respondents ticked their consent on the questionnaire before partaking in the study.

The respondents were given the assurance of remaining anonymous and were given the right of withdrawal from participating in the study if they felt uncomfortable.

The researcher respected intellectual property in relation to academic research. She clearly paraphrased all the research content obtained from other researchers. In addition, she referenced research materials such as books, journals, periodicals, unpublished and published thesis. This ensured that she does not violate authors' intellectual property through plagiarisms.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter contains an analysis and interpretation of the study findings on the implications of simplified trade regime, on informal cross-border trade among small scale traders in Namanga. The chapter has been sectioned into: Background of the findings which captures the response rate, respondent's background information, level of uptake of the simplified trade regime, how the level of uptake has influenced cross-border trade and the challenges and incentives of simplified trade regime.

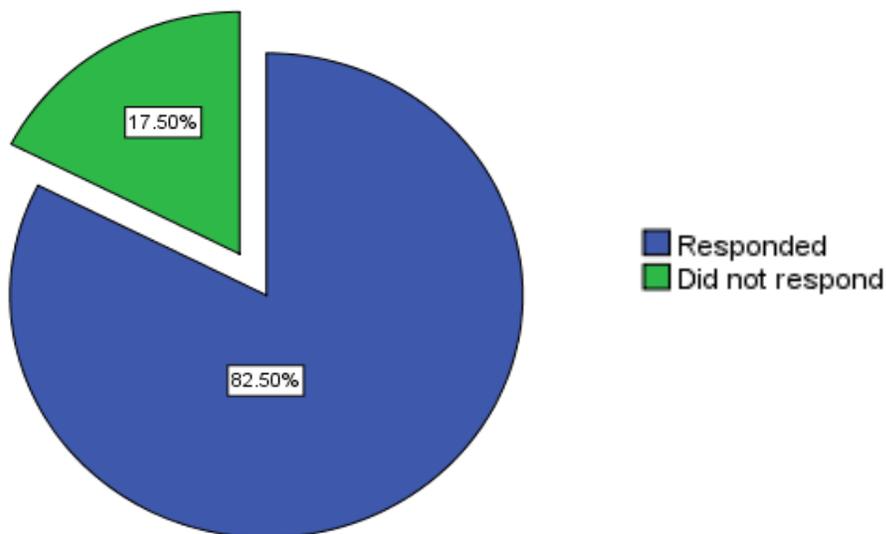
4.2 Background Information

The background information covers response rate and respondents background information.

4.2.1 Response Rate

The researcher employed simple random sampling to arrive at the sample size of 80 respondents. From the sample size 66 responded to the research instrument while 14 did not respond. Analysis of the study response has been discussed in figure 4.1.

Figure 4. 1: Response Rate



Source: Field Data, 2018

The response rate for the study was 82.5%. According to Mugenda (2010), a response rate above 50% is considered adequate for analysis and reporting. The study's response rate was therefore considered adequate for analysis and reporting.

4.2.2 Gender

Table 4. 1: Gender of the Respondents

Category	Frequency	Percent
Male	51	77.3
Female	15	22.7
Total	66	100.0

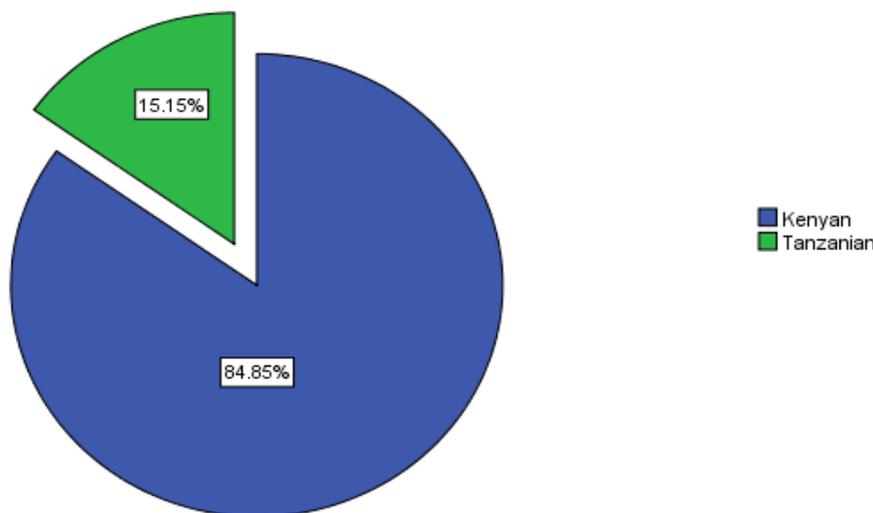
Source: Field Data, 2018

An analysis of respondent's gender showed that 77.3% of the respondents were male while 22.7% were female. Given that probabilistic nature of simple random sampling was used, it was deduced that, majority of the small scale cross-border traders at Namanga border are male. These results are contrary to Suleymenova (2017) who found out that most ICBT traders are women constituting about 70%.

4.2.3 Nationality of the Respondents

The nationality of the cross-border traders was as shown in figure 4.2.

Figure 4. 2: Nationality of the Respondents



Source: Field Data, 2018

Majority of the respondents interviewed were of the Kenyan nationality. This is because the study mainly focused on the Kenyan side of the border. However, of those interviewed, there were some traders from the Tanzanian side. In the response, 84.85% of the cross-border traders were Kenyans while 15.15% were Tanzanians. The participation of Tanzanian nationalities was purposively selected.

4.2.4: Age of the Respondents

Age factor in research is used to understand the respondents more, especially to find out if in case of employment and business, they have met the legal age to be involved, to help determine the categories of age like youths in trade and those above the youth stage. In this study the researcher requested the respondents to indicate their age. A quarter of the respondents were below 26 years of age. The results further shown that, a third of the respondent were between 26 years and 35 years. This indicates that, three-fifths were within the youth category. Two-fifths of the respondents were above 35 years. Therefore, it can be concluded that, more than half of the respondents involved in Cross-border trade in Namanga are youth. This indicates that trade is a major source of livelihood among the youth in Namanga.

