ENTREPRENEURSHIP AND SOCIAL CAPITAL: A STUDY OF INFORMAL CROSS-BORDER TRADE BETWEEN KENYA AND TANZANIA

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A thesis submitted in partial fulfilment for the degree of Doctor of Philosophy in Business administration of the University of Nairobi
DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

Date: 1st Dec 2008

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DEDICATION

Dedicated to my husband, Dr. Solomon Orero, and children Beth, Richard and Benjamin who have made the completion of this work possible.
I would like to extend my sincere gratitude to my supervisors Prof. Dorothy McCormick and Prof. Peter Kimuyu for their valuable and patient guidance and encouragement which has made the pursuance of this degree possible. My greatest intellectual debt is to Dorothy McCormick. Her commitment, encouragement and support to me at every stage of this exercise was invaluable, as was the stimulation she provided - constantly challenging me to clarify my ideas further.

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ABSTRACT

This thesis concerns cross-border trade and regional integration, focusing on the informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border. The cross-border trade is characterized by the duality of the routes taken by the traders while crossing the border with goods, a feature frequently referred to as formal and informal trade. The immediate objective of this thesis is to produce a better understanding of these phenomena, argued to be highly relevant to the region's wider economic development.

To understand cross-border trade at Isebania/Sirare border, a new concept frame is put forward based on capital theory drawing on both economic and social theories. This frame sees the potential for the cross-border trade in terms of the economic and the social context. The notion of funding is introduced to describe the economic resources that are individually owned and the social resources that accrue to the traders from the interaction among themselves and also with the other actors within this trading environment. It is argued on one hand that the resources that are used by the traders who cross the border formally are individually owned in the form of physical and human capital. On the other hand, while the informal cross-border traders have less of such economic resources, they access in addition, the social resources accruing from their accumulation and use of social capital.

Social capital as a concept is derived from both classical economic and social theory. According to Fine (2001:15) "its very name is highly significant, with capital taken as the economic... and social as, by implication the non-economic." The use of social capital as a conceptual tool therefore seeks to integrate economic with non-economic analysis or at least for the two to complement one another. But social capital can be used in contexts without what might be construed as directly economic content. Possession of social capital, for example, is deemed to enable individuals to accomplish higher achievements in many walks of life, such as being healthy.

Within the broad orthodox of the economic paradigm, entrepreneurship is regarded as the fourth factor of production after land, labour and capital. Entrepreneurship is here conceived as the essential catalyst which combines the three factors into productive
form, and also essential in completing the production and exchange circuit discussed in chapter 4, through the exchange process. Knight (1921) and other neo-classicalists such as Marshall and Shultz conceived of the entrepreneur as responsible for making decisions under conditions of uncertainty.

In the methodology, a triangulation of evidence from case studies of the informal cross-border traders on both the Kenyan and Tanzania side of the border, together with evidence from the survey study of both the formal and informal cross-border traders was used to answer the following questions:

- What variables, if any explain the traders' choice of the informal routes?
- Are there reasons why traders do not use the formal trading routes?
- Is the crossing environment at the formal route inimical to traders with limited amount of certain types of capital, causing them to avoid such routes?

The findings suggest that there are strong indications of differences in funding between the formal and the informal cross-border traders. Traders who take the formal routes are observed to rely strongly on the resources they own in the form of physical and human capital. Such an option does not appear open to the informal cross-border traders who own less of such economic resources and have to supplement such deficiency with social capital accumulated through interaction among themselves and other actors. The success of the regional integration initiatives will necessitate taking into account such funding from the informal cross-border traders. Simple opening of the formal border crossing points and market liberalisation will not suffice because of the disconnect between the policies stipulated in the regional integration agreements and the actual practice of trade within the border region.
CHAPTER 1
INTRODUCTION

1.1 Background information
This thesis is concerned with the informal cross-border trade and its role in the regional trade. It focuses on the position of informal cross-border trade between Kenya and Tanzania, and its persistence which has given rise to the notion of an invisible trade. The purpose of this study is to investigate this claim further, develop a conceptual framework within which to explain the persistence of informal cross-border trade and apply this to Isebania/Sirare context in order to improve our understanding of the phenomena and its relevance to regional trade.

As intellectual tides have ebbed and flowed in the study of regional trade, the question of border crossing and how related trading activity is organised has remained a muddy, if somewhat a shadowy theme. The significance of this theme increased in the second half of the twentieth century with regional integration emerging as an activity regarded as a first step towards globalisation (Kasekende and Ng’eno 1995, Bhagwati et al. 1996, Oyejide 1997 and Peberdy 2000, 2002). This is directed towards not only the newly independent states of the ‘Third World’, but also the developed countries such as the EU for the European continent and ASEAN for the Asian continent.

With the attainment of independence by most African countries in late nineteen fifties and early sixties, several integration initiatives, mainly based on few countries with previous former colonial masters were formed. Much of the argument in support of integration was based on the fact that the regional trading arrangements (RTAs) would eliminate cross-border trade barriers and create a unified market. This did not work in most cases, so the RTAs slowed down or collapsed. However, with globalisation, there has been renewed push in recent years towards broader and deeper preferential trade agreements in Africa1.

In post independence Africa, two intellectual streams emphasise the significance of cross-border trade. On one hand, the theoretical regional integration with its emphasis on opening of formal border crossing points to the need to create Neo-classical economists’ free markets comprising freely interacting rational economic actors. To

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1 See chapter 2 for further discussion of the major RTAs in Eastern and Southern Africa.
them, the opening of the formal border crossing points on its own represents the means by which such markets could actually be created. On the other hand, there is the general assumption that the informal economies, from which informal cross-border trade is assumed to originate, are structured by the market forces and their existence is a measure of the extent to which official economies deviate from the rule of the market.

Interestingly in the study of regional trade, one of the least researched areas is the process of border crossing with goods. Having defined the research domain, many observers have remained content to regard the trade across the border as undifferentiated with respect to the routes taken while crossing with goods. This has been notable with respect to the study of regional integration with its associated cross-border trade in Africa. Although considerable research activity has been focused on the integration process and numerous interventions to support its formal development, relatively little has been said about the unrecorded trading activities along the border regions. Among policy makers and practitioners of regional integration, a feature in border crossing referred to as the 'informal', is mentioned. Despite this recognition relatively little is known about the phenomenon and how the activity is organised.

This study seeks to start to address the gap in the understanding of informal cross-border trade by examining in depth the case of Isebania/Sirare border, focusing on the traders. The motivation of this work is based on the contention that the informal cross-border trade has a particular significance in the process of regional integration. Our understanding of regional trade must be regarded as worryingly incomplete if we cannot account for all the trading activities across the border. Furthermore, if it is the case that the informal cross-border trade is largely unrecorded, then there are held to be potentially serious implications for regional integration policy, most especially related to the large informal trade sector recorded in most of the African countries.

While there is growing interest among social scientists in developing an interdisciplinary school of ‘socio-economics’ (Swedberg 1996), few insights are offered regarding practical research methodologies to undertake ‘socio-economic’ analysis. What is attempted in this study is a methodological framework based upon distinct yet complementary data gathering tools from broad disciplinary stream of
economics on the one hand and sociology and ethnography on the other hand. To examine informal cross-border trade at Isebania-Sirare border, a combination of case study, mapping and survey data collection methodologies were used in this study. Information collected through standard questionnaire based survey methods has been augmented with mapping, detailed case studies and observation of the traders and other actors in the informal cross-border trade. Navdi (1994, p. 78) stresses that the combination of the methods highlights the “events that bring into sharper focus interplay between the social and economic events”. The use of such multiple methods of data collection is referred to as triangulation by Berg (1998, p. 5). Triangulation is interpreted as a means of mutual confirmation of measures and validation of findings (Jick, 1983; Sohier, 1988; Knafl & Breitmayer, 1989; Leedy 1993). They suggest that the important feature of triangulation is not the simple combination of different kinds of data but the attempt to relate them so as to counteract the threats to validity identified in each. Silverman (2003: 234) also emphasises that “method triangulation can serve to overcome partial views and present something like complete picture”.

The objectives of the study are necessarily both ambitious and limited. Given the relative scarcity of research in informal cross-border trade, it will not be difficult to increase the stock of empirical, descriptive knowledge. Making analytical contribution to our understanding of the informal cross-border trade and, its relevance to regional integration is a more challenging task. Specifically, since the traders at the border take either of the routes, the objectives of the study would be to establish the variables that explain the traders using informal trade routes; to establish the factors that explain the traders using the formal trade routes; and to establish the effect of social capital on the incomes of the informal cross-border traders. Significant theoretical work is likely to be required in order to achieve any progress in explaining the informal cross-border trade phenomena at Isebania/Sirare border.

1.2 Research Questions
A reading of the case literature of regional integration and cross-border trade indicates three areas as being problematic. First is the binary nature of cross-border trade, with the formal trade being recognised and recorded while the informal cross-border trade remains persistent but invisible. Second, the role of social capital in influencing the choice of informal routes is not understood. Third, the focus on region-oriented trade
raises the question of how border-region oriented trade fares on regional integration initiatives.

The empirical work is guided by a framework for understanding the persistence of informal cross-border trade. It seeks to answer the following questions:

- What variables, if any explain the traders' choice of the informal routes?

- Are there reasons why traders do not use the formal trading routes?

- Is the crossing environment at the formal route inimical to traders with limited amount of certain types of capital, causing them to avoid such routes?

The proposition put forward is that informal cross-border trade persists despite the regional agreements meant to free the movement of goods and services because of the specific resources that result from the interaction among the border traders. The funding\(^2\) from these resources, captured in the concept of social capital are produced when the actions between the agents are coordinated by network ties, and reinforced by trust relationships. The networks between the actors generate information which is used in coordinating the border crossing process and reinforced by norms of cooperation. Furthermore, I propose that the funding necessary to take advantage of regional agreement initiatives as represented by the formal cross-border trade which is individually owned in the form of human and physical capital, may not be available to local traders within the border region.

1.3 Outline of the thesis
The thesis is structured as follows: chapter two starts by giving a working definition of the basic terms used in the thesis. It places cross-border trade within the wider regional trade. It then proceeds to provide an overview of the main international policy instruments with special emphasis on regional trade agreements within the

\(^2\) The term funding is functionally used to represent the resources that can be accessed by the traders from the three different types of capital, namely: social capital as arising from the interaction among the actors and human capital and physical capital as being individually owned.
East, and Southern Africa region. It then summarises the role of informal cross-border trade in regional development.

Having explored the reasons why informal cross-border trade may be of particular interest in relation to regional development, the relevance of specific case of Kenya Tanzania border at Isebania/Sirare is raised in chapter three (§3). Within the context of the trade regimes in Kenya and Tanzania, history and current state of trade developments are assessed.

The literature is examined in chapter four (§4). The literature on cross-border trade between Kenya and Tanzania and cross-border trade generally is known to be sparse. Consequently the emphasis in exploring the literature is to consider how at a more theoretical level, questions of the informal-cross border trade can be addressed. Consequently the search starts with economic literature and goes into other areas of social sciences.

The theoretical approach within which the broader economic and social context for cross-border trade is described in chapter five (§5). This theoretical approach is based mainly on social capital theory of both James Coleman (1990, 1999) and Robert Putnam (1973, 1993), together with some elements from the other social capital theories associated with Bourdieu, Dasgupta, Ostrom and Portes.

The methodology of the empirical data collection is presented in chapter six (§6). The chapter begins by discussing the primary research strategy and the use of both quantitative and qualitative data gathering techniques. Detailed aspects of the primary research design are then considered. The way in which the data collected is to be analysed is considered before concluding the chapter with observation from the field regarding the experiences in implementing these research plans.

The empirical evidence collected from the field in the form of survey questionnaires of two hundred respondents trading within the border region is presented and analysed in chapter seven (§7).
The empirical evidence collected from the field in the form of four case studies, two trading on agricultural products and two on processed products, based at the border is presented and analysed in chapter eight (§8).

In the final chapter (§9), the research is critically reviewed and its consequences analysed. The chapter reviews the argument put forward and its subsequent investigation on: how feasible the theory is in the face of the empirical evidence; how successful are the theoretical constructs and how much further are we now in understanding cross-border trade. The thesis concludes by considering the implications of this work for further research, wider theoretical issues and, finally, its practical ramifications for policy makers and development practitioners.
CHAPTER 2
INFORMAL CROSS-BORDER TRADE AND REGIONAL TRADE

2.1 Introduction
The focus of this research is cross-border trade between developing economies. More specifically the aim is to explain the form of informal cross-border trade that takes place between two countries Kenya and Tanzania at one particular place, the Isebania-Sirare border. In this chapter, two essential precursors to this study are considered: What is the meaning of informal cross-border trade and why is it of interest especially in relation to regional trade?

On an intuitive level, informal cross-border trade is readily understood. It refers to trading activities which are not formal and cross the border. In essence it reflects the recognition that the broad category of cross-border trade refers to somewhat binary nature of trading activities, and that further distinction should usually be made. However, once the term 'informal cross-border trade' becomes the subject of explicit theoretical reasoning and empirical research, definitional problems quickly arise. The chapter first (§2.2) defines and theoretically operationalises the basic terms.

The role of cross-border trade in regional integration generally has attracted strong and increasing attention among researchers, policy makers and others since the last half of the last century. Part of this can be attributed to the small markets in most economies. Contrary to the expectation that the small country markets would eventually be supplanted by large regional markets as a result of the opening of borders, evidence from Africa region suggests that the duality of trade across the common borders shows no sign of disappearing. However, it is the claim that cross-border trade makes a major contribution to market expansion across industrialised and developing economies alike, which has evoked the greatest interest. Specifically in developing economies it has been argued that the financial and economic cost of global integration should favour regional integration. Related to the market creation issue, is the extent to which cross-border trade may be important in redressing regional economic integration. The next part of this chapter (§2.3) considers the international policy instruments and the regional integration efforts.
2.2 Towards working definitions
What exactly are trade, regional trade, formal and informal trade? Although they have key points in common, they do not represent one and the same thing. There is a degree of looseness in the way these terms have been used. At this stage an initial set of working definitions of these terms is put forward. In the course of the study a more precise understanding will emerge.

2.2.1 Trade and the enterprise
While the basic action is trade, the actors are the enterprises as represented by the traders. A distinction between trade and enterprise is important.

Trade is defined as the exchange of goods and services between individuals or corporate entities within a country or between nations (Polanyi et al. 1957). International trade has traditionally been understood as involving the movement of goods and services across national borders. However, it also involves the movement of other factors of production such as capital and labour.

From another perspective, trade is an economic activity transcending all sectors of any economy and touches on every sphere of human life. Trade stimulates development and growth of both production and delivery of services. It is a complementary activity without which economic activities remain commensurate with those of subsistence economy. Consequently, trade is the engine of growth that provides the momentum for wealth creation beyond the needs of any individual economic agent.

In most cases, trade is carried on by a trader in his/her enterprise. The enterprise is defined as the smallest unit of organisation of the economic activity related to the service or goods production or trade. The juridical unit, the firm, thus consists of many enterprises, which juridically are termed subsidiaries or branches headed by branch subsidiary or managers. An enterprise might be as small as a one-person operation. The analytical distinction between enterprise and household becomes increasingly important the smaller the enterprise is. The family, or household is the basic reproduction unit while the enterprise is the unit of trade for the market. The
household might contribute to the enterprise with labour power, capital, etc., and the enterprise might conversely contribute to the household reproduction by various resources. In the empirical reality the distinction might become blurred, especially among the small enterprises in Africa (Kongstad and Mönsted 1980).

In the daily operation, the trader acts as representative of his/her enterprise. The enterprise is the actor but represented physically by the trader. The trader relates to a range other different of actors: suppliers, customers, transporters, authorities etc., on which he/she acts and reacts. In the neo-classical micro-economic literature, the economic actors behave rationally in an economic sense according to the conditions under which they operate. There are three reasons why this rationalist view of the actors is, at best insufficient. First, the actor does not always have access to perfect information so he can act in an optimal way. Second, even if there were perfect information, conflicting objectives may occur between the actor as a private person and the actor representing his/her enterprise. Third, simultaneous rational action by many actors can result in a “fallacy of composition” (Sayer 1984:86). This means that what is rational for one cannot be aggregated so that everybody reaches the initial objective of the action. For example, if many traders simultaneously trade in one good because it is available in plenty, the final outcome might be overtrading and thus a disadvantage to all traders. These limitations of economic rationality suggest that it is not possible to read-off action. The environment in which the trading takes place has to be taken into consideration.

For the purposes of this study therefore, I link to another tradition, where the trader is related to his/her environment. The trader is rooted in an economic and socio-cultural environment of more or less stable relations to other actors. The trader as a person relates to his/her family, friends and other actors. It is basically through the interaction with these actors that the traders’ operations should be understood. It is important to consider how the traders’ actions are embedded in the environment in which the trading takes place, and that action is not necessarily strictly “rational” in economic terms. The enterprise as represented by the trader is the unit of trade in the market. The trading process consists not only of action, but also social structures which systemise and affect action.
2.2.2 Border region and regional trade

A border can be considered to be the demarcation between any two countries, most probably a real line, mostly at the official border crossing points or approximated in the rest of the expansive regions. A border can also be considered to be a region. Webster’s Dictionary defines a border as ‘a line or territory between two or more countries or states’ and border regions as ‘those administrative regions of a country with boundaries that coincide with the countries external or international boundaries’. In the literature, the border regions are referred to as ‘frontier regions’ or borderlands. Hansen (1981) as quoted in Asiwaju and de Leeuw (1998) also describes such regions as ‘sub-national areas whose economic and social life is directly and significantly affected by proximity to an international boundary’.

Borders can be viewed from two perspectives. On the one hand there is the nationalistic view, which takes a border as ‘an area, which stretches inwards from the boundary and merges imperceptibly with the state’ (Prescott 1965). On the other hand, there is the peripheral view, which identifies a border as ‘the periphery to periphery interchanges’ across segments of specific international boundaries (House, 1982). Asiwaju and de Leeuw (1998) stated that in efforts to look far beyond boundaries in planning, it is necessary to redefine border regions as regions that enclose or transcend an international border, which from planning point of view would be considered as regions on their own, irrespective of administrative, national-oriented boundaries. In this study, the border is considered as a region.

Regional trade falls within the narrower framework of trade (for definition of trade see § 2.2.1 above). If there were no trade, every one would have to produce what he requires for himself. With trade, various groups of people specialize in the production of different commodities. Trade therefore results in different allocation of resources and maximization of wealth. Regional trade also falls within the broader framework of international trade between the two countries. According to Lipsey (1970), international trade allows a country to escape from its own resource limitations, both natural and human, and concentrate its growth effort in areas in which it has a genuine advantage. Countries generally exchange goods and services when their relative demands and prices are different, and their comparative costs and therefore comparative advantage are also different.
In 1961 the United Nation (UN) General Assembly passed resolution 1707 that “international trade as the primary instrument for economic development”. According to Harrison et al. (1996), for more than a century the driving force behind globalization and development has been the expansion of trade in goods and services. International trade flows are penetrating deeper into the workings of developing economies, affecting the overall economic structure in general and income distribution, employment practices, and productivity and growth in particular (World Bank, 2000). Drabek and Liard (1998) state that trade is important to developing countries because they win when they gain market access for their exports and new technology through international transfers, and when heightened competitive pressure result in improved allocation of resources.

According to Levinsohn (1998) increased trading boosts trade in existing and new products, enhancing competition in markets, stimulating productivity, and fostering technological transfer. All these developments in turn increase the social welfare. Increased trade has been found to discipline domestic firms in Côte d’Ivoire, India, and Turkey by forcing incumbent firms to bring prices closer to marginal costs, thereby reducing the distortions created by monopoly power (Harrison, 1994; Foroutan, 1996; Krishna and Mitra, 1998).

According to UNCTAD (1998), the most notable change brought about by economic reform in many countries is the increase in trade. This increase in trade has resulted in rapid development of new types of services such as banking and insurance, and business services including real estate, marketing, and management, privately supplied medical and education services, and telecommunication services. Thus the increase in trade results in the improvement of human well being.

For the purposes of this study, regional trade is taken to mean the trade that takes place within and a cross two countries which share international borders.
2.2.3 Cross-border trade: the two routes

In spite of the attention cross-border trade as a subject has received in recent years, there is surprisingly little discussion of the concept of ‘formal’ or ‘informal’ cross-border trade. This is not to say that there is any lack of definitions; these are found in abundance across academic research, policy statements and law. At issue is whether the definitions are referring to the same common concept. In most instances, cross-border trade is used when referring to the informal route takers, but in others, it is used to refer to both the traders taking the formal and the informal routes. For example, Ackello-Ogutu states that cross-border trade should include trade passing through and around the established customs points of the trading countries, whether or not the embarkation and disembarkment points are customs controlled (Ackello-Ogutu and Echessah 1998: 55). In other instances, cross-border trade is taken to represent the informal cross-border trade which has a strong association with the small-scale activities of independent traders and border population. Ingue (1985) argues that such association tends to distract attention from the wider regional systems through which the trade is organised.

Formal cross-border trade involves the movement of goods and services through the officially recognised border crossing points between the two countries. The introduction of the monetary economy together with the demarcation of the continent has meant that trade taking place between Kenya and Tanzania should be recognised officially and recorded by each of them. The formal trade between Kenya and Tanzania is governed by several international policy instruments ranging from the Bilateral co-operation initiatives to Regional Trade Agreements and the Multilateral Trading Systems (see §2.3).

Formal trade is a process of exchange consisting of ‘proper’ or normal transactions, which are institutionally regulated, in the formal sector. The traders who go through the formal routes when crossing the border are expected to have valid documentation on the type and amount of goods they are carrying. In most cases, the documentations are done at their point of origin so the customs officials just do the verification (Perberdy 2000). Most of the regional initiatives have been concentrating in easing the movement of goods and people in this category. The latest regional initiative within the East African countries officially opened the border for the region to operate
as a free trade area (§ 2.3.1), which is eventually expected to lead to a common market with a common external tariff.

Such agreements imply that the formal border crossing points are meant for those who are moving larger quantities from regions outside the border to other regions also far from the border region. At the same time, crossing the border formally means that those who are using such routes must have some form of literacy that enables them to read and comply with the written requirements. In this study, the formal trade is used to describe the activities of those traders who pass their goods through the Tanzanian and Kenyan official border crossing points and are therefore going through the trade policy requirements of each country.

In order to discover whether there is a common concept at issue it is essential to start by examining how the term informal cross-border trade is currently used. Many definitions rely on equating informal cross-border trade with one or more dimensions. These dimensions are based on legality. Legality is one dimension which can be divided into legal and illegal. Legality could be considered as one continuous variable, but that would be hard to handle in this thesis and probably best left to the lawyers. Reflecting a widespread interest in achieving an easily applied definition, simple legal and illegal definitions predominate in describing such activities in Africa. However, research suggests that there is a distinction between criminals in trafficking of illegal goods and cross border traders who carry legal goods (Perberdy 2002).

Issues of illegality obviously arise when discussing informal cross-border trade. Illegal goods are basically composed of drugs, guns and stolen goods (Portes et al. 1989). The legal connotation of informal cross-border trade is as a result of its adoption in the literature on globalisation of production and information flows. According to Ingue (1985), such trade is organised through the wider inter-continental as well as regional systems and not just the small-scale activities of independent traders and border populations.

Dongola (1993) in his empirical survey of informal cross-border trade among Sub-Saharan African countries found that such trade takes place outside official channels and has long been equated merely with dubious and illegal activities. In the Dangola
study, the most commonly used illegal definition is smuggling. According to him, smuggling involves transferring of goods illegally from countries that offer lower prices to those that grant higher payments or are themselves are areas of scarce and required commodities. Such definition was also referred to by Abuom-Ongaro (1998) in her study of cross-border food trade in selected countries in Eastern and Southern Africa. To her smuggling was describing activities where access to food was circumscribed and essential supplies could only be obtained by resorting to illicit transfer across neighbouring frontiers.

Abuom-Ongaro (1998) sees those who deal in illegal activities as a special group who have spearheaded special activities like hoarding. According to her, hoarding occurs when official prices are low and the sale of particular items become unprofitable. Inflated prices on the black market appear when specific goods that are in great demand are unavailable through the regular channels. Another term which refers to the illegality of the informal cross-border trade is black market. Black market is closely associated with illegal goods and underworld activities.

Other terms fall in between the legal and the illegal definitions. Such includes the parallel trade and the second economy. Parallel trade was initially seen as trade in legal goods through illegal channels (Lindauer 1989), but includes illegal circuits operating within countries as well as those operating across national borders. However, with the introduction of structural adjustment reforms, parallel trade was seen as supportive of liberalisation and regional integration. According to World Bank, parallel cross-border trade was suddenly seen as an activity that contributes to “increasing competition, supplies products across borders..., provides opportunity for employment in neighbouring countries and encourages entrepreneurial activities.” (World Bank 1989: 139). The second economy includes both trade outside official channels and unregistered small-scale activities of independent traders and service activities (MacGaffey 1991). The definition of the second economy however, is too broad as it includes both production and distribution within and outside official channels.

The ‘local’ words for the smuggling activities in Africa sub-region are kalabule in Ghana, magendo in the countries of Eastern Africa and katangale in Southern Africa.
Taking the legal dimension, on an intuitive level, informal cross-border trade is easily understood. It is derived from the informal sector concept which was introduced by International Labour Organisation (ILO) in Kenya in 1972. According to ILO, the informal sector consists of semi-organised, unregulated activities, undertaken largely by the self-employed. But in studying trade at the border regions, informal cross-border trade is the less visible, unrecorded trade attributed to the arbitrariness of colonial borders and to or to the weakness, corruption and inefficiency of the post colonial state (Mvano 1994, Gooneratne and Mosselman 1998, Ackello-Ogutu and Echessah 1998, Asiwaju, 1995, Egg and Ingue 1993, Asiwaju 1998, Chazan 1988, Asiwaju 1998).

In the context of regional trade, informal cross-border trade is the international trade activity of the informal sector. It forms an integral part of the regional economy. Perberdy uses the term informal cross-border trade to describe the activities of small scale entrepreneurs who are involved in the buying and selling across the national borders. According to her, this kind of cross-border trade is usually called informal because: it involves relatively small entrepreneurs; traders do not access preferential tariff agreements; traders may buy or sell in the informal sector markets; and traders do not always pass through formal import and export channels and may be involved in smuggling of part or all their goods (Perberdy 2002: 2). Generally, informal cross-border trade is often made possible at the border regions because of common social and cultural background. This helps to strengthen local specific knowledge of informal border crossing procedures and to facilitate cooperation and coordination of the border crossing activities by the agents. Finally, cross-border trade tend to be supported by interaction by the agents geared to providing intangible resources to the border region members. Informal cross-border trade in this study is the legal trade that goes on through the informal routes in at least one of the two countries and therefore unrecorded at the formal border crossing points by the officials of one or both countries.

2.3 Locating cross-border trade within regional trade
According to definitions adopted here, informal and formal cross-border trade are the constituents of the wider concept of international trade, using bilateral trade between
any two countries as the starting point. In starting an enquiry into the role of informal cross-border trade, it is useful to start with the wider and the researched and documented, subject of international trade as guided by international policy agreements.

There are three international policy instruments: Bilateral co-operation initiatives, Regional Trade Agreements (RTAs) and the Multilateral Trading Systems (MTS). Bilateral initiatives focus on promotion of bilateral investments and trade expansion. Current trends in international economic reveal a shift away form bilateral towards regional and multilateral schemes, and both Kenya and Tanzania are re-orienting their position in this direction. Regional trade falls within the wider multilateral trading systems and the narrower regional trade agreements as the two most important international policy instruments.

2.3.1 Multilateral Trading Systems (MTS)

The World Trade Organisation (WTO) coordinates the rules-based MTS whose primary objective is to stimulate sustainable world economic growth through trade expansion based on the encouragement on the specialisation and opening up of national economies through elimination of tariff and non-tariff barriers. The MTS operate on the premises of fair competition and transparency in trade entailing equal treatment of national goods and foreign products in trade after payment of custom duties; and the most favoured nation (MFN) treatment whereby the most favourable terms of trade are extended to all WTO members. The system includes a mechanism for dispute settlements amongst members and allowable trade defence mechanisms. It also recognises difference in the development of WTO members and provides for Special and Differential (S&D) treatment for the vulnerable ones.

Kenya and Tanzania have always been members of General Agreement on Tariffs and Trade (GATT) and its successor, the WTO that they signed in 1995. However, while Kenya is regarded as a developing country, Tanzania is categorised as less developed country (LDC) thus it is one of the poorest in the world. Since both countries are members of the WTO they are bound by certain of its rules on tariffs. WTO tariff binding applies to a list of items not locally produced. As an LDC, Tanzania does not
have to open its domestic market as much as the developed countries, benefiting from
the principle of non-reciprocity that has been agreed as part of GATT 1970. It has,
nevertheless, to notify on the agreement issues according to specific agenda. Kenya as
a developing country is not entitled to such treatment.

Integration into the world market is necessary if the states are to avoid being
marginalised in the process of economic development. Most of the poor countries,
however, are not individually able to pay the financial and economic cost of global
integration. To ease and facilitate adaptation process, they have chosen regional
groupings as an easier avenue towards global integration.

Regionalism has been extensively promoted as an efficient means of fostering closer
economic cooperation and enhancing the participating states’ prospects for faster
economic development and better living conditions. Regional integration has long
been seen in Africa as a means of achieving industrialisation and modernisation
through encouraging trade and securing economies of scale and market access
(Khandelwal 2004: 6). Regional Trading Agreements (RTAs) are based on the
concept of economic integration and are building blocks towards effective
participation in the Multilateral Trading Systems. An RTA can be based on a free
trade agreements (FTA), customs union (CU), Common market (CM) or Economic
Union.

<table>
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<tr>
<th>Table 2.1 Types of Economic Integration</th>
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<tr>
<td>Type</td>
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<tr>
<td>Free-trade area</td>
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<td>Customs union</td>
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<td>Common market</td>
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<td>Economic union</td>
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Source: adapted from Maasdorp and Hess

As can be seen from table 2.1 above, a free trade area in theory ensures duty free trade
and no quantitative restrictions among partner states. In practice there are usually
some goods which are exempted from the agreement, perhaps on a temporary basis to avoid economic dislocation such as failure of key but uncompetitive industries and loss of public revenue. In terms of WTO requirements, “substantially all” trade should be free pending the elimination of tariffs. A customs union includes all the conditions of a free trade area and addition, the adoption of a Common External Tariff (CET). The CET binds individual member states of a customs union in their trade dealings with the rest of the world. It ensures that all imports of particular goods into the custom union are faced with common tariff. The common market, in addition to being a customs union, permits both the free movements of goods and services among member states and the free movements of the factors of production and entrepreneurs. The smooth functioning of a common market entails improved macro-economic policy synchronisation and coordination, especially the fiscal regimes. Economic union combines all the attributes above, in addition, it is a situation whereby a single monetary policy prevails and, inside which a single currency or currencies are perfect substitutes.

Most RTAs in East and Southern Africa are operating as free trade areas, with one operating as a customs union and a few working on advancing towards it. In the case of free trade area, there is always a possibility of trade deflection. Trade deflection occurs when a good from an outside country enter one partner country, and then percolates across the border to another partner country as a product of the country of original entry without paying customs duty imposed by the country of its final destination. However, the problem is more complex in customs union because of CET. If one of the partner countries belongs to a free trade area outside of the customs union, then duty free imports into the partner country in terms of free trade agreement would breach the customs union’s CET. Not only would this result in loss of revenue to the customs union, but it would also inflict problems of trade deflection to the partner countries.

The essence of trade co-operation is four fold: solidarity in forging bargaining power; creation of larger markets through merging weak and fragmented ones; preservation of the regional markets; and locking-in policies of trade liberalisation. Regional and international co-operation stimulates productivity and competitiveness through economics of scale and lower transaction costs facilitating trade between countries.
and regions. RTAs create larger markets for goods and services through trade liberalisation, introduction of preferential tariffs and reduction of other barriers to trade. By elimination of the regional trade barriers, unified markets are created, economic integration allows for the exploitation of comparative advantage within the region and permit nations to specialise in the production of the goods best suited to their resource and labour endowments. The resulting increase in intra-region trade in turn leads to more rapid economic growth and better standards of living (LeClair 1997:1). RTAs are accordingly seen as essential route for economic development (Gibb 1998: 289). United Nations Economic Commission for Africa (UNECA 2002) gives five reasons for integration: to transform Africa's economies, to unleash industry and business, to become part of the world economy, to promote the African union, and to address common political problems. This means that integration in Africa is generally multifaceted in nature and extends well beyond the traditional liberalisation of trade in goods and services.

2.3.2 Regionalisation in Africa
Economic integration in Africa can be traced as far back as 1910 when an agreement was signed between the Union of South Africa and the British protectorates of Bechuanaland (now Namibia), Basutoland (now Botswana) and Swaziland establishing Southern African Customs Union (SACU). Generally, the direction of trade and integration on the continent was influenced by colonialism, which promoted economic ties between the various colonial powers and their colonies and also within the blocks of colonies.

With the attainment of independence by most African countries in late nineteen fifties and early sixties, integration acquired a more political dimension culminating in the formation of the formation of Organisation of African Unity (OAU). Several integration initiatives, mainly based on few countries with previous common colonial masters were formed. According to Mulat (1998: 115), industrialisation and the adoption of inward-looking, import substitution economic policies as well as greater South-South cooperation were viewed as the best ways of changing the direction of trade, improving standards and shedding lingering chains binding the newly independent states to their former oppressors. This did not work in most cases, so the RTAs slowed down or collapsed somewhat. However, there has been renewed push in
recent years to broader and deeper preferential trade agreements in Africa. Some of the previous defunct regional arrangements (such as the East African Community) have been revived, while continental institutions — namely, the African Economic Community (AEC), the African Union, and the New Partnership for Africa’s Development (NEPAD) — have been launched under the auspices of Organisation of African Unity, which has been renamed African Union (AU).

The push for RTAs in Africa has occurred against a backdrop of increasing regionalism worldwide. RTAs have been proliferating exponentially throughout the world (Yang and Gupta (2005: 5). Nearly all countries now participate in at least one RTA, and some 300 RTAs, both bilateral and plurilateral, are now in operation worldwide. A sequence of events sparked the renewed enthusiasm for preferential arrangements. Initially it was global trade liberalisation which brought the realisation that its challenges and opportunities can only be met and exploited effectively on a regional footing. Then there was the failure to launch a round of multilateral trade talks in Seattle in 1999, their short lived recovery after the Doha ministerial meeting in 2001, and the impulsive breakdown in Cancun in 2003.

2.3.3 Regionalisation within East Africa

Over the past few decades, the three East African countries consisting of Kenya, Uganda, and Tanzania have tried various arrangements within themselves and sometimes with others within the Sub-Saharan Africa (SSA) to promote economic integration. Both Kenya and Tanzania belong to several Regional Trading Agreements together or separately. In some cases, even some of these RTAs which the two countries belong to overlap with each other. The RTAs, where the two states are both members are Regional Integration Facilitation Forum (RIFF) and the East African Community (EAC). Also, they are both eligible for accessing opportunities through Africa Growth and Opportunity Act (AGOA) of the US. Separately Tanzania is a member of Southern Africa Development Community (SADC) and African

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4 The departure of RTAs from the GATT/WTO principle of non-discrimination (the most-favoured-nation – MFN- clause) is sanctioned by GATT Article XXIV and the Enabling clause. However, Article XXIV requires that an RTA must (i) “on the whole” raise protection against non-members; (ii) reduce internal tariffs to zero and remove “other restrictive regulations on commerce” other than those justified by other GATT Articles; and (iii) cover “substantially all trade.” The Enabling Clause relaxes the conditions for RTAs among developing countries. For example, it drops the conditions on the coverage of trade and allows developing countries to reduce tariff on mutual trade in a way they wish.
Caribbean Pacific (ACP). Kenya is a member of Common Market for Eastern and Southern Africa (COMESA). Some of the RTAs are formal arrangements with treaties signed by member countries while others are informal in nature with no such binding agreements.

The latest integration initiative where both Kenya and Tanzania are members and have a membership of more than the three East African countries is the *regional integration facilitation forum* (RIFF). It is by nature, an informal arrangement between the participating countries. The RIFF is essentially a common policy framework that “aims to facilitate cross-border economic activity by eliminating barriers to cross-border flows of goods, services, labour and capital, as well as to integrate markets through a co-ordination of reforms...” (The Cross-Border Initiative in Eastern and Southern Africa 1999:1). The initiative was a temporary structure which was established primarily to assist in creating conditions for more beneficial integration in countries in the Eastern and Southern Africa region. It places the responsibility of designing and implementing the integration measures at the national level. The integration agenda has been worked out in collaboration with the RTAs and has been designed to reinforce, not to replace, their efforts (EU 2000:11).

RIFF is an initiative that has avoided adding to the long list of the formal RTAs in the region. It has taken the opposite track in promoting a “bottom-up” approach to integration. Even though it emphasises national action, it also includes the private sector, thereby ensuring the involvement of a key stakeholder. The input of this sector has assisted in the identification of barriers to trade and in providing a strong lobby against government temptation to reverse policy reforms. The RIFF is informal in nature and does not have a binding commitment such as exists in a treaty framework. But despite its informal nature, the initiative has been instrumental in enabling participants to agree upon agenda of expediting trade liberalisation and hence integration.

The origins of the RIFF can be traced to its predecessor the Cross Border Initiative (CBI). The Cross-Border Initiative (CBI) comprises a common policy framework developed by fourteen participating countries from Eastern and Southern Africa and
the Indian Ocean\textsuperscript{5}, with the support of the co-sponsors – the IMF Fund, the World Bank, the European Union (EU), and the African Development Bank. The CBI was a non-institutional grouping of countries and was intended to provide a fast-track mechanism to facilitate cross-border trade, investment and payments in Eastern and Southern Africa. The policy frameworks aims to facilitate cross-border activity by eliminating barriers to cross-border flow of goods and services, labour, and capital as well as integrate markets through co-ordination of reform programs in the areas of trade, exchange systems, domestic banking and payments, investment regulations, supported by appropriate macro economic policies.

As one of the key elements of the CBI framework, trade liberalization and facilitation entailed that the member countries should have:

(a) a tariff structure of no more than three (non-zero) rates with a maximum rate of 20-25 percent covering all import-specific taxes and charges;
(b) lowering trade-weighted average rate of tariff vis-à-vis third parties to not more than 15 percent;
(c) complete elimination of all tariffs on intra-regional trade for products originating from the CBI area;
(d) application of the lowest customs duty rate to raw materials and capital goods, a middle rate for immediate goods, and a higher rate for finished goods (based of a 6-digit harmonised system tariff code);
(e) elimination of the remaining non-tariff barriers except those justified for health, security and environmental reasons; and
(f) reduction in customs duty exemptions to a minimum consistent with international treaty obligations.

The CBI framework called for a coordinated and time-bound reduction of trade barriers at the regional level, and with third countries on a most favoured nation (MFN) basis. The specifics of the trade reform agenda and the timetable for the implementation included: (i) effective October 1995, increasing from 60 to 70 percent the interregional tariff preference for countries that had not yet done so; (ii) elimination of tariffs on intraregional trade by October 1998, with an increase in the

\textsuperscript{5} Comprising Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe
preference rate to 80 percent by October 1996 and to 90 percent by 1997; and (iii) a harmonized external tariff to be adopted by October 1998 consisting of not more than three rated bands, a trade weighted average tariff rate of not more that 15 percent, and a maximum rate of 20-25 percent. With regard to non-tariff barriers (NTBs), countries were expected to dismantle import licensing requirements and similar NTBs on an MFN basis, except for a short "negative list" for non economic reasons such as security, health, and environment. Quantitative restrictions on exports to all countries were to be eliminated, except for a small negative list for the same non economic reasons.

At a fifth Ministerial meeting in May 2000, it was decided that the next phase of the project should be launched under the name of "Regional Integration Facilitation Forum" RIFF.

In August 1992, a formal treaty providing for the establishment of Southern African Development Community (SADC) was adopted, superseding the Southern Africa Development Coordination Conference (SADCC). It functioned as a de facto international organisation not based on any treaty for about one year before a "Memorandum of Understanding on the Institutions of the Southern Africa Development Co-ordination Conference" was adopted on July 20, 1981 (EU 2000: 7). The principal goal of SADCC was not the creation of a customs union. It had the modest aim of promoting economic co-operation within the nine "Frontline States" so as to reduce economic dependence on South Africa (Forouton 1992: 9). From 1992, a combination of various factors made it possible for SADCC to require a new identity. Such factors include the demise of apartheid in South Africa, Namibia gaining independence and the signing of the Abuja treaty for the establishment of the African Economic Community.

6 The harmonization of external tariffs implies some flexibility for countries to establish their own tariff schedule, while agreeing with its regional partners on parameters such as the number of tariff bands and maximum and average tariffs.

7 At its inception, SADC had nine members: Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Since then five countries (the Democratic Republic of Congo, Mauritius, Seychelles, Namibia, and South Africa) have joined the Community.

8 The SADCC was set up as a rather informal organisation by the 'frontline' countries with the objective of reducing economic dependence on South Africa. For the most part, the objective of SADCC activities was on the implementation of projects.
SADCC duly transformed itself through the adoption of the Declaration and Treaty of SADC at Windhoek. Namibia joined SADC the same year while South Africa became a member in 1994. The SADC Protocol was not completed and signed until August 1996. The signing of the SADC Trade and Development Protocol marked a significant stage in the movement towards the establishment of a free trade area. Its objectives include the liberalisation of “intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements” and the establishment of a free-trade area in the region. Members have committed themselves to eliminating barriers to trade within a period of from the entry into force of the Protocol. The Protocol provides, inter alia, for the elimination of tariffs and import and export duties, non-tariff barriers as well as quantitative and import and export restrictions.

This program is less ambitious than the one agreed on by its own member countries under the CBI and under the COMESA. Current proposal calls for the removal of all intraregional tariffs within a period of eight years. The Trade Protocol came into force on 25 January 2000, the Free Trade Area is scheduled to come about in 2008. It acknowledged that there is an element of asymmetry in the establishment of a free trade to reflect the imbalance in the strengths of the different economies. Due to the imbalance, for the purposes of integration the SADC member states have been classified into three main categories. The first one consists of the Southern Africa Customs Union (SACU), being made up of South Africa, Botswana, Lesotho, Namibia and Swaziland. The second is developing countries, which is only Mauritius and Zimbabwe and the third being the least developed countries consisting of Malawi, Mozambique, Tanzania and Zambia. SACU members are to commence and complete tariff reduction in the early phases of the eight year period. Developing countries are allowed to put off until the middle phase, while the least developed countries will not start their reductions until towards the end of the period.

The Trade Protocol only covers intraregional trade because it is a free trade area. It does not cover the liberalisation of trade with non-SADC countries. It does, however,

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9 The signatories of the Treaty were Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe.
10 Though Angola is a signatory to the Protocol it is not participating. DR Congo and the Seychelles are not signatories.
provide that Member States shall cooperate and conclude agreements with third countries "to facilitate and accelerate the achievement of the objectives of the Protocol". Also, unlike agreements under the CBI proposals, trade liberalisation among SADC countries allow for special treatment of so-called "sensitive products" (in agriculture, agro-industry, and manufacturing), involving a slower phase-in for import tariff reductions. Moreover, some of the proposals leave open the possibility of excluding some goods/sectors altogether from trade liberalisation exercise.

SADC is adopting a product-by-product approach to zero tariffs. Products have been classified into three categories; category A comprising products for immediate liberalisation, category B products for gradual liberalisation and category C sensitive products to be liberalised last, in some cases after the eight year period (Ng'ong'ola 2000: 498). The first category principally covers capital goods and raw materials. The second category covers the majority of the goods, apart from the sensitive products. The last category covers goods that are nationally sensitive and are to be defined by each country. The Member States are to submit their list of sensitive products, provide reason to justify their lists, and indicate what steps they intend to take with regard to the reduction of tariff on such sensitive products.

The Common Market for Eastern and Southern Africa (COMESA) was established in November 1993, superseding the Preferential Trading Agreement (PTA) for the Eastern and Southern Africa states. The history of the PTA can be traced back to 1965 when United Nations Economic Commission for Africa (UNECA) convened a ministerial meeting in Lusaka Zambia to consider proposals regarding the creation of a mechanism to promote regional integration among newly independent states of the Eastern and Southern Africa region. The meeting recommended the creation of an Economic Community of Eastern and Southern Africa states. In 1978 the recommendation was followed by the adoption of "Lusaka Declaration on Intent and

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11 At its inception COMESA had 10 members: Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Somalia, Swaziland, Uganda, Zambia, and Zimbabwe. It later increased its membership to 21 members with the addition of Angola, Burundi, the Democratic Republic of Congo, Comoros, Djibouti, Egypt, Eritrea, Madagascar, Rwanda, Sudan, Namibia, Seychelles, and Tanzania. Tanzania withdrew its membership in 1999. Eleven of the remaining 19 members currently trade in a free trade area.

12 The PTA originally envisioned a membership of 21 countries: Angola, Botswana, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, Swaziland, Tanzania, Uganda, Zaire (now DR Congo), Zambia and Zimbabwe.
Commitment to the Establishment of a Preferential Trade Area of Eastern and Southern Africa” (PTA) and the setting of the Treaty of the establishment of PTA. On completion of preparatory work, a meeting of Heads of States and Government convened and signed the Treaty Establishing the PTA.

The PTA’s main aim was the establishment of an economic community, with the creation of a preferential trade area being a first step along that path. The PTA Treaty created a unified secretariat and placed an emphasis on the exchange of goods and services (Takirambudde 1999:152). Member states agreed to progressively reduce tariffs and non-tariff barriers on the basis of an agreed list of products consisting of those goods recognised as originating from within the PTA. Following the signing of the Abuja treaty, it became necessary to structure the PTA to conform to the vision of the continent-wide community. This was achieved through the signing of the COMESA treaty, which subsequently came into force in December 1994.

The aims and objectives of the COMESA treaty and protocols are to facilitate the removal of structural and institutional weaknesses of its members through the creation and maintenance of:

(a) a full free trade area guaranteeing the free movement of goods and services produced within the COMESA region, and the removal of non-tariff barriers;
(b) a customs union under which goods and services imported from non-
COMESA countries will attract a single tariff rate;
(c) the free movement of capital and investment supported by the adoption of common investment practices;
(d) a gradual establishment of a payment union based of the COMESA Clearing House, and eventual establishment of a common monetary union; and
(e) the adoption of common visa arrangements, eventually leading to the free movement of bona fide persons.