4.2.5 Level of Education

Table 4. 2: Level of Education

Category	Frequency	Percentage
Primary	11	16.7
Secondary	33	50.0
Certificate	7	10.6
Diploma	6	9.1
Degree	3	4.5
Other	6	9.1
Total	66	100.0

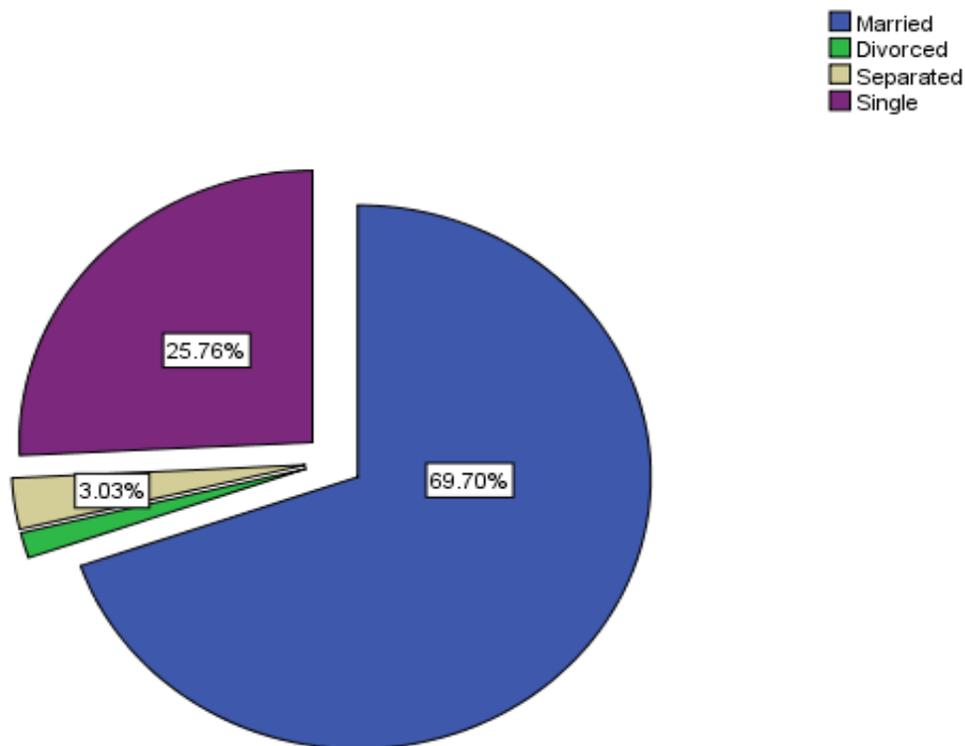
Source: Field Data, 2018

An analysis of the respondents' level of education showed that 16.7% had primary education, 50% had secondary education, 10.6% had certificates, 9.1% had a diploma, 4.5% had degree,

while other levels (Never received any education) were represented by 9.1% of the respondents. Most of the respondents interviewed in the study had attained at least secondary school level of education. These findings show that most of the people engaged in cross-border trade are literate having attained at least secondary school level of education. This results show that most of these cross-border traders have the capability of reading and understanding of the requirements of the Simplified Trade Regime.

4.2.6 Marital Status

Figure 4. 3: Marital Status



Source: Field Data, 2018

An analysis of the study findings shows that majority (69.7%) were married, while 26.76% were single. On the other hand, 3.03% of the respondents were separated/ divorced. Findings show that most of the people engaged in cross-border trade have families a situation that implies that the small scale cross-border trade generates enough profits to sustain families. The findings concur with Ogola (2010) that ICBT generate profits which are mostly used to provide education, healthcare and also sustain families.

4.2.7 Experience in Cross-Border Trade

The study analysis of the number of years the respondents were involved in cross-border trade showed that, half of the respondents have traded within the Namanga border for less than 4 years. A third indicated to have been in the cross-border trader for more than 3 years but less than 7 years, while an eighth held that they have participated in this trade for more than 7 years.

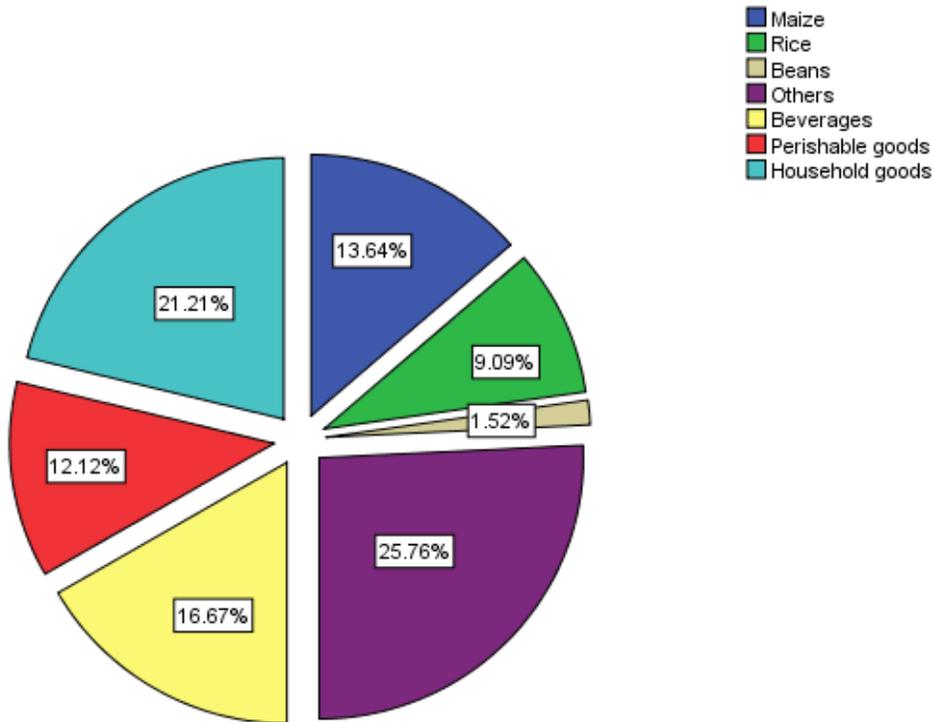
Duration of cross-border trade may indicate how respondents understand STR and how it has impacted on their businesses. From the findings, half of the respondents have taken part in cross-border trade for less than 4 years. This is interpreted that, they have not been in the business long enough to substantiate whether or not the STR programme has been of considerable benefit to them since they were not involved in cross-border trade before the implementation of the STR in 2007. However, for the other half of the respondents who have been in the trade for more than 5 years can be considered to understand the provisions of STR and the its impact on their business.

4.3 Uptake of Simplified Trade Regime

Under uptake of simplified trade regime, the study examined various aspects which included the types of commodities traded, usage of simplified trade regime and level of awareness about simplified trade regime. The findings are as indicated below.

4.3.1 Commodities Traded

Figure 4. 4: Commodities Traded



Source: Field Data, 2018

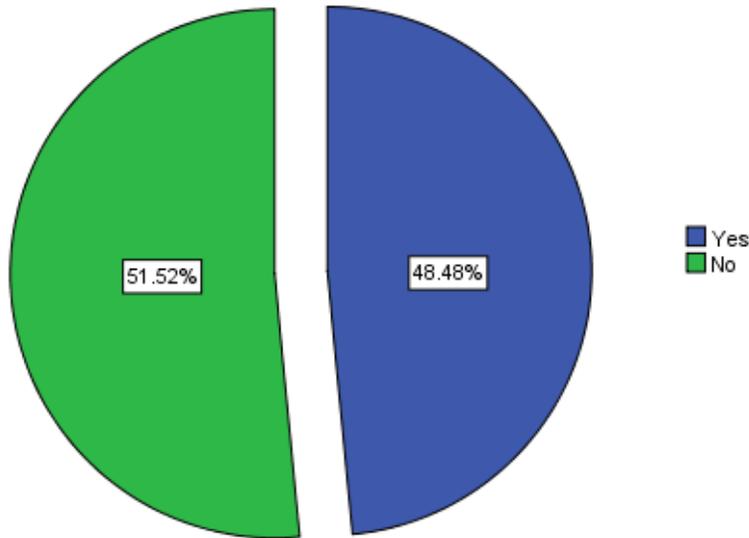
The STR consists of four main instruments, namely: a simplified customs document, a simplified certificate of origin, a common list of products and a threshold for the value of the consignment (Brenton et al., 2014). The Simplified Certificate of Origin (SCOO) was introduced with a general rule that the goods have to be produced or manufactured in one of the EAC countries and must be referenced in the common list of approved products.

The STR programme therefore, has to make sure that traders take part in commodities that appear in the list of products. The analysis of the commodities traded established that, 13.6% of the respondents traded in maize, 9.09 % traded in rice, 1.52% traded in beans, 16.67% traded in beverages such as beer, soda and water, 12.12% traded on perishable goods which include tomatoes, potatoes and fruits, and 21.21% traded on household goods such as sugar, cooking oil and maize flour. A proportion of 25.76% of the respondents traded in other commodities. These included clothing, shoes, agrovet products, animal feeds and mosquito repellents.

4.3.2 Awareness on Simplified Trade Regime

Respondents were asked to indicate whether they were aware of simplified trade regime by providing an option of yes or no. The findings were presented in figure 4.5.

Figure 4. 5: Awareness on Simplified Trade Regime



Source: Field Data, 2018

The results indicated that 48.48% of the respondents were aware of the existence of the simplified trade regime while 51.52% were not aware. Further they were asked where they got information about simplified trade regime. Half of the respondents who agreed to know about STR indicated that they got information about STR from other traders. A fifth of the respondents pointed out that they got to know about STR from customs officials. Similarly, a fifth also indicated to have got the information from transporters and friends. A proportion of an eighth got information from EAC workshop while less than a tenth indicated other sources such as the internet.

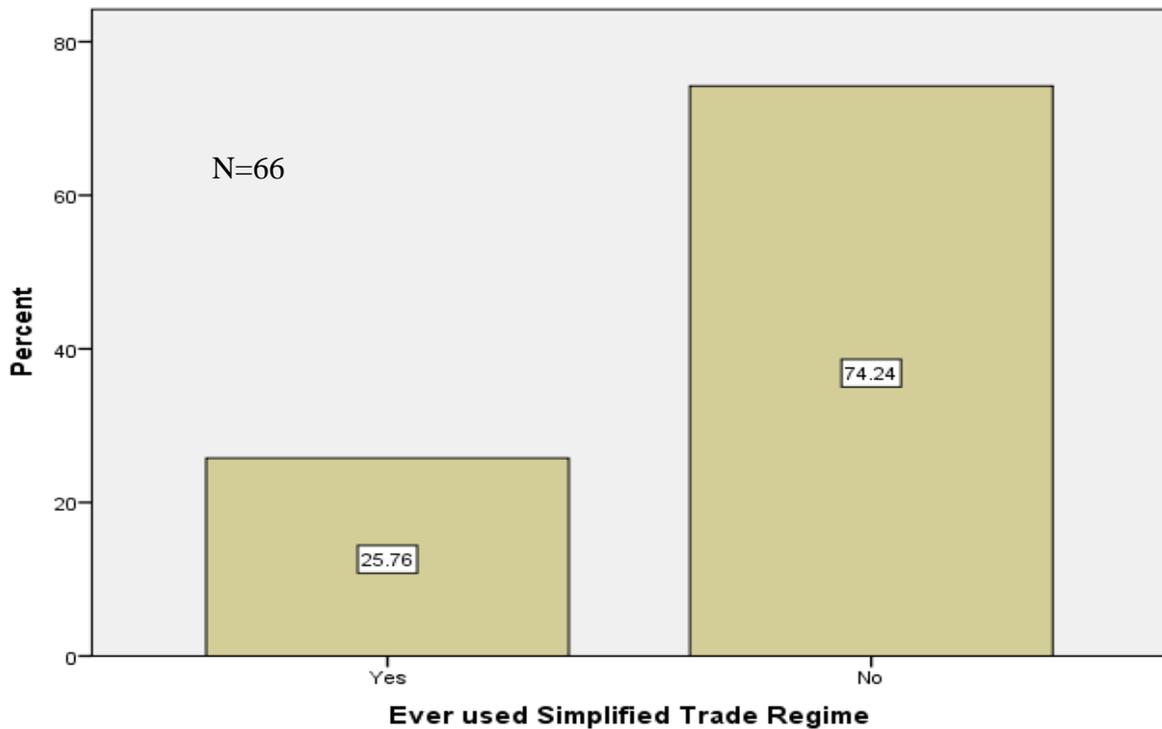
Access to information especially in trade facilitates uptake of beneficial programmes presented to them. In this study, access to information on STR is majorly from other traders and other sources such as friends and transporters which is considered unreliable (Mbo et al., 2016b). This statistics present low levels of awareness and facilitation given that less than a quarter of the information comes from EAC and Customs officials which are the most reliable sources.