Under the COMESA programme, activities in respect of trade liberalisation, trade facilitation, payment systems and immigration and free movement of persons were to be undertaken. The COMESA program includes the establishment of a Free Trade Area (FTA) by the year 2000, to achieve by the reduction of the intra-COMESA tariffs. This was only partially achieved by October 2000 when eleven of the nineteen
member states agreed to participate in a free trade area (FTA); others trade on preferential terms.\textsuperscript{13}

Member countries have also agreed to adopt a formula on the rules of origin for goods to qualify for preferential treatment if they undergo substantial transformation such that they contain a minimum of 35 percent regional value-added, or include non-COMESA imported materials worth no more than 60 percent of the value of the inputs used, or undergo a single change of tariff heading. There is a list of “goods of economic importance” to member states, according to which the domestic value added requirement is relaxed to 25 percent. COMESA members had further proposed to establish a customs union with a common external tariff of 0 percent, 5 percent, 15 percent, and 30 percent by 2004 (COMESA Secretariat, 2003b). However, with the setting up of the customs union by East African Community (EAC) in 2003, two COMESA members, Kenya and Uganda have agreed on a CET structure of 0, 10, and 25%. As a result the discussions on the CET have been delayed.

Countries of COMESA and the EAC drew up a Memorandum of Understanding (MOU). All parties committed themselves to cooperating in areas of regional integration, trade and development. The MOU specifies, among others, the establishment of a free trade area, the refining and implementation of a CET, the elimination of non-tariff barriers and the promotion and implementation of common customs document. A noteworthy aspect was that the MOU “recognised that the implementation of all COMESA instruments are relevant to EAC, but not all EAC instruments may be relevant to COMESA”. The MOU implicitly recognises that the EAC as a sub-group could adopt a different set of instruments for its intra-trade.

COMESA agreed to implement a CET by 2004. The agreed structure was to have four categories, each with its own rate: capital goods (0 per cent), raw materials (5 per cent), intermediate goods (15 per cent), and final goods (30 per cent). However, there is discussion on lowering these rates since some Member States such as Uganda already have rates lower than these in the range of 0-7-15 per cent on primary, intermediate and final goods respectively.

\textsuperscript{13} Members of the FTA include Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia, and Zimbabwe.
The *East Africa Community* originally was constituted by three countries, Kenya, Tanzania and Uganda. Rwanda and Burundi are currently contemplating joining them. Close economic ties between the three East African countries dates as far back as the end of 19th century with the commencement of the construction of the ‘Uganda Railway’ from the coastal town of Mombasa to its completion in 1901 when it reached Kisumu on the shores of Lake Victoria. During that time, all the three countries were covered by the British administration (see §3.2.2). In 1922, Tanganyika, Kenya, Uganda and Zanzibar got together to create the first common services initiative. After World War II, efforts were made to promote the ties by establishing the East African High Commission and the East African Legislative Assembly to control and administer certain matters and services of common interest. The spheres of co-operation within the High Commission arrangements included a customs arrangement. This arrangement remained in force between 1948 and 1961 when Tanganyika achieved its independence.

In 1961 the High Commission was superseded by the East African Common Services Organisation Agreement which established the East African Common Services Organisation. This had as its executive body the East African Common Services Authority, and as its legislative body the Central Legislative Assembly.

By 1967, when all the three countries had attained their independence, the High Commission of the East African Common Services was superseded by East African Community (EAC). The three independent countries signed the treaty for the East African Cooperation establishing the East African Community to control and administer matters of common interest and to regulate commercial and industrial relations and transactions among themselves. The Treaty was basically seen as an inter-governmental affair of the partner states.

In 1977, the Community was officially dissolved. The collapse of the Community is widely attributed to three main factors: the ideological differences between the member states; the inadequate distribution of costs and benefits among partner states; and the personality clashes between the heads of state of partner countries after Idi Amin’s 1971 military coup in Uganda.
The three East African states appeared to part ideologically from the early to mid 1960s with the attainment of their independence. In 1967, Tanzania adopted the *Arusha Declaration*, (see §3.2.3) which ushered in a socialist era, emphasising self-reliance and eschewing foreign investment. Much in the same vein, under Milton Obote, Uganda opted for *Common Man’s Charter*, which, in effect, established ideological axis between Tanzania and Uganda. Kenya, on the other hand, had laid its ideological precepts in Sessional Paper No. 10 of 1965 on *African Socialism and Its Application to Planning in Kenya*, which, despite the term socialism, set the stage for an open, liberal economy welcoming foreign investment.

The sceptical view of foreign investment taken by Tanzania and Uganda caused potential investors in the region to cast their eyes into Kenya. The relatively better infrastructure and industrial base in Kenya, inherited from colonial times, also favoured an inflow of investment. Thus, old disparities and new ideological dispositions combined to reinforce the inequalities. Kenya ended up with a better base for manufactured products which resulted in her having more exports to the partner states. It was therefore seen as unfairly gaining at the expense of the other partners to the commission.

The personality clashes between Tanzania and Uganda broadened when Idi Amin deposed Milton Obote in the January 1971 military coup. President Nyerere refused to sit at the same table with Idi Amin, whom he regarded as a ‘treacherous army leader’. From then onwards the EAC Authority, consisting of the three heads of state, never met. This was disastrous to the Community, whose authority was to take decision by consensus, and eventually led to its collapse.

Since the collapse of the EAC, the three countries have gone through other regional integration initiatives and finally a re-establishment of the EAC. The EAC between Kenya, Uganda, and Tanzania was re-established in November 1993, and is the most recent in a long line of regional integration arrangements economically linking these three countries.¹⁴ Through regional cooperation, the EAC seeks, inter alia, to:

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(a) strengthen and consolidate cooperation in agreed fields with a view of bringing about equitable development among member states;
(b) establish a single market and investment area in the region; and
(c) promote sustainable utilisation of the region’s natural resources and effective protection of the environment.

In the pursuit of these aims, a customs union, a common market, and later a currency union to be established, and ultimately political federation is to be created (Article 5, § 2).

According to Article 7, § I (a) and (c), for example, a people-centred and market-driven cooperation and the establishment of an export orientated economy for the Partner States in which there shall be free movements of goods, persons, labour, services, capital, information and technology is one of the operational principles established for the realisation of the objectives of the community.

The main policy organs of the EAC are: the Summit of the Heads of State, the Permanent Tripartite Commission, the Coordination Commission, and the Secretariat. Since the launching of the EAC, the Tripartite Commission has concentrated in the identification and elimination of physical and policy related constraints, which would slow progress in the establishment of a single market and investment area. Accordingly, much of the work has focussed on the formulation of programme to ease the movement of people, goods, services, and capital; provide adequate and reliable basic infrastructure; harmonise standards, specifications, trade documentation and investment policies; harmonise macroeconomic and sectoral policies; provide trade financing and other facilities ancillary to the growth of exports; and achieve convertibility of the three East African currencies.

As a result of these activities, the EAC has achieved the following to enhance trade: (i) full convertibility of the three East African currencies within the region (ii) formation of the East African Council, comprising private sector organisations to promote cross-border trade and investments, and (iii) the execution of the tripartite agreements for the avoidance of double taxation, road transport, and inland waterways.
However, it is to be noted that all these regional initiatives aimed at facilitating the cross-border trade are predominantly inter-governmental affairs. A major feature of regional trade agreements is the apparent under recognition of the role of connectivity in the trading through the border. Discussion about the implementation and protocols of the cross-border trade do not take elements such as informal cross-border traders into consideration. This is what we turn to next.

2.4 The view of cross-border trade from orthodox economic theory
In line with neo-classical tradition as pioneered by Ricardo, trade should be directed by comparative advantage. The comparative advantage is based on production advantage. Ricardo’s theorem suggests that each region should exchange freely according to factor availability. Underpinning this view was the assumption that cost advantages derived from economies of scale and specialisation would make all regions benefit from exchange of products. Examples of these can be found in the Asian growth triangles and the European Union, especially Central European countries whose economies have improved after access to the EU markets (Kaminski, 2001). However, it should be noted that the classic comparative advantage has nothing to say about how exchange take place.

The argument is more complex when applied to developing economies, accounting for the attention given to cross-border trade since even before attainment of independence by the three East African countries. Cross-border trade should be seen as a method of promoting sub-regional economic integration, providing productive employment to the parties involved in such activities and promoting the exchange and sharing of the expertise, information and technology available within different parts of the border region (Chinn 1978:697-703, Pitt 1981:447-458, Green 1986:768-801, Johnson 1987:548-564). It has been argued on one view that the advantages of integration initiatives have been confined to large formal sector companies who cross the border formally, effectively overshadowing the informal cross-border trade (Meagher 1990: 18). The opposing view is that both routes are essential part of regional trade policies and none should be ignored at the expense of the other (Mvano 1994, Gooneratne and Mosselman 1998, Ackello-Ogutu and Echessah 1998, Asiwaju 1995, Egg and Igue 1993, Asiwaju 1998, Chazan 1988, Peberdy 2000, 2002). Also, Peberdy (2002) recommends that informal cross-border trade should be included in
conceptions of regional patterns of trade and in policies concerned with developing regional economy. Further exploration of this broader role of cross-border trade in regional development will be deferred until later (§2.4.2).

More specific has been the assertion that informal cross-border trade has a special role in generating employment. The essential basic claim has been that informal sector from which informal cross-border traders are presumed to be based, can create jobs at a lower capital cost than the formal sector. Underpinning this argument is the assumption that developing economies are characterised by labour surpluses and capital scarcity. Given efficient markets, labour should be relatively cheap and capital expensive by comparison with the industrialised economies. Informal cross-border trade, strongly associated with greater labour availability, is therefore seen as an economically efficient source of job creation.

This argument assumes that availability of labour is synonymous with cheapness. There is no theoretical connection between labour availability and choice of route in orthodox economic theory. At the same time, cost, the classic measure of comparative advantage no longer weighs as predominant in a trader's decision on the route to be taken while crossing the border. In the words of competitiveness analysts, comparative advantage "has to be created and must [continuously] respond to the changing world environment" (ul Haque, 1991). In most cases trade is not initiated by suppliers with surplus to sell, but rather it is spurred by purchasers with a need to procure at low cost, reliable goods, and most probably from those known to them.

2.4.1 Dynamic views of informal cross-border trade

The economies of cross-border trade in the two countries under investigation must be explored in historical perspective. Many of Kenya's and Tanzania's societies in the nineteenth century were acephalus, but trade among them was all the same vibrant (Ambler 1985). Much of the trade was conducted among the adjacent communities.

At the local level, trading activities took place in markets. A market is a place where traders either wait for buyers every day in shops or stalls or proceed on specific days at more or less frequent regular intervals at a place to do business under certain rules and regulations, in certain kinds of goods (Nand 2005:8). Zeleza (1993) states that some of the most famous daily markets in nineteenth century East Africa developed at
provisioning stations along the major caravan routes. These stations usually developed into towns which depended for their livelihood on the producers and consumers of the countryside and on the regular visits of caravans engaged in regional and international trade, examples are Taveta in Kenya and Tabora in Tanzania. At the same time, local trade had existed for centuries in most parts of Eastern Africa necessitated by the diversity in the ecological systems and the uneven distribution of resources, social differentiation, and division of labour among households.

The primordial view links informal cross-border trade with colonisation and, therefore, the demarcation of Africa into countries. With the advent of colonisation, the territorial boundaries of all the African countries have artificially partitioned the economic, social, cultural and ethnic links that existed between communities, kingdoms and/or regions. These borders were arbitrarily drawn regardless of cultural cohesion of the countries in question and separated the peoples of ethnic mini-nations held together for centuries by their common heritage and language. In some cases, members of the same family live on both sides of the border. In spite of these artificial demarcations between countries, traditional exchange of goods and services has continued to exist and prosper particularly during the period of draught and internal political instability and, despite the unfriendly environment between neighbouring countries in certain instances. In fact, border populations tend to ignore the rules of international trade in their trading transactions, even when the formal borders are closed. Dongola (1993) noted that informal cross-border trade is no longer confined to the traditional exchange of goods and services between residents sharing a common border with a primary purpose of meeting shortfalls in subsistence consumption. It now embraces products/commodities intended largely for resale in the urban and rural areas quite far away from the borders, and sometimes for re-export.

However, by 1988, researchers and development institutions started to associate informal cross-border trade with the large informal trade existing in Africa (Africa Development Bank 1987, World Bank 1989). The concept of informal sector which embraces informal trade was introduced by ILO in Kenya in 1972 (see §2.2.3). The informal sector consists of semi-organised, unregulated activities undertaken largely
by the self employed (ILO 1972). Natress (1987:864) argued that most informal sector activities are labour intensive, small-scale and unrecognised and unregulated. This provides latitude and flexibility for a broad range of decisions in terms of personal initiative and innovation, the size of the enterprise, the choice of technique, and the utilisation of incomes. Writers like Bromley and Gerry (1979) point to the flexibility of working hours, location and greater job mobility of self-employment, and increasing job insecurity in the formal sector as reason for drawing an increasing number of people into urban informal sector. In addition, Cornuel and Duriez (1985) list a number of advantages which help informal enterprises minimise costs, including absence of taxes, social security contributions, obligatory deductions and work regulations. However, these are traditional views which have some major weaknesses.

In the first place, the traditional view seems to suggest that the informal sector is basically an urban phenomenon. This perspective fails to explain the existence of a substantial number of activities and economic transactions that operate outside the official net in the agricultural or rural sector. Also, as de Soto (1989) has argued, even the high rates of unemployment in the modern urban sector may only explain why people are not employed in the traditionally established business activities, but not why business operate outside Government regulation.

In the second place, contrary to the classical theories of development, which view the informal sector as a passing phenomena destined to phase out with time, giving way to large scale, more organised urban sector, experience in developing countries shows that this sector has considerably increased both in its level of production and the number of persons engaged in it. In India, for example, the informal sector GDP is said to be of the same order as that of the formal labour force (Mazumdar, 1976: 655). In Africa, the informal sector accounts for 60 per cent of the urban labour force and it is quite likely that it contributes between one-quarter and one-third of urban incomes (ILO/JASPA, 1985: 11). This view was supported by Jaganathan (1987:3-14) who argued that most of the wealth of the individuals within the informal economy in Africa and Asia exist in the form of regular behavioural relations that acquire the characteristic of intangible property rights. According to him, although the right may
not amount to much in terms of economic equivalent to income levels in developing countries, they do constitute important sources of income and purchasing power.

Dongola quotes ILO that informal cross-border trade occurs within the informal sector in as much as it shows the following characteristics, (i) informal trade is large in scale, unregulated and performed by a multitude of informal sector operators (ii) the average scale of the operation is smaller than that of the formal sector (iii) The formal requirements for registration are minimal, nonexistent, or evaded with complete freedom and ease of entry and exit (iv) evasion of international duties and use of parallel markets in foreign exchange, local taxes and licenses to sell in local markets are generally paid (ILO 1972). However, the direction of informal trade is determined by the price differential, the incentive of the informal trader. This incentive results from the trade taxation, the exchange rate differential from the official and the free market, and existence of some form of free trade restrictions. The trader’s decision to use alternative unregulated informal trade rather than formal trade channels is guided by the lure of a return higher than that available in the formal market.

2.4.2 Linking cross-border trade and regional development

Recent evidence shows that cross-border trade plays a role in the process of regional development through regional trade agreements. In Asia, the RTAs represent spatial arrangements based on functional and interdependent economic relationships and are commonly known as growth triangles or localised economic cooperation zones. The main growth triangles include SIJORI triangle, the Golden triangle, the Northern triangle and other less established ones between China, Russia, Democratic Republic of Korea and Hong Kong. The European cross-border initiatives are bottom-up based on similarities and are oriented towards joint development of infrastructural facilities and other services or joint management of resources. From the African point of view, the concept of cross-border cooperation is crucial for the regionalisation initiatives (see § 2.3.2). As in the case of the rest of the World, emergence of "borderless age", where the national boundaries are increasingly losing their

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15 SIJORI is the growth triangle between Singapore, Jahor (Malaysia), and Riau (Indonesia). The Golden triangle (including border regions from The People’s Republic of China, Myanmar, Thailand, and Lao PDR). The Northern triangle (including, West Malaysia, southern Thailand, and northern Sumatra, Indonesia).
traditional meaning, is also being increasingly felt in Africa. Gooneratne and Mosselman (1998) found that the need for cooperation between the economically and culturally-linked border regions has emerged as one of the most important requirements for strengthening regional cooperation.

At national levels, both Kenya and Tanzania, at one time or the other enforced monopolistic marketing of certain products. While in Kenya it was mainly agricultural products which were subject to such distribution practices, in Tanzania, it was all the products. Such practices were enforced through price control (§3.3.1 and 3.3.2). An important effect of the government’s attempt to enforce monopolistic marketing and producer price control has been the development of the parallel markets or second economy as they were referred to in Tanzania. The parallel markets at the border regions were run through a cooperation and coordination of the informal traders within the countries and even across the borders for the goods which were scarce in either country. Bagachwa concluded that “second economy activities are seen as adaptations to social or market forces working towards societal harmony or equilibrium” (Bagachwa 1982:33).

The regional integration efforts, with one of their main objectives being the opening up of the border for the free movement of goods and services (see § 2.3.1) do not seem to have eliminated the informal trading within the border regions and beyond in some cases. One of the reasons for this is that regional integration efforts have been marked by multiple and conflicting objectives of overlapping regional arrangements, and limited administrative resources (Iqbal and Khan, 1997). As a result, even though regional trade arrangements (RTAs) have been in place for over fifteen years (SADC-1992, COMESA-1992, and EAC-2000), they do not appear to have been successful in generating trade expansion in the regions they cover in Africa.

The extent of informal cross-border trade across borders in Eastern and Southern Africa has been the subject of debate mainly because such trade is unrecorded and hence does not feature in the official trade statistics of the countries. Yet, according to Ackello-Ogutu 1998, it is substantial, which could mean that the official statistics of countries are underestimated to an important degree. Several studies (see Iqbal and Khan, 1997 and Oyejide et al. 1999) have pointed out that African trade has been
hindered by distorted trade regimes and high transaction costs owing to inadequate transport, information and communications infrastructure, lack of political commitment and frequent policy reversals, difficulties in implementing harmonisation provisions, multiple and conflicting objectives of overlapping regional arrangements, and limited administrative resources.

The arbitrary nature of the border seems to suggest that the informal cross-border trade is conducted by those living along the porous border. However, according to Bagachwa (1982), an interview with a sample of traders at Namanga (along Kenya/Tanzania border) and at Kyaka (along the Tanzania/Uganda border) revealed that cross-border trade is no longer confined to people living near these borders. In the area around Namanga, 75 per cent of the traders had no tribal or ethnic affiliations with neighbouring Kenya tribes. In Kyaka, 32 per cent of the traders were in no way related to people living near the border. This seems to suggest that informal cross-border trade between Kenya and Tanzania is not simply intra-ethnic exchange across an artificial border, but is trade in the full sense of the word (see §2.2.1). The finding may also suggest that Kenya and Tanzania are moving towards economic integration at the grassroots as well as inter-governmental level. The traders along the border region are not necessarily the people whose families were divided by the border line. The traders influence the laws of supply and demand with reciprocity and social network and participate effectively as retailers, wholesalers and decision makers.
CHAPTER 3
HISTORICAL BACKGROUND OF CROSS-BORDER TRADE

3.1 Introduction
Cross-border trade, it emerges from the arguments of the previous chapter, has a potentially highly significant role in regional development through regional initiatives. We now turn to consider the position of trade development within the East African region. The purpose of this chapter is to consider what is known about regional trade in the context of cross-border trade within the wider East Africa and specifically between Kenya and Tanzania at Isebania/Sirare border.

An outline of the path and current state of the East African regional trade development forms the essential background of our enquiry (§3.2). In attempting to understand the informal cross-border trade between Kenya and Tanzania we need to consider its basic context. A century ago, much of the economic activity of the area which constitutes the present day Kenya and Tanzania could be characterised as traditional peasant subsistence agriculture or pastoralist activities. The region experienced first colonialism and then partition into independent states.

The next section (§3.3) attention is directed specifically towards the post independence trade regimes in the two countries. The argument in the last chapter emphasised the role of informal cross-border trade. The section underscores how the policies and the trade regimes contributed to the persistence of this kind of trade.

3.2 Synopsis of trade development between Kenya and Tanzania
The wider East African trade regime can be considered to be divisible into three main periods: pre-colonial, colonial and post-independence. However, this rigid tripartite division of the historical development of the wider East Africa and specifically between Kenya and Tanzania tends to obscure a process which it can be argued has been continuous, albeit significantly modified by the political changes occurring at the onset of the colonial period. In the pre-colonial period, it is trade within the region as a whole which is referred to, although not recorded since by then there were no demarcation and so none of the countries existed individually as they do today. Within most of the colonial period, specifically when the larger East Africa became
one protectorate, the region was treated as one trading block under one colonial administration.

Tanzania and Kenya obtained full independence from Britain in the years 1961 and 1963 respectively. Much of the individual countries' trade regime history starts immediately after their independence. With the attainment of independence, each country charted and practised what they ideologically thought was beneficial to their inhabitants.

3.2.1 Pre colonial period
Before the colonial period, there was little in geography or pre-colonial history to define the boundaries of East Africa as an economic or political unit, or those of the countries within it (Hazlewood, 1975: 1). However, within the areas that are now demarcated as Kenya and Tanzania, a majority of the communities were pastoralist; a significant minority practiced settled agriculture. Although much of the economic activity was directed to subsistence, it is important to note that in both Kenya and Tanzania many of the communities within the wider East African region and Africa as a whole did generate surpluses in various commodities to engage in trade (Maliyamkono and Bagachwa 1990 and Ochieng 1992a). The East African Islands within the Indian Ocean and the coastal region had been involved in international trade for many centuries with other areas in the Ocean and Europe. This trading activity was dominated by the settled Arabic and Indian population on the coast. Trade with the interior was conducted by coastal merchants who organised caravans to the interior (Senderberg 1995, Gregory 1993, Ochieng 1992).

Although there was evidence of international exchange within the East Africa region in the pre-colonial period, it was also highly constrained by a number of factors. Physical transportation was highly costly in the absence of a developed road or railway system. Locally, the exchange was more as a means of survival than accumulation of wealth. In the absence of law enforcement for the wider region, the environment was not appropriate to a high density of exchange. Crucially, the lack of convenient store of value and means of exchange was a major hindrance.
3.2.2 Colonial period

European explorers arrived in the East African region towards the end of nineteenth century. By 1898 Kenya had been declared a British protectorate, and a full colony was established in 1902. The area that is now Tanzania on the other hand was a German colony from the late 1880s until the Germany’s defeat in the First World War when Tanganyika was made a League of Nations (and subsequently UN) mandated territory. The boundaries of the three East African countries consisting of Kenya, Uganda and Tanzania were set by the European colonialists somewhat arbitrarily. Significantly, these boundaries took little account of the pre-existing African nations (Ochieng’ 1992b).

During the colonial period, the two economies were entirely under the control of the colonialists whereby the native Kenyans and Tanzanians played part as the labourers and the exploited class. The major players in the exchange process were immigrants. Immigrants arrived from a number of origins, notably Germany, Britain and India. European settlers were able to alienate vast tracts of most fertile regions of central Kenya and the cool highlands within Tanzania for large-scale cash crop production (Throup 1988, Furedi 1990, Kenyachui 1992b, Pots 1995). Some Indians originally arrived in East Africa as indentured labourers of the construction of the railway, and opted to stay following its completion. They stayed mainly because of perceived greater economic opportunities. Indians were excluded by colonial policy from agriculture and established themselves in micro-scale enterprises across East Africa, notably in small dukas16.

The early colonial period introduced the cash economy within the region. Agricultural products were processed to a limited degree for export. A unit of currency was established by the colonial economy. The construction of the railway lines within the region encouraged more trade into the interior by reducing the cost of transportation and the associated transaction costs. Also, the introduction of taxation, especially the imposition of hut tax on the natives forced many people into the cash economy. Indigenous people were effectively forced to produce a commodity surplus or sell their labour to raise cash for the tax system.

16 Duka is a Swahili word for shop.
The latter part of the colonial period witnessed a rapid growth in the exchange activities not only within the region but internationally. This was evidenced by the proliferation of industries which initially was in response to the difficulties in supplying the colony during the war. Subsequently British imperial policy was to dramatically increase the scale of production in the colonies. The private sector was also coming up at the same time, especially by the immigrants. In Kenya for example, the manufacturing in the private sector was dominated by subsidiaries of the multi-nationals and the country based Europeans and latterly Asian entrepreneurs (Swainson 1980). Such resulted in the expansion of the cash economy by improving the infrastructure, creating employment, paying for the raw materials and other resources. Meanwhile, the three countries in the region were exporting to and importing from each other without any hindrance because of open borders.

During the Second World War, Cereals Boards were established in Kenya, Tanganyika (now Tanzania) and Uganda with the objectives of guaranteeing stable prices to producers, to rationalize internal trade, to achieve food self sufficiency, and to build surpluses for meeting post-war shortages in other countries of the sterling block. (Maliyamkono and Bagachwa 1990: 66). When the war ended control continued to be exercised through marketing boards. These boards had the monopoly power to buy and sell specific crops at fixed prices.

By 1948, the three British East African colonies of Kenya, Uganda and Tanzania were formed into an economic union, the East African Community (EAC), which not only eliminated all trade barriers within the area, but also had unified transport system, a degree of industrial coordination and a common currency. By the time each of the countries within the region were attaining their independence from their colonial powers, they were operating as one trading block.

3.2.3 Post-independence period

In the period immediately following their independence, the three East African countries continued to operate as a customs union, albeit with changing marketing and distribution policies. In both countries, over the post-independence period, their involvement in the economy changed significantly, and notably through official
intervention from the production and the farming process through to the marketing and distribution. However, official intervention in the marketing, distribution and pricing of for example cereals grains within the three countries can be traced back to the colonial period (see §3.2.1).

Immediately after independence, the two countries appeared to part ideologically in the late 1960s. On one hand, the government of United Republic of Tanzania by then had a task of restructuring the economy so that every native Tanzanian could benefit. This inspiration gave birth to Arusha Declaration of 1967, which led to the nationalisation of all major means of production and exchange and placing them under the control of the central government. The Arusha Declaration ushered in a socialist era, emphasising self-reliance and eschewing foreign investment. Kenya, on the other hand, laid down its ideological precepts in Sessional Paper No. 10 of 1965 on African Socialism and Its Application to Planning in Kenya, which, despite the term socialism, set the stage to open, liberal economy welcoming foreign investment.

The ideological differences coupled with better infrastructure resulted in Kenya having a better industrial base generally leading to disparities in development. This made Kenya to be seen as unfairly gaining from the community at the expense of the other trading partners within the region (see §2.3.3). For example, manufacturing exports by the mid 1960s accounted for 29 percent of all manufacturing value-added, of which 70 percent went the neighbouring countries. The perceived disparity in the distribution of costs and benefits from the Community eventually led to its collapse in 1977 and the eventual closure of the formal border crossing points between the three East African countries. The closure of the formal border crossing points marked the beginning of both the formal trade through the official channels and the informal cross-border trade between Kenya and Tanzania through the porous borders.

3.3 The post-independence trading regimes
Over the post-independence period, the state involvement in the economy of the two counties changed significantly. They appeared to part ideologically on how to move forward with the economies, which eventually led to the collapse of the EAC and the resulting closure of the formal border crossing points between the three East African countries. The borders remained officially closed until the combined forces of their
own economic mismanagement and globalisation made them change their strategy and liberalise the economies. Within that period, each country charted and implemented its own trade regime. With liberalisation, both countries have significantly reduced the state control of the economy and are moving towards having an open market again.

3.3.1 Tanzanian trade regime
The United Republic of Tanzania consists of the area formerly known as Tanganyika and Zanzibar (including the Islands of Unguja and Pemba). The former gained independence in December 1961 while the latter became independent in December 1963 and the two sovereign republics formed the Union on 12th January 1964. The current population is estimated at 35.9 million people, its Gross Domestic Product (GDP) is $10.3 billion, with per capita GDP of about $280.8 (McIntyre 2005: 3). According to the Tanzanian government, 80 percent of the population depends on agriculture, the sector that also contributes about 50 percent to GDP and 70 percent of earnings of merchandise exports (Ministry of Trade and Industry, United Republic of Tanzania 2003:4).

Tanzania’s economy has passed through a number of stages since independence: post colonial, Arusha Declaration, post collapse of the East African Community and the reform period. Between Independence and Arusha Declaration is a relatively short period of time. Prior to Arusha Declaration, the structures of Tanzanian trade were similar to that of most African underdeveloped countries during the early and mid 1960s. The bulk of the export consisted of unprocessed or semi-processed raw materials while most of the imports were manufactured goods (Biertsteker 1986: 1). But it is the period in which the price controls were started in an effort to bring equitable distribution to the indigenous population who were deemed to have suffered under the colonial regime.

With the Arusha Declaration, the Tanzanian government adopted a strategy to promote economic and social transformation, by seemingly redressing the financial and racial imbalance prompted by the colonial powers against the natives. The Declaration stated that “it is essential that all the major means of production and exchange in the nation are controlled and owned by the peasants through the
machinery of their government and their cooperatives” (Arusha Declaration 1967: 16). Consequently, with the Arusha Declaration, there were several ways in which the government intervened to control the trade in both agricultural and industrial products. Regarding agriculture, after the Arusha Declaration of 1967, *Ujamaa*, a villagization programme which was part and parcel of Tanzania’s version of socialism began as a voluntary movement to villages. It was regarded as essential for social as well as economic transformation and therefore intended to achieve positive effects through better organisation, more economies of scale, more technology dissemination and greater use of inputs.

The centralisation was started with the *agricultural products*. Following independence (1961) and the poor grain harvest in 1962 and the complete crop failure in 1963, the Party and the Government established a new marketing structure, National Agricultural Products Board (NAPB), with monopoly powers in pricing and marketing agricultural crops. To eliminate private wholesalers, retailers and brokers in agricultural trade, NAPB appointed co-operative unions as agents with exclusive privilege in purchasing crops from peasants. In early 1960s, official into-store and out-of-store prices for maize, rice and wheat were set by the marketing boards and were the same throughout the country (Maliyamkono and Bagachwa 2002: 68).

Post Arusha Declaration, the Tanzanian government nationalised the milling of agricultural products. The eight major milling companies were amalgamated to form National Milling Corporation (NMC). It was initially established as a manufacturer, processor and importer of agricultural products. Co-operatives were also set up within the *Ujamaa* villages to be the sole purchasers of the agricultural products. The cooperatives were later replaced by established villages. At the same time, National Agricultural Products Board (NAPB) was also set up, having the monopoly powers in pricing and marketing agricultural crops. The NAPB also appointed co-operative unions as agents with exclusive privilege in purchasing crops from peasants. The functions of the milling corporations were also later expanded to include the purchase, storage and distribution.

In 1973 National Agricultural Products Board (NAPB) was abolished and replaced with semi autonomous parastatal crop authorities. The crop authorities assumed much
broader powers being responsible for supply of agricultural inputs, research, extension, purchase, sale, transport, storage and processing. In essence, these new crop authorities also took up most of the jurisdiction of co-operatives in collection and processing. The co-operative unions were eventually abolished in 1976 and their functions transferred and shared among Crop Authorities, Regional Trading Company (RTCs), and District Development Corporation (DDCs). The primary co-operative societies were replaced by established villages. At the same time, the National Milling Corporation’s (NMC) functions were expanded to include the purchase, distribution, and storage of all grains and staples offered for sale. This in effect, gave NMC monopoly power over control of maize, rice, wheat, cassava, millet, sorghum, and beans. Under this legislation, private trade in these cereals beyond direct use by one’s family or for small retail sales directly by farmers was illegal and punishable if detected. Road-blocks were established between districts and regions to ensure that no unauthorised inter-regional transactions in food grains took place.

Although MNC had monopoly powers, the organisation had little room for financial flexibility because the government was determining official prices for the crops it was purchasing and selling. From early 1960s up to the beginning of 1970s official into-store and out-of-store prices for most of the agricultural products were the same throughout the country. Beginning 1970s, the government abandoned the pan-territorial into-store prices and introduced a system of setting pan-territorial producer prices in which a uniform price was set for each scheduled crop, irrespective of the location of growing areas or transport cost. However, as Odegaard (1985) mentioned this crop marketing system was found to be inefficient in terms of: ensuring timely collection of peasant’s produce: prompt payment for this produce; ensuring timely supply of agricultural inputs to the peasants, effectiveness in reducing collection, handling, transportation and overhead costs.

An important effect of the government’s attempt to enforce monopolistic marketing and producer price control has been the development of the parallel markets (Maliyamkono and Bagachwa 1990). A combination of acute grains shortfalls, deterioration in the official marketing system reflected in its failure to collect produce in time and to effect their cash payments promptly, and unfavourable producer prices, coupled with the government’s failure to effectively enforce monopolistic marketing
and price control programmes, led to the development of the parallel food markets, particularly for the predominant staples of maize, rice and to some extent wheat (Musonda 2001: 171). Suffice to note that the parallel markets were not limited to the boundaries of the country. This is exuberated by the fact the regional headquarters where the marketing boards were situated, were in most cases far from the border areas. The markets across the border therefore became better options given the fact that the prices there were negotiable and payments were also made on delivery. The markets across the border were also easier to reach than the regional headquarters.

Over the post-independence period, there were several ways in which the Tanzanian government intervened to regulate production and distribution of *industrial products*. The measures include actions such as direct controls taking the form of state ownership, allocation of foreign exchange, tariffs, industrial licensing, price controls and confinement. With regard to manufactured products, after independence, a Price Control Ordinance was passed in 1965 with orders of fixing maximum price of certain products.

With Arusha Declaration, ownership and control were exercised through nationalisation of major means of the production and all the distribution process. In trade, the Arusha Declaration (1967) nationalised the import-export firms and set up the State Trading Company (STC) to cater for the import-export business. Internal wholesale trade was nationalised in 1971, and STC assumed additional tasks of distributing goods into the regions. This made STC to assume the responsibilities initially carried by about 400 private importers, 400 private wholesalers and some 4000 sub wholesalers.

Price control in Tanzania and East Africa generally is said to date back to the colonial period. The post war acute commodity shortages of 1918-20 and 1945-50 resulted in increased hoarding of consumer goods and product, forcing the colonial administration to regulate commodity distribution and impose price ceilings on most consumer goods in the region. However, in Tanzania, soon after independence, a Price Control Ordinance was passed in 1965 with three orders for fixing maximum price of rice, wheat flour and bread. In 1967 the National Price Advisory Board was established to regulate consumer prices. Prior to 1973, the only items under price
control were rice, sugar, beans, khanga, grey sheeting, beer, matches, sugar, beans, 
jute bags and sisal bags. This price control was effective as shown by the fact that the 
price differences between official and unofficial prices were extremely rare (Musonda 

The 1973-4 drought and the oil shock of 1973 resulted in excess demands which 
could not be sufficiently covered by imports. The government responded by 
introducing the Regulation of Prices Act, 1973, to be administered by the National 
Price Control Commission (NPC). But the crisis resulting from the draught and the oil 
shock exerted strong upward pressure on the price of both controlled and uncontrolled 
products. The prices of uncontrolled products became even higher than the controlled 
one. The government responded by extending control over such products. At a 
certain period of time nearly all products were price controlled, for example, in 1978 
there were 3000 controlled items (Musonda 2001: 44).

One of the organs used by the STC was the confinement system (STC: 1971). STC 
regulated the importation through this confinement system. It was a system of trade 
whereby most domestic and wholesale trade operations were restricted to a few 
trading parastatal agencies, thus, any goods confined could only be imported by the 
corporation or imported under a license from it. It was established in order to prevent 
the emergence of private profiteering especially during situations of acute shortfalls in 
consumer goods. In 1973, STC was decentralised and reorganised into six importing 
and 18 (later 20) Regional Trading Companies (RTCs), under new Board of Internal 
Trade (BIT) management system. When the co-operatives were dissolved in 1976, 
some of their functions such as the distribution and retailing of essential commodities 
in regions and districts were passed to the BIT. In the same year, a directive on 
‘Operation Minduka’ was passed which sought to phase out all private shops, and 
directed all essential commodities to be sold in specially designated village shops. 
However, the differences between official and unofficial prices were much wider in 
some regions, ranging from 100 to 400 percent (like Kagera and Dar es Salaam), 
indicating access problems and also weakness in setting uniform prices nation-wide 
without a careful assessment of transportation costs (Maliyamkono and Bagachwa 
2002: 89).
The confinement system, strongly enforced after 1978, was seen by the Government as a form of commodity rationing intended to rationalize the allocation of commodities in the face of shortfalls. Allocation committees were set up at ministerial, regional, district and village levels. Their members were senior government and party officials, who were supposed to design and supervise criteria to guide NMC, BIT, and RTCs in allocation of essential commodities.

In general, the impact of monopoly marketing meant that the government often worked at the disadvantage of the consumers and producers in both the agricultural and industrial fields. For both sectors, the centralisation of all means of distribution of their outputs meant restricting alternative outlets of the sale of their outputs while at the same time giving very low prices. However, the government did succeed in the Tanzanianisation of the marketing and the processing sector. Unfortunately, the cleavage between colonials and Tanzanians was replaced by a cleavage between government officials on one hand and producers and consumers on the other hand. At the same time, as the industrial goods were produced and rationed by the state and its agents, the same was not done to the agricultural ones. The peasants had to resist the state marketing by turning to informal marketing of their produce to get the cash needed for commodities ranging from clothing to salt and kerosene.

As the general inefficiencies of the state production of industrial products resulted in their shortages within Tanzania, the same cannot be said of the Kenyan side of the border. The Tanzanian state was unable to substitute the imports from Kenya which had become unavailable because of the border closure as a result of the earlier collapse of the EAC. Accordingly a growing demand for various industrial goods and the collapse of the marketing system were the main factors that encouraged the informal marketing of goods from one country to the other. The crops were marketed by a network of traders from village to urban level (border). Hence, the fact that the traders purchased the crops directly from the homes of the farmers and paid on the spot made the sale of the crops to local traders a very attractive alternative to the government marketing. Moreover, the local traders paid for the goods in cash which in addition was considerably more than the government.
3.3.2 The Kenyan trade regime
Kenya gained independence from Britain in 1963. It is the largest of the three East African economies with a GDP of $14.1 billion in 2003, a population of 31.9 million, and a per capita GDP of 4.45% (McIntyre 2005:3). Over the post-independence period, the state's involvement in the economy has changed significantly. Immediately following independence, the government started implementing policies to control the economy. In the industrial sector, strong protection was provided for infant industries through tariff and regulatory barriers. Foreign investment was encouraged and state investment was made directly or via state owned development finance institutions. Intervention in agriculture was strengthened through increased direct control over marketing channels and prices (RPED 1993: 5). From the 1980s onwards, there was pressure, from IMF and the World Bank in particular to liberalise the economy including agricultural trade. After numerous false starts and heavy external pressure, a significant programme of adjustment was embarked on in mid-1990s. The programme so far includes trade and exchange liberalisation, privatisation of state owned institutions in both the agricultural and industrial sector, and reduction /control of the governments' employment.

Government controls in the agricultural sector of the economy have their roots in the colonial period. For agriculture, the main policies were spelt out in the Swynerton plan of 1954 (Smith. 1976), which advocated government control over agricultural production and marketing but called for the removal of restrictions previously put on Africans to grow certain crops and provision on the necessary resources to grow them. The control included among others the marketing of agricultural commodities.

Immediately after independence, agricultural policies were based on the principles outlined in the Sessional Paper Number 10 on African Socialism and its Application to Planning in Kenya (Kenya, 1964). It emphasised political equality, social justice and human dignity, and was founded on the principles of equitable income distribution, employment and self-sufficiency. To realise these goals, a major land redistribution program was carried out and of utmost importance is that several farmers' institutions and agricultural marketing boards were set up. Some of the agricultural boards set up were the National Cereals and Produce Board (NCPB),
Kenya Creameries Cooperative Society (KCC), Kenya Tea Development Authority (KTDA), and the Kenya Coffee Board (KCB).

The government redistributed to small scale farmers a considerable amount of land in the high and medium potential areas which previously belonged to European settlers. Examples of such include the Million Acre Scheme through which over 35,000 families were settled on 470,000 hectares, and Haraka Scheme by which 14,000 families were settled on 105,000 hectares. By 1976, about one third of large scale, mixed farms were officially sub-divided and given to small scale farmers (Senga, 1976). The result of the land redistribution was an increasingly monetised small holder sector.

The agricultural based parastatals had nation-wide monopolies in marketing. The main objectives for which they were set were price and income stabilisation for farmers, efficient and inexpensive nation-wide distribution of commodities to consumers without government subsidies, and acting as buyers of a last resort for food commodities. The agricultural products were also classified mainly as cash crops (such as tea, coffee) which were promoted as export crops, and staple food consisting of mainly maize. The marketing arrangements of most of the products were such that only the statutory boards were the only market outlets for crop exports.

On average, producers of export crops received the highest real producer prices throughout the period. This was because of a deliberate government policy in which prices for export crops were set to match world market priced as a means of providing incentives for increased production, while prices for food crops were set below world market levels to protect consumers. However, although prices for the cash crops were generally set with reference to world market levels, deductions in the form of various cesses and levies on producer prices and the controlled exchange rates reduced the actual benefit to the farmers.

Relative to the production levels, during glut periods, the marketed volumes to the statutory boards were higher compared to supplies during poor production periods. This was because the board offered a uniform price regardless of supply and demand conditions. The prices offered during the glut period were higher than in parallel
markets, while the converse was true for poor production periods. Thus the boards acted as a residual buyer (or buyers of the last resort) depending on the prevailing market conditions. These phenomena had some bearing on losses incurred by the boards as a result of over-utilisation and under-utilisation of storage and processing capacity (Wyckoff and Gitu. 1984; and Gordon and Spooner, 1992).

During this era of controls, government emphasised self sufficiency in domestic production of the main food commodities, namely, maize, wheat, rice and milk as a means of achieving food security. Until the late 1970s, food security for most of these commodities was achieved from domestic production. However, in 1980 the country was faced with food shortages and had to import maize, wheat and milk in substantial quantities. With regard to export crops, over the years' farmers had faced heavy rates of explicit and implicit taxation through unfavourable macroeconomic policies, especially over-valued exchange rates, inappropriate fiscal policies, and deductions in the form of various cesses and levies on producer prices which effectively reduced the prices they obtain for their exports. At the same time, in almost all cases, the performance of these monopolies had remained poor due to lack of competition and weak management.

The parastatals which had nation-wide monopolies in marketing, had not achieved the objectives for which they were set. In marketing, it became clear that the extensive government intervention through parastatals had induced operational inefficiencies, such as high costs of marketing, poor collection of commodities for marketing, and delayed payments for producers (World Bank, 1994). The problems of marketing, particularly of export crops were compounded by pricing policies which reduced the benefit to farmers through various deductions. At the same time, even though the marketing arrangements of most of the products were such that the statutory boards were the only market outlets for crop exports, there existed unofficial parallel market outlets for cereals and other products. In maize marketing, rigid controls on movements and predetermined mark-ups have led to high transportation costs and over investment in milling capacity since only a few large scale millers were allowed in the milling sector (Kodhek. 1992; Mukumbe. 1992). This has led to high transaction costs, which effectively reduced the prices paid to the farmers. This
resulted in the existence of parallel informal channels for food crops, particularly maize.

In Kenya as well as other developing countries, the real value of primary exportables secularly declines in international markets against the value of exportable industrial products. This is compounded by the fact that, the economies of most of developing countries have a significant proportion of their Gross National Product (GNPs) being dependent on external trade. To avert this possibility of terms of trade problem, immediately after independence the government followed an import-substituting industrial policy as trade intervention strategy. The Import Substitution strategy was stated in the 1967-70 Development Plan (Kenya, 1966), where the government committed itself to protecting infant industries and supporting import substitution. Tariffs, quantitative restrictions, import duty drawbacks on inputs as well as administrative controls were widely used to promote industrialisation and exports. To encourage investments in tradable goods, foreign investors were assured of the country’s policy of non-involvement in nationalisation of private enterprises except where state ownership could prevent wasteful use of resources (Ogonda 1992:304).

Immediately after independence, Kenya’s strategy of encouraging private investment resulted in its having trade surplus with its East African Community member states. For example, up to the collapse of the Common market in 1977, manufactured goods accounted for about 50 percent of total export to Uganda and Tanzania (Makanda 1991:3).

However, this tilt towards protection-based industrialisation was biased against exports and against agriculture. There is considerable empirical evidence that the import substitution strategy in Kenya engendered a severe anti-export bias, an inefficient and inward-looking economic management and high-cost manufacturing (Sharpley, 1988). Less known are the distortionary effect import restrictions on domestic factor prices, sectoral resource allocation, and the fact that import restriction at once entails a tax on all sectors of the economy not affected by the restriction (Wagacha, 1976: 3). Most of the negative consequences of this trading approach were concealed by the early success of the import substitution in capturing the EAC market.
for manufactures. Kenya was highly successful in producing and trading behind the common external tariff for the common market.

The push for exports under protection seemed to be working for Kenya's manufactured exports, until the break up of the EAC in 1977 removed its disguised competitiveness. While the EAC lasted, there were few compelling pressures for Kenya to change relative incentives between import substitutes and export production or to transform the industry. But, the biases to production and trade of exportables and import substitutes, and non-price trade barriers cited in Bagwati (1978) and Wagacha (1976) were evident in the Kenyan economy.

With the collapse of the East African Community and the subsequent reduction of the regional market where Kenya's manufacturing sector had the monopoly in trading in consumer goods, the shock of the break up on manufacturing exports was severe. The export of manufactured products to Uganda and Tanzania constituted more than half of the output in the early 1970s, and fell to less than one-tenth in 1980 (Wagacha, 2000: 11). This was made worse by the fact that domestically, Kenyan prices for manufactured goods were rising faster (under protection) than import prices after the mid-1970s. Inward looking policies pursued as part of import substitution made it difficult for Kenyan exports to penetrate and retain their share of international markets (Kimuyu, 1996: 165).

Kenya's manufacturing sector was becoming more uncompetitive. At the same time, an overvalued exchange rate further depressed international competitiveness. A substantial share of foreign investment, mainly through multinational corporations which often enjoyed virtual monopoly, was heavily involved in this import substitution process. However, multinational interests began to wane in mid 1970s when growth rates recorded in 1960s could no longer be realised. Vaitsos (1991: 125) suggests that foreign enterprises invest in Kenya only when the economy is buoyant and domestic demand increasing. The government's attempts to apply public investment to an increasingly uncompetitive import substituting industry led to a proliferation of parastatal enterprises.
By the beginning of the 1980s, Kenya’s export sector had been substantially weakened by an incentive regime that was strongly biased to manufacturing and which was also biased toward production mostly for a captive EAC market that had substantially shrank. The internal price control regime had acute price-increasing effect. Price controls that set ceiling prices on a wide range of goods became sources of “rent seeking” by control officials who selectively permitted companies to adjust their cost increases justified by increases in the prices of raw material, including import prices.

3.3.3 Trade liberalisation

Starting with the first Economic Recovery Programme in Tanzania from 1986 onwards, active trade policy in both countries has increasingly relied on market incentives and less on controls. Trade and exchange rate liberalisation and macroeconomic reforms are among the significant hallmarks of policy towards outward-orientation. Trade policies within the period covered import trade and export trade, with policies reinforcing both aspects with respect to particularly promoting export development. Import liberalisation was done through reducing and compressing tariff rates and reducing quantitative restrictions.

The various forms of economic reforms put forward by the World Bank and IMF generally aim at creating the neo-classical notion of the so called free market by dismantling the various obstacles for the free market forces to operate. According to these institutions, the major obstacles to development in general and trade in particular have been the massive state control in many third world countries. However, despite its intended removal from certain key economic areas, the state still continued to play decisive role holding the legislative power, deciding on for instance taxation and licensing. MacGaffey (1991: 10) puts it in this way: “Government intervention does not create informal practices but changes the context in which they take place and their legal definition”.

The tools by which the World Bank and IMF used to construct the free market in both countries were respectively liberalisation of the market by allowing internal as well as external competition, privatisation of public enterprises, and deregulation of laws and legislation governing the economic life. However, although World Bank and IMF do
have a strong voice in both countries due to their control of aid and debt, the institutions do not after all govern any of the countries. Hence the economic reforms were being negotiated, interpreted and implemented by each of the two countries individually thereby constructing their version of the market. The governments define and demarcate the legal framework for the market to operate within, but this is not just a straight forward, technical matter.

Strong political, personal and economic interests are vested in the public sector, and the liberalisation of trade within and between the two countries. This has therefore resulted in intense battles between the two countries and the financing institutions. In Kenya, only half-hearted measures were taken to implement reforms since their inception. Up to 1989 the prices of food sub-sector were still set and controlled by the government despite the policy of liberalised markets. For example, in grain marketing, the reforms emphasised restructuring of NCPB to confine its role to being buyer of last resort, but the government insisted on some central control for food security reasons. As a result there was on-and-off removal of controls until 1993 when the sub-sector was fully liberalised, though NCPB is still involved in marketing alongside the private sector. In the case of Tanzania, the policy of confinement, under which wholesale trade was restricted to parastatal organisations, was essentially dismantled by 1989. As a result of these reforms, the number of goods categories subject to quantitative restrictions declined from nearly all (pre-reform), to approximately 100 (Dean et al. 1994: 48). But, despite the fact that it has liberalised its foreign trade, industrial sector and the economy as a whole, still there remained, up until recently, several marketing boards that regulate the buying and selling of certain products especially exportable goods (Musonda 2001:159).

At the same time, the legal definition of the market provided by each of the governments is not the only model for and of the market. Thus the legal framework seldom corresponds to practice and the local interpretation of legitimacy, as the discussion on the deregulation part of the reforms will show. At first glance, the implementation of the economic reforms is supposed to lead to a general movement from state to market control in crucial areas such as production, marketing and distribution. At the national levels, and in theory, the shift from state to market economy is fairly pronounced and drastic. However, a closer look reveals that the
shift is and will be less drastic since economic adjustments to some degree has been taking place and development at the local level is far more continuous.

Robert Bates has pointed to an ironic connection between the state and the informal market and the necessity of the introduction of the Structural Adjustment Programmes, a connection which, in some way, corresponds to the situation within and between Kenya and Tanzania. Bates states:

"... at least in the areas which involve markets, the reality is that economic adjustment has already taken place in the private sector; it took place years ago; and, indeed, in many respects it was the ability of the private sector to adjust which led to the crises which made the structural adjustment programmes necessary." (Bates 1989:222)

Hence, according to Bates, the existence of the private sector in the supposedly state controlled commercial areas led to the crisis of the state and thereby the demand for the Structural Adjustment Programmes. However, the existing private sector has already adjusted and is consequently not in need of these programmes (ibid: 223). Each of the two countries started their liberalisation programmes at different levels of state control of the market. Kenya had a more open market than Tanzania. But, the results are still the same: the private sector is mainly in need of economic reforms in order to legitimise what is already going on.

On their trading with each other, the basic element of the adjustment programmes is related to deregulation. Taxation has been contentious issue between tax payers and government authorities ever since the poll taxes were introduced by the colonial government. The general lack of knowledge of the prevailing tax and licence regulations has been a source of confusion as well as malpractice among both tax payers and government officials. Generally, the public is not informed about the tax and licence regulations, and the tax imposed in most cases often proves to be a result of negotiation between the tax payer and the tax collector. The ignorance and the derived tax malpractice tend to become more widespread than ever due to deregulation process in each country resulting from the differences in their trade regimes as well as reliance on trade tax as a source of revenues at national levels.
The trade regimes in the two countries are characterised by a "cascading tariff" structure. In such tariff regime\textsuperscript{17} the lowest rates are imposed on raw materials and capital goods, moderate rates on intermediate goods, and highest rates on consumer goods. These structures reflect historical patterns of tariff, with high rates being placed on consumer goods partly to restrain demand and collect revenue but also to protect domestic producers of final consumer goods from foreign competition. However, trade liberalisation in recent years has brought about considerable reductions in the top rates and rationalised the structure of the tariff regimes so that the differences between rates has narrowed considerably as shown in table 3.1 below.

Table 3.1 Evolution of Tariff Regimes under Liberalisation

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1999</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kenya</strong></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Tariff bands</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Maximum rate</td>
<td>35.0</td>
<td>35.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Simple Average</td>
<td>18.4</td>
<td>16.3</td>
<td>16.6</td>
</tr>
<tr>
<td><strong>Tanzania</strong></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Tariff bands</td>
<td>9.0</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Maximum rate</td>
<td>50.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Simple Average</td>
<td>21.8</td>
<td>16.1</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Sources: World Trade Organisation and United Nations Conference on Trade and Development

The deregulation process has been different in each county and has proved difficult to harmonise. The dependence on trade taxes constitutes a major hurdle for tariff liberalisation and harmonisation for both countries. For example, Tanzania has trade taxes less than 2 percent of the GDP while Kenya has at least twice as much as that. Some details on proportion of trade taxes in total revenue and GDP are presented in

\textsuperscript{17}Generally, it is felt that such a tariff structure promotes anti-export bias in the structure of economic incentives.
the table 3.2 below. The table shows that in the year 2000, all the ratios for the tariffs such as the maximum tariff, simple average tariff, trade tax to GDP, trade tax to total revenue and effective collected tariff rate for Kenya were all above the ones for Tanzania.

### Table 3.2 Trade Tariffs and Revenues in Kenya and Tanzania 2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Maximum Tariff</th>
<th>Simple Average Tariff</th>
<th>Trade Tax Revenue/GDP (in percent)</th>
<th>Trade Tax Revenue/Total revenue</th>
<th>Effective Collected Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>35</td>
<td>17.2</td>
<td>3.6</td>
<td>17.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>25</td>
<td>12.5</td>
<td>1.3</td>
<td>11.6</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Source: Tariffs data are from *Trade Policy Information Data Base* 2002

The similarity in trade liberalisation brought about by the reforms, the need to seek regional markets to compete in the global economy and the fact that the informal economy has always existed even in times of state control of resources has resulted in the opening of the border between not only the two countries, but all the three East African states. Table 3.3 below gives the exports from Kenya to Tanzania and vice versa. The trade is heavily tilted in favour of Kenya due to their more decentralised trading regime discussed above.

### Table 3.3 Volume of Trade between Kenya and Tanzania

<table>
<thead>
<tr>
<th>Year</th>
<th>Export from Kenya to Tanzania</th>
<th>Exports from Tanzania to Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>9,407,028,200 Kshs.</td>
<td>1,162,067,052 Kshs.</td>
</tr>
<tr>
<td>1996</td>
<td>13,651,060,409 Kshs.</td>
<td>927,975,951 Kshs.</td>
</tr>
<tr>
<td>1997</td>
<td>13,935,455,050 Kshs.</td>
<td>864,565,762 Kshs.</td>
</tr>
<tr>
<td>1998</td>
<td>13,819,390,005 Kshs.</td>
<td>610,045,871 Kshs.</td>
</tr>
<tr>
<td>1999</td>
<td>9,490,709,775 Kshs.</td>
<td>383,957,762 Kshs.</td>
</tr>
<tr>
<td>2000</td>
<td>8,733,948,512 Kshs.</td>
<td>925,038,234 Kshs.</td>
</tr>
<tr>
<td>2001</td>
<td>13,437,689,031 Kshs.</td>
<td>531,417,236 Kshs.</td>
</tr>
<tr>
<td>2006</td>
<td>18,303,211,829 Kshs.</td>
<td>4,523,818,433 Kshs.</td>
</tr>
</tbody>
</table>

Source: Centre for Business Information In Kenya- Export Promotion Council
3.4 Conclusion

The link between the trade regimes, and particularly border region trade and trade liberalisation is clearly justified. Scepticism towards the relevance of the subject appears largely from an excessively reductionist view of the meaning of the border region itself. Where border region is understood simply as a periphery across segments of specific international boundaries, the interest in the kind of trade that takes place there quickly dissipates. However, seen from a nationalistic perspective where border regions stretch inwards from the boundary and merge imperceptibility with the state, trade within it becomes considerably more valuable.

The policies and ideologies of the states sharing such border regions, therefore, had an impact on the trading practices in such areas. There has always been some kind of trade taking place between the two countries even before the advent of colonialism. The duality of the trade routes taken by the cross-border traders can be traced back to the early halcyon days of post-independence. The trade through the informal routes heightened with the collapse of the East African Community and subsequent closure of the formal border crossing points between the two countries.

The economic reform programs undertaken by both countries and the regionalism resulting in the opening of the formal border crossing points were expected to result in the free flow of goods and services within the border region. Although both countries have liberalised their trading regimes and even opened their borders, there are some indications that the differences in such measures have hampered the free flow of trade between them. Given that the regional agreements are supposed to result in the free flow of trade, we need to ask why informal cross-border trade is still going on between the two countries. Progress with this question may perhaps shed a little more light on regional development problems and future prospects.
4.1 Introduction

It is clear from the previous chapter that understanding the cross-border trade is not simply a question about trade alone, but the differences between the two countries' trade regimes. Large proportions of the trade within the border region pass through informal routes and therefore are not recorded. By contrast, the formal trade that is recorded comprises a small proportion of the total cross-border trade and most of it originates from areas outside the border region. In this chapter, the literature is explored for possible explanations of this phenomenon.

Before turning to the literature some elaboration of the research question is required (§4.2). There is some body of work on both cross-border trade and theoretical approaches to trade and capital. In order to judge the extent to which various explanations and theoretical approaches offer satisfactory answers, it is important to be clear on what are the crucial issues.

The search for the explanation starts with existing work relating to Eastern Africa (§4.3). Although relatively little has been specifically directed at the particular question of informal cross-border trade, much has been conducted on cross-border trade generally, the formal cross-border trade and the wider story of regional trade.

The next section (§4.4) takes a broader perspective, examining the theoretical approaches which may be relevant to the research question. As the earlier definitions showed, (§2.2), the concepts of trade and cross-border trade do not clearly belong to one academic discipline. These are terms which appear across a wide field of social enquiry.

The final two sections (§4.5 and §4.6) of the chapter attempt to draw together the review of some theoretical literature to explain the duality of the cross-border trade. At issue is whether the phenomena cross-border trade at Isebania/Sirare border
identified in the previous chapters can satisfactorily be explained within the theories elaborated in the capital literature.

4.2 Informal cross-border trade - the key questions

In the last chapter, it was suggested that the trade between Kenya and Tanzania at Isebania/Sirare border is organised through two routes. One comprises the informal border-crossing points which are used by the traders from both within the border region and outside. The other, the formal border-crossing point, is mainly used by traders from outside the border region and a few from within. Understanding the traders' reasons for the choice of the routes is the essential explanatory task here.

Any explanation must be capable of accounting for the very differences between the two types of traders - those who take the formal and the others informal routes when crossing the border with goods. It is clear from the previous chapters that understanding the traders' choice of routes is not simply a question of the difference between their levels of operation or geographic and ethnic affiliation alone, but the differences in economic as well as political development between the two countries (see chapter 3). Explanations may be found in terms of the social capital and the specific histories of the economic as well as political development of the two countries. The requirement is simply that the explanation presents a convincing story of the features of the cross-border trading through Isebania/Sirare border between Kenya and Tanzania.

The presence of informal trade routes within sight of the formal trading routes suggests that there are economic and non-economic factors leading to the preference of one route over the other at any one given time. Detailed data on the amount of goods traded through the informal border crossing points as well as the type of goods traded would enable the weight of these two factors to be judged. In the absence of such data, the questions to be asked are:

1. What variables, if any explain the traders' choice of the informal routes?
2. Are there reasons why traders do not use the formal trading routes?
3. Is the crossing environment at the formal route inimical to traders with limited amount of certain types of capital, causing them to avoid such routes?
The first two questions, concerned with choice of route, may also relate to responses to the third. Traders perceiving a hostile crossing environment can be expected to seek alternative outlet for the goods and services. Traders perceiving a prohibition of exchange of goods and services can be expected to seek alternative crossing environment.

4.3 Review of East African studies

Trade between African countries is not a new thing. Artificial colonial boundaries cut right through some established trading patterns, but did not really interfere with them (see § 3.2.2). But with the departure of the colonial powers, the new governments tended to pursue an "island state" mentality. Such mentality made it impossible for the border region population to trade with each other without going through official border crossing points. The border population who are residents of two different countries are in most cases from the same sub-tribe. There are some instances where even members of the same family live on either side of the border line. But the trade within the border is not limited to the residents of the area (see § 2.3.3). Most of the traders and even the goods they trade in are from the hinterland of both countries. The general tendency has been for the border traders to go through informal routes while crossing the border with goods. However, attempts to control informal cross-border trade met with little success.

Much of the literature and initiatives on cross-border trade between the East African countries has focused on the formal trade. Rather less has been written directly concerning the informal cross-border trade. Such work is primarily concerned with initiatives and policies of the operating environment of the formal cross-border trade between the East African countries. A few studies have addressed some general crossing constraints to informal cross-border trade. Finally, major differences in political, economic, and non-economic developments have relevance to informal cross-border trade.

4.3.1 Initiatives and policies of operating environment

Historically, there have been several initiatives aimed at facilitating the trading of goods and services across the East African borders (§ 2.3.2). Internationally, there has
been a recent increase in analysis at what might be termed the "official" local border cooperation at which cross-border trading is seen as part of a wider distribution system. The recent literature on the Asian growth triangle and the Euregions is illustrative of this approach. The objectives and approaches of such cross-border cooperation initiatives differ from region to region.

Factors leading to the choice of the trading routes can sometimes be traced to the trading environment both within a country and between the two countries. Hall (1987: 1) found that "... a wide range of internal weaknesses" limit trading even within the domestic market. Tchale (2001) argues that the limitation of the domestic market leads to informal trading with neighbouring countries. Such weaknesses mainly include issues to do with the regulation of the domestic prices, the regulation of the distribution system, and unavailability of some products locally.

The price mechanisms have not been given a chance to be regulated by the demand and supply even within the domestic markets. The issue that agricultural trade was monopolised by the parastatals, as stated by McCormick and Pedersen (1999), tended to encourage passing the border with goods through the informal channels. According to them, agricultural producer prices were determined by a combination of producer taxation and consumer subsidies rather than production costs and the markets. But the national differences in taxation and subsidy result in higher prices. Traders exploit this difference by taking goods to the other side of the border rather than trade within their own country. Little et al. (2001) also found that the informal trade patterns are reinforced by unattractive, highly regulated domestic prices that are lower than parallel market prices in neighbouring countries.

Closely linked to the notion of pricing, has been the regulation of the pricing system and the regulation of the distribution system (see §3.3). An earlier study by Ackello-Ogutu and Echessa (1998) found that informal cross-border trade in some cases arise due to the introduction of pan-territorial and pan-seasonal pricing in a country. Such systems distort the market mechanisms by "penalising" areas with least transportation cost and "subsidises" areas with high transport costs. Asiwaju and de Leeuw (1998)

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18 Euregions is the term used in the Interregional Programmes of the European Commision.
hint at the different circumstances faced by the formal and the informal cross-border traders. They mention the weakness, corruption and inefficiency of the post colonial state pushing the border region population to informal cross-border trade but do not elaborate. Gooneratne and Mosselam (1998) speculate that the informal cross-border trade is as a result of the borders being based on the periphery. To them, the peripheral character of border regions not only stems from their often remote, geographical location at the boundary of a country, but even more so from the unequal development that has taken place between the two countries, where prevailing policies have disadvantaged such peripheral areas.

Studies by Nyagereta (1999) on the difference between the exports and imports between Kenya and Tanzania offer a more interesting perspective of the cross border trade between the two countries. He concludes that the vastness of Tanzania, with areas of high agricultural potential far removed from the main consumption centres mean that the long distance between the major agricultural producing zones and major markets make foreign markets attractive for both producers and consumers. To him, such distances militate against formal trade resulting in increased adaptation of informal trade across the frontiers. This was the same view given by Gooneratne and Mosselam 1998 in their study of border regions in Eastern and Southern Africa. To them, the border regions are handicapped by the long distance to established main centres and, as such, are situated far from the national markets, input suppliers and information sources.

4.3.2 Cross-border trading constraints

Investigations into the constraints to cross-border traders' usage of the formal trading routes have been oriented around factors such as regulatory constraints, imperfect information, limited credit, unstable markets, warehousing facilities and infrastructure (Odhiambo. et al. 1996, Ackello-Ogutu and Echessa 1998, Nobera 1998). All these factors are quoted by researchers as creating problems for the informal cross border traders. Ackello-Ogutu and Echessah (1998:16) found that "the time consuming and complex immigration and customs regulations, lack of formal currency exchange facilities and lack of information and credit facilities were regarded as some of most significant problems faced". Borders prohibit free exchange of goods, services, people, and limit the access to cross-border market.
Studies by Musonda (1985) found that lack of information could be a barrier to "normal trade" between Kenya and Tanzania. Asymmetric information could be on issues such as documentation, products and even the general entry and exit requirements for people living within the border region. At the same time, Maliyamkono and Bagachwa (2000: 74) found that cross-border trade is no longer confined to people living near these borders. There is need for information about such matters as what is available, the pricing and the general marketing system.

Given that the majority of the cross-border traders do so informally, and that within the border region there are no formal banking institutions, the size of their operations could be said to be limited by lack of access to credit facilities. As observed in § 3.3.1, those who are taking the formal routes may in most cases be coming from the hinterland of both countries where such facilities are available. For example, a study by Little et al (2001:5) discovered that 95% of the informal cross-border traders they interviewed financed their own sources or obtained funds informally from kinsmen, friends and associates.

According to Mvano (1994), the informal trade between Kenya and Tanzania at Namanga border can be classified as being less visible than the formal one. Some of such trade at the border involved smuggling, mainly at night. The formal cross-border traders are subjected to certain border crossing rules and regulations which the informal cross-border traders find difficult to conform to. Such rules and regulations are generally time consuming and in most cases not easy to understand by the informal cross-border traders.

Although these studies have given some insights into the traders' choice of informal routes instead of the formal ones, there are a number of short comings. Establishing causality is problematic. The perception that opening the border and access to finances would enable the informal cross-border traders to use the formal routes may be badly flawed. For example, formalising (or legalising) activities which are currently informal, may have contradictory consequences, e.g. increasing income of one group, while causing loss of employment and income of another group, including
children and other border operators. More fundamentally, the question which is rarely addressed satisfactorily in the literature is why these constraints arise.

Studies by Little et al (2001) of livestock trade in the horn of Africa offer a more interesting perspective on the informal cross-border trade. They conclude that incentives for informal cross-border trade result from geographic, ethnic as well as production and consumption characteristics that favour regions for particular commodities. The pastoral nomadic groups are weakly integrated with most areas of their own countries and official channels hardly provide adequate outlet for the sale of their products. The weak link also constrain the supply of food crop from surplus grains areas to the deficit border zones. The informal cross-border trade has been filling the gap in this demand.

Gooneratne and Mosselman (1998) also found that the majority of those who take the informal routes are small, informal and invisible. To them the informal cross-border interactions tend to assume great intensity during times of socioeconomic difficulties such as shortages and high cost of food, fuel and other essentials. Their smallness makes them flexible to changes in demand, depending on what is in shortage on which side of the border.

The poor infrastructure within most African countries tends to increase the cost of agricultural products for the domestic market. Odhiambo et al. (1996) and Tchale (2001) found that Tanzania is a net exporter of beans to Kenya, not because it has surplus but due to the fact that it is easier to transport it from growing areas in Tanzania to Kenya than to her own domestic market. Hardwick Tchale (2001) in his study of informal cross-border trade on beans in Eastern and Southern Africa concluded that due to transport problems, it is easier for traders to move beans to markets across the borders rather than markets in their own countries. However, such studies do not indicate how even if the domestic market were to expand through the improvement of the infrastructure, it would lead to increased trade within that market. Similarly they do not show why lack of market on one side of the border leads to the choice of informal, rather than the formal trade route.
4.3.3 The broader context: political economy

The persistence of informal cross border trade is often attributed to the arbitrariness of colonial borders (Asiwaju, 1995, 1998; Egg and Igue, 1993; ), or to the weakness, corruption and inefficiency of the post colonial state (Chazan 1988; Asiwaju 1998). The deficiencies of both colonial borders are posed as something primordial, based on their failure to reflect ethnically defined territories, traditional forms of economic organization or, in the case of states, as propensity to corruption and clientele forms of organization.

Gooneratne. and Mosselman (1998) on re-examining the cross-border debate within Eastern Africa argues that the populations of border regions have depended to a large extent on their immediate surroundings, including the ‘other side’ of the border, to meet their basic requirements. However, they note that the cross-border activities are hindered by differences in legislation, and political conflicts. The informal cross-border trade is therefore conducted without official policies and support. Little (1996a) also argues that for the most part governments appreciate only the undesirable consequences of informal cross-border trade, so their normal response emphasises control measures to curb the commerce. Both studies noted that, though interactions can be lively, there still exist a general “them and us” feeling on both sides of the border.

We need to consider how the action of the states sharing the border affects the cross-border trade. Most obvious is the substitution of private by public enterprises. The state is able to fundamentally displace the private activity either by legislative fiat or through monopolistic activity. The fiscal and trade policy will affect both the immediate environment of the traders and shape the broader macro economy. The states intervene in the markets of various kinds, again by legislative fiat or through market activity. Financial markets, for example, are usually subject to varying degrees of regulation and direct state involvement in the provision of credit and savings. Finally, the states determine the formal institutional environment within which trading activities take place. But they do not seem to be able to define and enforce property rights for the informal cross-border traders.
The two states sharing the common border have pursued different post independent political and economic policies as stated in chapter 2. On one hand, the Independent Kenya was taken to have pursued a general policy of extending the capitalist mode of production and distribution. Cowen and MacWilliam (1996:136-7) contend that “the [Kenyatta] regime’s exercise for state power secured conditions which facilitated free movement of capital. From cementing conditions of private property to extending basis of an industrial labour force and securing provision of social infrastructure for private investment.... Moi’s government replicated that which Kenyatta regime originated”. On the other hand, Tanzania Government has intervened to regulate production and distribution of industrial and agricultural products. Bagachwa (2000) argues that direct controls such as state ownership, allocation of foreign exchange, tariffs, industrial licensing, price controls and confinement were the regulative measures taken. He contends that: “a system of trade confinement whereby most domestic and wholesale trade operations were restricted to a few trading parastatal agencies, was established in order to prevent the emergence of private profiteering especially during situations of acute shortfalls in consumer goods. (2000: 84-5).

However, with such wide range of state activities, both intended and unintended outcome must be admitted. McCormick and Pedersen (1999:3) concluded that agricultural producer prices were determined by a combination of producer taxation and consumer subsidies rather than production costs and the markets. Trade therefore had to be monopolised by the parastatals, and private border trade was generally restricted and treated as illegal smuggling to exploit the national differences in taxation and subsidies. The two countries policies on trade liberalisation and facilitation with the ratification of the East African Community were not similar (see chapter 3). Both countries have made significant but uneven progress in trade liberalisation by reducing non-tariff barriers to import and trade facilitation in terms of harmonisation of documentation and road transit requirements. The difficulty is that both policies seem to have contributed to the informal cross-border trade. Understanding the impact of state action on specific area of the private economy, such as informal trade seems difficult using the theoretical apparatus of politics and modes of distribution.
4.3.4 Informal cross-border trade task environment


There has been a recent increase in analysis of informal cross-border trade at which the traders are seen as part of the wider distribution system. The recent literature on social capital is illustrative of this approach. Potential for the informal cross-border traders is strongly related to the existence of the social system in which such traders are embedded. The concept of network between the traders is crucial to the analysis. Informal cross-border trade manage to play a role in the distribution system by building on the informal networks that have been developed by people over the years, even if they were not initially meant for trade (Little and Teka 2001). There is evidence that the informal cross-border traders still remain invisible despite the contribution they make to the economy. Studies done indicate that the informal cross-border trade is contributing immensely to the process of regional integration. According to Ackello-Ogutu and Echessah (1997: 42) "informal cross-border trade plays an important role in food security by moving food from surplus to deficit areas". Little et al (2001) also concluded that the informal cross-border trade plays the role of promoting regional integration for market creation and expansion, maintaining peace and stability. But the often informal character of the cross-border trade, as well as the complexity of the distribution system, including the variety of the destination of goods, make it difficult to establish the mechanisms of border trade and its magnitude.

In a study of informal cross-border traders between Kenya and Uganda at Iganga, Sørensen (1997) emphasises the importance of trust as the social basis of making binding commercial agreements between the traders. The origins of such trust based trading relations can be traced in the works of Zucker (1986) who gave one of the three categories of trust as process-based trust. To him this category of trust results from reputation built up through previous exchange relations. He asserts that
recurring contacts between the actors within the border region provides a basis for processual trust when actors are assured that their collaborating partners will not let them down" (see §4.6.2). Interestingly, among the traders she observed, Sørensen (1997:173) found that social relations such as kinship appeared to have relatively little impact on trading relations. She suggests that the "atomisation" of kinship trading could be contrasted with "trust based and trust tested" trading relationships based on friendship.

Although this study of the trading environment of the informal cross-border traders provides some synopsis, it does not explain the persistence of informal cross-border trade. Clearly this study only addresses trust which though highly relevant cannot be assumed without further investigations to account for the persistence of informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border. A broadening of this study to include social capital elements beyond trust would seem to offer a promising direction.

4.3.5 Summary
The East African studies contain no complete convincing explanation for the informal cross-border trade. Three major problems can be identified. First is the apparent lack of theoretical framework which is able to draw together the diverse strands of evidence into a cohesive explanation. A number of interesting hypotheses regarding traders behaviour or constraints have been encountered which could contribute to this explanation, but which taken individually do not produce a complete picture. A second problem lies in the policies of the operating environment which tend to take into consideration only the formal cross-border trade and almost leaving out totally the informal cross-border trade. The third problem lies in the paucity of in-depth empirical studies into cross-border trade. We now turn to search for a theoretical framework as the precursor to empirical investigation.

4.4 A Survey of theoretical frameworks
There are some theories within the social sciences which directly and indirectly address the economic and social organisation of exchange, which forms the basis of most of our research question. Although there was difficulty noted in using economics to analyse cross-border literature, the logical starting point is orthodox economic
theory, combined with a theoretical orientation in sociology. The identification of the short comings in the two theoretical enterprises will be valuable in seeking a more appropriate frame work.

4.4.1 Orthodox economic theory

Within the orthodox neo-classical economic theory, an actor is taken to be acting independently and wholly self-interested. The actor is represented by a principal action which describes how his/her satisfaction is achieved. Actors only consider their utility function. Under conditions of equilibrium, the actors functioning in the society as a whole and specifically in the economy is to maximise their utility function. The equilibrium position, where demand equals supply, is achieved under conditions of perfect market. The notion of "the market", based on the laissez-faire policy and governed by the "invisible hand", has been the model of how the process taking place in the "marketplace" are conceptualised. Also, in neoclassical economics, capital is understood as the quantity of physical (fixed) capital that gives rise to output through a technically fixed production function. Production ties in with utility through the acts of entrepreneurs.

Trade takes place within the wider framework of exchange. But a market is basically a mechanism of exchange. In neoclassical economics, the market is considered to be perfect. The traders are often seen as passive consequences of adverse intermediaries useful in physically linking the demand by the consumers and supply from the producers. The perfect markets are characterised by high powered incentives combined with information conveyed by price signalling. A price is offered and taken in the market. The perfect market results in strong autonomous adaptability. This is precisely the type of adaptability that results in market allocative efficiency highlighted by Fredrick Hayek (1945) and others. In Say's Law of the market system, the supply and demand are brought into equality with one another at all times and at once by the price movements. Under conditions of competitive equilibrium, the position at which agents operate is that which minimises their costs and maximises profits. But there is always a possibility of adverse selection. Three possible selection are that the markets may clear (supply equals demand) at too high a price, the market may not clear with demand exceeding supply, and markets may be absent all together.
Of significance, also is that the orthodox economic theory had two major features, for one, it forged a sharp separation between the economy from the rest of the society and exclusive preoccupation with the economy as market relations. The second feature is that it is rooted in methodological individualism with its reliance on utility maximisation.

However, markets within both the industrialised and developing economies are widely reported to behave in ways which diverge significantly from the simple neo-classical market models. The point, made by many critics of neo-classical theory is that the conditions under which markets exist are exceptional. But the major theoretical difficulty with the notion of market failure is the limitation in its explanatory force. We might attribute the informal cross-border trade to various aspects of market failure, but all this indicates theoretically is that markets are not behaving in the way modelled by the neo-classical theory. Such modelling of the market generally ignored the consequences of informational imperfections and asymmetries around sale and purchase, which is the effect of the cost of transacting in any exchange. This leads to the theme of transaction cost approach in economics.

4.4.2 Transaction cost and institutional framework

The primary focus of transaction cost economics is understanding why and how exchange is organised. The costliness of economic exchange distinguishes the transaction costs approach from the traditional economic theory. In 1937 Coase published his now classic article on the question of why in some cases resources are allocated by means of the price mechanism and in other cases this allocation is dictated by the entrepreneur-coordinator. In the terminology of the leading author of transaction cost economics, Williamson (1975, 1985), the extreme points of this choice are labelled ‘market’ and ‘hierarchy’. According to Williamson, transaction costs arise as a result of two behavioural assumptions which challenge the neo-classical view of homo economics or rational economic man. The first is of bounded rationality, which follows Herbert Simon’s (1986) contention that economic actors are "intendedly rational, but only limitedly so". Hence prior to undertaking any transaction, economic actors can not know all possible outcomes. Information is incomplete. Comprehensive contracting in which all possible outcomes are dealt with
ex ante is rendered impossible because information is incomplete. The second assumption is that agents are opportunistic, "self interest seeking with guile". It is a strong form of self interest in which crucially any imbalances in the strength of the position of two transacting parties can be exploited. This forecloses transacting according to promise without support, in which unknown circumstances arising ex post can be dealt with by general ex ante agreement.

The general thrust of transaction cost economics is that conducting transactions through the market becomes less efficient, even prohibitively costly, when agreements become more vulnerable to opportunistic behaviour (Cheung 1989). This means that transaction cost economics resolves around the concept of opportunism and focuses, in particular, on ways of minimising the costs of monitoring and countering opportunistic threats. Oliver Williamson stated that human behaviour has been characterised as opportunistic, that is "self-interest seeking with guile" (1985: 47).

Transaction cost economics also revolves around information asymmetry. In essence, as Dahlman (1979:148) suggests, transaction costs are "resource losses incurred due to imperfect information". They reflect an information asymmetry whereby the "true underlying circumstances relevant to the transaction or related set of transactions, are known to one or more parties but cannot be costlessly discerned by or displayed for others" (Williamson 1975:31)

The first drawback in the transaction cost approach is that the theory remains rooted in methodological individualism, albeit with optimisation in the context of imperfect and asymmetric information. It thus tends to underplay the importance of embeddness of transactions. The second drawback is its obsession with competition, and consequently its failure to recognize that rational actors do not only compete but also durably co-operate and coordinate their actions. The third drawback of transaction cost approach is that it has been developed almost entirely by authors who implicitly assume the particular market settings of the Western capitalists' economies (Hamilton and Biggart 1988). In instances where transaction costs have been applied to developing economies, it is the production enterprises which have been taken into consideration (Nabli and Nugent 1989, Navdi and Schmitz 1994). However, as actors face quite different market settings which also impacts upon the content of economic relations an appropriate conception should allow for variations in the market settings.
Taken to their extremes, two contradicting conceptions of economic action exist. There is the under-socialised conception that eventually leads to voluntarism and over-socialised conception that ultimately leads to determinism. In other words, these are two opposite conceptions of economic action: on one hand, there is action without compulsion and on the other hand the actions are always constrained by preceding events. Thus, in the case of under-socialised, the principal action of the actors is to maximise utility, while the over-socialised one the actions are shaped by the environment. To avoid falling into either of these two main pitfalls of socio-economic research, we follow the lead of Mark Granovetter (1985) who criticises both the under- and over-socialised conceptions of economic action. According to Granovetter, actors make an attempt at purposive action, and any economic action is always embedded in the prevailing institutional setting, but not ruled by it. So economic actors “...do not behave or decide like atoms outside a social context, nor do they adhere to slavishly to a script written for them by the particular intersection of social categories that they happen to occupy” (Granovetter 1985: 487). However, this does raise the question as to what determines the theoretical limits of the market.

*Institutions*, according to Douglass North (1990:1), are the “humanly devised constraints that shape human interaction”; more simply they are the “rules of the game in a society”. These rules, both formal and informal, cover the political and the economic. Formal political rules “broadly define the hierarchal structure of polity, its basic decision structure, and the explicit characteristic if agenda control”. Meanwhile the formal economic rules “define property rights, that is the bundle of rights over the use and the income to be derived from property rights and the ability to alienate an asset or a resource” (p.17). Explicit in this definition, is the fact that the exchange of goods and services is governed by the formal institutions.

Informal institutions cover a multitude of rules which guide behaviour. Many of these are strongly internalised by a social group- within which are the norms, customs and traditions of society. North sees these rules as part of a culture which provides the conceptual framework through which information is understood. Consequently many such rules can be largely self-enforced. However, they might also depend on the threat of retaliation from the second party or by a third party through societal sanction.
or authority. North argues that the distinction between formal and informal institutions is not clear. But as societies develop, especially economically, there is an increasing degree of formalisation. According to him, however, the informal rules are never completely displaced by the formal ones.

Economics and political performance is linked to institutional structure formally through transaction theory discussed above. North argues that the cost of economic or political exchange is determined by institutions. Broadly consistent with Williamson’s approach, transaction costs arise theoretically from fundamental assumptions regarding human behaviour, in which self-interest looms large, together with the general nature of exchange in which information is both incomplete and costly. North argues that institutions can reduce the transaction costs by the way which they structure exchange.

The explanatory scope of the basic neoclassical principles has been considerably widened to incorporate what has previously been considered to be the analytical terrain of the other social sciences. The new classical economics, which draws upon rational technique: that rational expectations, the idea that, in effect each economic agent acts upon the same, consistent economic model, fully deploying the information available. Not only did it bring the challenge of explaining why prices might not adjust instantaneously in some markets, but also the emphasis has been placed around market imperfections, which are perceived to be the consequences of informational imperfections and asymmetries around sale and purchase.

The new institutional economics draws a distinction between market and non market, with each representing different ways of making exchanges. Thus, there is a fundamental structural division between the spheres of production and exchange. This has been explicitly recognised in transaction cost economics which investigates the issue of why firms exist outside the market with their own internal forms of organisation, such as hierarchies, that are separate from market relations. For such an approach, the firm is a more efficient internal, possibly informal, way of doing business than exchanging or contracting through the market.
The theory of institutional economics remains rooted in methodological individualism, albeit with optimisation in the context of imperfect and asymmetric information. In this, it shares more features with neoclassical economics than it sheds. It continues to depend upon the same universal- and hence asocial and ahistorical-categories, including an unproblematic notion of information itself. In this respect, it does claim to address historical specificity but not in terms of its conceptual apparatus. Rather it is acknowledged that economics and (societies) are path dependent and subject to multiple equilibria. The approach fails to incorporate the issue that there are some forms of empirically observable behaviour that are not reducible to straightforward individual optimisation in an as if perfect market world.

4.4.3 Capital and capitalism

The notion of capital in factor markets introduces a theoretical space which directly admits important empirical observations and potentially enhances the ability of economic theory to explain cross-border trade. Capital in its fullest sense is confined to a particular period in history. Whenever we refer to capital, we ought to be conscious that we are taking capitalism as our point of historical and hence analytical departure. The separation between production and exchange is uniquely attached to capitalism. For example, Marx (1965) defines an industrial circuit of capital, for which, capital successively goes through three different forms, those of money, productive and commodity capital. The acts of exchange are essential for the movement through the circuit by initiating and closing it. The purpose in engaging in the circuit is that money realised should exceed the money advanced, thereby producing a profit.

But, from this solid foundation, capital becomes more ephemeral as such a physical grounding is considered to be a special case of more generalised considerations. Capital is the productivity of time, getting more by taking longer to produce goods not least through delaying immediate gratification by using time to make machines rather than consumption. Financial assets become capital as they grow in worth over time through interest or dividend payments. They represent deferral of consumption and the presumption that someone is taking the savings made and putting them to productive use to provide for more in the future.
From such considerations, it is imperative that capital has very little to do with capitalism as a historically specific form of economic organisation. Indeed, capital readily becomes identifiable socio-economic groups or even with each and every individual. The notion of capital is consciously and deliberately spread across what are not directly economic categories, so it takes a broader analytical content. It can be understood in terms of exchange value (monetary value) and also other forms of (non-economic) of use value. Moreover, capital in its economic form is freely used as a metaphor, and becomes more or less fungible. The various kinds of capital can be understood as assets. They are subject to cycles, generate returns, are distributed, acquired and inherited. Equally, there is accumulation, preservation (or depreciation), and transformation of the different types of capital (Bourdieu 1987:4).

Capitalism does create what is perceived to be division between economy and society or market and non-market. This is bridged to a large extent by the state. Capital is attached to a definite economic structure, not least because it is primarily based on production and sale of commodities. It is in other words, a market system. Capitalist system was instrumental in the establishment of mainstream economics which forged a sharp separation of the economy from the society and private property from the market. It established an exclusive pre-occupation with the economy as market relations.

Apart from the perceived failure of the price mechanism to regulate the neo-classical market, there are other issues that capitalism and hence capital also fail to address. For example, for many former socialist economies in Africa as well as Eastern Europe, it had been felt that the introduction of the market and private property would be suffice to usher in periods of prosperous capitalism. However, experience has shown that capitalism, and hence capital, requires a lot more than private property and market. The capital and capitalism provides a useful framework within which to view the research question faced here. But, it simply does not yet provide us with a clear basis from which to address the three simple questions raised earlier regarding the choice of the routes when crossing the border (§ 4.2).

1. What variables, if any explain the traders’ choice of the informal routes?
2. Are there reasons why traders do not use the formal trading routes?
3. Is the crossing environment at the formal route inimical to traders with limited amount of certain type of capital, causing them to avoid such routes?

4.5 Physical and human capital

Both human and physical capitals are human-made. According to Bates (1990) people form capital when they withhold resources from present consumption and use them instead to augment future consumption (or production possibilities). This position was also emphasised by Ostrom (1999) who stated that all forms of human-made capital are created by spending time and effort in transformation and transaction activities in order to build tools or assets that increase income in future. Physical capital is the stock of human-made material resources that can be used to produce flow of future income (Lachmann 1978). Human capital on the other hand, is the acquired knowledge and skills than an individual brings to an activity (Coleman 1999).

4.5.1 Physical capital

Physical capital generally refers to a stock of produced or natural factors of production that can be expected to yield productive services for some time. It is wholly tangible, being embodied in observable material form. It is created by changes in materials to form tools that facilitate production and exchange. The origin of physical capital is the process of spending time and other resources constructing tools, plants, facilities and other material resources that can, in turn, be used in producing other products for future income. It is usually identified with tangible, durable, and alienable objects such as buildings and machines whose accumulation can be estimated and whose worth can be assessed (Arrow 1962). However, physical capital exists in a wide variety of forms including buildings, roads, waterworks, automobiles, trucks tractors- to name just a few. It can be used for production as well as storage of stock of inventories. Other modes of physical capital are also used for the transportation of goods to be sold. The mode of transport can range from trailers, lorries, pick ups, public transport which is used together with those who may not even be involved in any exchange process such as, bicycles, push cats and even head carries.

For neoclassical economics, capital, at least in the first instance, is particularly solid: it is any physical object that aids in the production process. Most notably, it is
formally and technically indicated by the notion of production function in which output depends positively in a fixed fashion upon quantities of capital and labour. It is primarily based on the production and sale of commodities. The more capital you have, the more output you get, through the process of production and exchange. The act of exchange initiates the production process when money is advanced in the form of capital to acquire the factors of production. The exchange closes the circuit when the commodity capital from the production process is realised to retrieve the money form of capital.

Even though according to Lachmann (1978), capital is the stock of human made resources that can be used to produce a flow of future income, the intention to construct useful capital is not always fulfilled. An investment in physical capital may not generate the improved flow of future services, for example, an empty building, represents a failed investment decision.

While questions over differences in standards of living across countries have remained the same, the answers to it have changed over years. For a long time the availability of resources – land, minerals- was considered as essential prerequisite for development. Large portions of Africa, Asia, and Latin America were colonised to acquire these resources, and countries went to war to fight for them. Gradually, thinking shifted and physical capital – machines, equipment- came to be identified as key prerequisite for development, and ‘industrialised’ became synonymous with ‘developed’. An individual, a firm or a nation builds their stock of capital if they are able to build its factories, machines, offices and mode of transportation faster than the existing ones wear out. But it was later recognised that these explanations were too simplistic. Embodied in the machines and equipment was physical as well as technology- knowledge and ideas.

In comparing physical and human capital, Coleman (1986: 316) states that physical capital is ordinarily a private good, and property rights make it possible for the person who invests in physical capital to capture the benefits it produces. Thus the incentive to invest in physical capital by actors (individuals and even organisations) is not depressed. There tends to be optimal investment in physical capital because those who invest in it are able to capture the benefit of their investment. For human capital also,
the person who invests time and the resources in building it up also anticipates to reap benefits. From the foregoing analysis, it seems imperative that to maximise returns in any exchange process, investment in physical and human capital is both necessary and essential.

4.5.2 Human capital

Adam Smith's observation that all the acquired useful abilities of the inhabitants of and members of a society are capital initiated a much debated theme in economics. Economists have long known that people are an important part of wealth of nations (Marshall 1890, Knight 1944). The mainstream thought of economics has held that it is neither appropriate nor practical to apply the concept of capital to human beings. Marshall whose great prestige goes far to explain why this view was accepted, held that while human beings are incontestably capital from an abstract point of view, it would be out of touch with the marketplace to treat them as capital in practical purposes.

Human capital theory posits that greater individual and aggregate investments in learning activities lead to greater individual and societal economic benefits. The human capital theory is in accord with the Marxist labour theory of value on the recognition of labour as the primary source of wealth in capitalist society. From its inception in the United States of America after World War II, human capital theory tended to equate workers' knowledge levels primarily with their levels of formal schooling, to rely on quantitative indices of amount of schooling in estimating individual economic returns to learning, and to infer that more schooling would lead to higher productivity and macroeconomic growth (for example Shultz, 1963; and Becker 1964).

Theodore Shultz (1961) received most acclaim for his contributions to the theory of human capital. According to him, the residual factor in economic growth was due to improvement in the quality of inputs, particularly in the quality of capital embodied in the human labour. He proposed "... to treat education as investment in man. Since education becomes part of the person receiving it, I shall refer to it as human capital (1993:115)." Since it becomes an integral part of a person, it cannot be bought or sold or treated as property under institutions. "nevertheless it is a form of capital if it
renders services of value (like reading and writing) (ibid: 116). The principal hypothesis underlying this treatment of education is that some important increases in national income are a consequence of additions to the stock of this form of capital.

Shultz’s argument is that increases in quality of both physical and human capital originate primarily out of the advances in knowledge. The value of acquired abilities of human beings is in large measure revealed in wages, salaries, self-employed earnings, and entrepreneurial reward. This position was also taken by Mincer (1970) and Griliches (1963) whose studies concluded that education is the most important component of human capital. Smith had earlier reckoned that the acquisition of this class of capital by a person through his “education, study, or apprenticeship, always costs a real expense, which is a capital fixed and realised, as it were, in his person .... The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and bridges labour, and which, though it costs certain expense, repays that expense with profit.” (Adam Smith 1937: 265-6). While human capital is created by changes in persons that bring about skills and capabilities that make them act in certain ways, it is less tangible, being embodied in the skills and knowledge acquired by an individual (Coleman 1998).

The differences in personal distribution of income were also attributed to the differences in human capital by Mincer (1970). This theory was also emphasised by Garry Becker (1960) who concluded that education was positively related to earnings. The increasing economic importance of human capital in modernising economy is in no doubt. Rosen (1987) found that the economic leverage of human capital exceeds that of nonhuman capital in high income countries where it accounts for most of the personal income of people. According to him, in societies where wages, self-employment earnings, and earnings of entrepreneurs account for three-fourths, or a greater share of personal income, important institutional changes in favour of human capital property rights have occurred during recent decades.