On the other hand, EAC officials indicated that, for the past one year, there have been three forums organised by EAC and World Customs Organizations to try and enlighten the local traders about customs and the STR. In addition, there is an inquiry desk for both EAC and customs where anyone can get information.

4.3.3 Usage of Simplified Trade Regime

The question sought to find out whether awareness on simplified trade regime, translated to uptake by traders. Respondents were therefore, asked to indicate whether they had ever used simplified trade regime in their business undertakings. The study findings are as indicated below.

Figure 4. 6: Sources of Information about STR



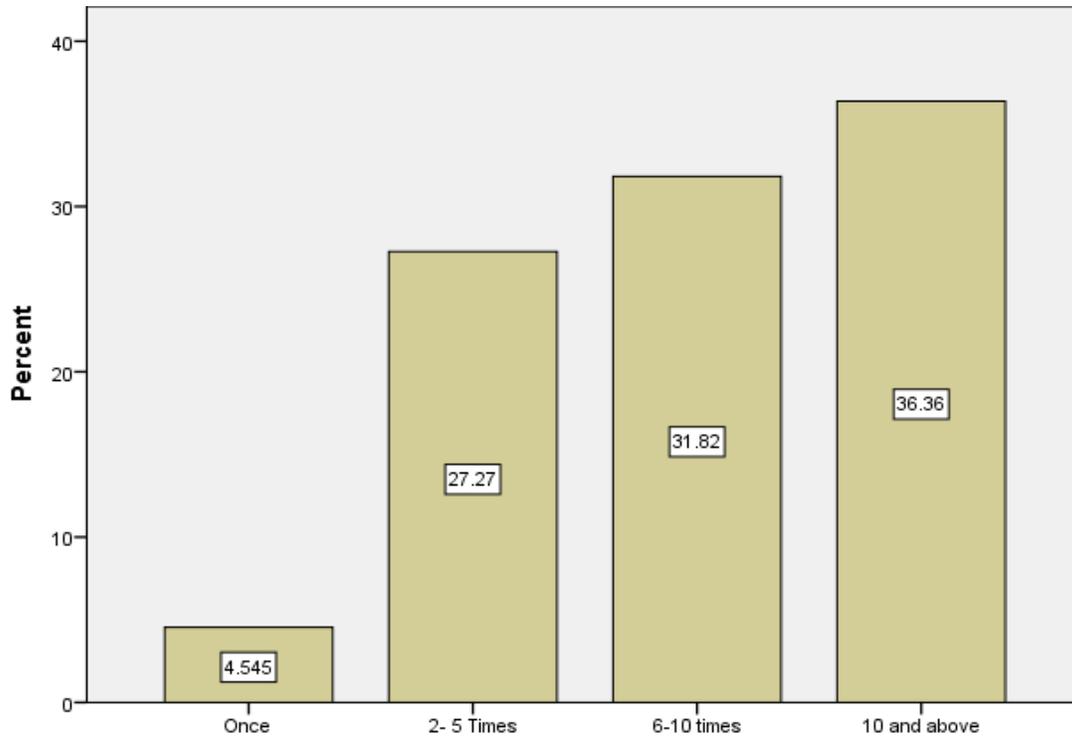
Source: Field Data, 2018

Most respondents confirmed that they had not used the simplified trade regime as shown by 74.24% who said no against 25.76% who said yes. Notable from these findings is that there is very low level of uptake of simplified trade regime among small scale cross-border traders despite being aware of its existence.

4.3.4 Frequency of Using Simplified Trade Regime

For respondents who had used simplified trade regime, we further examined the frequency of using the programme by asking respondents to indicate the average number of times they had used the simplified trade regime, the findings were as indicated.

Figure 4. 7: Frequency of Using Simplified Trade Regime



Source: Field Data, 2018

In this study, we questioned from the respondents who have ever used the Simplified Trade Regime, the number of times they had used the system. The results showed that (4.5%) had used the system once, (27.27%) had used it 2-5 times, (31.82%) had used it 6-10 times, while (36.36%) had used it 10 times and above. Most of the respondents (36.36%) had used the system 10 times and above. Results on the average usage of simplified trade regime could be an indicator that most of the respondents who have used of the programme recognise its benefits and therefore would prefer using it in their business operations.

4.3.5 Implications of Simplified Trade Regime

In the Likert scale questions, respondents (N=66) who had ever used the simplified trade regime were asked to provide their agreement or disagreement with statements provided on the implication of simplified trade regime. The findings are indicated on Table 4.3.

Table 4. 3: Impact of Simplified Trade Regime

Implications of Simplified Trade Regime	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total%
Simplified trade regime has increased volume of goods traded	26.3%	31.6%	26.3%	15.8%	0.0 %	100%
Simplified trade regime has reduced cost of transaction	27.8%	22.2%	16.7%	22.2%	11.1%	100%
Simplified trade regime has reduced time taken to clear goods	61.1%	16.7%	5.6%	11.1%	5.6%	100%
Simplified trade regime has increased the level of safety while crossing border	83.3%	0.0%	16.7%	0.0%	0.0%	100%

Source: Field Data, 2018

The study established that the simplified trade regime had several implications as per opinions emanating from respondents. On the assertion that simplified trade regime had increased the volume of traded goods, 26.3% of the respondents strongly agreed, 31.6% agreed, 26.3% were neutral while 15.8% disagreed with the statement. Majority (57.9%) represented those who agreed and those who strongly agreed with the statement that the simplified trade regime had increased the volume of goods traded.

On the question of the implication of the STR on the reduction of the transaction costs, the study found that the respondent's opinion on if the simplified trade regime has managed to reduce their cost of transactions. The findings show that 27.8% strongly agreed with the opinion, 22.2% agreed, 16.7% were neutral, 22.2% disagreed, while 11.1% strong disagreed. From the findings, 50% of those who have had experience with simplified trade regime said that it reduced the cost of transaction. Only 33.3% of the respondents disagreed with the opinion. It can thus be said that the experience of majority is that simplified trade regime has managed to reduce the cost of transaction. It is however important to note that this might not be the experience of observable 33.3% who did not agree with this opinion. It may also mean that other factors come in play as far as determining the cost of transaction is concerned.