At national levels, human capital consisting mainly of education has been taken to account for differences in per capita income between developing and developed countries. This implies that as growth proceeds, the complementarity and substitution among factors are such that the role of human capital becomes increasingly important.
Krueger's study is most telling on this point. In explaining the absolute difference in the per capita income between the poor and the rich countries in terms of factor endowments, she concluded that "... the difference in human resources between the United States and the less-developed countries accounts for more of the difference in per capita of income than all the other factors combined" (Krueger 1968: 658). Theodore Shultz (1961) also found that education seemed to account for about one fifth of the growth of the US economy from 1929 to 1957.

In production enterprises, human capital is said to have contributed much to the longstanding puzzle of the residual, where the rate of increase in output exceeds the rate of increase in inputs (Jogenson and Griliches 1967). Human capital enhances the productivity of both labour and physical capital. Lucas (1988) sees the "human capital accumulation as a social activity, involving groups of people, in a way that has no counterpart in the accumulation of physical capital."

In the recent growth literature, the accumulation of human capital has gained a central role. Some scholars, like Lucas (1988), have postulated that human capital is an input into the production process like any other factor. To him, the level of output is a function of the stock of human capital. Romer (1990) also concluded that a steady state growth rate depends on the level of human capital. Livingstone (2000) also concluded that more educated individuals are more productive, whatever their chosen occupation.

An issue of special interest to Shultz was entrepreneurial ability. This was later emphasised by Welsh (1970) whose proposition was that "...entrepreneurial abilities of the farmers are enhanced by their education". He further argued that "...in technically changing economy, educated persons are more adept than less educated individuals at critically evaluating new opportunities because they can distinguish more quickly between the systematic and random elements in such an economy; thus they are more productive than uneducated persons". Shultz termed such advantage arising from education as allocative benefit, which is determined by the "...ability to respond to the opportunities...This particular benefit increases as the level of education rises, with the least educated persons slowest in responding to the new opportunities" (1993: 193).
4.5.3 Entrepreneurship

Entrepreneurship startles between human capital and social capital. Within the broad orthodox of the economic paradigm, entrepreneurship is regarded as the fourth factor of production after land, labour and capital. Entrepreneurship is here conceived as the essential catalyst which combines the three factors into productive form, and also essential in completing the production and exchange circuit discussed above through the exchange process. According to Wennekers and Thurik (1999), the entrepreneur first appeared in the writings of Cantillon (1680-1734). Cantillon recognized the entrepreneur as one of the three economic agents besides land owners and employees. Lately, the term entrepreneur is used to refer to those who start-up, run, and expand business and the self employed (Binks and Vale, 1990; Hailey, 1992; Parker, 1996). The entrepreneur appears to be needed more specifically in relation to development to which trade is attributed. Deficiencies in the supply of entrepreneurship have long been posited as a key constraint on development. Knight claimed that “the supply of entrepreneurial qualities in one society is one of the chief factors the number of its production units and therefore output” (1921:288). Later development theorists were concerned with just such supply deficit (Leff 1979). The cross-border trade would seem particularly susceptible to the supply of entrepreneurship.

In order to understand the relevance, or otherwise of entrepreneurship to economic analysis generally and the informal cross-border trade specifically, the concept needs to be clarified. However, as Baumol observed “the entrepreneur is at the same time one of the most intriguing and one of the most elusive characters in the cast that constitute economic analysis” (1968:64). Much of the discussion regarding the role of the entrepreneur has been dominated by two themes: uncertainty and innovation.

Many of the key economic decisions taken by the traders, for example which products to trade in are based on assumptions regarding future economic conditions. Any economic action which is extended through time is \textit{a priori} subject to uncertainty. Knight distinguished uncertainty from risk. Uncertainty is taken to refer to a lack of information regarding the form or basis of problem and therefore what outcomes are
feasible\textsuperscript{19}. Risk meanwhile can be regarded as a quantifiable unknown, in which the form of the problem is apprehended and what remains to be determined is which of a finite set of outcomes will actually occur.\textsuperscript{20} In principle, risk can be expressed in terms of probabilities of various outcomes. But, uncertainty remains a problem which is wholly intractable within neo-classical theory; it is not reducible to value. We have already noted, uncertainty appears highly relevant to the question of which route to take when crossing the border (see §4.3.2). At issue here is whether the notion of the entrepreneur as the bearer of uncertainty actually enriches theory significantly.

The association of entrepreneurship with bearing of uncertainty directs analysis in three possible directions. First and most obviously it might be supposed that individuals possess varying innate psychological propensities to bear uncertainty or risks. This might seem reasonable based on the casual observation of marked differences in gambling habits among individuals in any given society. However, it is less clear that variations in the incidence of risk taking found \textit{between} populations should be explained by reference to innate psychological traits in the first instance rather than systematic social or economic factors.

Secondly, a given social and economic context may considerably modify the risks faced by individuals. Political and macroeconomic instability characterise many developing economies increasing the background level of uncertainty. All markets, especially risk markets, are likely to be poorly developed and radically incomplete in the neo-classical economic sense\textsuperscript{21}. The consequences of failure in business may be markedly different between industrialised and developing economies. A failure in business in the latter context could deprive an individual of the means of subsistence.\textsuperscript{22} Such an analysis directs attention away from the notion of entrepreneurship towards the social and economic environment.

A third form of analysis considers the extent to which the activities of the entrepreneur organises her activities with others, and therefore to some degree part of

\begin{itemize}
  \item[\textsuperscript{19}] Richard Langlois (1986) refers to this as \textit{structural} uncertainty, while Neil Kay (1984) terms it \textit{true} uncertainty
  \item[\textsuperscript{20}] Referred to as \textit{parameters} of uncertainty by Langlois (1986)
  \item[\textsuperscript{21}] A similar point is made by Lef\textsuperscript{f} (1979:48)
  \item[\textsuperscript{22}] Emphasized by McCormick (1988)
\end{itemize}
Schumpeter (1934) conceived the entrepreneur as the innovator. In his theory, the entrepreneur is placed at the heart of economic development. The entrepreneur does not only innovate in the production through new technologies, but does so also in the supply of materials and the market for the outputs. Schumpeter is careful to distinguish this function from risk bearing (the function of capitalist), management and the inventor. The entrepreneur is thus an irreducible element in capitalist economic development.

However, Schumpeter's explanation for entrepreneurial behaviour suggests that social and psychological *conditioning* are largely irrelevant. Three elements explain entrepreneurship: “the dream and will to found a private kingdom... the will to conquer ... to succeed for the sake of success itself... [and] finally there is joy of creating” (1934:93). This position is contested by Johannison (1988) who stated that the entrepreneur is not seen as an individual innovator or risk taker only, but as a person who utilizes the environment or local community as an ‘organizing context’ and depends on it in organizing resources and contacts for the business.

It seems particularly pertinent to the informal cross-border trade as distinct from the formal one. We have argued that the informal cross border trade in developing economies involves a crucial step forward in economic integration towards that of industrial integration economies away from the traditional pre-integration form. The question of entrepreneurial supply is thus raised again.

As noted earlier specifically in relation to Kenya and Tanzania (see chapter 2), many observers have vigorously denied that there is any lack of innovative behaviour in developing countries. Hubert Schmitz argued that there can be no question of deficit in entrepreneurial supply, quoting studies which “reveal great initiative, inventiveness, responsiveness and readiness to jump to opportunities” (1982:431). Natress (1987) refers to creativity and dynamism found ubiquitous in the informal
sector of the developing world. Leff concludes that “economic development in most LDCs can proceed without these countries having to wait for transformation that would increase the supply of entrepreneurs” (1979:60). This is also emphasised by Sørensen who noted the vibrancy of the informal sector hence the supply of entrepreneurs by stating that “the private sector is mainly in need of economic reforms in order to legitimise what is already going on (1997:23).

The presentation of entrepreneurship as a simple variable is highly problematic. Kilby (1971) has noted that many of these approaches depict entrepreneurship as being entirely present or entirely absent. In relation to cross-border trade, most of the literature on entrepreneurship developed with big business in mind. Even in cases where the emphasis is on small business, it is those in production that are talked of. But Allan Gibb argue that “different types of entrepreneurial behaviour are required in different market places to achieve success and different traits, skills and competencies will be needed depending upon levels of uncertainty and complexity in the market” (1988 pp. 19-20).

On the question of relationship between cross-border trade and entrepreneurship, the usefulness of the concept as a primary explanatory variable becomes yet doubtful. It is not clear how the entrepreneurial supply pf the irreducible ‘innovative’ kind might affect the choice of route. Under conditions of entrepreneurial scarcity, will the formal or informal route be chosen? The presumption that the enterprises (traders in this case) are always innovative in the Schumpeterian sense needs to be questioned. If merely establishing a small trading enterprise were evidence of such innovatory achievements, then the notion of shortfall of supply would clearly not apply to the developing economies like Kenya and Tanzania with very large populations of informal enterprises. Some notion of quality and magnitude of the entrepreneurial input seems inescapable if it is to be useful in explaining cross-border trade. However, there are no grounds for supposing a simple relation between degree of innovation needed and the choice of route. There is need to study the social environment of the entrepreneurs at the border region. The invisible capital accumulated by the traders from such social environment is what can be termed as social capital. The entrepreneurship among the informal cross-border traders is related to their accumulation and use of social capital.
Neo-classical economics uses abstract idealisations as the basis of its theoretical toolkit. That reality does not precisely match such idealisation and does not constitute a falsification of theory. The point of departure between model and reality points precisely to the areas in which auxiliary hypotheses are required in order to enrich the applied model. The discipline of sociology offers an important area of such work.

4.6 Sociological discipline

Sociology as a discipline emerged as an attempt to explain the origins and nature of social order, in the face of urbanisation and industrialisation, which to the sociologists were eroding the traditional basis of order. The social theorists were concerned with the quality of human relations.

Alexis de Tocqueville (1932) described the vibrant associational life that underpinned American democracy and economic strength. To him, interaction in voluntary associations provided the social glue. Emile Durkheim (1933), the founding figure of sociological thought, was interested in the way in which peoples’ social ties served as the thread from which a wider society wove itself together. He had such associations classified into ‘mechanical solidarity’ which represented the feudal world. This classification was unthinking and habitual, based on fixed structures of obligations of lord, peasant, cleric, and artisan. His second classification was ‘organic solidarity’ which is a capitalist system. In this classification, people lived in a world of strangers yet managed their affairs without strictly regulated labour of the feudal system. According to him, societies nevertheless “do not become a jumble of juxtaposed atoms ...rather the members are united by ties which extend deeper and far beyond the short moments during which the exchange is made” (Durkheim 1933: 226).

A preoccupation with quality of relationships and their association with shared values pervaded the classical sociological theory. According to Field (2003:6), the classical writers were concerned with understanding how humans created stable social structures and patterns of behaviour in the world where urbanisation, industrialisation, and scientific rationality had eroded, as it seemed to them, the traditional basis of

order, habit, faith, and unthinking obedience.

Explanation of cross-border trade in terms of associational life cannot be immediately refuted. However, such an explanation will necessarily involve a greater complexity than the simple voluntary associations. Furthermore there are no a priori reasons for not seeking a clearer understanding of the role of the associations in the cross-border trade. Certainly it seems theoretically premature to look for reasons for choice of routes in other structures before understanding more clearly how associations or more generally relationships, affect the choice of routes.

4.6.1 Point of departure: social capital
The orthodox neo-classical economic theory takes an actor to be acting independently and wholly self-interested. For the sociological stream of theory, the actor is shaped by the environment, which gives purpose and direction, but is still analysed as an individual. Thus, economics studies individuals in the context of market parameters, the social theories study them in their social relations. There is a general recognition that both conceptions, taken independently, are fatally flawed.

Potential trading partners, from economic point of view, are expected to exchange goods and services for some payment. But the social reality is that, even those who have never met still bring a past to the negotiating table. Each actor brings along his particular identity: who he is, who he knows, what he knows, and any other information necessary to facilitate the transaction. Identities of the countries of the actors may diverge, but not exclusively and especially for developing countries, especially within the horn of Africa. An extreme example is that of transactions between actors from the same community, regardless of which part of the Eastern African countries.24 At least in the Somali sub tribe circles, the norm is to help who ever is in need, even those who are just crossing the border and are not necessarily traders. Clearly a transaction between such persons from similar backgrounds does not start on a neutral footing. But the same holds for in less extreme situations, where the point of difference is determined by all kinds of more subtle similarities in societal origins and positions of the actors. So, identity matters, because it determines the

24 For elaboration, see case 1. chapter 7
point of departure for bargaining and, consequently, also influences the outcome of the bargaining (Ben-Porath 1980; Jagannathan 1987; de Renzio and Kanamur 1997).

4.6.2 Social capital

Bourdieu (1986, 1977) put forward the term social capital to describe the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network. Bourdieu (1986b: 248-49) said that “social capital is the aggregate of the actual or potential resources which are linked to possession of durable network… The volume of social capital possessed by a given agent thus depends on the size of the network of connections he can effectively mobilise and the whole set of agents to whom he is connected”. Bourdieu’s assumption was that social capital is historically limited to the circumstances that create them. In other words, they are contextual and constructed. However, later definitions and usages of social capital across the social sciences deviate from this significantly. There is no place for it to be grounded historically or socially.

Coleman (1988) further defined social capital as representing a resource because it involves the expectation of reciprocity, and goes beyond any given individual to involve wider networks whose relationships are governed by a high degree of trust and shared values. The networks create relationships which are the social capital resources. Relationships are said to constitute capital resources by helping to establish obligations and expectations between actors, building on the trustworthiness of the social environment, opening channels of information, and setting norms that endorse particular forms of behaviour while imposing sanction on would be free-riders (Coleman 1988-9:102-4). This was the line of argument which was taken by Portes and Sensenbrenner (1993) when they defined four different kinds of social capital which according to them can result in four positive effects: ‘value interjection’ which ‘prompts people to behave in ways other than naked greed’ (1993: 1323); ‘reciprocity transactions; ‘bounded solidarity’; whereby the groups define their social

25 Bourdieu was a European sociologist, interested in the persistence of social class and other entrenched forms of inequality. His early writing on social capital was, then, part of a wider analysis of the diverse foundations of social order. He saw the positions of agents in the social field as determined by the amount and weight of their relative capitals, and the particular strategies that they adopted to pursue their goals.
responsibilities; and ‘enforceable trust’ where moral pressures are brought to bear upon economic transactions.

According to Fine (2003: 76), Coleman is concerned with a variety of social exchanges that take place in the absence of money, and which are treated as a variety of barters with social capital serving, by way of analogy, as a form of credit on which individual can draw so long as the mechanisms exist for them to pay back and reproduce the social capital systematically. The usage is a central theme in social capital theory. Coleman argues that if unused, social capital deteriorates rapidly. He compares it with physical capital which wears out more rapidly with use. According to him, as time goes on some individuals enter and some leave the social groups. New comers are introduced to an established pattern of interaction as they enter (for example, through trading, transportation or any other ways through which social capital is passed from one generation to the next).

Coleman also displayed social capital as a public good that is created by and may benefit not just those whose efforts are required to realise it, but all those who are part of a structure (Coleman 1988-9:116). To him, social capital is ‘a by product of activities engaged in for other purposes’ (Coleman 1994: 312). He recognised that social action and transactions generate externalities and therefore have the characteristics of public goods. It provides a set of norms and sanctions that allow individual’s to cooperate for mutual advantage. It therefore demands cooperation between individuals who are nevertheless pursuing their own self-interest. Becker also used an analogy of externalities in referring to social capital. To him, “an individuals stock of capital depends not primarily on his own choices, but on the choices of peers in the relevant network of interactions” (Becker 1996:12).

Coleman classified social capital into primordial and constructed. For Coleman, the family as a social structure, which he termed as primordial social organisation, was distinguished by the fact that its origins lay ‘in the relationship established at child birth’ (Coleman 1990:334). Constructed forms of social organisations come together for limited purposes. He places more emphasis on primordial (dense ties) as compared to constructed (loose ties). To him, religious organisations are among the few remaining organisations in society, beyond the family, that cross generations.
Thus they are among the few in which the social capital of an adult community is available to children and youth" (Coleman 1990: 336). Alejandro Portes, has pointed out, this emphasis has meant that Coleman tended to overstate the role of close or dense ties, and underestimated the importance of weak or loose ties (Portes 1998: 5).

After Coleman, came Putnam. His initial contribution concerned differential regional development in north and south Italy, with government performance explained by uneven incidence of social capital in the form of horizontal civic association, laid down almost a millennium previously. Putnam (1993a) distinguishes three components of social capital as trust norms and networks. Thus to him, “social capital refers to features of social organisation, such as trust, norms and networks, that can improve the efficiency of society by facilitating, coordinated actions” (Putnam 1993a: 167). He further stated that social capital is a resource that accrues to individuals through loose ties, built up through constructed organisations. According to him, social capital contributes to collective action by increasing the potential costs of defectors; fostering robust norms of reciprocity; facilitating flows of information, including flows of information on actor’s reputation; embodying the success of past attempts of collaboration; and acting as a template of future cooperation (Putnam 1993a: 173).

Putnam further classifies social capital into bonding (or exclusive) social capital, and bridging (or inclusive). This could be compared with Coleman’s classification of primordial and constructed. According to Putnam, the former tends to ‘reinforce exclusive identities and maintain homogeneity’, it is based around family, close friends and other near kin; it is inward-looking and binds people from similar sociological niche. Bridging social capital tends to bring together people across diverse social divisions. It links people to more distant acquaintances who move in different circles from their own; it tends to generate broader identities and wider reciprocity rather than reinforcing narrow grouping. Bonding social capital is good for under girding specific reciprocity and mobilising solidarity’. Bridging social capital is better for linkage to external assets and for information diffusion’ (Putnam 2000: 22-3). Putnam believes that while bonding social capital is good for ‘getting by’; bridging social capital is good for ‘getting ahead’.
Based on Putnam's classification, and adding an additional distinction, Michael Woolcock has also classified social capital into:

(a) Bonding social capital, which denotes ties between like people in similar situations, such as immediate family, close friends and neighbours.

(b) Bridging social capital, which encompasses more distant ties of like persons, such as loose friendships and workmates.

(c) Linking social capital, which reaches out to unlike people in dissimilar situations, such as those who are entirely outside the community, thus enabling members to leverage a far wider range of resources than are available within the community (Woolcock 2001: 13-14)

Lin (2001, chapter 5) also distinguishes social capital into 'strong ties' and 'weak ties', this follows Granovetter's (1973) earlier use of the terminologies, which was not really referring to classification of social capital. While strong ties bring together individuals and groups with rather similar resources, in order to pursue normative and identity-based goals (what Lin defines as 'expressive' purposes), weak ties may be better at serving instrumental goals as they can provide access to new types of resources, but rely less on strong shared values. Lin develops these insight to theorise a model of social capital that incorporates the distinction between strong and weak ties (or bridging and bonding social capital), the purpose of mutual cooperation (expressive and instrumental), actors' structural social position, and membership of networks that provide access to positions (Lin 2001: 75-6)

The impact of social capital on the nature of exchange can be understood in terms of both resources and enforcement. Social capital is highly relevant as a resource in exchange transactions- by guiding action between agents by providing rules, codes and norms of behaviour. More obviously, social capital as a resource helps establish obligations and expectations between actors. Enforcement meanwhile concerns the cost of monitoring and ensuring compliance with agreements. Enforcement may be from first, second or third party. Normally, the state is the third party to enforce the exchange agreements. In the absence of the state, social capital becomes a mechanism for policing behaviour.
Social capital theory sees economic actors as "socially embedded" in social ties which can be "strong" or "weak" as stated earlier. The condition of perfect market in which price is the only determining factor is accomplished in ideal situations where social capital is completely not necessary. Economic opportunities are a function of both price (neo classical market) and social capital which reduces the transaction cost.

Trading involves moral as well as financial economy and one of the currencies is social capital. The idea of moral economy of trade originates in the work of Polanyi (1944; Polányi et al., 1957). He also advocated for the idea that 'great transformation' form traditional to modern society involved the disembedding of economic transactions from social relations and their transformation into market transactions based upon universal norms of exchange. According to the proponents of 'new economic sociology', market activity needs to be understood in terms of the way in which economic activities are embedded (Granovetter, 1985; 1995; Evers and Schrader, 1994; Portes, 1995; 1994). Wallace et al. in their study of cross-border traders in post-communist central Europe also concluded that market forces are not only driven by economic forces, but require particular social conditions.

From the forgoing analysis, social capital takes, at its point of departure, anything that is not reducible to individualistic exchange relations. It is a product of social interaction. The interaction draw knowledge and identity resources and simultaneously use and build stores of social capital. Ben Fine (2003: 223) notes that the nature of social capital depends on various qualitative dimensions of interaction in which it is produced, such as quality of internal-external interactions, the historicity, futuristity, reciprocity, trust and the shared value of and norms.

Despite this preoccupation with the positive contribution of social capital, there are two further points to note. The first is the possibility that social capital can help reinforce inequality. According to Fine 2001, cooperative actions that benefit the participants may produce undesirable effects for the wider society by creating negative externalities. This was also emphasised by Fukuyuma who concluded that social capital produce negative externalities largely 'because group solidarity in human communities is often purchased at the price of hostility towards out-group members' (Fukuyuma 2001:8). Even for the participants, the inequality can arise in
the form of negative spill over effects which are unintended and unwanted. Social relations within the border region suggest a harmonious situation in which actors who trust each other are effectively equals in a transactions. This is unlikely to be the case in reality. Where actors are different, both economically and socially, power relations come into play. Relations of trust between equals are replaced by relations of subjugation between powerful and powerless actors.

The second relates to resistance to change. Social network ties can evolve a resistance to change within a highly socialised setting vulnerable to exogenous threats. Social embeddedness rooted in inward-looking and homogenous actions can limit the flow of new knowledge and hinder the ability of local actors to source or accept new ideas from outside their socially prescribed groups. In this case the “strongly embedded regional networks [can] insidiously turn ties that bind to ties that blind” (Gragher 1993:24). The results can be economic inertia, trading networks becoming resistant to external change, and can potentially accelerate a process of economic decline of the network and the region.

However, despite the two weaknesses, in order to understand the informal cross-border trade, the social interaction of the traders needs to be considered. Woolcock, Putnam, Coleman and Lin broadly agree on the need for both bonding and bridging social capital in providing resources. However, Woolcock emphasises the need for linking social capital which reaches out to unlike people in dissimilar situations.

Social capital provides a broad framework within which to describe the informal cross-border trade. It shows how social connections can affect economic decisions. However, some theoretical difficulties remain. In particular, Putnam’s assertion that the social capital depends on stock of capital laid down over decades in the form of horizontal associations may not be tenable. In terms of building an explanation for the informal cross-border trade, much theoretical work still remains. There is need to lay down on one hand, the link between cross-border trade and social capital and its components of networks, trust and norms and on the other hand the link between social capital and entrepreneurship in some detail in order to tackle the research question before us.
People connect through a series of networks. To the extent that that these networks constitute a resource, they can be seen as forming a kind of capital. Membership of networks and a set of shared values are at the heart of the concept of social capital. Early studies defined network narrowly as a specific set of linkages among a set of defined persons (Mitchell, 1969), or ‘set of persons who can get in touch with each other’ (Katz, 1966). Rasmussen (1988) as cited in (Rasmussen 1992) states that the Scandinavian “network approach” encompassing both regional geographic studies and enterprise economics shows how enterprises relate to each other and to their local environment. Putnam (1993) and others (Yamagishi and Yamagishi, 1994; Coleman, 1990a; Granovetter, 1985) give a broader view that a network can also be viewed as part of an individual store of social capital.

Polányi (1944; Polányi et al., 1957), advocated the idea that the ‘great transformation’ from traditional to modern society involved the disembedding of economic transactions from social relations and their transformation into market transactions based upon universal norms of exchange. But this was later disapproved by contributors to this literature such as Granovetter (1985) who tended to stress the fact that even in developed countries, market relationships are also reembedded in social ties. Such embedding take place through social relationships such as ethnic ties (Portes and Sensenbrenner, 1993), family ties (Philzaklea and Ram, 1996; Sanders and Nee, 1996), or simply informal network ties (Uzzi, 1996). This is what Portes (1995: 1323) referred to as creating ‘bounded solidarity’ through kin, ethnic, or other social networks. Such networks which are formed through primordial or constructed relationships can be used by individuals to secure economic returns by reducing risks and transaction costs.

The connection between networks and social capital is stressed by authors who give its main role as that of disseminating information (Becattini, 1990; Brusco, 1992; Piore and Sabel, 1984; Schmitz, 1992). Barr (1998, 1999) distinguished globalising and local networks, where the former enhance performance and the latter reduce uncertainty by providing information. Networks have long been seen as important to business success, particularly during the start up stage. It is widely accepted that networks function as an important information source, which can be critical in identifying and exploiting business opportunities (Hendry et al. 1991: 16: Mulholland
1997: 703-6). In manufacturing, networks affect the performance of enterprises within the clusters (Schmitz, 1995; Rabelloti, 1995; and Rasmussen, 1992; McCormick, 1999c). Networks in such cases affect enterprise performance by providing entrepreneurs with information about the world especially about technologies and markets.

Networks offer distinct forms of co-operation wherein transactions involving active forms of actor to actor ties can be executed without recourse to internalisation. In networks, “transactions occur neither through discrete exchanges [market] nor by administrative fiat [hierarchies], but through network of individuals engaged in reciprocal, preferential, mutually supportive actions...In essence, the parties to the network agree to forgo the right to pursue their interest at the expense of others” (Powell 1990:303). Network ties take time to build. In this sense, they are also costly, because agents loathe changing collaborators for fear of incurring costs by building ties with other partners. Consequently, network ties are also recurrent. At the heart of network relations is the fact that actors within the network are interdependent. This requires a degree of ‘mutual orientation’ and includes “mutual knowledge, knowledge which the parties assume each has about the other and upon which they draw in communicating with each other...It is subtle knowledge based on personal experience, and takes time to develop” (Johanson and Mattson 1987:39)

The many reinforcing encounters within the network enable actors to develop acceptable behaviour and offer the opportunity to convey their mutual expectation about others. In networks, “when two actors perceive their activities as being interdependent, they are inclined to start exchange with each other” (Håkansson and Johanson 1993: 40). Such exchange relationships are built over time, are socialised, are complementary and involve interdependencies. A crucial aspect of interdependency is the willingness on the part of networked actors to adapt their behaviour to development in partner actors. Adaptation can be either logistical, financial or knowledge based. They take place constantly as actors engage with each other within the network. Adaptations “strengthen the bonds between individuals..., which in turn mean that disagreements, as a rule have to be handled within the framework of the relationship. A situation evolves in which ‘voice’ is a better as a conflict-resolution mechanism than ‘exit’, since exit is not easy or attractive”
(Johanson and Mattson 1987: 39). This generates potentially significant gains, including external economies of scale. Some of these economies result in cost savings while others enable small traders to take tasks which would be unforeseeable given their own resources.

The close interdependence of networks also implies that actors face fewer risks from the pernicious acts of their collaborators. The fear of opportunism is diminished by the prevalence of reciprocity. The fact that exchanges are recurring, and thus long-term in orientation, provides insurance against what Granovetter (1985) terms 'malfeasance'.26 The reputation of each party is continuously and consistently at stake in each transaction with other agents in the network. Reputation is for the actors an asset or, where negative, a liability, and known to all others in the network with whom the actors potentially engages. Reputation within economic transaction is often socially defined and enforced.

As noted earlier in (§ 4.6.1), economic relations involve social ties. A theoretical approach that views economic actions as "socially embedded" stresses the centrality of social structures in understanding how co-operative behaviour is brought about (Granovetter 1985). It is one of the main tenets of contemporary views of social capital. Coleman expresses it more clearly when he states that relationships constitute capital resources by helping establish obligations and expectations between actors, building trustworthiness of the social environment, opening channels of information, and setting norms that endorse particular forms of behaviour while imposing sanctions on would be free riders (Coleman 1988-9: 102-4). Being connected is itself a resource, in so far as socialising with others is a rewarding experience in its own right, but people are also able to make use of their connections to obtain other benefits. According to Field (2003: 1), "relationships matter...people are able to work together to achieve things that they either could not achieve by themselves or could only achieve with greater difficulty". This view was also taken by Kimuyu (2000) who observed that business a network takes place among private individuals with an enduring relationship. To him, such enduring relationships derive from friendship.

26 The effectiveness of recurring contracts in ensuring long term co-operative behaviour is captured in the infinitely repeated version of the Prisoner’s Dilemma game. On game theoretic approaches to recurring contracts see Dasgupta 1988; Platteau 1994; Furlong 1966
kinship, religion and ethnicity. These relationships substitute and/or complement state and inter-state laws within the border region.

The embeddedness approach critiques the utilitarian tradition of neoclassical and new institutional economics which views agents as self-seeking, atomised individuals, free to act in determining their choice sets (given their resource constraints) and whose economic transactions are governed by economic forces. Yet, "even if action is free," as Hodgson (1988:134) notes, "it is riddled with habit and routine, and permeated with culture and structure of systems" in which it is located. The critique of 'under socialised' basis of the neo-classical and institution world view does not imply social or cultural determinism. Culture, in Granovetter's model, is "an ongoing process, continuously constructed and reconstructed during interaction", while social ties shape and are themselves shaped by economic action of individuals (Granovetter 1992:57). The importance of the social embeddedness approach is that it provides a basis for addressing how co-operation can be achieved, and the fear of opportunism minimised by the networked agents.

Social ties and socialised trading relations lower transaction costs by providing a basis of trust, social reputation and reciprocity in actor-to-actor relations. Being socially embedded within a community provides a basis for social provisioning of market related information, and generates implicit code of behaviour, incorporating rules and regulates both social and trading relations within the region. Hence, a regulatory mechanism for trading relations emerges from within the community and the social ties. Sanctions enforce the limits of socially accepted commercial behaviour within and between the actors. The ultimate sanction implies social exclusion from the community. A less draconian, yet effective, sanction in business relations is loss of business reputation. A reputation for honesty and fairness in business transactions is highly valued and is constructed over an extensive period of time. Such a reputation is also zealously guarded in situations where the loss of it is likely to result in commercial damage to the actors. Thus if the social and commercial "exit costs" incurred from breaking a commitment are sufficiently high, they can act to enforce forms of actor-to-actor co-operation.
Informal forms of civic engagements, such as self help groups and traders' associations also offer access to connections that are 'identity relevant' (Ingram and Roberts 2000: 389), in that most members participate on the basis of common experiences of a particular issue or problem. However, it is to be noted that many of the social characteristics, community attributes, and moral codes that derive from these ties are not directly observable. Members of the community internalise social identities and their associated properties without being consciously aware of it. Hence discerning the role of social embeddedness is more difficult than the relatively perceptible patterns of trading relations.

Networks within the social capital framework, therefore, parallel the notion of economies of scale: the more the same within the network, the better. Thus the issues of scale and scope in economies of scale could be taken to be analogous to bonding and bridging in social capital literature.

However, it is to be noted that social networks ties can evolve a resistance to change within a highly socialised settings vulnerable to exogenous threats. Social embeddedness rooted in the inward-looking and homogenous culture can limit the flow of new knowledge and hinder the ability of local agents to source new ideas from outside their socially prescribed groups. In this case the "'strongly embedded regional networks [can] insidiously turn from ties to that bind to ties that blind" (Grabher 1993: 24). The results can be economic inertia, trading networks becoming resistant to external change, and can potentially accelerate the process of economic decline of the network of the region.

Trust can be approached narrowly or as a part of wider phenomena. The narrowest view focuses on kinship links without attempting to analyse the broader framework within which they are situated (Biers, 1996; Davis, 1973; Mints, 1994; Finan, 1988; Trager, 1981; Clark, 1994; Fafchamps, 1996). Some theorists consider trust as part of the competitive advantage of manufacturing enterprises (Sako, 1992; Putnam, 1993; Lane and Bachmam, 1996). The broadest view considers trust as a tool for minimising risks and maximising access in situations characterised by imperfect information and
a lack of effective legal mechanisms (Dione, 1996; Fukuyuma, 1995(a); Knack and Keefer, 1996).

Fukuyama defined trust as a basic feature of social capital: ‘social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it’ (Fukuyama 1995: 26). This was also reiterated by Uslaner who stated that social capital reflects ‘primarily some system of values, especially social trust’ (Uslaner 1999:122). In connecting trust to other elements of social capital, Woolcock argues that trust and reciprocity ‘are nurtured in and by particular combination of social relations…but they do not exist independently of social relationships (Woolcock 1998: 185). Goodwill, reciprocity, and reputation are the basis on which long-term interdependent ties are constructed within a trading region, and the ground on which trust takes place between the trading partners. The definition given by Fukuyama is that “Trust is the expectation of or within two or more entities (persons, organizations) that regular day-to-day behaviour will be honest, cooperative, and respectable, based on shared norms” (Fukuyama 1995b: 28).

Trust in business relations has been a recurring theme in economics27. Marshall (1919; 161-163) talked of confidence, trust and ‘social credit’ (or “trust in the character of society”) as providing a basis on which markets operated and society functioned. Macauley’s (1963) famous observation, that the “give-and-take” in business is, if not more important than the terms of contracts, based on trust relationships between firms. Even mainstream neo-classical and transaction cost literature underline the importance of trust. As Arrow (1974: 23) puts it “trust is an important lubricant of the social system. It is extremely efficient; it saves a lot of trouble to have reliance in people’s work”. In long-term business contacts trust and reputation effects are constructed on ties that are economic, business-like as well as personalised and social.

Trust and trustworthiness have often been compared to a lubricant, oiling the wheels of a variety of social and economic transactions which might otherwise prove extremely costly, bureaucratic and time consuming. This is highly relevant to the

27 For a detailed discussion on the concept of trust see the collection in Gambetta ed., 1988 and Fukuyama ed. 1995,
concept of social capital, which emphasises the way in which networks give access to resources. The basis in which trust develops within the social capital framework in exchange can be captured by its two classifications. The first one was by Zucker (1986: 60) who suggests three distinct categories of trust: process-, characteristic-,
and institutional based. Process-based trust results from reputation built up through previous exchange relations. Characteristic-based trust is rooted in ascriptive or primordial loyalties such as family or kinship. Finally, institutional-based trust derives from more formal structures such as firms or trade bodies. In the context of social capital in exchange, the first two categories of trust are applicable. Recurring contacts between the actors within the region provides a basis for processual trust when the actors are assured that their collaborating partners will not let them down. Similarly, characteristic-based trust relies on social and community ties for enforcing contracting behaviour.

The second classification of trust as found in much of the literature of trust distinguishes between particularised and generalised trust\(^{28}\). Particularised trust is limited to individual’s own observation and experience over time of a particular actor’s trustworthiness. While generalised trust may be extended to all individuals and institutions resembling those into whom one has direct experience. Both categories of trust are applicable in this context. As actors continue to deal with the same people, they collect more information about each other making it more likely for them to build particularised trust. Similarly, generalised trust relies on past knowledge for screening and monitoring. As actors learn more about each other, and revise their prior knowledge, they come to trust each other (Gambetta, 1988). Thus, just as in the case of social capital trust accumulated through “good” actions and dissipates through “bad” actions (Coleman, 1988).

The issue that trust is a key ingredient in transactions is very important. Arrow (1972, p. 357) as quoted in Dasgupta (2000: 329), writes that, “Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by lack of mutual confidence”. Trust is

\(^{28}\) For a detailed discussion of this classification of trust and its application to trade see Lyon 2000. On a broader discussion of this classification of trust see Humphrey Schmitz 1996; and Furlong 1986.
treated as an asset and therefore a major component of social capital because it is based on reputation, and reputation is acquired on the basis of observed behaviour over time. Reputation is an asset, so people invest in it, in that they forgo immediate gains for the purpose of enjoying benefits later.

Trust can be identified at different levels, from the micro institutional level to the macro level where its role has been examined as the formation of state-civil society relations and economic development of certain regions. At the micro level, trust is not only based on face-to-face relations between two or more people but also groups. Trust can therefore be an attribute of institutions and groups as well as individuals, and is often based on reputation which is mediated through third parties (Dasgupta 2000: 333).

Humphrey and Schmitz (1996) highlight the extent to which trust arises as a generalisation about the likely future behaviour of agents based on past performance. This seems consistent with the straightforward notion of individual rationality (§ 5.2). Most rational predictions about the future are founded, at some point, on induction. The prediction by a scientist that a particle will follow a particular trajectory through space-time would appear to represent a case of scientist ‘trusting’ the particle to display the behaviour. Rather the prediction is derived from a conceptual picture of what causes particle motion, which though distilled into a highly abstract theoretical

29 See Putnam (1993), which gives the trust arising from civil societies as the reason for the difference in development between Southern and Northern Italy.
30 It is precisely those predictions which appear to have no empirical inductive basis which are most likely to be described as irrational. Thus apocalyptic predictions based on the exegesis of biblical texts or divine private communications are often treated with very considerable skepticism.
form, is based on a series of inductive generalisations. A weak analogy can be drawn between societal expectations based on past performance as laws governing human behaviour and say, quantum mechanics as laws governing particle behaviour. Before giving credit to any customer, a cautious trader will make efforts to understand his past behaviour by the trust bestowed on him through the societal networks.

This implies that trust does not evolve instantly; it is a process that takes time, courage and risk and involves interpreting human behaviour. Time and duration upon which traders have known each other is an important ingredient for building trust. In this sense, it is costly. Actors loathe changing collaborators for fear of incurring costs by building trust with other actors. Higher value transactions such as pooling of transport, sending other traders to purchase on one’s behalf and selling on credit require relatively long periods of association between the traders. Granovetter (1985) argues that economic transactions are embedded in social relations. This concept of embeddedness focuses on how personal relationships and networks of connections generate trust and discourage malfeasance in economic life.

Repeated transactions play an important role in screening, monitoring and sanctions. Screening process happens in terms of honesty, same trade, and friends. The screening process is also enhanced by long standing relationships between customers and traders. Kinship based relations such as family and other relatives also serve as a basis for building trust in networks. Portes (1993: 1323) identified ‘enforceable trust’ where moral pressures are brought to bear upon economic transactions. Generally, the extent to which actors can trust one another depends in part on the extent to which actions are observable. Monitoring reduces opportunistic behaviour among the actors, and the incentives such as continued access to the border trading facilities must be adequate.

Regarding sanctions, if there were no suitable punishment for breaking agreements, or contracts, people would not have appropriate incentives to fulfil them (Dasgupta 2000: 331). The threat of punishment for the errant behaviour must be credible, or else the threat would not be a threat. If people are to trust one another, they must have both confidence in the enforcement agency to do what is expected of it and trust in the agents to carry out their responsibilities. Luhmann (1988) reserves the term
“confidence” (or lack of it) in referring to our expectations of the *ability* of social institutions (for example markets or state agencies) to function adequately. In contrast trust (or lack of it) rears its head when we have cause to be concerned about someone’s underlying disposition, motivation and incentives.

Trust may be particularly important in networks in respect of access to assets such as knowledge, which are relatively intangible and sometimes tacit. Personal interaction generates information about trustworthiness of the actors that is relatively inexpensive and reliable. Knowledge is a notoriously fragile commodity, in that the sellers have little protection from unscrupulous behaviour of buyers, other than the high cost option of legal action, which may not even be available in certain instances. Knowledge, therefore, tends to be exchanged far less freely than is optimal for business performance. Trust based relations between the actors may help compensate against these risks, and reduce a variety of transaction costs (most obviously the legal costs, but also the search costs of identifying where the goods are available and the pricing as well as those of converting them into usable form). The depth and range of such trust based relations have been held to explain the otherwise unexpected success and continuation of network based exchange.

Recent work on trust focused on the fact that trust can come from both generalised forms of morality and more personalised sources embedded in social networks (Lyon 2000). This follows earlier work by Platteau who stated that “the risk of other agents being opportunistc cannot be controlled by legal means without prohibitively high transaction cost in terms of monitoring contracts” (Platteau, 1994a). Therefore trust must come from some forms of morality.

The literature on social capital recognises that the *norms* regulate the actions of the actors. But discussion on the nature and formation of norms is extremely complex. It is difficult to observe and there is considerable debate over the extent to which they influence economic development (Platteau, 1994b, Moore, 1994, Ostom, 1998 and Lyon, 2000). However, it is generally accepted that norms govern interactions among people.
Norms can be viewed as societal/cultural values that are specific to a group. A norm defines what is acceptable or unacceptable (Lyon, 2000), and is context specific (Ramanujam, 1990). The dictionary definition of norm is “a standard behaviour that is required or designated as normal” (OED, 1995). The elements in norms are both functional and relational. Functional elements are stressed by Coleman (1999) who classified norms into effective and prescriptive norms. Effective norms inhibit certain actions and prescriptive norms reward certain actions. The relational element of norms is emphasized by Ostrom (1998 a) who states that “shared norms are forms of social capital”. Ethnographic studies demonstrate the diversity of norms between groups (Hodgson, 1988). In economics, norms have been used to measure the extent to which they influence economic development (Moore, 1994; Platteau, 1994b). Other examples of norm include its elements such as customs of cooperation (Coleman, 1990; Putnam, 1993), reciprocity (Platteau 1994b; Ostrom, 1998), avoiding deception (Lyon, 2000), keeping verbal contracts (Hirshmann 1982) and deciding on acceptable sanctions (Scott 1996).

The norms of generalised reciprocity (mutual expectations repaid in future) are highly productive components of social capital. Communities in which this norm is followed can more efficiently restraint opportunistic and resolve problems of co-operation. Putnam’s (1993) analysis reveals that reciprocity was at the core of the Italian self-help associations that eased security dilemma for citizens in the Northern areas of Italy.

The norms are valuable firstly in that they allow businesses to trade with one another without relying solely on formal mechanisms and procedures, such as legally binding contracts or lawsuits, which may be minimal or non existent. This role of norms as an element of social capital which is valuable in reducing transaction costs is widely recognised in the social capital literature (Putnam 2000: 288; Fukuyama1995: chp. 5). Even in cases where there are formal mechanisms and procedures, such as legally binding contracts or lawsuits, norms are still valuable in enabling business to be conducted with minimum formality. Fukuyama (1995: 11) also noted that “Law, contract, and economic rationality provides a necessary but not sufficient basis for both the stability and prosperity of post industrial societies; they must as well be leavened with reciprocity, moral obligation, duty toward community, and trust, which are based in habit rather than rational calculation”. 

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Such norms are sustained by sanctions which enforce them. Putnam (1993) noted that social norms are uncalculated and sustained by modelling and socialisation and by sanctions. Socialised trading relations lower transaction costs by providing a basis of trust, social reputation, and reciprocity in trader-trader and other actors’ relations. Being socially embedded within a community, the literature suggests, may provide a basis for the social provisioning of market related information and generates an implicit code of behaviour, incorporating rules, sanctions that regulate both social and trading relations within the border region. Sanctions enforce the limits of socially accepted behaviour between the traders. Coleman (1999: 23) asserts that a set of effective sanctions can monitor and guide behaviour. The ultimate sanction in business relations is the loss of reputation. A reputation for honesty and fairness in trading transactions is highly valued and is constructed over time. Such reputation is also zealously guarded in situations where loss is likely to result in commercial damage to the trader.

Secondly, co-operation between all the actors, and especially between the traders themselves, the literature suggests, may be facilitated by the norms of trust that are also embedded in the trading networks. The ability to co-operate is based on habit and practice. Thus if individuals interact with each other repeatedly over time, they develop a stake in reputation and honesty and reliability. Market interactions in a commercial society lead, as Adam Smith observed, to the development of bourgeois social virtues like honesty industriousness and prudence. According to Fukuyama, norms that produce co-operation arises spontaneously as a result of iterated Prisoners’ Dilemma game, a simple strategy like tit-for-tat (playing co-operation for co-operation and defection for defection) leads both players to co-operative outcome (Fukuyama, 2001: 7). The norms instantiated in human relationships in most cases lead to cooperation in groups. Such groups benefit from the norms and its related traditional virtues of honesty, the keeping of commitments, reliable performance of duties, reciprocity and the like.

4.7 Conclusion

In this chapter an attempt was made to find an explanation for the cross-border trade between Kenya and Tanzania at Isebania/Sirare border: the existence of two trade routes and particularly the persistence of the informal trade routes. Two areas were
identified for investigation: persistence of the informal cross-border trade and the constraints to the usage of the formal routes.

The East African literature was reviewed for evidence of theories regarding these issues. There is very little in the literature that deals directly with the social dimension of the informal cross-border trade. It was found that the existing literature, although offering some valuable clues, does not offer a convincing explanation of the persistence of the informal cross-border trade.

We then turned to the literature for the theoretical approach. Reviewing some of the theories applied to the question of markets failed to uncover a wholly satisfactory framework. Orthodox economic theories prove inapplicable. Considerations of the imperfect market conditions show that the equilibrium assumptions cannot be sustained. Arguments regarding transaction cost and new institutional economics limit us to quantifiable costs and does not bring in the environment under which such transactions are performed. This brings us to the role of the social environment. Social capital offers a basis frame within which to construct a theory. The task is now to build such a theory which explains how the social capital affects the exchange environment.
5.1 Introduction
In this chapter, first, the social capital framework is elaborated as the basis for a concept frame within which informal cross-border trade is explored. The search for an explanation for the persistence of informal cross-border trade in the last chapter revealed not simply the lack of convincing account of the situation at the border but also a gap in theory. A theoretical framework is needed which is able to explain why informal cross-border traders face constraints on taking the formal routes and how such constraints are mitigated by the social environment of the traders. Social capital was found to offer a broad basis within which the trading environment could be described. However, much theoretical work remains before the social capital theory of the borders' informal trade can be put forward. The elements to be used here must therefore be made explicit, including the core ones such as networks, trust and norms.

Second, a concept frame to explain the informal cross-border trade using social capital framework outlined in the first part of the chapter is developed. The task established earlier (§ 4.3.4) is to produce an argument which shows that the social and economic context of the traders contribute to the persistence of the informal cross-border trade.

5.2 Fundamental problem of exchange
At the heart of exchange are two problems which are somewhat interconnected: coordination and cooperation. In a given economic region, numerous potential exchanges are feasible. How a transaction actually occurs depends on finding solutions to the problems of co-ordination and co-operation entailed in the conditions and circumstances of the exchange.
5.2.1 Co-ordination

For a transaction to take place there is need for the co-ordination of not only parties to the exchange but also the resources necessary for such exchange. In neo-classical economics, an equilibrium condition is achieved when the market conditions are co-ordinated by the ‘invisible hand’. Underpinning co-ordination is information. It was assumed that all the information needed for an exchange to take place was conveyed by the price signalling. The core insight of social capital theory and rational choice theory is that only in the limiting case will price convey all the information.