On reduction of the time taken to clear goods, respondents were asked to provide their opinion on whether simplified trade regime had reduced the time taken to clear their goods. Approximately 61.1% strongly agreed, 16.7% agreed, 5.6% were neutral, 11.1% disagreed while 5.6% strongly disagreed. Majority (61.1%) of the respondents strongly agreed with the opinion, over three quarters (77.8%). In general, we can say that simplified trade regime has reduced time taken to clear goods by making the process clearing goods easier and faster.

The implications of simplified trade regime on security was examined in the assertion that simplified trade regime had increased the level of safety while crossing the border. The findings show that 83.3% of the respondents strongly agreed with this assertion, 16.7% were neutral while none disagreed. Going by the majority opinion, it can be noted that 83.3% majority of the respondents are of the view that simplified trade regime had increased the level of safety while crossing the border. These findings imply that traders do not have to worry about their goods being stolen or confiscated or sexually harassed while sneaking their goods most especially at night.

4.3.6 Simplified Trade Regime Performance

In order to understand the performance of STR and its patterns since its introduction, key informants pointed out an increased performance. Daily applications have increased from less than 10 to an average of 15 per week, translating to 50 per month. In terms of volumes traded, respondents held that there is an increase in volumes transacted. However, these

volumes vary with seasons, political disruptions and trade relations between Kenya and Tanzania.

The EAC officials further held that, not only an increase in volumes, but also an increment of traders embracing formal trade. Once a trader discovers the benefits of STR, they continue to trade using gazetted routes and also inform other traders of the benefits of STR. In terms of revenue, there is no observable change since traders are not charged duty fee except for normal local taxes such as VAT and excise duty.

These findings are in line with the Uganda Bureau of Statistics (2017) figures, which indicated increased volumes between Kenya and Uganda. Goods flowing to Kenya in terms of exports had an increasing trend from 69.5 million US dollars in 2011 to 96.4 million US dollars in 2015. Imports on the Ugandan side from Kenya also increased from 2011 to 2015 from 27 million US dollars to 31.9 million US dollars.

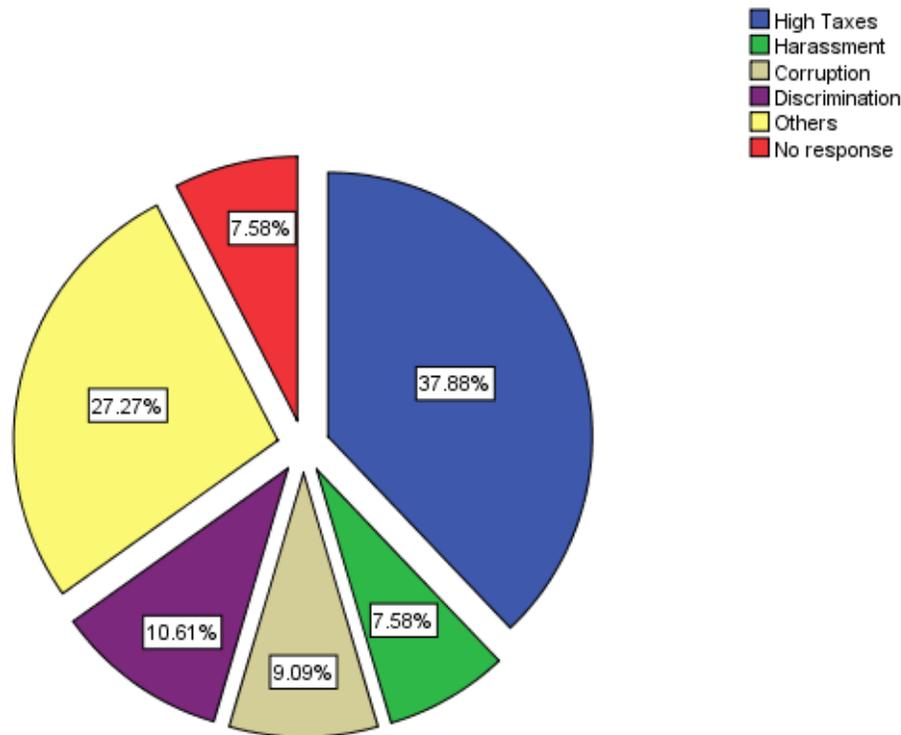
4.3.7 Procedures Small Scale Cross-Border Trader Undergo to Clear Their Goods

The researcher interviewed key informants who were border officials from customs and the EAC secretariat on the steps required for a small-scale cross-border trader to clear his/her goods. The officials explained that; a trader first needs to fill a simplified certificate of origin within the customs offices. Once granted, they proceed to fill a passenger declaration form (F88) which also acts as an entry. Once the passenger declaration form is processed, the trader pays an authorization fee depending on the commodity. After this step, the trader is allowed to clear their goods, which must comply with the required list of goods allowed across the border.

4.3.8 Challenges of Simplified Trade Regime

In an open ended question, the study examined the overall challenges of formal/ informal trade across the border. Responses were grouped into common themes and descriptive data generated out of the occurring themes. The findings are provided on figure 4.8.

Figure 4. 8: Challenges of Simplified Trade Regime

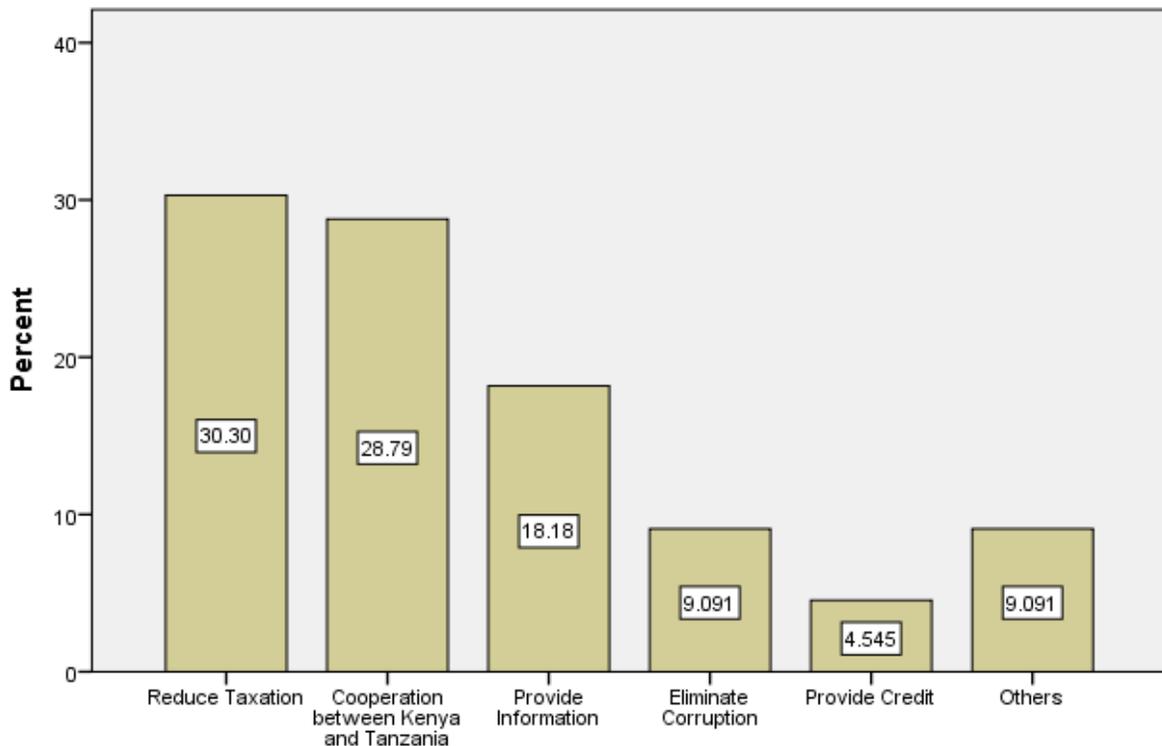


Source: Field Data, 2018

A discussion with respondents indicated that both formal and informal trade was faced by a number of challenges. Quantitative data showed that among the challenges faced included high taxes (37.88%), harassment by border officials (7.58%), corruption (9.09%), discrimination (10.61%), other challenges that formed (27.27%) of the responses included lack of credit, lack of cooperation between Kenya and Tanzanian government, lack of information, high transport costs and counterfeits that brought unfair competition among the traders.

4.3.9 Suggestions for Improving Formal Trade

Figure 4. 9: Suggestions for Improving Formal Trade



Source: Field Data, 2018

Given the challenges faced, respondents were asked to suggest possible solutions to the challenges that they faced in cross-border trade (Figure 4.9). Among the suggestions provided included reduction of taxation (30.30%), improvement of relations between Kenya and Tanzania (28.79%) which will help end the discrimination Kenyan nationals faced by both Tanzanian officials and citizens, provision of information (18.18%), noting the need to provide gazetted list of items that could benefit from STR (currently unavailable), elimination of corruption (9.09%), provision of credit (4.5%) and others that formed (9.09%).

The suggestions for majority (30.3%) of the respondents was to reduce taxation. This was closely followed by a suggestion to improve cooperation between Kenya and Tanzania as shown by 28.79% of the respondents, a relation that was described to be currently affected by political disruptions. The suggestion for improvement could perhaps indicate that respondents felt that there were common pressing issues that created hostility from Tanzanians that could be addressed between the two countries for improved trade.

4.4 Correlation Analysis

Correlation analysis is used to find the association between study variables. In this study, correlation analysis was undertaken to find the association between respondent's level of education, commodities traded on, years of engagement in cross-border trade, reasons for using or not using simplified trade regime, average number of times transacted using simplified trade regime, the findings were presented on Table 4.4.

Table 4. 4: Correlation Matrix

		Level of education	Years of engagement in CBT	Commodities you trade on	Knowledge of STR	Ever used STR	Average Transactions using STR
Level of education	Pearson Correlation	1					
	Sig. (1-tailed)						
	N	66					
Years of engagement in CBT	Pearson Correlation	-.056	1				
	Sig. (1-tailed)	.327					
	N	66	66				
Commodities you trade on	Pearson Correlation	.099	.204*	1			
	Sig. (1-tailed)	.215	.060				
	N	66	66	66			
Knowledge of STR	Pearson Correlation	-.044	.122	.036	1		
	Sig. (1-tailed)	.362	.164	.387			
	N	66	66	66	66		
Ever used STR	Pearson Correlation	-.058	.073	-.094	.607*	1	
	Sig. (1-tailed)	.321	.280	.226	.000		
	N	66	66	66	66	66	
Average Transactions using STR	Pearson Correlation	.032	.087	.008	.609*	.761*	1
	Sig. (1-tailed)	.399	.244	.475	.000	.000	
	N	66	66	66	66	66	66

*. Correlation is significant at the 0.05 level

Source: Field Data, 2018

The correlation results indicated that, there is a weak but positive correlation between Years of engagement in cross-border trade and Commodities traded. This is indicated by the correlation coefficient ($r = 0.204$). However, this relationship was not found significant at 95% confidence level, since the p-value of 0.06 was above p critical (0.05).

Positive and moderately strong correlation was established between Knowledge of Simplified Trade Regime and usage of STR ($r = 0.607$). This association was found significant at 95% confidence level ($p \text{ value} = 0.0 < 0.05$). Therefore, advancement on STR knowledge is linked with its usage among the cross-border traders. Similarly, a positive and moderately strong correlation was found between knowledge of simplified traded regime and the number of times transactions have been done using STR ($r = 0.609$). This correlation was significant at 95% confidence level, since the p value of 0 was less than p critical (0.05). This implies that, increased knowledge on STR lead to increased transactions using the STR. Therefore, as more cross-border trader gets to know Simplified Trade regime, the more they will use it, hence increased transactions.

A positive and strong relationship was established between STR usage and the number of times transacted using STR ($r = 0.761$). The relation was significant at 95% confidence level. Thus, an increase in STR usage leads to an increase in number of times transacted using Simplified Trade Regime.

4.5 Discussion of Results

The study sought to examine the implications of simplified trade regime on informal cross-border trade among small scale traders in Namanga. The objectives to be met by the study included to find out the level of uptake of simplified trade regime, to understand how simplified trade regime had influenced informal cross-border trade and the challenges and incentive of uptake of simplified trade regime. We observe that the uptake of simplified trade regime goes hand in hand with different commodities traded in the market. The vibrancy of cross-border trade is demonstrated by different types of commodities traded in the area. It depicts a potential region for uptake of simplified trade regime.