Coleman posits that “relationships are said to constitute capital resources by helping to establish obligations and expectations between actors, building on trustworthiness of the social environment, opening channels of information” (Coleman 1988-9: 102-4). Ordinarily, the value of exchange to the parties is the value of the different attributes of the goods or the services. In the limiting case of homogenous commodities, the attributes of the products are well known and the information problem is simply one of co-ordinating the buyers and the sellers. But where a transaction is more complex, for example, the goods are not homogenous and have to be moved from one country to the other before it is considered complete. The other attributes sought would be transportation, the reliability of the transporters, and any other costs to be incurred.

5.2.2 Co-operation

Co-operation relates to behavioural attributes of the actors. Although an exchange usually offers clear benefit to both participating in the exchange, the availability of such benefits depends on the behaviour of the other party. The difficulty arises in that due to human behaviour, each would be tempted to break the agreement unilaterally unless some suitable sanctions on opportunistic behaviour were put in place. As noted earlier, Williamson emphasises that human behaviour has been characterised as opportunistic, that is “self-interest seeking with guile” (Williamson 1985:47). The significance is that here is where social contributes to the co-operation process as Putnam argued, “... more precisely, social capital contributes to collective action by increasing the potential costs of defectors; fostering robust norms of reciprocity; facilitating flows of information, including flows of information on actor’s reputation; embodying the success of past attempts of collaboration; and acting as a template of

The co-operation issue can be illustrated by using the often cited prisoner’s dilemma. For example if we have two prisoners who are accused of committing a crime, in the process of being interrogated separately, the two alternative actions open to each person is to chose to co-operate or not co-operate with the prosecutor. If the prisoner co-operates implicating the other, he will receive a pardon as the other will be heavily punished. But if the other prisoner also co-operates, they will both receive heavy punishment. The alternative course of action which is optimal to both is not to co-operate, hence the dilemma. Table 5.1 give the possible pairs of for both prisoners.

**Table 5.1 Prisoners’ dilemma**

<table>
<thead>
<tr>
<th>Prisoner 1’s decision</th>
<th>Co-operate</th>
<th>Don’t co-operate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operate</td>
<td>CC</td>
<td>CD</td>
</tr>
<tr>
<td>Don’t cooperate</td>
<td>DC</td>
<td>DD</td>
</tr>
</tbody>
</table>

(D.C) is the choice of prisoner 2 not to co-operate as prisoner 1 co-operates with the interrogators, and so on for the remaining three strategies.

### 5.3 Resources and exchange

Having considered the problems in exchange, we now consider how resources mitigate these problems. For exchange to take place there is need for both economic and social resources. Resources range from those that are owned individually through to those that are owned by firms to those that arise as a result of connections within the communities. In almost all circumstances, actively or passively, co-ordination and co-operation are facilitated by the resources enabling exchange to occur.
In surveying the types of resources relevant to exchange, we start with the central concept of capital theory, the various assets under consideration. Consideration is given to the individually owned assets such as physical and human capital. Moving from such individually owned resources to the opposite direction brings us to the role of the associational capital arising from social capital and its elements of networks, trust and norms. We conclude by tackling the question of how, in theory, the agents use resources in choosing the routes while crossing the border.

5.3.1 Capital
All forms of capital can be understood as assets of various kinds, however they were created. Assets are the things that yield streams of benefit that make future productive and distributive process more efficient, more effective, more innovative, or simply greater. Capitals are formed when people withhold resources from present consumption and use them instead to augment future consumption or distribution possibilities (see §4.4.3). There are human "made" resources which are private goods while others are public goods. Those that are private goods are, in this case, physical and human capital while the public one is social capital. Human and physical capitals are created by spending time and effort in the transformation and transaction activities in order to build tools or assets that increases income in future. Property rights make it possible for those who invest in physical capital to capture the benefits it produces. For human capital also, the person who invests time and resources in building it up also anticipates to reap benefits. Social capital as a public good is lodged neither in individuals nor physical instruments of production or distribution; it inheres in the structure of relations between persons and among persons. It comes about through both spending time and effort and changes in relation among persons that facilitate action. We now turn to analyse how these resources facilitate the exchange process.

5.3.2 Physical and human capital
Both physical and human capitals are owned individually. Physical capital is created by changes in materials to form tools that facilitate production and exchange, human capital is created by changes in persons that bring about skills and capabilities that make them able to act in new ways (see§4.5). Physical capital is wholly tangible, being embodied in observable material form. Human capital is intangible, being embodied in the skills and knowledge acquired by an individual. Physical capital
cannot operate overtime without human capital in the form of knowledge and skills needed to use and maintain physical assets to produce and distribute products and generate income.

Given the necessity of both physical and human capital in generating returns in the exchange process, does it matter what kind of market the trader operates in? At its core, neoclassical economic theory views the actor (person or firm) as dealing not with the other actors but with the market. In economic theory, decisions are made by actors not in response to, or anticipation of, the decision of another party but in response to environmental parameters such as market price (Emerson 1987:11). Given that physical and human capital are the assets that the individual is endowed with, this assertion then implies that in order to trade at the border, price is the only other factor that they need to take into consideration. Even if we have a mini society in which case there is only dyadic exchange, can we understand a market on the basis of an aggregated collection of dyads? Is it simply an issue of whether the whole is greater than the sum of individual parts?

At the outset, as a theory of individual interaction, it draws upon a generalised understanding of exchange of which, for example, market relations are non-existent. This is simplistic; the individual ownership of the physical and human capital within the dyad transactions seems to be explaining the individual behaviour instead of the market system. So, does the connectivity between these dyads result in cost savings and therefore better returns to the parties to the exchange? If so, there may be yet another form of capital involved. This suggests the need for discussion of another form of capital which might be involved, hence the need for social capital.

5.3.3 Social capital
Social capital as a resource is constructed through relations. In this section we explore the role of social capital as a concept in facilitating exchange relations. One of the merits of social capital as a conceptual tool is that it shows how the non-economic actions complement the economic ones in exchange relations.

Social capital, according to definitions noted earlier, are the resources that accrue to an individual as a result of belonging to network relationships which are governed by
high degree of trust and shared values. A number of writers have argued that exchange relationships are also social transactions (Hogson 1988, Granovetter 1985). This position is rooted in Max Weber’s (1922) sociological construction of economic actions and Durkheim’s (1893) view that economic relations involve social ties. Coleman sought to place his conception of social capital within rational choice sociology. Rational choice shares with classical economics a belief that all behaviour results from individual pursuing their own interests; social interaction is therefore viewed as a form of exchange. However, as argued in § 4.5, social capital is a product of social interaction which is not reducible to individualistic exchange relationships. Social capital constitutes interpersonal relations that link individuals to each other both within categories of common identity and across identity groups. They bring with them social norms and values which can have important impact on trading within a region.

The social interactions impacts on exchange relations within the region in three main ways. First, through a social ethos, regarding attitudes to transactions, credit or consensual relations, which influence the actors’ values and ethic systems. Second, by providing a basis for local trust, thereby regulating the actor-actor relations and mediating potentially conflicting pressures in exchange process of competition and co-operation. Third, through socialised codes, reinforced by traditional and non-formal forms of communication, which carry with them historically sedimented ‘tacit’ crossing-specific knowledge.

Coleman conceived social capital as a resource by introducing social structure into rational choice theory. The concept of social capital was, for Coleman, a means of explaining how people choose to cooperate, even when the immediate interest seem best served with competition. For him, the minimum requirement for this cooperation is that the parties doing so be part of a structure.

Structures stretch from simple dyadic relationships through local and community networks, organisational structures such as firms to level of nation states and even inter states. The structures form the social relationships through which social capital as a resource is found and produced. Thus to Coleman, social capital “...comprises a ‘variety of entities’ that he surmised ‘all consist of some aspect of social structures,
and they facilitate certain actions of actors — within the structure” (Coleman 1988-9:98). Putnam later paid more attention to resources built up through constructed organisations such as rotating credit associations and singing more societies. Within this context, the basic structures are formed by networks.

Networks, ranging form dyadic relationships to community networks form the basic structure of exchange within a region. People connect through a series of networks, to the extent that that these networks constitute a resource. But the creation of the resources is facilitated by ‘closure’ of the networks that the actors are part of. Coleman regarded closure as the existence of mutually reinforcing relations between different actors and institutions. Such closure is essential in providing not only repayment of obligations, but also imposition of sanctions. The diagram below gives an example of a closure:

Figure 5.2 Network Closure

![Network Closure Diagram](image)


The figure above represents a network closure in exchange activities. The horizontal axis represents those in similar activities such as trader-trader relations, while the vertical axis represents the trader-customer/supplier and other actors involved in the exchange activities. In Coleman’s example the latter represent intergenerational closure while the former represent relations within a generation. He concluded that the creation of social capital is facilitated by ‘closure’ between different networks of actors, by stability, and by a common, shared ideology (Coleman 1994:104-8. 318-20).

The equivalent of the intergenerational closure could be said to represent what Lin called the ‘weak ties’ (2001:75). She posits that such ties may be better at serving instrumental goals as they can provide access to new types of resources, but rely less on strong shared values. The membership to such weak ties, which Putnam also

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31 Coleman used parents and students within a school environment as an example of closure
termed bridging social capital, are purposefully formed for mutual cooperation. Also
as stated in (§ 4.6.2), Kimuyu (2000) observed that business network takes place
among private individuals with an enduring relationship. To him, such enduring
relationships derive from friendship, kinship, religion and ethnicity. These
relationships substitute and/or complement state and inter-state laws within the border
region.

Fundamentally, in relation to exchange, social structures inherent in networks guide
action between agents by providing rules, codes norms of behaviour, and mechanisms
for policing behaviour. This has implication for cooperation. Simple examples can
readily be found. The use of public transport system is normally assumed to be
individualistic. Everybody is assumed to be coming from different points even though
they may be going to the same places. Cross-border traders have been observed to
rely on groups of point of origin as a means of accessing resources that facilitate their
informal crossing of the border. In certain circumstances, such structures passively or
actively facilitate co-operation in exchange transaction.

The value of the concept of social capital lies first in the fact that it identifies social
structure by its functions (Coleman 1986a, 1986b). The function identified by the
concept social capital is the value of these aspects of social structure to actors as
resource that they can use to achieve their interest. The basic function can be
identified as the cooperation needed to facilitate the exchange process. Achieving
cooperation in exchange can be broken down functionally in terms of problems of
information, obligations and sanctions.

Structures provide an informal framework for sharing information. This was
emphasised by Coleman (1986) who stated that “… an important form of social
capital is the potential of information that inheres in social relations” (p. 310). Traders
can learn about the availability of products through informal interactions. Information
on the credit worthiness of customers and potential borrowers may also be obtained
from such interactions. Bardhan (1996) argues that such frameworks work because of
peer monitoring, a common set of norms, and sanctions at the local level. Lack of
needed information or incorrect information can lead economic agents to make
inefficient decisions. Information is important for providing basis for action.
The social structures and the socialised trading relations lower transaction costs by providing information as a basis of trust, social reputation, and reciprocity in trader-trader and other actors’ relations. Co-operation within the structures provides a basis for the provisioning of market and security related information and generates an implicit code of behaviour, incorporation rules, sanctions, that regulate both social and trading relations. Co-operation enables members to learn about one another’s traits – for example that they are trustworthy. So it is frequently remarked that successful cooperation begets further co-operation, and “trust lubricates cooperation such that the greater the levels of trust within a community, the greater the likelihood of cooperation”, Kinyanjui (2004: 23). A number of writers have suggested that in order for people to cooperate to achieve their goals, they need not only to have some previous knowledge of one another (which may be direct or indirect), they need to trust one another, and expect that if they cooperate they will not be exploited or defrauded, but can at some time or other expect to benefit similarly in return.

However, there is some element of externalities inherent in the structures, especially in cases where there is closure. Using the conventional economic distinction between public and private good, Coleman explained how social capital helped understand the problem of collective action. Coleman displayed social capital quintessentially as a public good that is created by and may benefit not just those whose efforts are required to realise it, but all those who are part of a structure (Coleman 1988-9:116). It therefore demands cooperation between individuals who are nevertheless pursuing their own self-interest. That this should be so is not surprising, given the earlier position taken by Bourdieu (§ 4.6.2) that the amount of social capital an agent can access is dependent upon “the size of the network connections he can effectively mobilise and on the volume of the capital...possessed in his own right by each of those to whom he is connected” (Bourdieu 1986b: 249). Informal forms of civic engagements, such as self help groups also offer access to connections that are ‘identity relevant’ (Ingram and Roberts 2000: 389), in that all members participate on the basis of common experiences of a particular issue or problem.

Obligations and sanctions are an essential part of the exchange process where opportunistic behaviour may obtain. The efficacy of social capital as a resource
depends on obligations. When an individual asks for a favour from another, he incurs an obligation. Obligations create a fund of social capital which is drawn by members of a structure in times of need. The density of outstanding obligations means, in effect, that the overall usefulness of the tangible resources of the social structure is amplified by their availability to others when in need.

Co-operation within the structures are functionalised by a web of obligations and expectations between the actors. The actor doing a favour to the other creates an obligation on the part of the person receiving such a favour. The performer/giver of the favour expects that in future the receiving person will reciprocate by also doing/giving some form of favour to him/her. Coleman (1999) equates such obligations to “credit slips” which are outstanding. He gives an example of El Khalili market in Cairo where merchants normally get goods that they do not have from other traders and also act as money changers to their customers whenever there is need. In such structures, “people are always doing things for each others” there is a large number of these credit slips outstanding, often on both sides of the relations. In this case the notion of social capital generated by the structures can be taken literally, “as denoting an embodied productive investment in social relationships, leading to returns which may then benefit those who made the investment” (Schuller 2000). That members of a given structure of networks are able to trade on the basis of verbal contracts and even credit arrangements is a case of obligations rotating.

It is important to observe that the trustworthiness of the social environment also matters. Obligations may depend on the relationship between trustworthiness and co-operation in an exchange environment. Coleman states that within the social structure, there are two issues, one is that the “trustworthiness of the social environment means that obligations will be repaid” (1999, p. 20). The second is “the actual extent of obligations held”. In Coleman’s view, social structures differ in both of these dimensions and actors in the same structure differ in the second. However, it is to be noted that in relation to the first issue, cooperation between the actors, even those who appear to be competitors are facilitated by the norms of trust that are embedded within the structures. Trustworthiness among the actors within a structure appears to promote existence of stable network of people who trust one another.
Sanctions enforce the obligations. Sanctions enforce the limits of socially accepted behaviour between the parties to the exchange. The ultimate sanction in business relations is the loss of reputation. A reputation for honesty and fairness in trading transactions is highly valued and is constructed over time. Such reputation is also zealously guarded in situations where loss is likely to result in commercial damage to the trader. Effective sanctions can monitor and guide behaviour. Breaking agreements may result in loss of reputation across a social group, leading to a refusal by group members to deal with the offender in future. Any gain from opportunism is outweighed by the loss of combined gains from future exchange.

In situations where there are no suitable punishments for breaking agreements, or contracts, people would not have appropriate incentives to fulfil them. The threat of punishment for the errant behaviour must be credible, or else the threat would not be a threat. If people are to trust one another, they must have both confidence in the enforcement agency to do what is expected of it and trust in the agents to carry out their responsibilities. Compliance with the terms of contract can be imposed by reference to courts in cases where the third party agency of the state underpins the effectiveness of formal solutions to exchange problems. Frequently, the enforcement agency may be society “at large”, not the state. Social ostracism, and the sense of shame society can invoke in one, are examples of such punishment. A special case of the latter is one in which the enforcement agency is the injured party to the transaction: the injured party can, for example, punish the errant party by ceasing to transact with him.

5.3.4 Formal and informal routes

The goods can pass from one country to another through either the informal or the formal route. Formal trade is a process of exchange consisting of ‘proper’ or normal transactions, which are institutionally regulated, in the formal sector. Informal on the other hand is derived from the exchange through the unregulated sector.

Within the border region, formal or informal trade, regulated or unregulated is based on the trader’s decisions on whether to go through the customs offices on both sides of the border or to go through only one of them or not to go through any of them at all. Figure 5.3 below gives the choice of the routes in terms of a decision tree.
On taking the formal route, the trader has to go through both the official channels as represented by the custom's offices on both sides of the border. Thus the goods have to be cleared by the customs officials and the appropriate documentation given as proof. The informal route on the other hand is deemed to have been taken by the trader in any of the three circumstances depicted above. The first instance is avoiding going through both of the customs offices. The second and third instances occur when the trader avoids either of the two customs offices when crossing from either of the sides of the border. It is to be noted that similar decisions are made by the traders crossing the Sirare side of the border to the Isebania side.

5.4 Conceptual Framework
The objective of this section is to develop a conceptual frame to explain the border trade using the capital theory outlined in the second part of the last chapter and the
first part of this chapter (see §4.6, and §5.1, 5.2 and 5.3). The task is to produce an argument which shows that the route which the traders take when crossing the border with goods in the process of trading is determined by the capital endowments of the traders. The exchange process that an actor engages in is to large extent determined by the operations of the market and the resource endowments. The different types of capital elaborated in the preceding sections showed how the different assets can yield streams of benefit that make the distributive process more effective and efficient. A context frame using the various kinds of capital used consciously or otherwise in the trading process can be taken to explain trading process at the border and offer explanation for the difference in the choice of the trading routes taken by the traders. The theory of the choice of routes can be described in terms of a simple framework, illustrated by the diagram below (figure 5.4)

The basic premise is that the type of capital that the trader is endowed with (illustrated in the diagram in the boxes to the left) determines the choice of the route to be taken while crossing the border (the box on the right). The exchange process is initiated by the action of one actor given his assets, but there are other actors also involved. Thus the trading process must be considered in relation to not only the resources of the trader but also resources arising from his connectivity with all the actors involved. This is represented in the diagram by the boxes labelled ‘physical capital’ and ‘human capital’ which may be owned by or accessed by a trader as an individual, and ‘social capital’ which arises as a result of the trader’s connectivity with other actors ending up with the decision on which route to take while crossing the border with goods. Crucially, the various types of capital owned and accessible by each trader are not identical as suggested by the boxes.
The model is a single decision choice of the traders.

Two types of route can be taken while crossing the border in the trading process. The informal cross-border trade being that which does not go through both the official border crossing points while the other goes through the formal border crossing points (see § 2. and §5.3.4 ). Theoretically, the trader makes decision on which route to take in each exchange. His decision is affected by the relative amount of his capital endowments. On one hand, the relative amount of social capital is expected to be
large for the informal cross-border traders. On the other hand, for the formal cross-border traders, it is the relative amount of human and physical capital that is expected to be large. In practice the decisions are made without consciously making effort to think of such variables and structures, especially the intangible ones because they are made every day or even many times in one day.

Having the basic description of the various elements in the model and how they affect the decisions made in each exchange, we now turn to consider each of these elements in detail.

5.4.1 Physical capital

Physical capital is created by spending time and effort in the transformation and transaction activities in order to build tools or assets that increase income in the future. Physical capital is usually identified with tangible, durable, and alienable objects such as buildings and machines whose accumulation can be estimated and whose worth can be assessed (Arrow 1962). To be included here is also means of transport, which can be alienated in most instances. However, there are situations when humans are also used as carriers of goods, especially if the distance involved is not far.

The types of physical capital considered are structures and means of transport. The structures can be used for storage of goods being sold by an individual or a number of people at the same time. The structures occupied by the traders for trading purposes were classified as permanent, semi permanent, homes, market stalls and temporary structures. The market stalls and temporary structures are mainly in use during market days.

The different types of transport that can be available to the traders range from the head carriers to lorries and even trailers. In between these two types of transport are the wheelbarrow and bicycles. Transportation organised within given routes serves within the confines of its affordability and reliability. Affordability is in terms of monetary costs and time taken to cross from one side of the border to the other. The cheapest means of transport in terms of cost would be head carriers and wheelbarrow. But the time element makes them more attractive to those who purchase for domestic
consumption than those who purchase for further resale. More often than not, the traders are operating in places outside the confines of the physical positions of the border market. The need to connect to other means of transport on the other side of the border on onward journey coupled with their ability to move reasonably fast at affordable costs makes bicycles as a means of transport attractive to those crossing the border through the informal routes.

It could be said that any vehicle is faster than bicycles but the question is that is it affordable to all those crossing through either route? Basically, there are three issues. For one they could be said to be too visible to be used in the informal routes. This relates to the second issue, their visibility would mean that they have to go through the formal route. Going through the formal route brings us to the third issue, which has to do with affordability in terms of cost. The cost entails finances and time of filling in the relevant forms and paying the required duty (for goods which are dutiable according to terms of integration, an example of which being the rules of the origin) before they can be allowed to cross the border.

It is not uncommon to find the larger means of transport such as lorries and trailers having all the relevant documents for crossing the border from their points of origin. In such cases formal border crossing is more of stamping the relevant documents than paying any form of duties.

### 5.4.2 Human capital

Human capital is not physically visible in nature but rests in the mind or in the individual experience and skills. It includes a sense of ‘what I know’. This includes both what is learned at school and what is formed unconsciously through experience by an individual (see§4.5.2 and5.3.2). It is generally assumed that those endowed with more skills, knowledge and qualifications will tend to out perform those who are endowed with less. However, human capital theory tended to equate workers’ knowledge levels primarily with their levels of formal schooling, to rely on quantitative indices of amount of schooling in estimating individual economic returns to learning.
Within the border region, human capital can be identified as emanating from basic literacy, numeracy, and experience in terms of the length of period the trader has been involved in the cross border trade. Literacy covers the aspect of human capital that is acquired through formal education. In general terms, qualifications and schooling could be seen as a source of human resource necessary for exchange. Such resources could be useful for say, the writing up of, at the very minimum in the trading process, the receipts, which would generally show the price and quantity of goods. Also, the knowledge could be used to handle the voluminous paper work normally done at the customs offices when crossing the border formally.

Numeracy and ability to calculate are elements of human capital that are important and necessary inputs in the exchange process. Goods are usually sold in some basic measure of quantity like kilograms and litres and is in some instances, containers presumed to represent such measures. There is, therefore, the need for the actors to be able to calculate the costs of goods including other associated expenses such as transportation, as well as any other costs to be incurred to move those goods from the point of purchase to the point of sale. Such costs must be compared to the revenue receivable from such transactions. Some of the traders are endowed with such ability to calculate more than the others. This unlike literacy, does not necessarily come with basic schooling.

Analysis of human capital in practice is problematic. It is not susceptible to direct measurements in terms of specific cognitive attributes of individual actors. Human capital is constructed across many attributes of the actors, most of which do not exist independently; it is their combination within the individual actors and their resulting effect that has to be dealt with. However, it is important to apply human capital as a variable in getting any insight in differentiating the routes taken by the actors at the border.

5.4.3 Social capital

Social capital provides the basic social resource necessitating exchange transactions (see §5.3). It is created through both spending time and effort and changes in relation among persons that facilitate action. The resources accrue to individuals as a result of belonging to network relationships which are governed by high degree of trust and
shared values. People connect through a series of networks to the extent that these networks constitute a resource. At the most localised level, there are dyadic relationships and norms specific to particular transactions. Within communities and regions, social capital as a resource provides structures. Finally, networks do exist at supra-national levels. Groups such as SADC, COMESA, EAC (§2.3.3) constitute networks which are formed by the member states.

It is within the framework of social capital that social funding mechanisms are constructed. Most obviously the possibility of actors as source of funds of social capital functionally depends on the information flow within the members, obligations and sanctions. Enforcement mechanisms are highly significant here. Enforcement is based on both individual and group reputation. It creates a system of peer monitoring where the legal system is weak or non existent.

5.4.4 Informal and formal action and transaction
The problem of coordination and co-operation, in general gives rise to costs and uncertainty associated with transaction. In circumstances where the transaction involves intrinsic uncertainty in terms of asset movement from one country to the other, lack of funds resulting in credit transactions and no law enforcement agency in case of failure to fulfil the terms of the contract, the potential scale of resultant costs are likely to be significant. The transaction costs and uncertainty are determined by not only the type of transaction but also the social action.

5.5 Funding
The frame work as presented might suggest equality in the resources necessary for the traders to make a choice in the route to take while crossing the border with goods. All the types of capital mentioned above are sources of funds which are used by individuals in the trading process (see§5.3), albeit in different proportions, thereby influencing the choice of routes.

The difference in usage arises from the investment made in each type of capital. On one hand, both human capital and physical capital arise and are acquired as a result of investment by an individual (see§4.5). On the other hand, social capital is a product of social interaction by the actors, with the potential to contribute to economic well
being of a community (see §4.6). Social capital deals with how the society functions as a system as opposed to how an individual uses his resources to maximise his utility. Achieving a successful transition from individually owned resources to property which actors gain from individually or collectively is the central issue for sustainability of the informal cross-border trade.

The transition from individual interaction to social interaction is fraught with problems. Individuals face uncertainty and fear of opportunism in ties with other local agents, and there is the ever over-riding issue of how business rivalry can co-exist with the cooperation needed for the success of the informal cross-border trade. This provokes the question of what role the social capital framework play in the transition from individual to societal gains. My discussion has focused on two aspects of broad body of literature of social capital. First, the social capital literature, as championed by Putnam, has been unduly and explicitly horizontal in character – focusing on civil society and social interaction across- with the resulting emphasis on stock of social capital which in some instances has taken centuries to form. This perception of social capital is rejected. Instead I reaffirm the argument put forward by Coleman, Grootaert, Ostrom, Dasgupta and others that since social capital is attached to groups and not individuals, it has the properties of public good with its dual aspect of externality and underinvestment. In this way, social capital is seen as ranging both horizontally and vertically across the society, filling out in areas not occupied by formal policies of the economy. This leads to the most important aspect of social capital, social networks and reputation. These two aspects can provide norms and codes for mutual trust and reciprocity that allows actors within a region to cooperate as they compete with each other. Achieving the economic benefits through social interaction is the central issue of sustainability of the informal cross border trade.

The benefits of social capital as a resource accrue to the traders through coordination and cooperation. The issue of relationships between the agents within (and outside) the border is central to the analysis.

Secondary benefits can accrue to the traders by virtue of their trading within the border region. These benefits emerge through market transactions, even those which
do not require active social ties between the traders. In such instances, price may be seen to be the factor influencing exchange. But, is price the only determining factor? If that was the case, then each transaction would be taken to be anonymous, consisting of a one-off event without prior history or expectations of further exchange. In theory, for each exchange process, actors make decision. In practice, the decisions are made without thinking much because they are made every day. Secondary benefits can be critical to the ability of the cross border traders to compete and exist.

Social capital also raises possibilities of benefits beyond secondary benefits. By cooperating with other local actors and others from outside the border region, the border based traders can enhance their ability to access resources and successfully cross the border informally. For example, purposeful information sharing entailed in customer-trader dialogue within vertical trading chains at the border (such as transporters, deal chasers, customers and other traders) can set norms that endorse particular forms of behaviour, while imposing sanctions on would-be free riders (Coleman 1988-89: 102-4). Similarly, border based traders can obtain more benefits by cooperating with other local traders in marketing activities that seek out distant buyers and purchase and transport goods jointly.

Also, preliminary observations at the border suggest that the exchange process does not just involve the simple transaction between the buyer and the seller. Before the customer finally receives the goods on the other side of the border, the exchange process must as a matter of necessity involve other actors to facilitate its passage across the border. One transaction triggers a series of other coordinated actions. We might say that the essence of the market is to coordinate the different actors through networks. The analogy of division of tasks in the process of crossing the border can be made of division of labour in firms to minimise production costs. In the case of the border trade, the coordination results in the reduction of cost of trading by limiting the time spent on crossing through the division of tasks and probably in the actual amount paid through the deal chasers.

The networks provide the structures that facilitate the safe passage of goods from one point to the other. Thus the exchange process moves from a simple dyadic relationship to that of networks. These networks are both socially embedded and one
would say trade embedded. The networks are underpinned by shared norms. The norms are valuable because they facilitate the exchange process in the absence of written contracts. The exchange activities are also promoted by a stable network of people who trust one another. It is a source of funding to the extent that “it is self-re-enforcing and cumulative” (Putnam, 1993).

There is coordination of not one single network but what one would call a network of networks. Each set of networks may have come together for any other purposes other than crossing the border informally. But within the border crossing process, they are joined together by a common goal. The motivation of each set of networks is maximisation of revenues arising from the whole chain of the exchange process. The networked group of people have higher total revenue, thereby maximising their profits by reducing costs of crossing the border. Motivation is not enough in the absence of the contents of what flows through the network. The network for the exchange process must deliver goods from the point of sale on one side of the border to the other side of the border for onward movement to the other side of the border region or beyond. These well established forms of reciprocity and exchange are the result of lack of transparency and distortions of distribution during the pre liberalisation period (see chapter 3). The distribution systems introduced encouraged distrust of the public institutions and encouraged a corresponding trust in social networks and personal relations.

Cooperation is achieved through bounded solidarities and enforceable trust using family, ethnic and social network resources. Informal cross-border traders, using their own labour and that of their nearest friends and kin, often have to raise and risk their capital. Profit can easily turn to loss if costs are not minimised by taking the cheaper of the two routes. The business environment can be unpredictable and outside the control of small operators. Creating bounded solidarity through kin, ethnic or their social networks is a way of reducing such risk. It is a way of creating some predictability and order in a chaotic and alarming world full of potential rivals and enemies in terms of rent-seeking law enforcement agencies. Creating resources through social capital is thus a way of reducing potential ‘transaction costs’ as well as reducing anxiety.
To the traders, therefore, social capital is a source of fund necessary for them to successfully operate their business through the informal routes. Funding, in this case, is used in a functional sense to describe the resources that the traders can individually own in the form of human and physical capital and/or collectively access in the form of social capital. Such funding are taken into account by traders in making decisions on the choice of route while crossing the border with goods.

5.6 Analysis of the exchange process at Isebania/Sirare border region

We now consider how cross-border trade can be explained using the theoretical framework put forward. The prospects for the traders, we have argued earlier (§5.5), depends fundamentally on the type of funding they have access to. Functionally, funding can be understood in terms of the exchange process. The exchange process is determined by some economic conditions, the actors in the economy, and the social structure. It is the social structure which is held primarily responsible for the systematic differences of the exchange process faced by the formal and the informal cross-border traders, although economic conditions and the actors also play an important role. The framework outlined in the first part of this chapter provides the basis for a comparative analysis of the choice of route.

The analysis starts by noting that formal and informal cross-border trade each represent a distinct form of trading which it is argued results from reliance on different sources of resources. Now since each source of resource is dependent on whether they are individually or societally owned, the exchange process faced by the formal and the informal cross-border traders will be shaped in different ways by the some basic social interaction. Where there is strong reliance on source of funding associated with social interaction, the exchange process will be conditioned by the particular social structure in which the trader is embedded. Social interaction will be a strong source of resources and there is, therefore, the link between social capital and the exchange process. This is highly relevant to the research problem we are tackling here.

The basis of aligning sources of resources with the types of formal or informal cross-border trade is the notion of generic funding arising between individual and societal capital. A crucial idea is that the type of trading process characterised by traders
crossing the border informally will be doing so through funding obtained from social interaction.

5.6.1 The Isebania/Sirare border crossing process

It is hypothesised that the choice of the route at the Isebania/Sirare border for all the traders is determined by the resources. The resources can be individually owned or societally accessible. The individually owned are generally economic resources such as human and physical capital, while the societally owned is in the form of social capital.

It was argued that (§5.5) the choice of route depends on the investment made in each type of capital. This gives rise to potential difference in funding from societally accessible resources such as social capital and individually owned resources such as human and physical capital. Consequently, it is argued that informal cross-border traders use the resources that they can access through social capital in the form of networks, trust relationships and norms of behaviour to coordinate the border crossing informally. Those who take the informal route simply do not have enough physical and human resources to go through the requirements of formal border crossing. This contrasts with formal cross-border traders who are endowed with individually owned economic resources in the form of human and physical capital- again based on the funding argument. The argument is summarised in the hypotheses below.

1. Traders with low levels of physical capital and human capital and high levels of social capital are likely to choose the informal trade routes.
2. Traders with high levels of physical and human capital are likely to choose the formal trade routes
3. The incomes of the informal trade participants' are positively related to their levels of social capital.

The hypothesis was tested quantitatively using a logit model. The qualitative information from the case study was also used.
CHAPTER 6
METHODOLOGY

6.1 Introduction
The theoretical discussion in the preceding two chapters has proposed several hypotheses about determining factors for cross-border trade. To examine the propositions put forward in this study requires both quantitative and qualitative data. As mentioned already in chapter 4, secondary data on cross-border trade, especially informal cross-border trade at Isebania/Sirare border, is limited. A number of studies do offer an overview of the informal cross-border trade within the horn of Africa. Nevertheless, and in spite such material, large gaps still remain in the knowledge how social interactions determine the choice of route by the cross-border traders, and more specifically how the informal cross-border is carried out, its social contours and its basis for persistence.

Before looking at data collection either directly from the field or from other sources, the primary research strategy considered is addressed (§6.2) The different methods of data collection techniques are discussed in this section.

In the next section (§6.3), the detailed design of the primary research is described, covering the methods of data collection, the study site, the sample frame and instruments used.

How the evidence generated was analysed is considered in §6.4. Although much of this is presented in the next two chapters, it is important to clarify a number of potential means of collecting evidence including interviews, group discussions, and direct observation. There are also group observation and documentation (Yin 1994, p. 80; Ghauri et al 1995, p. 87). Each of the data gathering techniques has its advantages and disadvantages and no one from the outset the approaches to analysis.

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32 See, for example Ackello-Ogutu and Echessah1997; Little 1996; Odhiambo, Kristjanson and Kashangaki 1996; and Tchale 2001.
The limitations of the research methodology are covered in §6.4 as issues arising. Each method of data collection had its own shortcomings apart from those of the general research design.

The field work was conducted at Isebania/Sirare border between Kenya and Tanzania over two phases: a preliminary stage and the main stage. The experience from the field over the two phases is described in the final section of this chapter §6.6.

6.2 Primary research strategy

The methodological framework is based on distinct yet complementary data gathering tools ranging from questionnaire, on one hand, to observation, case studies and mapping on the other hand. According to Ferrand (1998), there is no source that can be judged to be superior to another (Zikmund, W. 1997 p. 107; Nadvi, 1994 p. 86).

However before considering any choice of method or combination of methods, the practicalities of research need to be considered. Decisions regarding the approach taken to research must always take into account what is actually viable within the context (Ferrand, 1998, p. 208). In cross-border trade, many of the assumptions formed in other trading contexts are not tenable. For example, the study covers trade between two different countries with different trading regimes. Also, there is need to combine collection techniques to cover the traders who are both residents and non-residents of the border.

Survey methods are widely used in social science and especially economics. The primary motivation for adopting a survey approach is to establish generalisation across a population. The approach involves selecting a limited but statistically significant sample from a target population. It is also more practical to use it to cover the traders who are not residents at the border who would otherwise not have time for case studies. It also offers a situation which the weary trader is able to control readily and therefore feel more comfortable with. However, it does not offer richness of data and potential for triangulation by using multiple sources offered in case study, where both in depth case studies as well as observation can be used. According to Yin (1994: 5-6) survey method is most appropriate for asking research question of the type “who, what, where, how many, how much?” Hence, the goal of such research method is
either descriptive or predictive of particular phenomena. In the case of cross-border trade, there is therefore need to use the survey method to provide some indication of other quantifiable matters in the cross-border trading phenomena.

Case studies were used to capture more qualitative information. Yin defines the case study research strategy in two parts:

1. A case study is an empirical enquiry that
   • investigates a contemporary phenomenon within its real-life context, especially when
   • the boundaries phenomenon and context are not clearly evident.

2. The case study enquiry
   • copes with the technically distinctive situation in which there will be many more variables of interest other than data points, and one result
   • relies on multiple sources of evidence, with the data needing to converge in a triangulation fashion, and as another result
   • benefits form the prior developments of theoretical positions to guide data collection and analysis.

   Yin (1994:13)

The case study is also held to be the most applicable to exploratory type questions of the “how” and “why” form. Cases can be used to trace causal links between elements, most especially where causality can be presumed to be complex. The method is thus strongly suited therefore to the in-depth study of process. Finally, as Svenden and Svenden (2000) observe from their application of the case study method to research of the Danish co-operative dairy movement, the case study allows new insights to be obtained which would not emerge from a survey approach. Case studies also capture data on variables like norms, which can only be observed.

To understand the cross border trading process, part one of the data gathering techniques used is mapping. It is not possible to identify who is an informal cross-
border trader unless one has an idea of what are the trade routes that are taken by such traders. Also, much as some of the informal cross-border traders are not residents of the border region, it is important to map the structures used by the residents. The weakness of mapping in this case is that there are some informal cross-border traders who neither pass through the informal routes, nor use these structures found at the border because they subdivide the product they have bought into smaller containers for transportation by the head carriers, who sometimes do not pass through the informal trade routes.

6.3 Overview of research design
The object of the primary research in this study is to test the argument by understanding the way in which traders carry out trading activities within a particular social and exchange environment in which they operate at Isebania/Sirare border between Kenya and Tanzania. This essentially addresses the arguments relating to informal cross-border trade. The unit of analysis is the cross-border trader. However associated with each trader, is a sub-unit of analysis – the exchange processes. Actors are involved in a range of different exchange processes which are embedded in the social environment. It is by studying how these exchange processes are embedded that the broader question of how the traders exchange through the informal routes can be tackled.

Actors are typically involved in a wide range of exchange processes. Examining the basic economic requirements enables a simple classification of the exchange process to be made. Four items of the exchange process can be readily identified: sale, purchase, finance and transportation. The obvious objection to such an analysis is that it is highly simplistic and susceptible to the criticisms of being excessively reductionist based on only economic factors on one hand and on the other hand based on the decision of the methodological individual. That other action necessary for the exchange process to be successful is not doubted here. Taking a dynamic perspective it is clear that there is need to consider the interaction of the actors and how such interactions affect the exchange process.

Fundamental to the argument to be explored, is the positing of differences in the social interaction between the traders who take two different routes, specifically
formal and informal border crossing routes. Case studies, mapping and survey methods of data collection, are needed to explore the differences in resources owned individually or otherwise, between the two types of traders taking these routes. The logic is that while the mapping provides the structures used, the case studies are given ethnographic information as survey gives the data to be used for the generalisation across the population.

A pilot phase is an essential part of the design process. The purpose of this phase is to determine the viability of the proposed research process and test the instruments, together with the collection of data.

6.3.1 Study site
As indicated in §2.1, border regions are expansive and fluid with sometimes no physical demarcation. The main part of the empirical analysis takes place at the local level in one selected border-crossing region. The strategically situated site, Isebania/Sirare border region between Kenya and Tanzania, was chosen for three main reasons. First, it is the formal crossing point between Kenya to Tanzania on the western part of Kenya and eastern part of Tanzania where all the administrative formal crossing documentation is done by each country. Second, this border region is also considered to be the point, which clearly represented the interface between two transactional borders: an agricultural economy and market economy. Thus it is exactly small towns like Isebania/Sirare that farmers and middlemen from the rural areas come to sell their crops and traders from other urban areas come to purchase the agricultural products. Lastly, the border town is also a major gateway for Kenyan processed products into, not only the border region and hinterland of Tanzania, but also the other land-locked countries neighbouring Tanzania such as, Rwanda, Burundi and Democratic Republic of Congo.

33 For theoretical purposes the term "territory" is preferable to the term "region" or area (Stoper and Walker 1989: 183). It is less theory-laden as it can refer to any geographical scale. Opposed to "region", "territory" does not bear the connotation of any administratively defined area. It rather denotes functional inter space of related activities. However, for the purpose of this study, "territory" and "region" will be used interchangeably, with both taking the meaning of territory as noted above.
6.3.2 Sampling frame

The population consists of all the persons who trade within the border region. However, the population of the border is very fluid in terms of those who come and buy/sell at the border but are not residents, in terms of trading in specific goods not being a permanent occupation of some of the traders, and in terms of consideration being taken of trades in both sides of the border. The fluidity is also contributed to by the fact that there are goods which move from either side of the border to the other. This made the scope of the study to be narrowed to traders trading in four specific products (two from each country). These were products which, from the pilot study and the familiarisation phase, were considered representative of the trading pattern around the border region.

It was important to avoid the traders in products where it was not easy to identify the movement of the product from which country to another. Salt is an example of such a product. Although the traders in Tanzania acknowledged that most of it is imported from the Kenyan side of the border, the Kenyan traders also purchase salt from the Tanzanian side of the border. Salt from both countries is unpacked mixed and then repacked for selling or just sold in smaller quantities. Other products traded across the border such as sugar, have strong enforcement of restriction of its importation from Kenya by the Tanzanian government was also avoided. The restriction is imposed on sugar because, according to traders, the Tanzanian authorities prefer imports from Malawi, which are cheaper and they can impose tax on.

As noted above, the sample frame of the study minimally covered the informal cross-border traders trading in the four products identified at the pilot stage. Since the emphasis of the study is on the informal cross-border traders, it was not easy to get information from the formal cross border traders who were dealing in products outside the four chosen products. The most one could get access to were the drivers who only came with the clearing documents from the origin of the goods from the hinterland of both Kenya and Tanzania and those transiting the border to other countries.
6.3.3 Instruments

The fieldwork data collection was done through three distinct, though often overlapping instruments: case studies, mapping and questionnaire based survey.

Within the *case study* method of data collection, there was more than one instrument used. There was the written instrument, observation and informal conversation. The major case study instrument was structured as open ended questions to act as a guide on issues to be explored by the interviewee (see appendix F1). In this instrument, the preliminary phase has structured questions about the entrepreneur and associations they are involved in. The main part of this phase of the study is composed of five sections tailored to capture the issues about the business, transactions, business environment and success indicators. For each of these areas, a set of questions was used as a guide to probe effectively in order to capture the richest data.

Apart from the instrument, there was observation of not only the traders at work but also the whole trading environment both within the trading premises and the border region. The observation process even included listening to conversations. Heritage (1984: 234) states that ‘an overwhelming proportion of the world’s business is conducted through the medium of spoken interaction’. This is also emphasised by Silverman (2003: 159) who states that observation deals with data ‘naturally occurring’ because they derive from situations which exist independently of the researchers intervention. In some instances, informal talks were held by other people at the premises of such case studies to corroborate the information given. Such triangulation of data increases the validity of the research (Yin, 1994, Silverman 2003: 233)

Four cases were required in order to get in-depth information on why and how the informal cross-border traders take the informal routes while crossing the border. Whereas one case study is sought for each product in the study, more than one case is sought from each side of the border and for each classification of the products (agricultural and processed). Two traders were taken from either side of the border. One case is required to represent each of the four products, which were also later covered by the survey questionnaire. The case studies are a *literal* replication,
according to Yin (1994, p. 46), and therefore, do not resemble population sampling associated with the survey type methodology.

However, one of the most difficult problems was actually identifying candidate traders for the case study. There are no records of the traders on either the Kenyan or Tanzanian side of the border. Even if the countries had the records, the movement of traders in trading from one product to another is so frequent that such data would not accurately present the current picture of the number of traders and what they are currently trading in. Numerous traders were contacted at their shops to identify those who would participate in the case study. As in the case of familiarisation, the contact would always start by going to the traders’ premises, exchanging greetings and then buying something to create a rapport. Several visits and requests were personally made for the traders who eventually agreed to be interviewed. Two of the original traders dropped out of the study on the grounds that some of the questions being asked were the secrets of their business while other questions could jeopardise their trading activities at the border. They were replaced by others who agreed to participate.

Case studies data collection covered traders’ histories, the exchange activities, the networks, norms and trust relations within the border region. As much as possible, each area of the instrument was administered separately to avoid interviewee fatigue, and allow them time to sell without interruptions. The case studies also involved observation of the traders, as they were practising their daily trading activities. It was important to observe the trading norms as the trading process was going on. As was done at the familiarisation stage, the information obtained from in-depth case studies, observation and informal conversation were recorded immediately after leaving the traders premises. The field notes could not be taken at the traders’ premises because doing so would bring suspicion from the traders, their customers, colleagues and any other person who came by. They also had to be allowed to sell without interruption, also, sometimes (especially market days, early in the morning and late in the evenings), there would be too many people in the traders’ premises that recording any information could not be possible.
Case studies were done concurrently at shops/stores of the four traders for a period of three months. They were done concurrently in order to gain confidence and trust of traders in getting any information from them. It became apparent that to enhance the traders confidence and trust in the researcher, one had to pass through such premises as often as practically possible in order to be seen as part of them and not a spy or government operative.

While all the case studies were conducted at the trading premises, two of the case studies were extended to other premises. In both cases, the trading premises were too busy during trading hours, and at the same time; there was some uneasiness in discussing business practices with the “stranger” while friends and customers were within earshot. Of these two, one of the cases was extended to the respondent’s home over lunchtime and in the evening after work. The other case study was extended to the respondent’s other business premises, which is a private primary school. In the school, the trader has an office, which he considered to be more private than the trading premises. The traders were more at ease at such premises, they offered more information; I became known to and accepted by the whole family; the traders also became friendlier. In some cases the traders offered to explain more the questions which they had earlier given one word answers. In such circumstances, we had what Silverman (2003) would call ‘naturally occurring talk’.

Some information about trading practices could only be obtained by observation and questioning. For example, in the rice stores, at any one point, you would find very many people selling to customers. On enquiring, the sellers are composed of the storeowners, the agents selling for commission, and the rice sellers (who would keep on changing depending on, who has brought rice this week), the bicycle and head carriers. There would also be the group that were called the deal chasers by Sørensen (1997). These are people who connect the buyers to the sellers, transporters and customs officials at some fee. Generally, sorting out who owns what is difficult unless one asks and observe for a considerable period of time.

The next instrument of data collection was the mapping of the study area. Since the border between Tanzania and Kenya is expansive, and there are several informal routes normally taken by the informal cross-border traders, mapping was considered
necessary before the survey could be undertaken. Also, given the nature of goods being traded at the border, mapping was done to compare the physical location of the structures used for these goods by the traders. The mapping was undertaken to show the area around the border that the study would be covering (see appendix A). On the strength of familiarisation, both formal and informal routes at and around the border region charted and drawn.