More than half of the respondents indicated the lack of awareness of Simplified Trade Regime. A further probe of those who indicated to be aware of STR shown that, access to

information on STR is majorly from other traders and other sources such as friends and transporters. These statistics present low levels of awareness and facilitation given that less than a quarter of the information comes from EAC and Customs officials. Having enough information from reliable sources is likely to increase the usage of STR among cross-border traders. The findings on the STR awareness and source of information agrees with the findings of Ruiters et al. (2017) that, most of the awareness about simplified trade regime comes from other traders. They further explain that, small scale traders seem to majorly depend on informal networks such as other traders, friends and relatives to get information which may be unreliable. This perhaps can explain the high levels of awareness due to mis-information translating to low level of uptake.

The findings further concur with Ogalo (2010) who found out that small scale cross-border traders lacked the knowledge of the benefits that come with trading within the EAC. His findings similarly revealed that there is inadequate information being shared on the present trading opportunities along with absence of simplified written trade rules that the traders could refer to. This has made it difficult for small scale traders to know the rights and benefits they are entitled to when trading along the border. Among these sources of information, the EAC workshops and information gotten from customs officials are what is considered to be reliable. In this regard and over the last one year there have been three EAC forums held in Namanga to try and enlighten the traders about the STR and its benefits. There is also an information desk for both customs and EAC where traders can get information at any time. This may help improve the level of uptake as the information is more valid.

Very few respondents (25.76%) have used simplified trade regime, an indication of low uptake of the system. There is however evidence of high usage for those who have adopted simplified trade regime going by the average number of times the system is used. While the implementation of simplified trade regime is advocated in order to promote formal trade among eligible small scale traders, and help overcome challenges that they face at the border that lead to low levels of intra-regional trade, it is noted from the findings that the uptake is low, these findings are in line with Ministry of Trade and Industry (2012) findings which indicate that low value transactions, contribute to less than 1% of the value of total formal

trade. Further Ministry of Trade (2012), indicates that while the intentions of simplified trade regime are commendable, the process of implementation has been faced with setbacks, a situation that may explain the low uptake rates. Among these include the lack of a gazetted list of items eligible for exemption of duty at the Namanga border and political disruptions between Tanzania and Kenya affecting trade.

Simplified trade regime has evidently impacted on trade in one way or another. There is evidence of increased trade volumes, reduced cost of transactions, and reduction of time taken to clear goods. It is evident from the study findings that simplified trade regime has also increased the level of safety while crossing the border. These findings agree with Nzohabonimana (2017), who indicate that the implementation of simplified trade regime was advocated in order to promote formal trade among eligible small scale traders and help them overcome challenges they face at the border. Among the intended objectives of simplified trade regime was to increase the levels of intra-regional trade, transform and mainstream informal into formal cross-border trade by facilitating trade among small scale traders.

Various challenges and incentives shape the uptake of simplified trade regime. Challenges faced by cross-border traders in relation to STR included; high taxes, harassment by government officials, corruption, discrimination, lack of credit and lack of cooperation between Kenya and Tanzanian government, lack of information, high transport costs and imports of counterfeits that bring unfair competition among traders. In line with the findings on challenges, Ajumbo et al. (2012), stated that despite the introduction of STR, small scale traders are not able to access its benefits due to various challenges such as processing fee, low awareness and corruption. Ogalo (2010), also notes that small scale cross – border traders lack knowledge of the benefits that come with trading within EAC. His findings similarly reveal that there is inadequate information being shared about the present trading opportunities along with absence of simplified, written rules that a trader could refer. Mbo et al (2016) further noted that there is lack of significant reduction on the values of informal trade in relation to how information is made available to traders at the border with regards to STR program. Various intervention measures could act as incentives towards uptake of simplified trade regime. These measures include reduction of taxes, improvement of working

relations between Kenya and Tanzania, provision of reliable information, elimination of corruption and provision of credit to help increase the volume of goods traded.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the study findings on the implications of simplified trade regime on informal cross – border trade among small scale traders in Namanga. The chapter has also provided a conclusion and recommendations.

5.2 Summary of Findings

The study findings has been discussed based on; the study background information, and the study objectives which include; to find out the level of uptake of simplified trade regime, to understand how simplified trade regime has influenced informal cross-border trade and to examine the challenges and incentives of uptake of simplified trade regime.

5.2.1 Background Information

A total of 66 respondents out of the targeted 80, took part in the study forming a response rate of 82.5%. Out the study participants, 77.3% were male while 22.7% were female. Most of the respondents interviewed were literate with only 9.1% having not received any formal education. The age of most study participants lie between 21-25 years and 36-40 years, with observations showing that there is comparatively high number of youth 18-35 years involved in cross –border trade. Majority of the responds (69.7%) are married and hence seem to support their families using cross-border trade. Most of the study participants (84.85%) are Kenyans who were purposely selected to participate in the study. On average most of the traders have 1-3 years' engagement in cross-border trade.

5.2.2 Uptake of Simplified Trade Regime

The study established that most traded commodities include maize, beans, beverages and other perishable products. A quarter of them trade in clothing, shoes, agrovet products, animal feeds and mosquito repellents. Most of these traders operate informally, with 74.24% indicating that they have never used simplified trade regime. Uptake of Simplified trade regime is at 25.76%. There is however evidence of high frequency of usage of simplified trade regime, majority (36.36%) have used simplified trade regime 10 times and above.

5.2.3 Implications of Simplified Trade Regime

Respondents who reported that they used Simplified Trade Regime (25.76%), indicated various implications that the program had on their business. STR has increased the volumes of goods traded as per (57.9%) representing majority of respondents. There is also evidence of reduced cost of transactions as per the opinion of 50% of the respondents. Using simplified trade regime has reduced the time taken to clear goods as per the observations of 77.8% of the respondents. Simplified trade regime has increased the level of security while crossing the border as per the opinion of 83.3% of the respondents.

5.2.4 Challenges and Incentives to Simplified Trade Regime

There were various challenges faced in undertaking informal trade. Among the challenges faced was high taxes (37.88%), harassment by customs and border officials (7.58%), corruption (9.09%), discrimination (10.61%), and other challenges that formed (27%) of the responses included lack of credit, lack of cooperation between Kenya and Tanzanian government, lack of information, high transport costs and counterfeits that brought unfair competition among the traders. Various suggestions for improvement that could also offer incentives for uptake of simplified trade regime include reduction of taxation (30.3%), improvement of relations between Kenya and Tanzania (28.79%) which will help end the discrimination Kenyan nationals faced, provision of information (18.18%), elimination of corruption (9.09%), provision of credit (4.5%) and others that formed (9.09%). The suggestions of (30.3%) of the respondents were to reduce taxation. This was closely followed by a suggestion to improve cooperation between Kenya and Tanzania as shown by 28.79% of the respondents. There exists insignificant correlation between commodities traded, years of engagement in cross-border trade and the use of simplified trade regime.

5.3 Conclusion

The main purpose of this study was to examine the implications of simplified trade regime on informal cross-border trade among small scale traders in Namanga. In addition, the specific study objectives were met. From the study findings the following conclusions have been drawn.

5.3.1 Uptake of Simplified Trade Regime

There is low uptake of simplified trade regime by small scale cross-border traders, this is mostly associated with lack of awareness and negative perceptions about the program. In addition, the lack of a gazetted list of items plays a role in the low uptake as traders are unsure of what items benefit from this program which leads to corrupt practises by some customs officials. Notable from the study findings is that less than a third of respondents had adopted simplified trade regime, this could also imply that there is a need for more validation of information about simplified trade regime by relevant authorities. Most of the respondents seem to have received information about simplified trade regime from fellow traders which maybe distorted.

5.3.2 Implications of Simplified Trade Regime

There are benefits that can be achieved from uptake of simplified trade regime as witnessed by respondents who had adopted the program. Key implications of this is the increased efficiency of doing business by small scale traders as shown by reduced cost of transactions, increased volume of traded goods and improved security while crossing the border.

5.3.3 Challenges and Incentives to Simplified Trade Regime

Various challenges discourage adoption of simplified trade regime. Key among these challenges include harassment, corruption, and discrimination of traders by customs and border officials. Therefore, addressing of these challenges could provide an incentive towards uptake of simplified trade regime. Further, there is disinterest among the small scale traders of engaging in formal trade and exploiting its benefits, indicating that there is need for a change in the mindset of citizens about formal trade.

5.4 Recommendations

From the study findings, we recommended that:

1. The government needs to create more awareness on simplified trade regime and its benefits among traders. This will provide the much needed valid and reliable information required for access and application of simplified trade regime among traders.

2. There is need to address business malpractices such corruption, bribery and smuggling of illegal goods and counterfeits, this will reduce unfair competition among traders while providing equal access to opportunities.
3. The government needs to reduce the level of taxation to deter informality and to encourage as many traders as possible to participate in simplified trade regime.
4. There is need to promote friendly relations between and among our neighbouring countries by increasing the level of collaboration and trust between Kenya and Tanzania in order to promote trade and uptake of simplified trade regime.

5.5 Areas for Further Research

1. A further study should be carried out to examine the factors affecting uptake of simplified trader regime among formal/informal traders in Kenya.
2. This study sought to establish the implication of Simplified Trade Regime on informal cross-border trade among small scale traders in Namanga. A replication study can be undertaken at the border of Kenya and Uganda. This will validate the findings of this study and establish the level of collaboration between the EAC countries.
3. Further research can also be done on the impact of taxation on simplified trade regime usage among cross-border traders.
4. Usage of simplified trade regime needs knowledge and awareness to be impacted on the traders. Therefore, another study can be undertaken to establish level of government involvement in creating awareness on STR among traders.

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APPENDICES

Appendix I: Questionnaire

My name is Margaret Wambui Kahariri, a Postgraduate student at the Institute for Development Studies (IDS), University of Nairobi. As part of the requirements for the award of the masters' degree, I am expected to undertake research in my area of study. This questionnaire is designed to obtain information on the: "The Implication of Simplified Trade Regime on Informal Cross-border Trade among Small Scale Traders in Namanga." The accuracy of the information provided will be important for the success of this study. Data collected will only be used for academic purposes and will therefore be handled with utmost confidentiality.

Please indicate your agreement to participate in this research by ticking the box below

I agree

SECTION A: GENERAL INFORMATION

1. What is your gender?

Male

Female

2. What is your level of Education?

Primary

Secondary

Certificate

Diploma

Degree

Other

3. What is your age?

Please be Specific.....

4. What is your marital status?

- Married
- Divorced
- Widowed
- Separated
- Single

5. What is your Nationality?

- Kenyan
- Tanzanian
- Other

If other, please specify

SECTION B: TRADE PATTERNS

6. How many years have you engaged in cross-border trade?

- Please specify

7. What commodities do you normally trade?

- Maize
- Rice
- Wheat
- Beans
- Others

If others, Please specify

8. Have you ever heard about the Simplified Trade Regime?

- Yes
- No

If yes, from whom did you get the information

.....

9. Have you ever used the Simplified Trade Regime?

Yes

No

If no, what are your reasons for not using it?

.....

.....

10. How many times on average have you transacted using the Simplified Trade Regime?

Once

2 - 5 times

6 -10 times

10 and above

Never

Please give reasons for your answer above

.....

11. For the next questions, please choose number 1-5, indicating how much you agree or disagree with the statement. (Please circle your response in this section).

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The Simplified Trade Regime (STR) has increased the volume of goods traded	1	2	3	4	5
Reduced cost of transaction	1	2	3	4	5
Reduced the time taken to clear goods	1	2	3	4	5
Increased the level of safety when crossing the border	1	2	3	4	5

12. What are the overall challenges of formal/ informal trade?

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

13. What in your opinion can be done to improve/ encourage formal trade among small scale traders?

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

End

Appendix II: Key Informant Interview Guide

SECTION A: GENERAL INFORMATION

1. Name of your Organization/Employer.
2. Area of Specialization.
3. Number of years worked at Namanga border.

SECTION B: TOPICS FOR DISCUSSION

1. What are the requirements for one to benefit from the Simplified Trade Regime?
2. Which goods are commonly traded among the small scale cross-border traders?
3. What are the different steps or procedures that a small scale cross-border trader has to go through before they can clear their goods?
4. How is the performance of the Simplified Trade Regime? (per day/ week/ month).
5. How has the implementation of the STR changed the trade patterns? (Increased volume of formal trade, revenues, time, safety to consumers)
6. How useful is the STR? (benefits)
7. What are the challenges the STR faces in its implementation? (Information dissemination, recognition, accessibility)
8. What are some of the incentives that have helped or can help improve the level of STR uptake among small scale cross-border traders?

Any other further suggestions or comments.