However, because of the expansive nature of the border, the informal routes were limited to the two routes situated immediately after each side of the formal border crossing point.

A sketch map was drawn for the area to be covered by the study on both the Kenyan and Tanzanian side of the border. Apart from the routes, the mapping was also done of the structures used by the traders at the border region. Public utilities such as schools and hospitals were also taken into consideration during this process.

The last instrument of data collection was the survey instrument. The survey instrument was a structured questionnaire, with mostly closed ended and a few open ended questions (see appendix F2). As in the case of case study, this instrument was also structured into seven sections. The first section was to gather general information about the trader. Other parts were dealing with business history, products and income, and the routes taken by the traders or their customers while crossing the border. The rest of the sections of the instrument were designed to get information on the major variables covered in the theoretical framework such as human capital, physical capital, and social capital. The instrument was developed using successive pilot studies. After initial piloting and revision, the instrument was subjected to a further pilot and significant revision before the final instrument was produced.

For the purposes of sample selection, there was no accurate picture of the population that constitutes the informal cross-border traders. Neither Kenya nor Tanzania keeps records of either the number of shops open on their side of the border region or the estimated number of informal traders crossing the border at any one time. This made the sampling task very difficult. My initial idea was to rely on customs records on either side of the border, to count what is recorded by one side and not recorded by
the other. This follows the definition of an informal cross-border trader as one who crosses both sides of the border informally or one who crosses only one side of the border formally. The customs records were to be viewed in order to count the number of traders recorded by one side but not another for two consecutive days in a week repeatedly for a period of two weeks. Accessing such information, however, proved extremely difficult. Despite numerous visits to the customs offices on both sides of the border, it became clear that this data was not going to be made available within my time frame or any other time. Even if it was made available, there could be flaws such as, one deal chaser having one receipt for all the traders going to one destination and therefore not reflecting the actual number of the traders. Another flaw was noted in cases where the customs officials do not issue receipts (and therefore no record) for payments made. There was also the issue that some of the traders do not pass through either of the customs at all.

It became obvious that an alternative sampling method was needed. The method used to get the sample frame for the study had three parts. First, enumerators were posted at the rice and maize stores to count the number of customers buying for two consecutive days. They had to be posted at the stores because from observation, one maize/rice trader could use several bicycle transporters and/or head carriers. Posting the enumerators at the stores was considered more reliable way of estimating the population of rice and maize traders than counting of the transporters who, for one, make several trips in a day and as noted above, there could be several of them carrying for one trader who has bought in bulk, also there are head carriers who subdivide a sack of rice or maize before crossing the border. But, in the case of the rice stores, counting had to be done also of the traders who were selling there (there could be several traders selling rice in one store at any one time). The maize stores are owned and operated by the owner. Second, apart from those posted at the stores, other enumerators were posted at the two informal border crossing points to count those passing with carton boxes or any other form of container other than sacks of maize or rice which had been counted at source. They would usually ask if the bicycle transporter/carriers were more than one for each trader. It was easy to know if the transporters were more than one for a trader because they would move together so that
they could negotiate to pay "set"\textsuperscript{34} at one go, which is cheaper than if each transporter paid separately. This method could not be applied to rice/maize, which are carried in bulk as compared to oil and cosmetics. Third, enumerations were also done of traders with fixed selling premises within the border region, but who are selling the goods, which are the subject of the study. However, those who were buying in very small quantities for domestic consumption were excluded. Also excluded were the petty traders who were, for example, buying less than a sack of maize/rice or less than a carton of cooking oil or cosmetic.

The exercise was repeated twice over a period of one month. One of the two days covered in the counting was a market day. One of the two market days (which fall on Tuesdays and Saturdays) had to be covered because, from informants and observation, these are the day when there is the heaviest flow of traders across the border. The first exercise yielded 478 traders while the second one got 436 traders. It should be noted that the universe of informal cross-border traders is so fluid that it is not possible to get an exact sample frame. On the basis of these two observations or further observations, it is not possible to get the estimate of the population of the informal cross-border traders. However, the results obtained from the observation acts as a guide to the likely population of the core group of traders who trade regularly on the four goods in this study. The above method was just used to try to have an idea of the number of the traders in the four products that one can be referring to at any particular time.

The survey data collection was done with the assistance of three research assistants. Employing research assistants was necessary both as people who come from the same community and for identifying with the traders as locals. This is because I took long enough to be appreciated and accommodated at the case study stage. So for survey, which was going to take a few hours and involve many more respondents, it was necessary to have people from the same community who can speak the same Kiswahili dialect. The first research assistant, Mr M, was a trader who was a university graduate. For the period of the research, he was operating his shop early in the mornings and late in the evenings while his wife would do so during the day when

\textsuperscript{34} "Set" is the term used around the border region to describe the bribe paid either to the customs officials or the border police, in order to cross the unofficial border crossing points.
he was out for the research. The second research assistant, Mr C, was an “A” level school leaver who had previously traded in maize across the border. The last research assistant was Mr Br (of Somali origin) who was an undergraduate student at Moi University. He was instrumental in surveying traders of Somali origin and their customers. He was very necessary in accessing the Somali traders. This was because for one, it is very difficult for the Somalis to accept anybody to ask them any question about their trade. Also, most of them are semiliterate or have difficulty in speaking and understanding Kiswahili, so communicating with them was very difficult, even if they agreed to be interviewed. He was also important in accessing the traders (mainly Tanzanians) purchasing from the shops owned by the Somalis, whom he was able to interview from such shops. It would not otherwise have been possible to interview such traders because of the suspicion the Somali sellers extend to them. At the same time, from such shops, the traders’ go back to their side of the border through the formal border crossing points as the goods are passed by the transporters through the “panya” routes, which is mainly crossed by the transports. Even if the traders used the panya routes themselves, it is impossible to talk to them while they are crossing the border!

The actual data collection was done as follows: traders with fixed business premises, and those who had come to purchase any of the four goods (but have no fixed business premises at the border) had questionnaires administered to them. The latter were included because, it is not complete to take only the traders with shops on each side of the border as the sample frame, while excluding the transit traders. Some of the traders who cross the border with goods as informal cross border traders have their business premises (or bases of operation) outside the border region. For reasons of time constraints, the study only focused on the traders who came to purchase goods at the border and did not follow them to their business sites outside the border region.

Respondents were fully informed of the purpose of the study, and their consent was obtained for the use of the data they provided. Interviews were carried out at the business site for those respondents with fixed site at the border. Those selling at

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35 “Panya” is the Kiswahili word for a rat, and is often used to describe the unofficial border crossing points.
points other than the border were interviewed at the buying stores/shops or at the points where they were organising for transportation to the next destination.

The interviews were done on single sessions lasting from one-and-a-half hour to three hours. For those with fixed selling points at the border, the interviews lasted for up to three hours in some instances. This was because in most cases, the trader would be selling and could only participate when there were no sales going on. For the respondents going to other destinations, the interviews lasted for as little as one-and-a-half hours. This was because, since they were not selling and had already done their purchases, there were no interruptions, and often, there was the need to finish quickly before they could board the means of transport.

As mentioned above, not all cross border trading activities were visible. Also, there is the issue of the suspicion of the researchers. This meant that for some traders, it was necessary to use an indirect way of finding them. Snowballing method was used. Thus after establishing a rapport and interviewing a trader, one would spend more time at the premises talking with them. As other traders in the proximity come to chat or enquire some information, we would ask if we can be introduced, or the initial trader would be asked whether she/he could refer the researcher to another person and so on. Generally it was a question of finding the traders rather than choosing them, a point that was raised by Barbara Harris (1993).

A total of 100 traders were interviewed on the Kenyan side of the border, and another 100 were interviewed on the Tanzanian side. The table below gives a broad reflection of the distribution of the interviewees per traders' main product of trade in each side of the border. Twenty-five traders were interviewed on each side of the border for each product chosen. These traders gave at least one of the products of the study as their main product of trade. However, some of the traders also indicated that they were trading in multiple products as will be shown in the analysis in the next chapter. Since the trading pattern at the border is very fluid, this broadly reflects the traders' distribution patterns in the products chosen for the study. The total number (200) of traders interviewed is expected to be an estimated 40% of the 400-500 regular traders at the border.
It is crucial to note that the group of traders interviewed should be regarded as a representative sample of not only the goods selected for the study but the whole of the informal cross-border traders at the border region. This is partly as a result of heterogeneity of the different goods and traders. The nature of informal cross-border trade is an ever-changing action space where traders indefinitely move in and out the region as well as changing the products they trade in. To focus on traders with fixed selling points would thus create a picture of still-lives which have very little similarity with the dynamic, flexible and mobile and unsettled lives of the traders.

6.4 Field Research
The study is primarily based on a six and a half months fieldwork during the year 2003. Since then, I have gone back several times to fill up any other information needed to complete the work. The fieldwork was done on both the Kenyan and Tanzanian sides of the border concurrently.

6.4.1 Preliminary phase
The first stage involved familiarisation with the region and economic terrain of the area of study. In order to understand the patterns of trade and goods traded in, and ask appropriate questions, a good knowledge of the region, the traders and the goods is important. Moreover, various forms of trading activities existed, and not all of them very visible. Since not all the trading activities were visible, a three-step strategy was adopted in this study.
First was to identify possible informants from among the traders and other participants in the informal cross-border trade within the region. This was done by going to the shops/stores, greeting/being greeted by the owners and then buying any of the items they were selling. To identify with the traders, one has to start by buying, because, on going to the shops/stores the formal greeting is ‘karibu mteja’ (welcome customer). The greetings from the traders essentially invites and welcomes one to buy the goods. The buying process provided the opportunity to explain my presence, establish a rapport and strike arrangement for subsequent meetings. After establishing relationship with the traders, tracking was done as much as possible. Berg (1998, p. 144) observes that tracking “literally means following the guides around during their usual daily routines and watching their activities and other people they interact with”. While tracking, observation and questions were asked about the process of cross-border trade. The information from tracking, observation and questions asked were recorded immediately after leaving the traders premises. The field notes could not be taken at the traders’ premises because doing so would bring suspicion from the traders, their customers, colleagues and any other person who came by. Burgess (1991, p. 192) suggests that “note taking is a personal activity that depends upon the research context, objectives of the research, and the relationship with the informants”. Apart from the traders, some informants were identified through an immigration officer whom I had known earlier and explained my mission to. She introduced me to an influential money changer and a trader of Somali origin, whom I would otherwise not have accessed.

Second, was to identify the participants in the cross-border trade (traders and transporters) and the goods they trade in. Such information was obtained from the key informants and traders identified from the first step.

The last was to identify the routes taken by the traders and/or transporters. This involved monitoring the movements of the fluid border population and asking questions in order to take notes on who were taking which routes, and when were they taking such routes. It was important in some instances to document how the traders moved the goods from the point of purchase to their shops for those with fixed selling premises at the border or to the next means of transport for those residing outside the border region.
Consequently, a substantial amount of time was spent on understanding the traders and features of informal cross-border trade. The latter involved building my knowledge on the trading activities and overall importance of each stage of informal cross-border trade. For this task I relied on interviews with key informants. In particular, the immigration and customs officials were interviewed as well as individual traders and transporters (specifically bicycle) and even moneychangers who were thought to be well informed about the informal cross-border trade. The information obtained was crosschecked by other buyers and sellers in the informal cross-border trade process.

On the strength of the familiarisation process, four products were chosen to form the basis of the study. One agricultural and one processed product were chosen from each side of the border. Cooking oil was chosen from Kenyan side of the border because, according to informants, all the cooking oil sold on the Tanzania side of the border region is bought from Kenya. Cosmetics are bought from Tanzania to Kenya side of the border because they are cheaper and have more variety. Maize, as at the time of case studies, there was a general shortage of it on the Kenyan side of the border, so it was being imported from Tanzania. Rice always moves from Tanzania to Kenya. Most of the rice sold at wholesale price was sold to Kenyans, Tanzanians mainly bought at retail price for domestic consumption.

6.4.2 Main phase

The main phase of the research methodology consists of the case studies, mapping and survey method of data collection. After familiarisation, the next stage in the research process was case studies which involved selecting four traders, two from each side of the border. One trader was chosen for each product, which had earlier been selected on the strength of the familiarisation process. This stage consisted of in-depth study of the four traders, observation of the trading process and informal conversation with those who were available at the trading premises. Such informal conversations were used as a form of, to some extent, verifying some information given by the trader.
I solely did the case study phase of the fieldwork without the assistance of a research assistant in a period of three months. However, I received valuable information from key informants during this phase. The case studies were done through semi-structured interviews, observation, watching and listening. Some information was also collected through informal conversation with those people often found at traders' sites such as transporters, customers and even sellers. The case study phase was followed by mapping which was done within a period of two weeks with the assistance of a geographer.

After familiarisation and case studies, mapping of the area of study was undertaken. Berg (1998, p. 220) states that maps are created by the researcher in order to indicate physical and social proximity of items and events occurring in the community. Mapping was undertaken to indicate the types of goods being traded and the structures used by the traders for these goods (see appendix A). Also included in the mapping of these structures is their arrangement in terms of proximity, that is, the physical distance between shops/stores selling the same products and those selling different products. This was done in order to see what impact the arrangement/organisation of the structures and the goods have on the social interaction on those involved in the informal cross-border trade. Mapping also includes some stable physical elements such as the formal and the informal routes taken, street-lights and public telephone booths. Detailed notes were also taken to describe the general setting of the border region. This was done to help planning how to cover these areas during survey in the most efficient and effective manner. According to Berg (1998, p. 142), in the process of doing mapping, "wandering around the area allows the researcher to begin getting acquainted with the inhabitants and vice versa". Thus, the mapping of the border region was undertaken in order to understand the way the trading activities are organised.

The last stage of the fieldwork was a period of three months which were spent administering survey questionnaires. On the strength of the insights acquired in the first three stages, a draft questionnaire for the survey was redesigned and then pre-tested. After pre-testing, some changes were made on the questionnaire and the survey was embarked on with the help of three research assistants. Employing research assistants was necessary both in regard to the translation of the local different
languages (primarily local Kiswahili dialect, and Somali) and the ease with which they would access the traders. All the research assistants had lived within the border region for a period of time. They had knowledge about the local community and the rules and the moralities governing trade around the border region.

6.5 Approach to data analysis
Analysis of data was both quantitative and qualitative based on the fact that both sets of data collection were used to complement each other. The case studies were used to gather qualitative information while the survey questionnaire was used for the quantitative one.

6.5.1 Analysis of survey data
During the analysis stage several interrelated procedures are performed to summarise and rearrange the data. The first procedure was editing of the data in the field on daily basis. The purpose of editing is to ensure completeness, consistency and readability of the data. The questionnaires completed every day were checked for any omissions, interviews of ineligible respondents, legibility and consistency. After editing, the next stage in the data analysis process is the coding, which involves identifying and classifying each answer with a numerical score. The coded data was entered into the computer for rectangular arrangement followed by preliminary processing.

For further analysis, logistical regression analysis was undertaken to determine the impact of human, physical, and social capital on the decision to choose the informal trade route. Further analysis was undertaken to determine the significance of the influence using $\chi^2$ statistics and ANOVA. A regression and logit analysis on the capital variable components was undertaken to determine the impact of these variables and their interactions on the income of the trader.

6.5.2 Analysis of mapping
The mapping process was analysed as a source of data in this study. The routes and structures were analysed to show their positioning around the border region vs. the actual performance of informal cross border trade. The mapping information was also analysed to show the positioning of items within the border region such as the number of shops open, rice and maize stores, and shops/traders selling cosmetics and/or
cooking oil. It also took into account other public utilities such as schools and hospitals and public telephones.

6.5.3 Analysis of case studies

The analytic strategy used for this study was to develop a descriptive framework for organising case studies. This approach had to be adopted because the original purpose of the case study was to be descriptive. Furthermore, this descriptive approach was intended to help to identify the causal links to be analysed quantitatively. This analytical strategy, even though less preferred to theoretical propositions (Yin 1994: 102), is considered to be appropriate where, it is used as a complementary to survey questionnaire.

Conversation analysis was used to analyse the conversations observed during case study. Silverman (2003: 167) states that conversation analysis is based on an attempt to describe people's method for producing orderly social interaction. The basic feature of talk which this conversation analysis will be concerned with, is turn-talking and repair. According to Sacks et al (1974) as quoted in Silverman (2003: 168) there are three aspects of turn-talking and repair:

- How a speaker make a turn to relate to a previous turn
- What a turn interactionally accomplishes (e.g. an invitation, a question, an answer)
- How the turn relate to the succeeding turn (e.g. by a question, request, summons etc)

6.6 Issues arising from methodology

Due to the nature of informal cross-border trade, which is not officially permitted, suspicion of strangers asking questions about the business is not uncommon. The traders do not have written material in most cases, and even if they have, they are very reluctant to disclose such information. At the same time, there is the group of traders who, even if they kept the records, are not residents of the border, so accessing such information could not have been possible within the time frame of the research. Still, at the pilot stage it became clear that some respondents were not comfortable with details of their business being discussed while their customers and friends were
listening. Also, since at any one time there are many people at the business premises, recording of in-depth details of the business was considered to be intrusive.

6.6.1 Issues on the research design
Although the study has covered both agricultural and processed goods traded at the border, it was limited to only four products. But there are several products traded at the border region, so there is the issue whether the findings can be generalised to all products, even though from familiarisation, these were the most traded products through the informal routes.

There was also the issue of access, other than the fact that not all the trading activities are visible, doing research at Isebania-Sirare border is a question of being considered an "outsider" (i.e. not coming from the trading community) on the Kenyan side. On the Tanzanian side, on the other hand, apart from being an outsider from trading point of view, one is considered a Kenyan, who might be having ulterior motive of uncovering the undercover trading activities in Tanzania. Thus, although I sought to underplay this role, for instance, by presenting myself as a lecturer/student who needs to do the research to advance my career, and by in as much as possible changing my dressing so as not to be conspicuous, the signs of an outsider were still obvious, carrying bags of paper instead of baskets, living in hotels, etc.

6.6.2 Issues arising from case studies
Although the case study involved contact with a number of traders, it was not possible to include all the categories of traders in the cross-border trade. The traders involved in the study are only those residing at the border region. It was not possible to get the non-residents of the border because of the ethnographic nature of the study, unless one went to their premises, which time and money did not allow. Getting in-depth information from such traders would have given source of comparative data from the buyers point of view and determining the consistency of the evidence. There is also the issue of the formal traders being completely inaccessible. Those who cross process the documents at the formal border crossing points are either drivers or agents of such formal traders who reside and operate outside the border region. The products that they deal in are also either transit goods from other countries or goods outside those covered in the study.
In the process of conducting case studies, it often proved to be hard to acquire detailed information about the scale of the business as well as other financial information, which the traders considered to be their secrets. Even in cases where the traders actually revealed the data, we had to be critical; thus the yearly turnover might be understated in fear of authorities or might be over stated to appear more successful. However, with all these provision in mind, we would still give rough estimates of the turnover of the business of the various traders to the extent that it was possible to acquire information.

The use of survey questionnaire was intended to mitigate the issue of access to other informal traders within the border region. However, for formal traders, there are secondary data on the studies, which have been done in other border regions. In any case those who cross the border formally are the drivers and agents of such traders, ultimately, for any study of such trade, they have to be sought in areas outside the border region.

Finally, since the observation and conversation was not recorded at the traders’ premises, due to human’s weakness of not being able to remember everything, it is possible that there is some vital information, which was not recorded. However, care was taken to record all the information I could remember as soon as I left the traders’ premises.

6.6.3 Issues arising from survey method of data collection
During pre testing, it became apparent that there was a trade-off between obtaining annual financial data and seeking more nuanced qualitative information. Questions on financial data instinctively put respondents on their guard even if they did not out rightly refuse to answer. Thus, it often proved to be hard to acquire information about turnover and the profit made. There are several reasons for this. One reason is that the traders did not know the exact turnover or profit due to lack of records or, simply because they sold in such small quantities that it was difficult to remember/calculate such amounts. However, those who were selling in large quantities kept records of the number of tonnes/lorries/sacks sold per consignment. Another reason for this
problem of acquiring data on economic issues would be that the traders did not want to reveal the exact turnover of their business in fear of the authorities that would make demands on them. Also, there are those traders whose premises were not at the border, who would not remember such economic figures even if they kept the records.

To get around this problem, the information requirements to do with financial issues were modified into weekly/monthly revenues and expenditures, which would later be computed to represent annual turnover and profits. However, even with this, there were instances during the survey where a trader would openly understate the amount of goods ferried across the border. For example there were instances where you would see a lorry full of 100 bags of 90kgs of maize at a traders premises, yet he/she would give a figure like fifty bags per week. In such instances, we would try to pass there every evening to count how many lorries were being packed with maize for a period of one week. This was done because, based on our observation, lorries of maize were packed in the evening to be ferried across the border at night or early in the morning. Hence, such observation was deemed to give a better estimate of the maize transported across the border by the maize traders.

A significant number of the traders refused to answer the questions or did not have time to be available in the course of the survey. Moreover some of the interviewees out rightly demanded to know what they would gain, while others started peddling rumours that the research might be having something to do with “devil worshipping”. Other traders would simply ask for money for being interviewed; still others asked if I could help their children to join the university.

6.7 Conclusion
In this chapter the approach to empirical investigation of the theory developed in the last chapter has been elaborated. Empirical work is needed to test both the validity of the theoretical direction taken and to elaborate a number of aspects of the theory. It has been argued that the extent of the theoretical work needed to examine on argument of this scope demand the use of triangulation of data collection techniques. For this reason, the empirical work has been divided into quantitative and qualitative data collection.
Primary research strategy regarded as most appropriate to the empirical research question are both case study and survey research. The case studies enabled a detailed investigation to be made of the process by which cross-border traders undertake exchange across the border, the study of which is central to the theoretical argument made in the last chapter. It also permits a more exploratory approach to be taken. The survey approach enables generalisation to be made across the population.

The combination or primary research and detailed search of literature has produced a considerable body of evidence relevant to the research question. In the next two chapters this evidence is examined in detail against the argument elaborated in the last two chapters (§4, §5).
CHAPTER 7
CHOICE OF ROUTE: EVIDENCE FROM SURVEY

7.1 Introduction
This chapter reports the outcome of the analysis of the survey data. Section 7.2 gives the general background of the traders interviewed, the side of the border they are situated on, their activities and the major products they trade in. Section 7.3 gives the socio-economic profile of the traders, which generally deals with the impact of gender, age, education and use and ownership of trading premises on the traders' activities. It also documents their religious affiliations. Section 7.4 gives the histories of the traders, their impetus in starting the trade, how long they have been in business and their sources of funding. Section 7.5 documents the links between the traders and the suppliers on one hand and the transporters on the other hand. Section 7.6 documents the effect of the aggregated human, physical and social capital variables on the choice of the routes (formal or informal) taken by traders. Section 7.7 includes a model, which illustrates the extent to which the choice of a route is dependent on the various products and the capital variables. Section 7.8 discusses the conclusions drawn from the quantitative analysis of this study.

7.2 Trader characteristics
A total of 199 traders were interviewed. This population consists of people trading in four pre-selected products. Some of the traders interviewed had their business premises situated within the border region at either Isebania on the Kenyan side or Sirare on the Tanzanian side. Other traders had their business premises situated in other places outside the border region but within the two countries. However, such traders with premises outside the border region regularly come to buy or sell any of the four commodities at the border. At the border region, 80 of the traders interviewed had their businesses situated at Sirare, while 78 were at Isebania. For those traders with premises situated in other places outside the border region, 19 were from the Kenyan side, while 22 were from the Tanzanian side. In the analysis, the traders with premises situated on the Kenyan side were classified as being situated at Isebania while those from the Tanzanian side are at Sirare. It is important to note that the composition of the traders between the two countries and within the products was not
random but was structured as such in the process of data collection. The significance in the difference would therefore be meaningless.

With regard to citizenship and country of birth, 59.8% listed Kenya as their country of birth while 40.2% listed Tanzania. But when it came to citizenship, 52.8% were Kenyans while 47.2% were Tanzanians. However 13.4% of the traders were listed as being Kenyans by birth but are Tanzanian citizens, while there were only 2.5% Kenyan citizens who are Tanzanians by birth. The traders were also categorised by their gender. There were traders who were operating individually and others were doing so in partnerships. Those operating individually were categorised as male and female while those in partnerships were classified as mixed. Included in this category of mixed gender are the trading concerns, which were co-owned by husband and their wife/wives. Other business partners in the mixed category are not necessarily married.

7.2.1 Defining routes
The trade between Kenya and Tanzania as two independent countries should fall under bilateral trade discussed in chapter 3, passing through officially recognised border and being recorded by both countries. However, the reality on the ground shows that the goods pass through distinct routes depicted in figure 5.3. The routes that are taken by the traders while crossing the border can be classified into formal and informal. The traders that can be classified as taking the formal route are those who pass through both the Kenyan and the Tanzanian customs offices to declare their goods, the immigration offices to get clearance to cross the official border crossing points. These two official border crossing points are erected about two hundred metres from each other (see appendix A). There is a third barrier on the Tanzania side erected approximately two hundred metres inwards from the other Tanzanian barrier. In between these three barriers are the Kenyan and the Tanzanian customs offices. From the Kenya side of the border, one passes the Kenyan barrier and then proceeds to the Kenyan customs offices where clearance is given (after producing the necessary travel and business documents and paying duty if necessary) to proceed to the Tanzania side.
On entering Tanzania, there is the first barrier, which one crosses before proceeding to their customs offices. At these customs offices, just as in the case of the Kenyan side, clearance is given to the trader after producing the necessary documents and paying duty if there is need for doing so. It is only after such clearance that one is deemed to be officially entering into Tanzania from the Kenyan side. Similarly the same procedure is done for one leaving Tanzania to enter the Kenyan side of the border. But on entering Tanzania, at the second barrier one has to produce the documents given at the custom's offices to prove that one is officially allowed into the country. Those who pass through all the three barriers and the two customs offices are the traders taking the formal routes. It is worth noting that these crossing procedures are followed despite the renewed regional integration process (see §2.3.3).

The traders taking the informal routes are those who either do not pass through any of these three barriers and customs offices, or pass through only some. They may pass through only one or two of the barriers or only one of the two customs offices. Most of the traders and/or their transporters were observed avoiding at least one of these barriers by passing through unofficial border crossing points and either one or no customs offices. Such unofficial border crossing points, which were referred to as 'panya routes' were situated approximately three hundred metres from the official crossing points. In most instances, it was the transporters who pass through such 'panya routes' with the goods as the traders go through the official border crossing points walking without carrying the goods. The customers walk through the official barriers but do not go to the customs offices to declare their goods. Generally, there are many people walking across these official border-crossing points. These are basically people living within the border region, those transiting from one side of Tanzania to the Arusha and Dar Es Salaam side of it, the transporters, and the traders.

7.2.2 Classification of traders
To classify the traders as those taking the formal or the informal route, they were asked the routes that they take when crossing both the Kenyan and the Tanzanian side of the border with goods. From the case study, there was evidence that there are traders who do not cross the border with goods but majority of their customers do so. However, they often make transport arrangements for the customers' goods to be taken across the border. The traders who were classified as formal were those crossing
both the Kenyan and the Tanzanian side of the border through the formal routes (see appendix B). The informal traders were therefore those who were crossing at least one of the borders using one of the informal routes.

In the classification of traders into formal and informal, only one hundred and ninety two traders’ responses were used, as shown in appendix B. The remaining seven were discarded because they did not indicate the routes taken by them or their customers. The traders who were classified as formal or informal either indicated that they cross the border with goods or their customers are the ones who do so. Of the one hundred and ninety two traders used in the analysis, thirty-three of them were classified as formal while one hundred and fifty nine were informal. With regard to their location, twenty of the formal traders were based in Isebania while thirteen were in Sirare. But for the informal cross-border traders, seventy-four of them were based in Isebania as a further eighty-five were in Sirare.

7.2.3 Products traded

There are many products that are traded in across the border. In some instances traders do trade in only one product, but in some cases they were trading in multiple products. For the purpose of this study, there were four pre-selected products that included two agricultural products (maize and rice) and two processed ones (cooking oil and cosmetics). The traders interviewed were based on both sides of the border and were taking either the formal or the informal trading routes while moving the goods from one side of the border to the other. All the traders interviewed were trading in at least one of the four main products of this study as their main activity. But there were instances where some of the traders were trading in two of the four products. A few of the traders were trading in more than two of the four products. The fact that some traders deal in multiple products for all the four goods selected, means that in some parts of this section, the total number being analysed is more than those interviewed because of the inevitable double counting in such instances.

The result of the multiplicity in trading in more than one product is indicated on table 7.1 below, there were a total of fifty-eight traders in maize interviewed from both sides of the border. Forty of these traders were trading in maize only, eleven in maize and rice, and seven in maize and other products. Their distribution on the two sides of
the border was, thirty-one on the Kenyan side, and twenty-seven on the Tanzanian side. The rice traders interviewed from both sides of the border were sixty-seven. Forty-eight of these rice traders were trading in rice only, eleven in rice and maize and eight in rice and other products. The distribution of the rice traders on the two sides of the border was thirty-five on the Kenyan side while thirty-seven were on the Tanzanian side. Cooking oil had a total of seventy-four traders interviewed from both sides of the border. Twenty-six of them were trading in cooking oil only, thirty-eight cooking oil and cosmetics and the remaining ten were trading in cooking oil and other products. The distribution of these cooking oil traders on the two sides of the border was: thirty-four on the Kenyan side and forty on the Tanzanian side. Cosmetics had a total number of sixty-two traders. Nineteen of them were trading in cosmetics only, thirty-eight on cosmetics and cooking oil, and the remaining five were trading in cosmetics and other products. The distribution of these cosmetic traders on the two sides of the border was, thirty-six on the Tanzanian side and twenty-six on the Kenyan side.

Table 7.1 Traders by Product and Location

<table>
<thead>
<tr>
<th>Location</th>
<th>Maize (M)</th>
<th>Rice (R)</th>
<th>Cooking oil (CO)</th>
<th>Cosmetics(C)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>M,R</td>
<td>M&amp;OP</td>
<td>CO</td>
</tr>
<tr>
<td>Sirare (Tz)</td>
<td>18</td>
<td>6</td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>Isebania (Ke)</td>
<td>22</td>
<td>5</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>Sub Total</td>
<td>40</td>
<td>11</td>
<td>7</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>67</td>
<td>74</td>
<td>74</td>
</tr>
</tbody>
</table>

Source: Author Survey. Note (& OP) in the table stands for - and Other Products

The issue of the multiplicity in the products traded could be explained by the fact that most of the traders interviewed were doing so on small scale. Also, there is the issue of the seasonality of most of the products traded in, especially the agricultural products. Even for the non agricultural products such as cooking oil and cosmetics, different brands are produced every so often, resulting in change in consumers' demand for the newly introduced products. To protect themselves against such
fluctuations in supply and therefore demand, most traders tend to stock a variety of products at any one time.

On classifying the products by the routes taken by the traders when crossing the border with goods (Including those trading in multiple products), as indicated in table 7.2 below, out of the fifty-eight traders trading in maize, nineteen were crossing formally while thirty-nine were doing so informally. In the case of rice, only ten of the traders were crossing formally while the remaining fifty-seven were crossing informally. Sixty-nine of the cooking oil traders were crossing the border with goods informally while only five were doing so formally from the Isebania side of the border. There was no trader crossing the border formally with cooking oil from the Sirare side of the border to the Kenyan side of the border. This is explained by the fact that all cooking oil move from Kenya to Tanzania side of the border through both the formal and the informal routes. All the cooking oil consumed on the Tanzania side of the border is produced on the Kenyan side. Fifty-two of the cosmetic traders were crossing the border with goods informally while only ten were crossing formally.

<table>
<thead>
<tr>
<th>Products</th>
<th>MAIZE</th>
<th>RICE</th>
<th>COOKING OIL</th>
<th>COSMETICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Route/Locati on</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Isebania</td>
<td>11</td>
<td>5</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Sirare</td>
<td>8</td>
<td>5</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Formal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal</td>
<td>20</td>
<td>28</td>
<td>34</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>29</td>
<td>35</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: Author Survey.

Generally, for all the four products, there were more traders taking the formal route than the informal route as indicated in chart 7.1b below. This reflects the fact that the traders find it easier to use the network of transporters and other actors known to them to cross the border with goods than to go through the formal process of filling documents and in some instances even paying.
However, of the traders trading in one product only, 20.3% were taking the formal route while the remaining 79.3% were doing so in the informal routes. The rest of the analysis of traders dealing on only one product is indicated in table 7.3 below. Forty traders were dealing on maize only with twelve of them taking the formal route while twenty eight take the informal one. Those trading on rice only were forty eight, with only seven passing through the formal route as the remaining forty one pass through the informal one. There were only twenty six traders in cooking oil and out of these, only four were taking the formal route.

<table>
<thead>
<tr>
<th>Products</th>
<th>MAIZE N=40</th>
<th>RICE N=48</th>
<th>COOKING OIL N=26</th>
<th>COSMETICS N=19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Route/Location</td>
<td>Isebania</td>
<td>Sirare</td>
<td>Isebania</td>
<td>Sirare</td>
</tr>
<tr>
<td>Formal</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Informal</td>
<td>11</td>
<td>17</td>
<td>19</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Author Survey.
7.2.4 Socio-economic profile of traders

This section gives an overview of the impact of gender, age, education and use and ownership of trading premises on the traders’ activities. It also documents the traders’ religious affiliations.

There was a wide range in the difference between the youngest and the oldest trader. Also, it can generally be seen that the age span of the economically most active group is between age 30 and 39 years for the traders interviewed, followed by the 20 – 29 years. This is consistent with the general economic indicators, which labels this age group as the most economically productive. The lowest age brackets of below 19 years and the highest of above 60 years only had one trader each. This could be explained by the fact that, as observed during the research, the work involved in cross border trade is more strenuous for the elderly people (i.e. constantly being on the move, hard physical work etc.) than trading in goods that do not involve movement across the border. As for the lowest age group, the cross-border trade needs accumulation of some basic amount of capital, which rules out a number of traders in this category.

However, there was some slight difference in the distribution of the traders in the ten-year age brackets, categorised by the routes they take as shown in table 7.4 below. There were a higher proportion of younger traders (33.9%) taking the informal trade routes than those taking the formal routes (18.2%). But a higher proportion of the most economically active age group as per the economic indicators, tended to choose
the formal trading routes when crossing the border with goods. The older traders within the age bracket of between 50 years and 59 years were twice as likely (12.1%) to choose the formal trade routes than the informal ones (6.9%). From the case studies, it was generally observed that the female traders join business later than men due to marital responsibility attaining more or less entire responsibility for their children’s and their own lives.

Table 7.4: Age Distribution of Traders and Route

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Formal N=33</th>
<th>Informal N=159</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Below 19 Years</td>
<td>0</td>
<td>0.6</td>
</tr>
<tr>
<td>20-29 Years</td>
<td>18.2</td>
<td>33.3</td>
</tr>
<tr>
<td>30-39 Years</td>
<td>54.5</td>
<td>38.4</td>
</tr>
<tr>
<td>40-49 Years</td>
<td>15.2</td>
<td>20.1</td>
</tr>
<tr>
<td>50-59 Years</td>
<td>12.1</td>
<td>6.9</td>
</tr>
<tr>
<td>60-69 Years</td>
<td>0</td>
<td>.6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author Survey

7.2.5 Religious background

Regarding religion, reflecting the general population of the area, the proportion of the traders who were adherents of Christianity and Islam were 83.0% and 17.0% respectively. But the distributions of the traders on both sides of the border on the two religions were almost equal. There was equal sharing in the proportion of ownership (sole trade and partnership) within the two sets of religion. The proportion of the adherents of Islam who were in wholesale business was more than the Christians. About 50.2% of the Muslims were trading in cooking oil, with the rest trading in rice and cosmetics, but none of them was trading in maize. The Christians were mainly trading in the three products maize, rice, and cooking oil. Only 5.1% of them were trading in cosmetics. This could be explained by the fact that as seen in the case studies phase of the fieldwork, the Muslims tend to be more helpful to each other through the Mosques. Also, unlike the other three products, cosmetic business requires less capital to start up and even to run it. Such help in the form of little capital to start up could be extended to these traders through funds from the Mosque.
7.2.6  Educational background
Within all categories of traders, there was a wide range in their levels of education. These levels were ranging from those with no education (3.5%), to university (1.0%). Almost half (46.7%) of all the traders had completed primary schooling. Those who completed primary schooling were approximately twice as many as those who completed secondary, which stood at 22.1%. The traders who completed primary education at Sirare were one and a half times more than those who did so at Isebania. This could be attributed to the fact that universal free primary education was introduced in Tanzania in the early 1970s, while in Kenya it was only done in the year 2003. However, as shown on table 7.5, the traders who were taking the informal route were more than those on the formal routes at lower levels of education up to some secondary education. Thus, more traders who completed secondary, A levels and University were taking the formal routes. Such an outcome could be attributed to the greater ability by the more educated traders to successfully fill customs evaluation forms.

Table 7.5: Classification of Traders by Levels of Education

<table>
<thead>
<tr>
<th>Trader Classification</th>
<th>Level of Education</th>
<th>None</th>
<th>Some Primary</th>
<th>Completed Primary</th>
<th>Some Secondary</th>
<th>Completed Secondary</th>
<th>A Level</th>
<th>University</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Trader</td>
<td>%</td>
<td>1.7</td>
<td>9.1</td>
<td>45.5</td>
<td>27.3</td>
<td>3.0</td>
<td>1.3</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Informal Trader</td>
<td>%</td>
<td>3.8</td>
<td>12.6</td>
<td>48.4</td>
<td>15.1</td>
<td>20.1</td>
<td>0.0</td>
<td>0.0</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>%</td>
<td>2.6</td>
<td>12.0</td>
<td>47.9</td>
<td>14.6</td>
<td>21.4</td>
<td>0.5</td>
<td>1.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author Survey

Only 22.1% of the traders had any post school training, which was divided as follows, professional (mainly teachers, nurses, and pharmacists from tertiary institutions) 13.1%, polytechnic 7.0% and vocational 2.0%. The proportions of traders in the vocational category were mainly those who had received some trade-related training. Such trade-related training was of short duration, apart from one trader who had undergone a six-month training period.
7.2.7 Ownership and use of trading structures

The structures occupied by the traders for trading purposes were classified as permanent, semi-permanent, and others. Included in the category of others were the homes, market stalls and temporary structures. The traders owned some of these structures: others were being rented while the rest were on free occupation. Regarding the structures used by the traders, 58.8% were using permanent buildings, 25.1% semi-permanent and the rest (18.1%) other kinds of structures. While 74.4% of them trade from rented premises, only 10.6% of the traders were trading from the premises that they own.

Availability of goods to be traded in ensures a continuous flow of goods across the border. Such goods have to be purchased and stored in bulk. The traders who were purchasing in bulk and therefore providing wholesale services to the other traders had to use bigger premises. The bigger premises attract higher rent or higher maintenance cost in cases where they are owned by such traders.

The importance of the size and the resulting value of the trading premises can be seen on table 7.6 below. In terms of routes, the values which were significantly different were the estimated values of premises owned, the cost of maintaining them and the annual rent. The traders who take the formal route owned higher values of premises and also spent more on the cost of maintenance. Such costs were both statistically significant at 1% in favour of those crossing the border formally. The traders crossing the border formally were also paying a higher annual rent than the informal cross-border traders. This was statistically significant at 1%.

Table 7.6: Traders’ Annual Expenditures by Formal and Informal Routes

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Formal Route (N.=33) (Kshs)</th>
<th>Informal Route (N.=159) (Kshs)</th>
<th>F values</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance of own premises</td>
<td>2409</td>
<td>336</td>
<td>20.116</td>
<td>.000</td>
</tr>
<tr>
<td>Rent</td>
<td>18552</td>
<td>7686</td>
<td>66.552</td>
<td>.000</td>
</tr>
<tr>
<td>Leasing</td>
<td>363</td>
<td>566</td>
<td>.807</td>
<td>.370</td>
</tr>
<tr>
<td>Estimated Value of Premises</td>
<td>252727</td>
<td>12459</td>
<td>710.216</td>
<td>.000</td>
</tr>
</tbody>
</table>
The mode of transport owned or being used for the purposes of transporting goods across the border is important in determining the choice of route. The modes of transport most commonly used are bicycles and vehicles and in a few cases human carriers. Pushcarts are used by less than one tenth of the traders. However, in terms of ownership, slightly fewer than half (40.0%) of the traders own bicycles and less than quarter (13.0%) own vehicles. Forty-five percent of the traders do not own any means of transport at all, while only two percent own pushcarts. Those who own vehicles (61.5%) mainly have one, while another twenty-three percent of the traders own two. The highest number of vehicles owned by only two traders is four. More than three quarters (77.9%) of the traders who own bicycles have only one, as only 16.9% own two bicycles. Only 15.3% of the traders own both vehicles and bicycles.

Most (71.4%) of the traders who own bicycles also use vehicles as a means of transport. But, a lower proportion of the traders who own vehicles (64.0%) also use bicycles as a means of transport. However, the proportion of traders who own vehicles but also use human carriers and pushcarts are 48.0% and 16.0% respectively. This is more than the proportion of bicycle owners whose use of human carriers and pushcarts stood at 39.0% and 10.4% respectively.

In terms of routes, the value of means of transport owned by the informal cross-border traders was higher than those crossing the border informally. The mean value of such means of transport stood at Kshs. 448,909 and Kshs. 8,399 for the formal and the informal cross-border traders respectively. The difference was statistically significant at 1%.

7.3 Business histories

This section looks at the histories of the trading businesses: their age, the impetus for starting the trade, sources of capital, and circumstances of founding.

Most of the traders have been in business for less than ten years. Over eighty percent (82.4%) of the traders have been in business for nine years or less. They started business between 1995 and the year 2003. But, two of the traders were in business before 1980s, one of them having started in 1963. The mean business age for all the traders is 6.15 years. The fact that so many of the businesses were started relatively
late corresponds to on the one hand, the recent development of trade liberalization, regionalisation (especially Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC)), (see chapter 2). It also corresponds to the changing political circumstances between Kenya and Tanzania which resulted in reopening of the borders. On the other hand, it also corresponds to the general trading patterns of the medium and the small-scale enterprises, which are mostly young businesses.

The majority of the businesses (74.4%) were founded through the traders' own initiative or through introduction by a friend or a relative. A reasonable proportion of eighteen percent (18.0%) of the businesses were equally founded through inheritance and purchase of on going business. Regarding the source of capital, about half of the traders (57.9 %) started the businesses from their own savings. But it is important to note that 30.6% of the traders had such funds for starting up business from relatives and friends, while another 8.5% was from the group savings (ROSCAS). Only 3.0% of the traders had the bank as their source of funding.

For the products, most of the traders in maize, cooking oil and cosmetic traders founded their businesses through their own initiative. Those trading in rice founded their businesses mainly through introduction by friends and relatives.

About one half of the traders had been exposed to similar businesses before starting their on their own. They had such exposure through their parents who were in business before and/or being an apprentice in similar or related businesses. Regarding the routes, 56% of those who take the informal trading routes indicated that their parents were in business before they started their own while only 45.5% of those who take the formal trade routes did so. Eighty percent of the traders whose parents had been in business started their trading within the last seven years. Within this group, only seven percent of them were taking the formal route, the rest of them were on the informal route. This was significant at 5%.
7.4 Economic ties

This section examines the links that exist between the traders and the suppliers and the transporters. On one hand, the link with the suppliers gives how, where, and when the traders purchase their goods. On the other hand, the link with transporters shows not only the mode of transport, but which mode of transport is used in what route and the actual process of crossing.

7.4.1 Links with suppliers

Access to regular supply of merchandise for sale goes a long way in explaining any business success. This is more important in situations where sometimes there may be scarcity of a given product and in some cases there may be glut of the same product which also to some extent may be perishable. Most of the traders (89.9%) have regular suppliers. Also, most of these traders knew such regular suppliers personally, in some cases even their names and where their businesses are situated. The number of the suppliers known by the traders was ranging from zero to thirty. However, the mean number of such suppliers personally known to them was 8.70 for all the traders around the border region. But, there was a significant difference (sig. 1%) between the mean number of suppliers known by the traders on the Isebania side and those on the Sirare side, which stood at 6.22 and 11.15 persons respectively.

A closer look at the links between the suppliers and the traders reveal that there is considerable networking between them. It is not by chance that the suppliers know these traders. The traders came to know the regular suppliers mainly through their friends, other customers who had been buying from those suppliers, agents and after buying regularly from them. The proportion of the suppliers who were known to the traders through other regular customers and friends was 44.0%, and after buying from them regularly was 41.0%. The proportion of the regular suppliers were known to the traders through agents was only 14.9%. About 90.1% of the traders reported purchasing at least half of the goods from the regular suppliers. However, most of the customers (84.9%) indicated that they normally buy from someone else if their regular suppliers did not have the goods that they need to purchase. But, minority of the traders (11.1%) indicated that they normally delay purchasing if the regular suppliers known to them do not have the goods they need.
The traders finance their bulk purchases from the regular suppliers through various ways. Some of them are by getting supplier credit, borrowing from friends and relatives, teaming up with fellow traders, paying in instalments, and in very few instances even borrowing from the banks. Sixty percent (60.1%) of the traders get at least three quarters of their credit sales from the regular suppliers. Such credits from the suppliers were mostly paid for in instalments without interest being charged. The traders can get credit in some instances after knowing the supplier for a period less than three months. However, most of the supplier credit (85%) is obtained after they have known the traders for a period of at least six months, with a few (8.5%) getting it after a period longer than one year.

7.4.2 Links with transporters
The proportion of traders who use the mode of transport being operated by transporters known to them personally was as high as 85.6%. Three quarters of the traders use such transporters known to them at least about half the time that they are carrying goods. The proportion of the transporters known to the traders on both sides of the border was high but almost equal, at 87.9% and 82.8% for Isebania and Sirare respectively. When it comes to the products, all the rice traders deal with only the transporters known to them personally. For the other three products the proportion of the transporters that they know personally was as high, in all cases over 70.0%. The issue of all the rice traders using only transporters they know could be explained by the fact that unlike maize that is a seasonal product, it is available throughout the year. Also from the case studies, it was the product which was most noted being passed through the panya routes.

7.5 Variable explaining choice of routes
In this section, the choice between the formal and the informal routes by the traders given the aggregated variables are discussed. The variables used to explain the cross-border trade phenomena are social capital, physical capital, human capital and the incomes of the traders. These variables were disaggregated into their various components to operationalise them.
7.5.1 Human Capital

Human capital is one of the three major sources of funding for any one wishing to cross the border with goods. As indicated in §5.3.2, it includes what is learned at school and what is formed unconsciously through experience by an individual. However, whereas what is learned at school can be operationalised by level of education, what is learned unconsciously can only be observed through the traders’ ability to calculate and numerate (see §5.4.2). The components used to operationalise human capital were: level of education, post school training, and trade related training, parents previously being in business, apprentice and occupation previous to business.

Regarding post school training, there were those who had professional, vocational and polytechnic training. Included in the professional training are those who were trained as primary school teachers and paramedics. Vocational are the trainings of short duration in any field. As represented in table 7.7, post school training was statistically significant at 7% in favour of the formal cross-border traders. The choice of a route is dependent on whether one has some post school training or not. The traders with post school training and specifically those who had attended the polytechnic were more likely to choose formal than informal route of trade.

<table>
<thead>
<tr>
<th>Type of Training</th>
<th>Formal Route</th>
<th>Informal Route</th>
<th>( \chi^2 ) (Sig.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>66.7%</td>
<td>79.9%</td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>12.1%</td>
<td>13.2%</td>
<td>-1.858</td>
</tr>
<tr>
<td>Vocational</td>
<td>3.0%</td>
<td>1.9%</td>
<td>0.063</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>18.2%</td>
<td>5.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author Survey

There was no distinctive characteristic of the formal traders compared to the informal ones with regard to whether one had parents who were previously in business or was an apprentice, the occupation the traders were in previously, and their level of education. This means that most of the components of the human capital variables, with the exception of post school training were not statistically significant in the choice of either formal or informal route by the traders. Thus, there is equality of the
proportion of traders taking these routes if we compare most of the components of the human capital variable. The test statistics results for these variables based on the choice of formal and informal trade routes are represented in the tables 7.1a - .3a. see appendix C.

7.5.2 Physical capital
Access to physical capital as a source of funding goes along way in explaining business success (§5.4.1) To what extent does ownership or access to the different types of physical capital impact upon the decision by the traders to take the formal or informal route when crossing the border with goods? Two components, premises and mode of transport were used to capture physical capital variable.

Tables 7.8 - 7.10 gives the impact of the various components on the choice of route by the cross-border traders. The type of premises used, the mode of transport owned and type of vehicle owned were significant in influencing whether a trader would take a formal or an informal trade route. The structures occupied by the traders for trading purposes were classified as permanent, semi permanent, and others. Included in the category of others were the homes, market stalls and temporary structures.

The type of structure occupied by the traders for trading purposes was classified as permanent, semi permanent and other kinds. As §5.4.1 shows, those trading in the category of other kinds of premises were operating mainly from temporary occupation and the markets. Table 7.8 gives the impact of the use of the various types of structures on the choice of route by the cross-border traders. The type of premises used was statistically significant at 9% (Table 7.8). The choice of route is dependent on whether one is trading from permanent, semi permanent or other kinds of premises. On one hand the traders who use permanent premises are more likely to choose the formal trade routes. While on the other hand traders using semi-permanent and other kinds of premises, were more likely to choose the informal trade routes. There were also variations on the rent paid by the two sets of traders. The formal traders were paying slightly higher rent than the informal traders. The difference in the mean rent paid by the traders was statistically significant at 5%. Thus the formal cross-border traders were more likely to pay more rent than the informal ones.
The different types of transport owned by the cross border traders ranged from nothing to pushcarts, bicycles and vehicles. The vehicles owned by the traders were classified as saloon cars, pick-ups and Lorries. Both the formal and the informal cross-border traders owned vehicles and bicycles as a mode of transport. The mode of transport owned was therefore statistically significant at 1% (Table 7.9). The traders who own vehicles as a means of transport were more likely to choose the formal than the informal route of crossing the border. As for bicycles, there was also significant difference of 5% between those who take the formal and the informal routes on crossing the border in favour of the informal traders. Thus the choice of route is dependent on the type of means of transport one owns. But, the type of vehicle owned was also was important for all types of vehicles in favour of the formal traders (Table 7.10). The type of vehicles owned by the traders was statistically significant at 5% for saloon cars and pick-ups and 8% for lorries. The route taken by the trader was dependent upon the type of car owned. The traders who owned these types of vehicles were more likely to take the formal than the informal trade route.
Table 7.10: Type of Vehicle Owned

<table>
<thead>
<tr>
<th>Type of vehicle owned</th>
<th>Formal Route N = 33</th>
<th>Informal Route N = 159</th>
<th>( \chi^2 ) (Sig.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saloon car</td>
<td>15.2 ( % )</td>
<td>2.5 ( % )</td>
<td>9.766 (0.009)</td>
</tr>
<tr>
<td>Pick up</td>
<td>18.2 ( % )</td>
<td>6.9 ( % )</td>
<td>4.296 (0.049)</td>
</tr>
<tr>
<td>Lorry</td>
<td>12.1 ( % )</td>
<td>3.8 ( % )</td>
<td>3.857 (0.071)</td>
</tr>
</tbody>
</table>

Source: Author Survey

7.5.3 Social capital

This subsection explores the basis in which social capital is constructed and used as an asset and how it influences the choice of route to be taken by the cross-border traders. As mentioned in (§ 4.6.2), social capital is a product of exchange relations. Also, to recap from the argument made earlier in chapter 5, the social interactions act as a resource in exchange relations within the region in three main ways. First, through a social ethos, regarding attitudes to transactions, credit or consensual relations, which influence the traders’ values and ethic systems. Second, by providing a basis for local trust, thereby regulating the actor-actor relations and mediating potentially conflicting pressures of region wide competition and co-operation. Third, through socialised codes, reinforced by traditional and non-formal forms of information sharing (communication), which carry with them historically sedimented ‘tacit’ border crossing-specific knowledge. Trading within the cluster is thus a socialised process requiring common language, a shared system of socially acquired knowledge, and a basis for local exchange practices.

Thus social resources, aimed at minimising the costs of crossing the border, can be constructed around the social interactions. A communality of interests, a history of repeated transactions involving capital and social investments by interacting parties can lead to actors working together as effectively, if not more so, in exchange networks as in integrated firm. The central issue being that in the narrow confines of the local exchange trust, business standing and reputation are interwoven with social worth. Local social networks can deliver valuable social capital consisting of technical as well as personal knowledge of border crossing techniques as well as the reputation of the traders, suppliers, transporters and other border operatives. Reputation influences with whom, and how, actors interact. It also implies high
social exit costs’, in the form of loss of reputation and honour, for failing to meet exchange obligations. Thus in generating trust, social networks can the fear of opportunism and provide norms (rules) governing business and social relations.

The variables used to capture social capital in this section are those covering network and trust relations. The networking between the traders and the suppliers on one hand and the customers on the other hand is also crucial for all the parties. There were also issues of networking between the traders and the transporters and among the traders themselves. Trust resulting from repeated interactions between the traders and their suppliers and customers, is essential where contracts cannot be enforced by the legal system, and where access to formal credit is mostly limited or none existent.

The choice of routes while crossing the border with goods is enhanced by the social networks. The social networks provide key benefits. These are: a policing system to regulate actor-actor transaction relations, mediate local coordination and encourage co-operation within the region. Second, an information bank providing local social capital in the form of knowledge of availability of the products, on ways of crossing the border, as well as personal knowledge regarding professional and social reputation and trustworthiness. Together, these factors can result in social networks generating funding for social capital as resource by minimising the cost of transacting and accelerating knowledge and information flows. In exploring whether and how social networks influence the choice of the routes, this section identifies and details the dominant social identities and the resulting networks within the border region.

The dominant identities that define community and influence social and economic behaviour at the border region are multiple and interwoven; some overbearing, others unique to specific groups. While the former includes the family, religion and burial organisations, the latter is composed of Roscas, men group, women group, credit finance group, NGOs, traders association and same occupation.

Two interconnected identity categories which could be said to form the network closures discussed in § 5.3.3 can be identified from both groups. These are the kinship which starts from the family and being locally located which includes religion and burial organisations form the first group and all the formations of the latter group.
There are single kinship ties based on tribal or ethnic identities among the traders within the border region. Kinship begins with the family, it is not restricted to the nuclear household unit. Family as a lineage incorporates both the immediate and extended family. As shown in chapter 2, the demarcation of the region into two countries divided families who find themselves as citizens of two different countries. They however operate and consider themselves as members of the same family.

The notion of shared information, essentially an informal social and economic data bank, provides the link to the second category of social identity. These are social associations formed by being ‘located’ within the neighbourhood or the trading community. Individuals do not need to be related by common lineage or kin ties form social bonds with each other. These can and are developed over a period of living and operating together in a narrow and confined community space. These ties are reinforced constant (sometimes daily) interaction in the residential area, in the places of worship and in the process of transacting. They are cemented by the sharing of gifts at times of secular or religious celebrations and through the sharing of grief during funerals.

In the context of cross-border trade, located-ness can take on a regional or sectoral dimension, creating a trade-based notion of socialised relations and ways of crossing the border. Such social ties give access to information on the social and business reputation of individual agents and provide social collateral for informal credit.

The next task is to identify the various network ties that facilitate the determination of the route to be taken by the traders while crossing the border with goods. The first set of networks was those based on kinship interwoven with locally located associations such as religion and burial organisations. The second set of networks is based on locally located associations. Included here are on the one hand the occupational or sectoral based associations such as the networking between the traders and the suppliers on one hand and the customers on the other hand. An extension of this is also the networking between the traders and the transporters and among the traders themselves. On the other hand, there are consciously formed associations such as the ROSCAs, women group, traders’ association and credit finance group.
The three most important groups to both formal and informal traders were ranked as church, mosque, and burial society respectively. The traders from the same family who were members of the same church and same burial organisations tended to take the informal route of trading. Thus, the membership of traders in both church and burial and belonging to the same family was statistically significant at 6% and 10% respectively in favour of the informal cross-border traders. Also, those who were members of the same church and belong to same burial organisation and were in the same occupation were more likely to take the informal than the formal routes. Therefore, the traders who were members of the same church and burial organisations but have the same occupation was statistically significant at 8% for church and 7% for burial in favour of the informal cross-border traders.

All these organisations had membership across the border. Belonging to most of these organisations and having membership across the border was in most cases almost equally important to both the formal and the informal cross-border traders. The only exception was the traders belonging to the women groups. The traders belonging to the women group and also members on both sides of the border were more likely to take the informal rather than formal border-crossing route. Thus, as to whether those who belonged to the women group had other members across the border and were taking the informal routes, was statistically significant at 9%. Therefore, the route taken by the female traders was dependent on them being a member of a women’s group.

The links between both sets of traders at the border region and their suppliers and customers were observed to be instrumental in facilitating transactions. Both the formal and the informal cross-border traders recorded a high percentage of regular suppliers and even customers whom they know. The formal and the informal cross-border traders who said they have regular customers were 91.2% and 96.9% respectively. While the difference between these percentages of the regular customers have no statistical significance for both sets of traders, it is important to note that they are very high in each case. However, the mean number of the estimated number of regular suppliers who are known to the informal cross-border traders was much higher than those known to the formal ones, which stood at 11.79 and 8.24 persons.
respectively. Thus the estimated number of regular suppliers who are personally known to the informal cross-border traders was statistically significant at 5%.

The informal traders also tended to purchase more goods from the regular suppliers than the formal ones did. The estimated amount of goods purchased by the informal cross-border traders from the regular suppliers was also more than that purchased by the formal ones. Ninety percent of the traders who take the informal route were purchasing at least one half of their goods from the regular suppliers. The corresponding ratio of traders who take formal trading routes and purchase at least half of their goods from regular suppliers is only about seventy percent. The difference in the estimated amount of goods purchased from the regular suppliers was statistically significant at 5% in favour of the informal cross-border traders.

The traders came to know their suppliers through their friends, other customers, agents and after regularly selling to the customers and buying from the suppliers. There is however a difference between the modes of how the formal and the informal cross-border traders came to know their regular suppliers. While the formal cross-border traders came to know their regular suppliers through buying from them regularly and introduction by friends, the informal cross-border traders came to know their regular suppliers through the introduction by the agents (Table 7.11) It was therefore statistically significant at 5% that the informal cross-border traders came to know their suppliers through the introduction by the agents. From the case study, the agents are the ones who in most cases know the suppliers to get goods from on one side of the border and the customers to sell goods to on the other side of the border.

<table>
<thead>
<tr>
<th>Table 7.11: How Regular Supplier were Known</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode of Knowing</td>
</tr>
<tr>
<td>Introduced by regular customers</td>
</tr>
<tr>
<td>Introduced by Friends</td>
</tr>
<tr>
<td>Introduced by agents</td>
</tr>
<tr>
<td>Bought regularly and became friends</td>
</tr>
</tbody>
</table>

Source: Author Survey
Regarding their regular customers, the informal cross-border traders came to know them through being brought by other customers, agents and also those who bought regularly and became regular (Table 7.12). The proportion of the customers who were brought by other customers and the agents were statistically significant at 5%, while the significance level for those who came to buy repeatedly was 10%. The proportion of customers whom both sets of traders had met previously in any one-week of trading was at least 85%. However, there was no significant difference in the proportion of customers whom both sets of traders had previously met in any one-week of trading.

Table 7.12: How Regular Customers were Known

<table>
<thead>
<tr>
<th>Mode of Knowing</th>
<th>Formal Route</th>
<th>Informal Route</th>
<th>$\chi^2$ (Sign.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N = 33</td>
<td>N = 159</td>
<td></td>
</tr>
<tr>
<td>Brought by other customers</td>
<td>69.7%</td>
<td>89.9%</td>
<td>9.562 (0.002)</td>
</tr>
<tr>
<td>Brought by my friends</td>
<td>66.7%</td>
<td>58.5%</td>
<td>0.761 (0.383)</td>
</tr>
<tr>
<td>Brought by agent</td>
<td>45.5%</td>
<td>23.3%</td>
<td>6.810 (0.009)</td>
</tr>
<tr>
<td>Bought regularly and became</td>
<td>81.8%</td>
<td>91.8%</td>
<td>3.068 (0.080)</td>
</tr>
<tr>
<td>customers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author Survey

On the issue of links between the traders themselves, they were asked what they do if the regular customers do not get the goods they need from them. Both the formal and the informal cross-border traders were referring their customers to a friend’s shop. There was no significant difference in the referral of customers to friend’s shop between the formal and the informal cross-border traders. The formal cross-border traders who referred customers were 87.9% while the informal ones were 97.4%. Only 21.2% and 15.1% respectively for formal and informal cross-border traders told their customers to delay buying. Both sets of the traders buy from someone else if their regular suppliers have a shortage of the goods that they need. Thus, they do not delay buying to wait until the regular suppliers have the goods. Where the formal and informal cross-border traders do their purchases if their regular suppliers do not have the goods was not significant.
The networking between the traders and the transporters was also important. The modes of transport used at the border are bicycles, vehicles, push cats and in a few cases, human carriers. It was noted that the informal cross-border traders personally knew most of the transporters they were using in ferrying their goods across the border. The informal cross-border traders who reported that they use the transporters known to them most of the times and always were statistically significant at 5%.

When it came to the modes of transport used, more formal traders were using vehicles and push cats than the informal traders did. Thus, it was statistically significant at 5% that the formal cross-border traders were using vehicles and pushcarts as a mode of transport (Table 7.13). The use of pushcarts could be explained by the fact that some of the traders who go through the formal routes are those carrying goods in very small quantities. While that of vehicles is explained by the formal cross-border traders who trade in higher quantities. Both sets of traders reported a high percentage of usage of bicycle.

<table>
<thead>
<tr>
<th>Mode of transport</th>
<th>Formal Route N = 33</th>
<th>Informal Route N = 159</th>
<th>( \chi^2 ) (Sign.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>90.9</td>
<td>67.3</td>
<td>7.455 (0.006)</td>
</tr>
<tr>
<td>Bicycle</td>
<td>67.9</td>
<td>91.8</td>
<td>7.266 (0.008)</td>
</tr>
<tr>
<td>Human Carrier</td>
<td>51.5</td>
<td>39.0</td>
<td>1.769 (0.183)</td>
</tr>
<tr>
<td>Push Carts</td>
<td>15.2</td>
<td>4.4</td>
<td>5.389 (0.020)</td>
</tr>
</tbody>
</table>

Source: Author Survey

Trust is considered as an important social capital resource provides access to assets in networks which are essential in reducing the costs of transacting. These assets come in the form of: information about the trustworthiness of the actors. Second, it provides a system of screening, monitoring and applying sanctions thereby reducing opportunistic behaviour through fear of loss of reputation. The dominant social identities of kinship and being locally located identified in the network activities above are instrumental in giving access to trust as a resource.

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The two identities are captured in Zucker's (1986, see §4.6.2) categorisation of trust into process-based trust, which result from reputation built up from previous exchange relations and characteristic based trust which is rooted into ascriptive or primordial loyalties such as families or kinship. Given the nature of the border demarcation, which divided even families to be citizens of the two countries (see §2.2.2), one would expect characteristic trust to be very high, given that it is rooted in primordial loyalties. Besides, the family is the central economic and social institution at the border region. Most businesses are family run enterprises. However, while differences in characteristic trust may give some actors a head start over others, in most cases characteristic trust is not an obstacle, nor does it provide unconditional shelter for non-co-operators. As indicated in §4.6.2, trust does not evolve simultaneously, it is a process that takes time, courage and risks and, it involves interpreting human behaviour. Actors loathe changing collaborators for fear of incurring costs by building trust with other actors. Therefore in the medium-term, the main difference lies in process trust, as actors need to prove themselves to particular traders over the years.

Credit transactions require a fair amount of both characteristic and process trust to get started. Accumulated process trust, in particular lowers the perceived need for safeguards and enables an exchange of both valuable and sensitive information. Thus actors have usually already carried out transactions with each other in related business, credit is extended only to known and, in most cases, tested customers, transportation is also done by known transporters, purchase is done from known suppliers. Thus the depth of the cooperation is built on the extent of accumulated process trust.

There is a close connection between trust and social ties. Trust reputation and honour in business relationships are intertwined with social relationships that agents have with each other and their overall social standing. An individual's social standing impacts upon and in itself impacted by, their business reputation. For example, close business ties between agents often develop into friendships. These are usually represented symbolically as family friendships. Incorporating close business ties and bonds of friendship into the network of family, strengthens personal ties and implies notions of trust, as well as access to the support associated with family kinship.
Within the border, kinship is shaped on tribal lineage. Broadly speaking there are three major tribal groupings, the Kurias, the Somalis and the rest. The Kurias are the natives who were separated by the international boundaries between the two countries, the Somalis were originally not from the region but basically migrated to do business. The key difference is that while the Kurias lack corporate structure and are loosely organised internally, Somalis can have fairly concrete and cohesive institutions for the expression and the enforcement of group interests. They all belong to one religion, go to one Mosque and meet very regularly. Sometimes the Somalis enforce collective decisions among themselves regarding helping those who are in need of certain services like crossing the border (for even those who are not known to them as long as they are Somalis) and settling disputes in trade among themselves. They can even impose sanctions on any member found cheating a fellow member in matters of trade. The ultimate sanction that may be imposed on a cheating member is to have no business dealings with the rest of the Somali society at large.

On trust relations, the traders were asked if they “trust their customers in matters of lending”. The proportion of both the formal and the informal cross-border traders who responded on the positive was high and almost equal at an average of 81.4%. But, the response was not significantly different for the two sets of cross-border traders. For both formal and informal cross-border traders the percentages of those who had credit arrangements with their customers were more than fifty percent (60.6% and 54.7% for formal and informal traders respectively). The issue of financing bulk purchases corroborated this. Most of the traders interviewed indicated that if they are purchasing in bulk and they don’t have enough cash, they would go for supplier credit, rather than borrow from any other source. However, the formal cross-border traders reported that sometimes they have barter arrangement with their suppliers when purchasing goods. This was statistically significant at 5%.

The trust relations between the traders were instrumental in improving access to credit for the informal cross-border traders more than the formal ones. There was some difference between the two sets of traders in the way they had access to credit and the credit arrangements they had with suppliers. More informal cross-border traders than the formal ones had the credit from the suppliers paid without interest. The fact that
the traders do not pay interest for supplier credit was statistically significant at 10% in favour of the informal cross-border traders. Also, the credit period was shorter for the informal cross-border trader than the formal ones. The credit period was indicated to range from one day to one month for the informal cross-border traders, while for the formal ones the period was from one week to three months.

At the same time, most of the credit taken from the regular suppliers by the informal cross-border traders was paid at once; only in a few instances did they report paying in instalments. This scenario differed with the formal cross-border traders where almost half of them were paying the credit from the suppliers in instalments. The trust relations between the traders were instrumental in facilitating the enforcement of the credit contracts. There were only a few traders who reported that sometimes they experienced default in payments of the credit sales from the customers. But they all indicated that they always pay their suppliers without default.

There was also an element of trust relations between the traders and other group members of the organisations that they were belonging to. The traders reported seeking financial help from the members of the various groups. Both the male and the female traders approached groups, albeit different ones, if they needed financial help (Table 7.14) in order to run their businesses. It was noted that on one hand, the informal male cross-border traders indicated that they, approach traders association men’s group and the church, whenever they were in need of financial help. While on the other hand, the female cross-border traders were approaching traders associations and women’s group for financial help. But, both the formal male and female cross-border traders were almost equally approaching Roscas and Mosques for any financial help. The issue that the cross-border traders approach groups for financial help was statistically significant at 9% and 3% for the male and the female respectively.

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6 A composite variable was computed to identify these trust relations. This was based on data obtained from four variables—gender, organization, finance and route.
Table 7.14: Groups Approached by Traders for Financial Help

<table>
<thead>
<tr>
<th>Organizations approached</th>
<th>Male</th>
<th>Female</th>
<th>Mixed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formal</td>
<td>Informal</td>
<td>Formal</td>
</tr>
<tr>
<td>Roscas</td>
<td>66.7</td>
<td>27.9</td>
<td>66.7</td>
</tr>
<tr>
<td>Traders association</td>
<td>16.7</td>
<td>55.8</td>
<td>16.7</td>
</tr>
<tr>
<td>Mosque</td>
<td>16.7</td>
<td>9.3</td>
<td>0</td>
</tr>
<tr>
<td>Women group</td>
<td>0</td>
<td>2.3</td>
<td>16.7</td>
</tr>
<tr>
<td>Credit finance group</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Men group</td>
<td>0</td>
<td>2.3</td>
<td>0</td>
</tr>
<tr>
<td>Church</td>
<td>0</td>
<td>2.3</td>
<td>0</td>
</tr>
<tr>
<td>P value and</td>
<td>4.702</td>
<td>9.564</td>
<td>1.498</td>
</tr>
<tr>
<td>Significance level</td>
<td>(0.086)</td>
<td>(0.023)</td>
<td>(0.683)</td>
</tr>
</tbody>
</table>

Source: Author Survey

The difference between the associations that the male and the female traders belong to was also supported by the results from the case studies. Both the female traders in the case studies were members of more traders based organisations than the male traders. One of the female traders was even a member of three such organisations. None of the men indicated being a member of any traders’ based organisation.

7.5.4 Income

This section discusses the revenues, expenditures and the resulting income of the traders. The expenditures are segregated into business and household components.

The incomes from the business of the informal cross-border traders were compared to those of the formal ones. The net incomes were arrived at after deducting the combined estimated annual business and household expenditures from the estimated annual revenue. The mean income of the formal cross-border traders was generally higher than that of the informal cross-border traders. However, the difference on the mean income for the two sets of traders was not statistically significant. This could be explained by the fact that income data from small enterprises are notoriously unreliable. For example, in a study of measurement of the measurement of micro enterprise and household income, Inserra (1996) found that income is perceived as sensitive information by respondents, resulting in deliberate misreporting or non-response. Expenditure was therefore used as a proxy to complement the income measurement.

The major household and the business expenditures were also compared for the formal and the informal cross-border traders. Some of the expenditures were
statistically significant for the two groups of the traders while others were not. None of these individual expenditures were statistically significant for both household and business. However, both the estimated total annual household and the total annual business expenditures were not significantly significant for the two groups of traders. But the formal cross-border traders had much higher values for expenditures than the informal cross-border traders.

The annual business expenditures, which were significantly different, were salaries and wages, interest on loans, ‘set’ and water (table 7.15). The formal cross-border traders annually spent more than the informal ones on business expenditures such as salaries and wages, interest on loan and water. Interest on loan was statistically significant at 1%, while both salaries and wages and water were statistically significant at 5%. Thus, the cross-border traders who pay more salaries and wages, interest on loans and water were more likely to choose the formal route when crossing the border. The only annual business expenditure, in which, the informal cross-border traders spent more than the formal ones was ‘set’. This is the amount of money they pay in the form of bribe to the government officials form both countries who man the un official border crossing points. The annual business expenditure on ‘set’ was statistically significant at 5% in favour of the informal cross-border traders.
Table 7.15: Annual Business Expenditure for Formal and Informal Traders

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Means</th>
<th>F values</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formal (N. 159) (Kshs.)</td>
<td>Informal (N. 33) (Kshs.)</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>18,852</td>
<td>7686</td>
<td>66.552</td>
</tr>
<tr>
<td>Licences and Taxes</td>
<td>5081</td>
<td>346</td>
<td>126.122</td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>42269</td>
<td>14689</td>
<td>31.698</td>
</tr>
<tr>
<td>Electricity and Fuel</td>
<td>8917</td>
<td>2652</td>
<td>19.361</td>
</tr>
<tr>
<td>Transport</td>
<td>203627</td>
<td>1831</td>
<td>54.510</td>
</tr>
<tr>
<td>Interest on Loans</td>
<td>5033</td>
<td>20</td>
<td>22.285</td>
</tr>
<tr>
<td>‘Set’</td>
<td>00</td>
<td>1749</td>
<td>55.272</td>
</tr>
<tr>
<td>Telephone</td>
<td>14254</td>
<td>8655</td>
<td>.299</td>
</tr>
<tr>
<td>Water</td>
<td>1792</td>
<td>833</td>
<td>5.623</td>
</tr>
<tr>
<td>Premises maintenance</td>
<td>2409</td>
<td>336</td>
<td>20.116</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>302234</strong></td>
<td><strong>38797</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author Survey

Regarding household expenditures, the formal cross-border traders were spending more on charcoal and paraffin than the informal cross-border traders. Household expenditures on charcoal and paraffin were statistically significant at 8% and 1% respectively in favour of the formal cross-border traders. None of the remaining household expenditures were statistically significant for the two sets of traders.

7.6 The Model

Logistical regression analysis were undertaken to determine the impact of human, physical and social capital on the decision to choose either the formal or the informal trade route (see chapter 6). To determine the factors influencing both informal and formal cross border trade, a logit model was estimated. The dependent variable in the regression equation was logarithm of the odds that informal trade is chosen. The variables in the equation are represented in table 7.16 below.
The estimated model takes into account the two modes of crossing the border (formal, informal). The results of the estimation are presented in table 7.17 below.
Table 7.17: Classification Table – Goodness of Fit

<table>
<thead>
<tr>
<th>Informal route</th>
<th>Observed</th>
<th>Predicted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Informal route</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>151</td>
</tr>
</tbody>
</table>

Source: Author Survey

The fitted model has a good fit of 87.0%. Meaning that the variables included in the model explain 87% of the changes in the odds ratio.

7.6.1 Discussion of the model

The estimated coefficients of the significant variables measure the effect of the changes in the variables on the logarithm of the odds ratio. The social capital variables that, according to the model were influential in the choice of the informal trade routes were the network ones of Roscas and having regular suppliers. They both have positive coefficients of 2.408 and 1.853 respectively, and are statistically significant for a two-tailed test at 11% and 8% respectively. The positive coefficients mean that they affect the log of odds ratio positively, increasing the probability of choosing the informal mode of trade, and conversely reducing the probability of choosing the formal trade.

Other social capital variables affect the choice of route taken by the cross-border traders, in ways that are consistent with the theory, but are not statistically significant as shown in table 7.14. They are consistent with the theory because they had the expected sign (positive) for the coefficient. The variables which had positive coefficients were the number of confidants, the estimated number of suppliers, and the supplier selling on credit. The positive coefficients mean that they affect the log of odds ratio positively, increasing the probability of choosing the informal mode of trade, and conversely reducing the probability of choosing the formal trade. Only a few of the social capital variables in the model did not have the expected sign for the coefficient.

However, it is to be noted that even though most of the network variables were not significant, the case studies reported a dense network between the traders and their
suppliers and customers around the border region. All the traders in the case studies reported knowing all their suppliers from the border region. Credit facilities were also available through these networks of suppliers. Even though the traders reported not receiving any credit for the purchases from the hinterland of both countries, to secure the goods they had to make use of the dense networks within themselves, with the transporters, the middlemen and even the suppliers themselves. Also, there was evidence of networking between the traders and their regular customers whom they were selling to in large quantities and sometimes on credit. The traders knew and were calling their regular customers by name and the towns outside the border region they were coming from. They even knew the groups of customers coming from the same direction, towns and market centres outside the border region.

The physical capital variables that were recorded to be influencing the choice of the routes taken by the cross-border traders were means of transport owned and the kind of the premises that they were using in the process of trading. In terms of means of transport, there were those traders who owned bicycles and others vehicles. On one hand, owning a bicycle as a means of transport had a positive coefficient of 1.559 and was statistically significant at 6% for a two-tailed test. While, on the other hand owning a vehicle had a negative coefficient of -2.182 and was statistically significant at 5% for a two-tailed test. The positive coefficient means that it affects the log of odds ratio positively, thereby increasing the possibility of those owning bicycles choosing informal trade route. The negative coefficient in the case of vehicles reduces the probability of choosing informal trade routes. Thus, whereas the traders who owned bicycles tended to take the informal routes when crossing the border, those owning vehicles were taking the formal route.

The type of premises used was important in explaining the difference in the routes taken by the formal and the informal cross-border traders. Those who use temporary premises tend to take the informal routes when crossing the border with goods. The use of temporary premises had a positive coefficient (2.285) and was statistically significance at 10% for a two-tailed test. The positive coefficient means that it affects the log of odds ratio positively, increasing the probability of choosing the informal route when trading, and conversely reducing the probability of choosing the formal route.
The permanent premises used by the traders was however not important in explaining the difference between the traders taking the formal and those taking the informal trade routes. The use of permanent premises was not statistically significant and also had unexpected positive coefficient as shown in the table 7.14. Owning trading premises also had unexpected positive coefficient which was not statistically significant. This could be explained by the fact that most of the trading premises observed around the border region were temporary buildings. Their temporary nature makes them affordable to the informal cross-border traders who take the informal routes.

On the whole, there is a relationship between the route chosen by the traders and the physical capital that they own and/or use. The traders who own bicycles and operate from the temporary premises were taking the informal trading routes while those who owned vehicles were taking the formal routes while crossing the border.

In considering the human capital variables, the traders who go through the formal trade routes are generally slightly better educated than the formal ones. Those having post school training at the polytechnic were more likely to take the formal rather than the informal trade routes while crossing the border with goods. Having post school training at polytechnic level had a negative coefficient (-1.440) and was statistically significant at 9% for a two-tailed test. The negative coefficient means that it affects the log of odds ratio negatively, increasing the probability of choosing the formal route of trade, and conversely reducing the probability of choosing the informal trade.

Level of education was not important in explaining the difference in the choice of route between the formal and the informal cross-border traders. Although the level of education was not significant, most of its levels had the expected signs for the coefficient, thereby giving the traders' general preference for the routes while crossing the border. Using primary education as a basis of analysis, the traders who were reported to have had some secondary education had a positive coefficient while those who completed secondary had a negative coefficient. This in essence means that the traders who had primary education as well as those who did not complete secondary were more likely to take informal routes, while those who completed
secondary were taking the formal routes. However, the traders who had attained professional training showed unexpected positive coefficient although it was not statistically significant.

7.6.2 Summary
This sub section gives a summary of the choice of the routes, whether formal or informal as taken by the cross-border traders based on the model, and the variables, which could not be included in it but were, used for the analysis in this chapter. All the physical and the human capital variables were included in the model. However, when it came to the social capital, only the network element was taken into consideration in the model. Trust, as an element of social capital was not included in the model because in most cases, composite variables were computed to identify trust relations. The analysis of trust as an element of social capital in most cases involved cross analysing of more than two variables at a time, which could not be taken up by the model.

7.7 Conclusion
This chapter explored the use of human and physical capital on one hand and on the other hand social capital by the traders to aid them in the cross-border trade. It argued that the traders' use of the informal routes in crossing the border owes more to social capital than the human and the physical capital. The alternative argument was also that the traders with more physical and human capital tend to choose the formal border crossing points rather than the informal trading routes. To this end, it is clear that the human capital does not offer much advantage to the informal cross-border traders. Nor does physical capital account for the continued use of the informal cross-border routes. However, it is clear that for the traders to use the formal trade routes, they need and have more physical and human capital than those using the informal routes. Also, to some extent, the social capital plays a role in the choice of routes by the informal cross-border traders.

Several social capital variables were used to distinguish those traders who take the formal border crossing points from the informal ones. The social capital variables that were used were representing mainly network and trust elements. The network elements were represented in the model while the trust ones could not be included.
With respect to the network variables, the traders who belong to credit rotating groups (Roscas) as well as those who have regular suppliers tended to choose informal routes instead of the formal ones. It is the network between the traders and their regular suppliers, which was most important in facilitating the informal cross-border trade. At the same time, the traders who were networked through the credit rotating groups were also choosing the informal rather than the informal routes. Much as it appears that having regular suppliers and belonging to the Roscas are the most significant network variables that distinguish an informal trader from the formal ones, it appears that the whole is greater than the sum of the parts. The other social capital variables were also passively contributing to the informal cross-border trade by having the expected positive signs in their coefficients in the model. Others were highly ranked by all the traders trading at the border region, thereby confirming their existence and use by both sets of the traders.

Regarding trust relations, even though both sets of traders reported having credit arrangements with their suppliers, there was a difference in the way it was being accessed and arranged. The informal cross-border traders were not paying any interest to their suppliers and neither were they charging their customers, either directly or indirectly. Also, the credit period for the informal traders was much shorter than that of the formal cross-border traders. The credit period for the informal cross-border traders was in some cases, as short as one day only and most of the time, it was payable within one week. At the same time, the informal cross-border traders were mostly paying their credit from the suppliers at once while some of the formal ones were doing so in instalments.

Also, the trust relations between the traders and members of the various organisations that they belonged to enabled them to access more external capital. Both the informal male and female cross-border traders were getting financial assistance from the various traders’ associations that they belonged to and also their respective men’s and women’s groups.

When it comes to physical capital, traders who own bicycles and operate from temporary premises tend to choose informal trader routes. But those who own
vehicles tend to take the formal routes when crossing the border with goods. This in
essence means that the traders with more physical capital tend to take the formal route
of trading while those with less take the informal routes.

Regarding human capital, traders with post school training were more likely to use the
formal routes when crossing the border with goods than the informal ones. Thus, the
traders with more human capital tend to be formal cross-border traders.

When it comes to commodities, there was a variation on the routes chosen by the
traders in crossing the border. The traders trading in cosmetics and maize tended to
choose the formal route when crossing the border, while, those doing so in cooking oil
were mainly using the informal routes. Those trading in rice were indifferent in
choosing between the formal and the informal trading routes.

When it comes to incomes, on comparing the household expenditures, the traders who
were spending more on charcoal and paraffin were more likely to choose the formal
than the informal routes of crossing the border. Also, those who pay interest on loans
were more likely to choose the formal than the informal routes of crossing the border.
But, the traders who pay ‘set’ more likely to found taking the informal than the formal
route of crossing the border with goods. The lack of difference in income between the
two sets of traders could be interpreted to mean that the choice of the informal trade
route does not make the informal cross-border traders any worse off than those who
pass through the official border crossing points and are therefore formal cross-border
traders.

Generally, the choice of the routes was mainly influenced by physical capital, the
product traded in, and to some extent human capital. Most of the physical capital
variables confirm the hypotheses that those endowed with more physical capital tend
to take the formal rather than the informal route when crossing the border with the
goods. This conclusion also applies to the human capital variables, albeit to a limited
extent. Thus, only post school training as a human capital variable was influential in
distinguishing the traders who were taking the formal trade routes from those who
those taking the informal ones. Social capital, especially the network element, was a
limited basis for distinguishing between formal and informal routes for the population
based at the border. Trust as an element of social capital, especially access and the way credit was arranged was a stronger basis for the choice of the routes taken by the traders at the border region.
CHAPTER 8
CHOICE OF ROUTES: EVIDENCE FROM CASE STUDIES

8.1 Introduction

In this chapter, evidence collected from the case study methodology is presented and analysed. The primary purpose is to determine the level of basic empirical support for the argument put forward in chapter 5 which sought to explain the cross-border trade between Kenya and Tanzania at Isebania/Sirare border. A key question which must be tackled is whether the theoretical frame is broadly consistent with the reality it seeks to explain. A secondary aim is to provide data which can be explored qualitatively to enrich the argument presented quantitatively.

Four cases of small-scale traders are presented, all from the border region. Two of the cases are from the Kenyan side of the border while the other two are from the Tanzanian side. Each of the four cases represents one of the four products selected for the study. The cases consider the argument presented in the theory focusing on the sources of funding for the traders taking the informal routes when crossing the border. Each case is analysed in four parts, the three sources of funding; namely physical capital, human capital and social capital with its various components of trust relations, networking activities, and norms of behaviour. After the presentation of the individual cases, a cross-case analysis is made to draw out comparative evidence.

Evidence of the case studies presented of the informal cross-border trade is presented in §8.2, while the analysis of evidence is presented in §8.3. The cross-case analysis is presented in §8.3 of this chapter. The detailed data for each case is presented in appendix D.

8.2 Evidence from the case studies

Case studies of four small-scale businesses, all from the border region are presented here. All four are trading enterprises owned and run by the owners. Two of the cases Mohamed Abdul, and Ben Mwita, are from the Kenyan side of the border, while the other two, Jane Piri and Cate Boke37 are from the Tanzania side. Also, two of the

37 The names of the traders have been changed to conceal their identity.
cases, Ben Mwita and Jane Piri, were trading in agricultural products of maize and rice respectively. The other two traders Mohamed Abdul and Cate Boke were trading in agricultural products of cooking oil and cosmetics respectively.

8.2.1 Case One: Mohamed Abdul
Abdul is a male Kenyan national of Somali origin, his business premises are located at Isebania, the Kenyan side of the border. He is the sole owner of the business, which deals in groceries on retail/wholesale basis, with one of the major products being cooking oil.

The business has one permanent employee of Somali origin and one casual worker who is always there. The casual worker is however paid on a daily basis. There are other casual workers whose services are engaged when the goods to be carried are many and bulky. They are usually paid on piece rate whenever their services are employed. Both the permanent and the casual workers’ main duties are to get goods from inside the shop to the counter for the customers. Abdul spends most of his time at the business premises, and handles all cash receipts and payments whenever he is within the business premises. Other times when he is not in, the Somali employee handles all the cash transactions. The eldest son also handles the cash counter whenever he is around (when the University is closed) on vacation.

Physical and human capitals are not of great significance to Abdul in running his business at the border. With regard to physical capital, he does not own the trading premises, he trades from a rented permanent business premises. Also, he does not own any other property around the border area, nor does he own any means of transport. He uses hired means of transport whenever he is in need. He hires lorries, pick-ups and bicycles, depending on the amount of goods he needs to transport.

Concerning human capital, Abdul has not gone to school formally but can write some basic business transactions. The main records he keeps are the total cash sales for each day and a list of credit customers. However, he has some form of informal training, which is based on experience he gained while helping at an uncle’s trading

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38 His place of birth is North Eastern province of Kenya; it is at least 1200 kilometers from Isebania-Sirare border region.
shop. Before Abdul started running his own shop, he used to help one of his uncles in running a trading business. Also, he previously had a retail business at Namanga before moving to the Isebania/Sirare border region. Namanga is another border crossing point between Kenya and Tanzania situated about five hundred and eighteen kilometres from Isebania/Sirare border.

The social capital elements of networks, trust, and norms were observed. Networks are heavily used by Abdul to facilitate trading. His network could be said to be more horizontal than vertical, concentrating on the customers and the fellow traders. There is evidence of use of networks by virtue of how his trading premises are placed next to the other traders dealing in similar products and money-changing kiosks. There is also evidence of his use of networks in information gathering and transportation of goods both into and out of the business premises. He uses networks to gather information both within his trading premises and outside. He uses his network with the Somalis around the border region to purchase goods.

In terms of arrangement, his shop and similar ones are situated next to each other on both sides of the road and nearest to the to the border between Kenya and Tanzania. In between these shops are the moneychanger’s kiosks. Tanzanians who are his main customers use these money-changing kiosks to convert their currency into Kenyan currency in order to purchase from his shop. At the same time, he sells goods in both Kenyan and Tanzanian currencies. He also does the changing of money from Tanzanian to Kenyan shillings or American dollars and vice versa at his shop and with the money changing kiosks situated next to his shop. If a customer wants a specific currency and he does not have enough of it, he gets the balance from the moneychangers himself. Sometimes he sends such customers to the money changers situated next to his shop. In some instances, he could even be heard calling the moneychanger to inform him/her of the customer he has sent to them. In some instances, those referred to the money changers were his former Tanzanian customers who now get goods from Nairobi. Such former customers would come to him to refer them to the money changers that he thinks are trustworthy.

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39 Kiosks are make-shift enclosures situated in between the major shops, with the walls of such shops forming the side walls of the kiosks.
40 Nairobi is the capital city of Kenya, situated 354 kilometres from Isebania/Sirare border.
Also, the networking observed, with regards to his shop being situated next to others dealing in similar products, is that if a customer comes to buy goods and Abdul does not have enough of it, he will send one of his workers to get the deficient good from one of the shops nearby which might be having that particular product. He does not immediately pay for such goods, because such traders also sometimes come to get certain items they are deficient in from his shop in the course of the day. The shop owners eventually settle off the difference owing by the end of the day or the next day.

Regarding the arrangement of shops near each other and the border crossing point, it was noted that the strategic situation of similar shops next to the border crossing lines facilitates the easy flow of the product across the border. It was generally observed that, there was heaviest flow of cooking oil to the Tanzanian side when compared to all other products.

Regarding information, he gathers what he requires from within the trading premises and even outside in order to boost his sales. Within his trading premises, he gets information from a network of his current and former Tanzanian buyers and sellers. He gets information from them on what is currently selling in Tanzania and the goods that are available there that can be sold in Kenya. He also enquires about his creditors who are neighbours of these sellers and buyers. It is to be noted that some of these former Tanzanian customers have become his suppliers. These Tanzanians now go to Nairobi to purchase goods to go and sell in the hinterland of their home country where they are based. However, on reaching the border on their way back home, they sometimes sell to Abdul some of the goods at a price less than he would buy them from other suppliers around the border area. The goods from Nairobi which are on transit to Tanzania, have not been subjected to any tax in Kenya (such as VAT). The goods are therefore not just sold to any willing buyer on the Kenyan side of the border; they are sold to those previously known to the sellers who cannot be expected to inform the authorities. There are also suppliers from Tanzania who sell to him goods brought from the hinterland. As these Tanzanians come to sell, they also purchase and give him information about what is selling in their towns/markets and about his creditors.
With respect to information that he gathers from outside his premises, he regularly goes to the Tanzanian side of the border and occasionally even to the hinterland to find out what is in demand/shortage there. He sometimes goes to the towns in the hinterland of Tanzanian for two to three days to get information, “from the ground” of what is selling most. According to him, “you have to go out there to know what to sell, these things keep on changing”. He gets such information from the network of his current and former customers who are based in the towns in the hinterland. Even going to the Tanzanian side of the border within the region provides him with more information on what to sell.

With regard to transportation, there is evidence of networking between him, the sellers, the transporters, and the buyers. Both the Tanzanian and the Kenyan sellers bring the goods to his premises through some means of transport. The Tanzanian sellers can be classified into those who bring goods from their home country and those who purchase goods from Nairobi. The sellers from Tanzania normally bring goods up to the border on the Tanzanian side. He then has to organise for transportation of such goods from the Tanzania side to the Kenyan side of the border through the transporters that he knows. According to him “the Tanzania sellers do not know the people manning the unofficial border crossing points, so their goods can easily be confiscated if they try to use such routes”. So he has to use the transporters known to him and the customs police manning the border crossing to bring such goods from the Tanzania side of the border to his premises. There are instances when the Tanzanian sellers send the goods to him through the other traders who are also coming to sell to him. With respect to the Kenyan suppliers, in most instances the transporters deliver goods to him in the absence of the sellers. In such cases where the goods are delivered by transporters, he remits payments to the suppliers through them.

With regard to purchases from his store, he organises transportation for the Tanzanian buyers through the transporters that he knows and he deals with often. Basically, there are many people riding bicycles for the purpose of transporting goods and even people across the border. There are also head carriers who carry goods across the border. Within these transporters, there are some known to Abdul and he can be heard calling them by their names. These are the ones he calls to carry goods for his
customers. Sometimes he can even be heard telling such transporters “to go across the border and come back quickly” because there are other customers waiting to have their goods transported across the border. This is despite the fact that there are so many other transporters who could also do the same work and are available. According to him, “you cannot just give your customers’ goods to any transporters to carry, you have to know and trust them”. In most instances, the Tanzania buyers do not know the transporters, so he has to recommend the bicycle transporters and head carriers to them.

His purchases from the Kenyan side of the border are mainly from wholesalers from the same Somali sub-tribe as himself. They are able to sell to him on credit because, according to him, they are known to each other, they go to the same Mosque and meet in many other social forums. Such social forums include wedding functions and many other religious celebrations. They also meet to contribute money to help anybody from their tribe who has problems when crossing the border. This is done regardless of whether that person is known to them or not.

Trust relations are heavily used by Abdul in his trading activities at the border in the absence of any legal mechanism to enforce the buying and selling contracts. It is evidenced by trust-sensitive transactions that include those in which goods and services are provided in exchange for future payment. Repeated transactions, relations and his placement evidence other forms of trust.

Utilisation of strong interpersonal trust by Abdul facilitates selling and buying on credit. Such credit transactions in turn act as an informal credit market in the absence of the formal ones. He purchases goods from both the Kenyan and the Tanzanian sides of the border on credit and pays after making some sales. When the supplier comes the next time to supply, Abdul makes some payment, which may not necessarily cover the whole amount of the previous credit. At the time of purchase, there is usually no observed agreement of the period of credit. There was also no observed implied interest. Instead, some of those large purchases are done at even lower cost, even in instances when they are done on credit. The same arrangement also applies to sales on credit to his regular customers. However, it was observed that the customers always come to his premises to purchase. But the sellers in most
instances, also come to his premises to sell to him, although sometimes he goes to purchase from their premises.

Trust was also deemed to have been cultivated through repeated transactions. This was evidenced by the fact that most customers, on coming to the shop exchange greetings with him by addressing him by name/nickname. He also knew such customers by name and even which part of Tanzania (specific towns) they came from. He would also enquire about other customers who come from the same town as the ones who had come to purchase. In certain instances, he could be heard sending the customers who had come to the others who have not been coming and owe him some money from the credit sales. According to him, he knows most of his regular customers from Tanzania and the days of the week that customers from certain regions of that country come to purchase goods from his premises.

There is also trust element in cash handling between him and his former Tanzanian customers who now supply him with goods from Nairobi and the Kenyan sellers. On one hand these former Tanzanian customers come to him to refer them to a moneychanger when they want to exchange money to go and use in Nairobi. According to him, these former customers exchange a lot of money so “I have to refer them to the people I know”. On the other hand, there are instances when he is entrusted with money for safe keeping by these Tanzanian suppliers. Sometimes these Tanzanian suppliers leave some of their money with him or the moneychangers for safe keeping as they are going to purchase goods from Nairobi. Such moneys are used by these Tanzanians to facilitate their crossing of the border with goods back to Tanzania.

There is also an element of trust exhibited in the way he arranges for transport for his Tanzanian customers to facilitate their crossing the border with goods. The transporters are normally given two kinds of payments. There is the payment, which constitutes the cost of transportation and that which they are given to pay those manning the unofficial border crossing points, “set”. The goods can be arrested by the customs police manning the unofficial border crossing point if a transporter fails to pay the amount demanded by these officials. So Abdul can only deal with the
transporters whom he knows will successfully cross the unofficial border crossing points with the goods.

The norms govern the behaviour of individual actors within the border region in the trading process. From observation and conversation analysis, there is clear evidence of some norms of behaviour that facilitate informal cross-border trade. There are norms of cooperation, norms of reciprocity and norms governing verbal contracts, which are embedded in the informal cross-border trade; they explain the behaviour of the traders and other actors within the border region.

The norms of cooperation, in the case of Abdul, are evidenced by the arrangement of the shop next to similar ones and to moneychangers. They cooperate in the process of providing goods services and even arranging for transportation to their customers and suppliers. These kinds of cooperative actions can be said to be prescriptive norms because they encourage positive actions like directing customers to other shops if one does not have that item. Other positive actions include directing customers to the moneychangers and even sometimes negotiating the rates of exchange on behalf of such customers.

There are also norms of cooperation when Abdul acts as a guarantor in cases where his former Tanzanian customers leave some cash to the moneychangers as they go to Nairobi to buy goods. Even Abdul also sometimes keeps this kind of money for his former Tanzanian customers who are now his suppliers. Also, there are certain instances when these former customers run out of money to pay in order to cross the border with the goods, the moneychangers advance money to them. These are moneychangers who are known to Abdul who are advancing money to the customers he has introduced to them. In such cases, Abdul stands in as a surety for the customers and the moneychangers.

Sometimes, Abdul acts as a trader as well as moneychanger. He does this by buying and selling in both the Kenyan and the Tanzanian currencies. It can be argued that the process of buying and selling in both currencies is more of a way of maintaining the norms of cooperation than trading in currencies. According to Abdul, they exchange money mainly for the convenience of their customers and not as a form of trade.
Norms of reciprocity are evidenced by actions such as buying from the same sellers on either side of the border. In some instances, the Kenyan suppliers brought goods to him after he rings them to do so. While in some cases, the suppliers would ring or come to his premises to enquire if he needed those goods. The Tanzanian suppliers normally enquire about the goods he requires from their country when they come to purchase the Kenyan goods from his premises. The Tanzanians supplying him with goods from Nairobi do such enquiries while on their way to purchase.

The payment of ‘set’ is also a norm of reciprocity because if one does not pay now, then it will not be possible to easily pass in future without paying a higher amount for the ‘set’. Mostly, it is customers who pay ‘set’ through the transporters that Abdul regularly arranges for them. On negotiating the cost of transportation with the transporters on behalf of his customers, the amount to be paid as ‘set’ must be included. He also pays ‘set’ for the goods he purchases from the Tanzanian side of the border.

Being able to borrow cash from only the Muslim community for Abdul is also a norm of reciprocity. He borrows from the Muslim community only because they do not charge interest. According to him any payment of interest is considered “haramu” (taking what does not rightfully belong to you). He also lends cash to the other Muslims if they are in need and does not charge them any interest.

There was also evidence of norms of verbal contracts. One of the major actions observed is the buying and selling on credit. Since the buying and selling are processes, which are done repeatedly, the reward for further trade is, if one pays their credit then they qualify for further credit. If one does not pay, then there is no further credit. The act of not giving any more credit to the previous defaulters acts as a sanction. In situations where one does not pay, there is the cost of starting up with a new trader, so it will take long before one qualifies for credit. There is also the cost of the likelihood that the trader will tell others that one is not a good payer of credit.

Norms of verbal contracts was also evidenced in the transportation process. On the transportation of the goods through the border, Abdul/his customers make up-front
payment for such services. They make up-front payment for the cost of transportation together with the ‘set’ money, without written contracts or even receipts.

It can generally be seen that the traders come from different backgrounds and ethnic groups. In this case, as mentioned earlier, Abdul is a Kenyan of Somali origin whose place of birth is more than one thousand kilometres from the border region. However, despite ethnic and any other differences, there seems to be a common set of trading norms that govern the trading at the border region.

8.2.2 Case Two: Ben Mwita

Ben Mwita is a male Kenyan national from Kuria sub tribe. His business premises are located at Isebania, on the Kenyan side of the border. He is the sole owner of the business, whose main activity is to buy and sell maize at both retail and wholesale basis. Mwita has one permanent employee who does the weighing of incoming and outgoing maize. There are also casual workers who are engaged to on/off load maize in cases where there are large quantities being purchased by Mwita or bought by customers. Such casual workers are paid on piece rate, depending on the number of sacks that they carry in any given day. But Mwita does the recording of the weights of maize that he has purchased into to the store and the amounts bought by customers. He is the only one who handles all the cash receipts and payments.

He has been in the business of buying and selling maize on full time basis since his retirement from a teaching job two years ago. Previously, he was a full time primary school teacher and a part time trader in maize. His entire teaching career was in public primary schools within the border region. Currently, apart from trading in maize, he is also a director in private primary school business with his younger brother. He has neither worked nor done any business outside the border region.

Physical and human capitals are not of great significance to Mwita in running his business at the border. With regard to physical capital, he does not own the premises where he is trading. But, he owns a private primary school together with his younger brother. He also co-owns a pick-up vehicle together with his brother. However, he does not in any way use the pick up for trading purposes; it is only used for the school
business. He has to hire means of transport for trading purposes whenever he is in need.

Concerning human capital, Mwita completed secondary school education. Thereafter he trained as a primary school teacher, where he worked until his retirement two years ago. He does not have any formal training in trade, even of any short duration. However, he started trading in maize on part time basis when he was still teaching in a near by public primary school.

The social capital elements of networks, trust relations, and norms were observed. Mwita uses networks of friends, relatives, fellow traders and customers to get information on such issues as where to get the goods and their cost. He also gets from them information about the prevailing prices of maize in different regions of both countries at any particular point of time and therefore make decisions on where to buy from and where to sell the goods. Thus, his trading networks are more vertical, ranging from the customers to friends, relatives, fellow traders and the suppliers. There is evidence that he uses networks in transportation.

He uses networks in information gathering from both within and outside his trading premises. Within his trading premises, the networks constitute sources from both the Kenyan and Tanzania side of the border. From Tanzania side he uses a network of his customers, agents selling maize on behalf of others, fellow traders and his relatives. While on the Kenyan side, he has a network of friends, relatives, fellow traders, customers and former workmates. The most important information he gets from the two groups is the pricing and the availability of the product. He says that "the pricing and the cost of maize depends on not only how much is available on the Kenyan market at the time, but also how good the harvest is on the Tanzanian side". According to him if the Tanzanians learn that the prices at which the border traders are purchasing the maize are very good, they soon flood the market with maize such that the prices go down. It therefore means that one can easily be caught up with maize purchased at a higher price, which has to be disposed of at a lower price, thereby making losses. The information he gets from these sources on the availability of maize in certain areas at costs lower than the border region, helps him in making decisions on where to go and purchase and where to sell.
He also has to go out of his trading premises to gather information on pricing and availability of maize in order to go and purchase it. Sometimes he has to use this kind of information to enable him to make decisions such as going to sell the product out of his trading premises. He goes to both the Kenyan and Tanzanian side of the border, using the network of the people he knows to get such information. He goes to the hinterland of Kenya to confirm the selling prices of maize so that his customers cannot trick him into selling to them at lower prices. This is because he, in as much as possible, tries not to sell maize to his customers at a price lower than that which they are likely to re-sell it at. According to him, since the price of maize fluctuates so much, sometimes they ask the customers the price at which they are going to re-sell the maize. The price at which the customers are going to re-sell the maize is sometimes used as a guide by the traders in setting the price at which to sell the product to their customers. But according to him, caution must be used in using such price setting guidance, because "if one is not careful, the customers can easily mislead you by saying that they are going to re-sell the maize at a lower selling price in order to maximise their profits as I get less or even lose".

He uses a network of traders, friends and even relatives to purchase the maize from the hinterland of the Tanzania side of the border. They go in groups with other traders from the Kenyan side of the border to get maize from the Tanzanian markets. However, they do not just walk into the Tanzanian markets and start buying. They have to be taken to such markets by the people they know who are Tanzanians. These people are usually his relatives or friends. If they go to the Tanzanian markets without the guidance from the residents (who must of necessity be traders, friends and relatives that are known to them), there is a risk of being cheated about the buying price or the weighing of the maize. Thus he has to use the network of friends and relatives who are Tanzanians to access the markets there.

In the case of transportation, Mwita is networked with the customers, sellers and even fellow traders on both sides of the border. Maize is a bulky product and is more often than not transported in large quantities by traders. However, most of the time, one buyer or seller may not be able to buy/sell and transport an economic quantity (which in most cases, is a lorry of one hundred 90kg sacks). This necessitates the pooling up
together of resources by traders to hire means of transport for the product whenever there is need to transport it from one location to another whenever they are either purchasing or selling. Mwita sometimes goes to Tanzania in a group with other traders to buy maize. Likewise, he goes selling maize in Kenya in a group with other traders.

Several means of transportation are used for transporting maize to his premises for him to purchase. Such means of transport includes motor vehicles, donkeys, bicycles, pushcarts and head carriers. In some cases these sellers do not even know Mwita, but the owners of these means of transport who are carrying the maize for them know him. In such instances, the transporters who know Mwita direct and take the sellers of maize to his store. Likewise, he also directs his customers who have bought in bulk to the owners of any of the means (bicycle or lorry) of transport that they may need.

Sometimes he supplies maize to schools and organisations after getting a tender to do so. His network of friends, relatives, former colleagues and even fellow churchgoers normally introduce him to such schools and organisations to supply maize. Some of these friends are people who were teaching with him or he came to know them when he was still employed.

Trust relations are evidenced by the presence of credit transactions, relations, placement and repeated transactions. The presence of trust relations enhances the flow of goods into and out of Mwita’s maize store. In the absence of any legal enforcement mechanism for the transactions, especially those made on credit, he has to rely on trust relations to succeed. Thus trust can be taken to be the universal lubricant that oils the wheels of informal cross-border trade at the border.

Trust relations are evidenced by the existence of extension of credit both to and from him. The sellers, especially those who bring the maize to his premises some times sell to him on credit, when he does not have readily available cash. Likewise, he also sometimes extends credit to his customers. He sells on credit to customers whom he has known for a long period of time. Generally, the sales on credit are not large because, according to him, “such credit can hold up the working capital for a long time if a customer delays to pay”. The only customers he sells to maize on credit in
large quantities are the millers. The millers always pay the credit when due as agreed
during the time of purchase. Also, generally there is no likelihood of them failing to
pay any outstanding debt.

He purchases large quantities of maize on credit from the agents\textsuperscript{41} who come from
Tanzanian side of the border. Such agents normally come to enquire if he needs the
maize before organising to cross the border with the goods. After confirming that they
can sell the maize to Mwita, the agent delivers it to his store. However, Mwita does
not normally pay for such deliveries immediately. The payments for such credit
purchases are made after he has sold the maize, or when he receives money for the
credit sales he had made earlier.

Trust relations are also enhanced by repeated transactions, which were evidenced by
the fact that both Mwita and such customers were addressing each other by names.
According to him, these people that he knows trust that he cannot alter the weighing
scale to cheat on the weight of maize while buying or selling. Those people that know
him also tell others about his trustworthiness (especially the accuracy of weighing
scale). This in effect makes the base of his sellers and customers to keep on
expanding, thereby increasing the turn over. However, with time, they end up
personally knowing each other with those customers and sellers who come regularly.

There is a significant role that personal connections among friends, family, and
acquaintances play in trust relations for Mwita in the trading process. Those who
know him through such connections not only deal with him through the trust they had
entrusted on him outside the business but also bring with them their own similar
connections in terms of their friends and also other family members.

In the trading process, sometimes he has to introduce the buyers and sellers to the
transporters, thus acting as a trustor for one party and trustee for the other. The
transporters are usually people that are known to him. They sometimes cross the
border with the goods to the Tanzanian side, necessitating the need for payment of set

\textsuperscript{41} Agents are people based at the border who purchase maize from the sellers who have brought maize
from the hinterland of Tanzanian. Such sellers do not normally know the process of crossing the border
with products informally.
to those manning the unofficial border crossing points. As said earlier, such payments are done upfront with no receipts or documentation for proof. It is the trust between Mwita and the transporters that binds such transportation agreements.

**Norms** define what actions are considered acceptable or unacceptable. There is evidence of certain norms governing the behaviours of Mwita as he relates with the sellers, buyers and other actors in the informal cross-border trade. From observation and conversation analysis, there was evidence of norms of cooperation, reciprocity, norms governing verbal contracts and norms that are articulated as habits.

For Mwita, the norms of co-operation are more consciously adhered to in the processes of purchasing, transportation and selling. In the purchasing process, the norms of cooperation were evidenced by actions such as purchasing from Tanzania in groups. Maize, being a seasonal crop, is sometimes available in Tanzania and not Kenya. In such cases, it is purchased from Tanzania and sold to Kenyans. When it is available in Kenya while there is shortage of it in Tanzania, the movement is reversed. During the season when it is available in Tanzania, some of it is brought to his premises by sellers, but he also has to team up with fellow traders to go and purchase more maize from there. The teaming up with fellow traders enables him to transport what one would call an economic quantity of goods. The norms of co-operation form the basis of building personalised trust, which are established through long standing trading relationships. Mwita says for example that “I go to Tanzania to purchase maize with the people that I know, I purchase from the same traders and middlemen”.

Apart from purchasing in Tanzania, the norms of cooperation were also evidenced by his expansive networks of friends, relatives and former workmates from both sides of the border. These are people who not only bring maize to sell to him, but also introduce their other friends and relatives to sell to him. From the Tanzania side, he has friends and relatives and also middlemen. He says, “I purchase from traders who are relatives on both the Kenyan and Tanzanian side of the border”. The middlemen from Tanzania come to him first to enquire whether he needs the goods. On accepting to buy the maize from the middlemen, it is them who have to organise the informal crossing of the border with the goods. Even the payment for the maize is done after he has sold it.
On the Kenyan side of the border, there was evidence of norms of cooperation in his purchasing process. It was cooperation with his friends, relatives, and former workmates. These were the people who always bring maize to his premises for him to purchase. In the process, they also give him valuable information such as the small village markets where the maize is available and the price it is going for. These people also refer their own friends and relatives to supply him with maize. They also sometimes supply the maize to him on credit.

There was also evidence of norm of cooperation in the selling process. This was evidenced by actions such as going to sell to his customers in the markets in the hinterland of Kenya. Sometimes he does not wait for the customers to come and buy from his premises; he takes the maize to them where their businesses are situated. This evidence of norms of co-operation form the basis of building personalised trust, which are established through long standing trading relationships. Mwita says for example “I go to sell maize in the hinterland of Kenya through the customers that I have known for a long period of time.” Sometimes when he goes to do such sales and does not sell all the consignment on one day, he stores whatever is not sold at any of his customer's premises and also sleeps there. Thus working relations are established after repeated transactions, which reinforce norms of cooperation.

His friends, relatives from both sides of the border coming to buy from him when there is a shortage, also evidenced the norms of cooperation in the selling process. Other sellers who exhibited this trait were the Tanzanian middlemen and his former workmates based on the Kenyan side of the border. All the sets of people normally come to purchase from him whenever there is a shortage on their side of the border.

There was also evidence of norms of reciprocity, which are generalised. Norms of reciprocity refers to continuing relationship of exchange that is at any given time imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future. Mwita for example, sells on credit there by risking non-payment, but he expects the future benefit of continued sales to the customers even in times of glut. The repeated exchanges over a period of time encourage norms of generalised reciprocity. Thus he can only sell on credit to regular customers.
Norms of reciprocity were also strongly evidenced by the repeated transactions that Mwita seemed to have from the core people in his business. The maize business means buying and selling mainly from and to the same set of the core buyers and suppliers, depending on which country has a shortage and which has a bumper harvest of the commodity. Thus, if Tanzanians are his customers one season because there is shortage of maize in their country, the next season they can become his suppliers if there is shortage of it on the Kenyan side of the border.

The seasonality of maize as a crop makes the payment of 'set' as a norm of reciprocity very crucial for the continued existence of Mwita in that business. He is always passing through the border with maize, either to sell or to purchase depending on whether there is a shortage or bumper harvest on the Tanzanian side. According to him, he not only has to pay the 'set', but also has to know the people manning the unofficial border crossing points. He has to know them because sometimes he has so much luggage that he has to arrange with them to pass the goods through the border at night and pay less 'set' or nothing at all.

The verbal norms are evidenced by buying and selling on credit, transporting on credit, and transportation of goods through the border with upfront payment but no written contracts, not even receipts. He would also refer the customers and the sellers to other stores if he did not have enough maize to sell to them. The sellers' referred to other stores are those who would sometimes come and find that the money he had for the day for cash purchases is over. These are prescriptive norms, which provide positive feedback and encourage the informal cross-border trade.

There are also certain norms, which were identified and observed to be articulated by habit. Examples of such include, the fact that the traders have to purchase in both currencies even though sometimes there is the risk of losing when taking it back to the other currency. The sellers always start the selling conversation by welcoming the customers to their premises 'karibu mjeja' (welcome customer). Finally, the buyers have to pay set because there is the risk of the transporters refusing to carry their product, or the transporters being surcharged by the border police.
8.2.3 Case Three: Jane Piri

Jane is a female Tanzanian national from Wasukuma sub tribe,\footnote{It is a tribe, which lives in the hinterland of Tanzania, about 200 kilometers from the border region.} she has a small-scale groceries trading business situated at Sirare on the Tanzanian side of the border. The business deals in cosmetics as one of the main products. Her main cosmetic products are those that are used for skin lighting. Most of the cosmetics are purchased from the towns based in the hinterland of Tanzania. A few, such as bathing soap, are purchased from the Kenyan side of the border, within the border region. She sells the cosmetics on both wholesale and retail basis. Most of those who buy for the purposes of resale are based on the Kenyan side of the border. A substantial number of such customers are based outside the border region. She owns the business together with the husband who provided the initial start up capital.

Jane is the only person who sells at the shop, except for the periods when she has to go to purchase goods from outside the border region. In such occasions, she organises with her husband to stand in for her. However, when she is out for a short time, such as going for lunch or to purchase goods from across the border, the children are usually left to mind the shop. But, when she is out for such short period of times and within the vicinity of the shop, the children normally call her if there is a bulk-purchasing customer. She has four children, the eldest is fourteen years old while the youngest is less than two years old. The first three children go to primary schools on the Kenyan side of the border (the last time I was there (11/8/2007), the eldest had transferred to a Tanzanian secondary school).

She has no permanent employees. When she purchases in bulk, she employs the services of casual workers to carry the heavy stock from the bus stop to her premises.

Physical capital in the form of fixed assets does not seem to play a significant role in Jane's informal cross border trade. She does not own the premises where she operates from: neither does she own any vehicle. The premises where the business is situated is a temporary building which she is renting at a monthly rate of ten thousand Tanzania shillings per month.
However, it is significant to note that she owns a bicycle, which is the most dominant mode of transport around the border region. She does not ride it, but can use it to send her children to transport goods to any place on the Tanzanian side of the border only. Jane sometimes sends her friends/neighbours who are older than her children to get goods that she has purchased from the Kenyan side of the border using the bicycle. She can only send somebody older than her children to get anything from the Kenyan side because, that person has to know the border police who have to be paid ‘set’ for letting the goods pass through the informal routes of the border.

Human capital plays some role in running her business to the extent that she was engaged in some informal business previously. Before coming to the border to trade, she had a tailoring business in her hometown in Tanzania, during this time she used to come to the border area to get materials for dress making and ready made dresses to sell. On coming to the border, she also started by dealing in ready made clothes, before moving to trade in cosmetics. She was buying clothes at the border and selling them in her hometown in Tanzania. Regarding formal education, she completed primary school, which is a compulsory requirement in Tanzania. This level of education enables her to keep some basic records like the list of creditors and the daily sales and purchases.

Social capital was evidenced by the existence of its elements of networks, trust and norms. The evidence in the networks used by Jane in her trading activities are mainly connections between her and the fellow traders on one hand and the customers on the other hand. The networks with her sources of purchase are limited to the sellers based within the border region, which do not form the bulk of her purchases. Most of her purchases are done from the hinterland of Tanzania.

Since her bulk sales are made to the customers within the border region, there is evidence that she knows and is networked with most of them. She sometimes goes to the premises of the customers who had bought on credit and have delayed with the payments to collect money. Most of such customers are based on the Kenyan side of the border. According to her, “there are some difficult customers that I have to chase to get my money. I have known them even before when I was still selling clothes, they buy a lot, I have to sell to them on credit because I don’t want to lose them.”
According to her, there are many people selling cosmetics around the border region and most of their bulk-purchasing customers are also from the same area. So if she denies any one of the regular customers credit, they simply walk to the next shop where they are almost equally known and will be sold to on credit. However, within the cosmetic traders themselves, they know the difficult customers whom they as sellers have to limit the amount of credit to extend to them. The cosmetic traders even discuss the credit that such difficult customers have taken from each of them.

She uses her networks with both her Kenyan and Tanzanian customers to gather information on what brands of cosmetics are currently selling fast. According to her, the cosmetics business is very sensitive as the products keep on changing every time. So a trader has to know the consumer preferences at any particular period of time. They also must try and market the new products to their regular customers. When Jane goes to collect money from her credit customers, she uses the opportunity to get information about the fast moving cosmetics so that she can stock more of that product. According to her, “time of collecting credit is also promotion and enquiry time, you can not just go and start demanding money, you have to be tactful, talk generally first before requesting for any payment”. Mostly she sells the new products to her regular customers (who buy at wholesale price for resale) and encourages them to go and promote it to the consumers. The information about what to sell is also obtained from fellow traders, with whom they sometimes discuss the fast moving and the latest product to purchase.

The network she has with fellow traders in cosmetics facilitates regular purchase of the products in two ways. First, when going to purchase goods from the towns in the hinterland of Tanzania, they normally group up to hire the means of transport back to the border. They might not necessarily go in hired means of transport, but it is important for them to come back together in one. This is because it is cheaper than hiring means of transport individually. They also team up for security reasons. According to her, when one is carrying goods that are visible (unlike money), it is safer to travel with other people that he/she knows. Second, she uses the network with fellow traders to send them to buy goods for her when they are going to purchase. She normally sends them at a time when she does not have enough money to go on her own. The money she gives when sending other traders includes the cost of purchasing
and transporting the goods only. She does not pay any amount towards the transportation cost of the persons sent. She also does not pay for any other services, including the time of the person sent. Being able to send other traders to purchase goods for her ensures that she does not run out of stock, especially the fast moving items.

Still with regard to transportation, there is evidence that she uses a network of those that she knows to bring goods from the Kenyan side of the border. First, she uses her bicycles to send friends/neighbours to get for her goods that she has bought from the Kenyan side of the border. Second, she uses the transporters that she knows to transport for her goods. This was evidenced by the fact that she was heard saying, *ukimalisa nipate ngambo kwa duka ya 'Kichwa'* (after finishing, find me in a specific shop across the border). In this instance she addressed the transporters by name, and apparently he knew the specific shop where she was supposed to get the goods. Thus, after buying the goods, she does not have to wait for the bicycle transporters. The goods are left at the point of purchase with instruction to the seller to hand it over to specific transporters. This means that it is the transporters who are known to her that she uses whenever she is in need. These transporters are also known to the people she purchases from on the Kenyan side of the border. According to her, “you cannot trust somebody you don’t know with the goods. The cases of transporters disappearing with goods are rare, but still one should not take a risk”. At one time, a transporter who had taken in his bicycle for repairs was seen borrowing hers to use for business for the time being.

The way the shops are arranged next to each other, on one side of the road facilitates networking among the traders. There are instances where, if a customer needs a certain product that a trader does not have, he/she will get it from a neighbour’s shop, or direct the customer to the shop where that product can be found. She herself sometimes gets customers who are referred by other traders. Those who trade in cosmetics generally agree on the pricing of the products to avoid undercutting. The prices they charge are similar except for customers who buy in large quantities who are sometimes given some discount by the individual traders.
Jane uses trust relations to facilitate her trading activities mainly within the border region. As mentioned earlier, trading within the border region is not governed by any legal agreements or law enforcement mechanisms. The traders have to rely heavily on the trust relations to seal and enforce their verbal contracts. The trust relations are generally evidenced by the presence of credit facilities, repeated transactions, placement and reliance on fellow traders.

The credit facilities are extended to known and tested customers. Since Jane's cross-border customers are basically operating from within the border region on the Kenyan side, in most cases, she knows them up to their business premises. The customers she sells to on credit are not only those that she knows up to their trading premises, but also those she has been dealing with for a long period of time. She came to know some of them when she was still selling products other than cosmetics. In situations of high risk and no insurance such as the border region, she has to rely on the trust relations to give and enforce the payment of credit. Since the selling prices are similar, Jane does not use trust relations maximise profits, but to minimise risk of default by having access through developing personal relationship with the customers.

Jane cannot control the risk of the customers she sells to on credit being opportunistic by any legal means. Her transaction costs are therefore raised in terms of her going to her credit customers "nicely" to ensure payment. But even her going to the creditor's premises does not necessarily ensure payment of the outstanding amount. She has to rely on trust relations to reduce the chances of opportunistic behaviour and thereby reduce the transaction costs. The credit sales rely on trust and not written contract.

Although she also buys on credit from the Kenyan sellers, the amount is not significant because most of the cosmetics preferred by the border population come from the hinterland of Tanzania. However, she also takes credit from the Kenyan cosmetic traders who are also her customers for the Tanzanian products. Sometimes she takes the money to their premises when going to look for hers from those who owe her.

Repeated transactions as evidenced by Jane knowing the type and quantities of goods the customers who purchase in bulk have come to buy, even before such customer
gives his/her requirements. The continued interaction allows each party to collect information on the capability of the others to build up confidence. On giving credit, she tests the ability of the customer to pay by first giving small credits, with repeated transactions, the amount she allows for credit grows for those who have not been defaulting. Thus the probability of default is perceived to reduce if they know each other well through repeated transactions.

Traders placed in the same area of operation know each other already. They know each other well enough to send the fellow traders for their purchases. Most of the times, she sends the other traders to purchase for her goods when she has not raised enough money from sales to go on her own. The traders sending the others know if those persons in their past dealings they did not cheat on the quantity and cost of goods they were sent for. Basically, the traders who send each other are placed within reach so that one can always know when the others are planning to go to purchase. She has to rely on the trust relations between her and fellow traders to ensure that her stock does not run out. For example, she sends the other traders to purchase for her goods from the hinterland of Tanzania at no extra cost. She only pays for the cost of the goods and that of transporting them. Giving money to others and expecting them to deliver ones’ stock requirements is risky on the part of the sender. It means placing a lot of trust in the trading relationships.

Those placed in the same area as Jane also have an association where they contribute money monthly and give to other members on a rotating basis (ROSCA). Jane uses contributions from such associations to boost her business. Contributions to the funerals of other traders’ relatives or a dead trader are considered important for the members of the group. Other than boosting her business, Jane also gave funeral contributions as the other reason for having the market based associations.

It is important to note that even though she is not trading in her hometown now, she still belongs to the tailoring group, which is based there. Her reasoning is that it is her hometown where most of her relatives are based. So she needs such groups to come to her help financially and physically when she has a problem. According to her, the border based groups can only give her money, but can not be there in her hometown.
when she has a problem. She says that she also needs the money from such home based groups in order to build up her financial capital for trading.

**Norms** are drawn on by Jane in making decisions on whether to trust her fellow traders and customers. They define what actions are considered acceptable and unacceptable. From observation and conversation analysis, there was evidence of norms of cooperation, reciprocity, keeping verbal contracts and norms that are articulated as habits.

The norms of cooperation are adhered to and are the basis of building personalised trust through repeated interaction, which allows her to collect information on the capability of a customer to pay debts. The customers who buy from her regularly are based at the border region, mainly on the Kenyan side. She sells to these customers on credit after testing and knowing their ability to pay.

Norms of cooperation were also evident on her purchasing process. These norms allow Jane to collect information, which enables her to purchase in groups with the trading colleagues. This is evidenced by the fact that she and the fellow traders pool resources to use the same means of transport from the point of purchase to their trading premises. Jane’s fellow traders in cosmetics also evidenced the norms of cooperation in the purchasing process by being able to send each other to purchase on one’s behalf. In purchasing the products from the hinterland of Tanzania, she sometimes sends fellow traders who are going to do so. They purchase for her goods at no extra cost, she does not even contribute towards the cost of their transportation.

The norms of cooperation are also evidenced by the arrangements of Jane’s shop together with the others selling cosmetics near each other. By being situated in the same area with similar shops, traders are pressured into keeping norms by those around them. They cooperate in the process of providing goods and even services like money changing to the customers. There are some notable positive actions such as directing customers to other shops if she does not have that item.

Norms of reciprocity are also visible, they are more calculative than generalised. She knows the trading premises of all the individuals she sells to on credit. Because she
knows and visits most of the traders that she sells to on credit, those around them pressure individuals into keeping norms. This is demonstrated in this case by the importance that Jane attach to knowing the premises of those receiving credit so that she could visit them later to remind them or collect the money. If they fail to pay, then hopefully her frequent visits could embarrass them in front of their neighbours, thereby attaching some social stigma.

Since all her customers live within the border region and the goods she deals in are not bulky, the norms that are evidenced by the verbal contracts are limited to her credit sales, which are done without any form of written agreement. The verbal contracts are also evidenced by her sending the transporters to pick goods from the point of purchase (after she has done the purchase and left) on the Kenyan side of the border. She is also able to send other traders to pick for her goods from the Kenyan side of the border using her bicycle. On sending such traders, she does not pay them, but she or any of her children are left to mind the shops of the trader sent across the border.

8.2.4 Case Four: Cate Boke
Cate Boke is a female Tanzanian national from Kuria tribe. She was born on the Kenyan side of the border, but is now married to a Tanzanian from the same sub tribe. Her business premises are situated at Sirare on the Tanzanian side of the border. She is a small-scale trader dealing in rice. She started the business with the capital she had accumulated with the husband from farming and another small-scale trading business.

She has one employee who helps in the weighing of incoming and out going rice. There are also several casual labourers who are paid to carry the sacks of rice into the store by her. The casual labourers also carry the sacks of rice out of the store, but the customers doing the purchase pay for such services. In most cases, those who carry sacks out of the stores are also the bicycle transporters who proceed to carry the goods across the border. In such instances, the cost of carrying the goods is added to that of

43 This is the tribe that is situated on both side of the border. In some instances there are relatives living on both sides, with one set being Tanzanians and others Kenyans. In other instances, there are those with dual citizenship.
transportation and the ‘set’ money to be paid by the transporters as they cross the informal border crossing points.

She handles the major cash transactions. This includes the cash for purchases and from wholesale sales to the major customers. But, her employee sometimes handles the cash sales of small quantities of rice sold on retail basis. However, she records all the movements of rice from and into the store in kilograms. Thus, she records the quantity purchased and sold. The amount of rice set a side for sale on retail basis is also weighed and recorded.

With regard to physical capital, Cate does not own the premises where she is operating. She also does not own any means of transport. The premises are a temporary building, which she rents at rate of ten thousand Tanzania shillings per month. Sometimes she sublets the premises to other traders who are also selling rice. She sublets it to them at the rate of two hundred Tanzania shillings per sack for the period the rice remains unsold. This subletting cost is paid the moment the rice is taken into the store regardless of the period it stays unsold, even when sold within the same day. The traders who rent the premises for such short duration are those who either are not based at the border but come to sell there or those who do not own/rent trading premises. It is important to note that sometimes she sells the rice stored by those subletting on their behalf at a commission.

However, it is significant to note that she owns a heavy duty-weighing machine. She uses the heavy duty-weighing machine together with those who are storing their rice in her premises and others from neighbouring stores. There is no payment made for the services of the heavy duty-weighing machine by the other people using it.

In terms of human capital, she has informal on-the-job learning and some basic formal education. With regard to informal on the job learning, she previously had a grocery shop in her hometown. Also when she came to the border, she was trading in fish at a market on the Tanzanian side of the border, although her main customers were Kenyans. With respect to formal education, she completed primary schooling in

44 Normally, a sack of rice is set aside for selling on retail basis and is replenished as soon as the rice is over or remaining just a little.
Kenya. Her knowledge from formal schooling helps her to write some basic business information like the number of sacks brought in and sold and their weights in kilograms. She also records the amount of rice she has sold on behalf of the others who have stored and the resulting commission she is entitled to from such sales.

Social capital was evidenced by the existence of its elements such as networks, trust and norms of behaviour. There is evidence that Cate Boke uses networks to facilitate her trading activities. She uses the networks to facilitate sales, purchases, transportation and even the financing of certain business activities. The networks are used in terms of information gathering, transportation and arrangements. However, although the networks facilitate her purchases, most of it is basically horizontal and forward linkage.

The networks with fellow traders, customers and relatives from both the Kenyan and Tanzanian side of the border enable her to gather information from within and outside her trading premises. The continued interaction with the network of people that she knows gives her the opportunity to get information on issues such as which specific place on the Tanzanian side of the border is rice available at what price. Rice is always purchased from the hinterland of Tanzania and sold in bulk to the Kenyan traders. She gets information on where else within the border region on the Kenyan side she can go and sell the rice. She also gets information from her customers on how to locate her credit customers in case of default.

From her network with fellow traders, she gets information on pricing. Basically, the traders are price takers while purchasing the rice. However, they can control the price at which to purchase to the extent that there are several buying points in the hinterland of Tanzania. The buying prices of rice at these purchasing points are different. She has to rely on fellow traders who go to different places to purchase to know the cheapest buying point. While taking the purchasing price, she takes into consideration the quality of rice and the cost of transport from such places to the border region. The total cost must be minimised because, once they come to the border region, the selling prices are basically the same, with little variations for those buying in large quantities. The only exceptions are some few very regular customers purchasing in bulk are sometimes given some special discount by the individual rice traders. The rice traders
do not meet to set the selling price but word goes round about any change in selling price, which is normally affected by the cost of the latest lot of consignment arriving at the border.

The networks with the fellow traders also enable her to always have stock for selling. Sometimes she is able to get the rice without having to go the hinterland of Tanzania to purchase. Cate sends the other rice traders to purchase for her whenever she is not in a position to go and buy. In such instances she only pays for the cost of purchasing and transporting the rice she has sent for. Cate also uses these fellow traders to minimise her cost of goods by sharing transport cost with them whenever she goes to purchase. In situations when she does not purchase enough rice to fill a whole lorry, and also does not have enough money to hire the means of transport, she teams up with other traders to share the cost of transportation.

Her network with customers helps her to sell on credit and to trace them in case of default. Her main customers who buy mostly on wholesale basis are from the Kenyan side of the border. The Kenyan customers normally come in groups. The groups of regular customers are either based in the markets and towns they come from or on the buses they use to come to do the purchase. The group may also use both the same bus and come from the same market. It is normally the buses that they use while coming to the border to purchase that they use on going back with the goods. She was heard many times enquiring about other customers whom she has not seen for some time from those who had come.

Normally, the networks of such groups act as guarantee to the credit sales and as a means of expanding customer base. Thus, the regular customers that she sells to on credit are traceable from such groups in case of default. Once she was observed going to Kisii\(^45\) to trace a customer she had sold to on credit. On enquiring how she came to know the customer’s place, which is some distance from the border, her reply was “we normally know the premises of the customers who regularly purchase in bulk on credit, also, we can always trace them through the others that they come with”. In

\(^{45}\) Kisii is a town in Kenya situated about 80 kilometres from the border.
most cases, these customers that she knows bring others and so expand her network of regular customers.

The network with her relatives provides her with information of other customers to sell to such as schools, others whom she supplies in large quantities and to the markets bordering the border region, especially her place of birth. She supplies rice in bulk to schools and some wholesalers on the Kenyan side of the border. According to her, you cannot know which schools needs rice, and even if you know “you can not get the tender to supply the goods unless one is taken there by a Kenyan who is their friend”. Also, she sends rice to her relatives who are based just outside the border region on the Kenyan side to sell for her on the market days.

The networks with the transporters help in increasing her customer base. They also facilitate transportation of goods for both her and customers. They increase her customer base by sometimes recommending her store to some customers who are just beginning to purchase rice from the border region. The transporters also recommend to her other customers who have come to purchase but find that their regular suppliers are not in for one reason or another (such as going to purchase rice from the hinterland).

The network of transporters, both the head carriers and the bicycle riders who are known to her are usually the ones that she recommends to her customers to carry the goods across the border. They carry goods from the Tanzanian side of the border where Cate’s store is based to the Kenyan side, mostly through the informal routes. Most of those who buy in bulk and need some means of transport are Kenyans. She therefore has to arrange and in the process kind of guarantee the means of transport for the Kenyan customers through the lead transporters. There are usually lead transporters because in most cases there is need for several bicycles to carry one trader’s goods. Sometimes even the many bicycles make several trips across the border to clear the consignment of one customer. It is the same lead transporters who can be observed staying in her store arranging with the others to carry the goods from her premises. They carry goods from her premises and other stores situated next to hers. The Tanzanian shopkeepers’ who buy rice in medium quantities to go and re sell
sometimes arrange for their own means of transport or take these transporters at a lower fee.

The lead transporters are also connected to what I would call “deal chasers” who arrange to pay the customs duty on the Kenyan side of the border on behalf of the trader. The deal chasers’ task is to negotiate to pay less duty without involving the traders or the transporters. As the transporters go through the informal border crossing points from the Tanzania side, the deal chaser goes to the Kenyan customs offices and negotiates the amount of duty to be paid. By the time the transporters are reaching the customs offices with the goods, the deal would have been made and the agreed amount paid. Normally, they just pay a token or nothing at all. If the amount the customer gave for clearing the goods is less than what the customs officers are demanding, the deal chasers pay the difference. The customers pay the ‘deal chasers’ for such top up amounts paid for them to the customs officers the next time they come purchasing.

She transports goods to her relatives who are in Kenya through a network of known matatu operators. The relatives sell the goods and then sometimes remit the money through the same matatu operators who are neither her relatives nor friends. According to her she knows these matatu operators kibiashara (in business terms). Such use of networks in transportation facilitates her sales outside the border region.

The networks are also evidenced by the way her store is arranged next to the rest of the rice trading stores. Most of the rice stores are on one side of the road near the formal border crossing point. It is only in times of glut when the extra rice is kept in other stores, which are not next to the border crossing line. Even such stores are not isolated; they are still situated next to each other. Her store and the others close to it share the rice weighing and carrying facilities. They also know most of each other’s customers, sometimes she can be heard saying that “huyu ni mteja wa fulani” (that is so and so’s customer).

*Matatu are basically small passenger vehicles which also carry luggage (normally accompanied by the owners)*
There is evidence of the use of trust relations by Cate in undertaking her trade at the border region. The trust relations exist between her and the customers from both the border region and the hinterland of Kenya, the transporters and fellow rice traders. She uses trust relations to regulate and enforce credit sales, to guarantee the safe transportation of the customers’ purchases, to ensure that the stock is always available, to build confidence through repeated transactions and to expand her trade through the use of relations.

Like other cases at the border where cross-border informal credit-selling contracts are not legally enforceable, credit facilities are extended to known and tested customers. The customers are known through other customers that come with them from the same place. One of the requirements before giving credit is to know how an individual can be traced through other customers, or to be knowledgeable of the group of customers, which she comes with to purchase goods. The seller exerts pressure on the group members by asking them about any defaulting individual. The customers are tested to the extent that they must have been buying from her for some time before any credit can be extended. At one time the customers were heard commenting that one of them whose whereabouts was being asked by Cate “should not have promised to be coming to pay the credit within a very short period of time, knowing that the rainy season disrupts the normal sales in the markets”. On giving credit, small amounts are given to test the customers’ credibility. The amount of credit that can be extended to a customer depends on how long he/she has been taking credit and how prompt they have been on paying it when it is due.

Repeated transactions reinforce familiarity between her and the customers, those subletting her store and the people she is purchasing from. Cate and the customers calling each other by names and nicknames evidence the repeated transactions. Traders coming from the same place are asked about the others who have not come. Chances of default are minimised by repeated transactions in situations where there are credit sales, because both parties to the transaction know each other well. In some cases, she sells on behalf of the people who have stored their rice in her trading premises at a commission. This ensures that she always has the product to sell to her regular customers, maintaining them even though the product is not hers. When she
goes to purchase, sometimes the machine owners give her rice to sell on their behalf. After selling, she sends the proceeds to the machine owners through other traders who are going to purchase.

There is also trust based on family links and other relations. She sends stock to other family members to sell on her behalf. The people she sends consignment of rice to sell for her are members of the local community where she grew up. They know each others capability to be honest in dealing with this kind of transaction where measurements are done by one person and sales are done by somebody else in a different location.

The placement of the rice stores next to each other also facilitates the trust relations between these traders. Being together help the rice traders to build up close links with one another. Cate has built up such close links with some rice traders that she is able to send them to purchase for her whenever they are going to buy theirs. The closeness also enables them to minimise costs by pooling and sharing the costs of hiring a lorry or trailer to transport rice from the point of purchase.

The trust is even extended to non-customers like the bus drivers who are given money to bring to her by the credit customers from the hinterland of Kenya. There are also the trusted transporters whom she recommends to the customers. Also, the trust relations between her and other non customers is evidenced by the fact that she sends goods through the matatu operators to her relatives based in markets outside the border region to sell on her behalf, thereby expanding her sales. The matatu operators are even given money after the sales to pass back to her.

There is evidence of utilisation of norms by Cate Boke to define what is acceptable or unacceptable in the process of trading at the border. The norms observed or identified from the conversation and observation include customs of cooperation, reciprocity and norms governing verbal contracts.

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47 They own the milling machines, buy rice from the farmers, process it and sell the finished products to the consumers.
For Cate, the norms of cooperation are consciously adhered to in the process or purchasing, transporting, selling and the trading. In the purchasing process the norms of cooperation were evidenced by actions such as going to purchase in groups with other traders. Also when they go to purchase, they share the cost of accommodation with those from the border region. Other evidence of norms of cooperation in the trading process includes actions such as the machine owners (those who sell to them rice) keeping for them money as they wait for the commodity to be ready.

In the trading process, the norms of cooperation are consciously adhered to through actions such as, rice stores being situated next to each other. Being situated next to each other enables them to share information on pricing, whose fluctuation depends on the cost of the latest consignment. They also share facilities such as the heavy-duty weighing scales. There is also the issue of their being able to refer customers to each other’s stores if they do not have enough stock. If any of her customers need a specified quality of rice that she does not have, then she refers them to the trader/friend that has it.

In the transportation process, the norms of cooperation are evidenced by activities such as the lead bicycle transporters being stationed in specific stores. She cooperates with these lead bicycle transporters to ensure that her customers’ goods are always delivered safely across the border. The norms of cooperation in the transportation activities prevent opportunism in one off encounters; examples of this are found during her sending of stock by matatu unaccompanied to others to sell on her behalf. Such encounters assume that both the matatu operators and the consignee will not cheat separately or collude to cheat. Forms of opportunism do happen occasionally, as these norms are difficult to enforce. For example, there are instances when the weight of the rice sent and sold does not tally with the records that she has on what was sent. In such instances, it is not easy to pinpoint the point where the loss occurred, whether in the process of transportation or at the point of sale.

The norms of reciprocity are generalised in nature, evidenced by examples such as having regular customers. As mentioned above, the repeated exchanges over a period

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48 The rice consignments were observed to arrive every day of the week. In most cases the consignments were arriving many times in any one particular day.
of time encourage norms of generalised reciprocity. The regular customers get preferential treatment when the rice supply is low. At the same time, when there is glut supply, the regular customers do not abandon their regular suppliers. These are the periods when highest amount of credit is extended.

In terms of purchase she says “when the rice supply is low, only the machine owners we deal with regularly can sell to us. The others sell to those from Dar Es Salaam at higher prices”. These traders from Dar Es Salaam, manage to sell rice at higher prices in times of rice shortages, than those at the border region. They are therefore able to purchase it at much higher costs.

The verbal norms in her case are evidenced by the type of greetings extended to the regular customers. The payment for both transportation and ‘set’ in advance was also an evidence of the verbal norms. The payment of any customs deals to let the goods pass through the official border crossing points by the customers through the deal chasers also evidenced the verbal norms.

8.3 Cross case analysis
The result of the case studies should give the extent to which the evidence is consistent across cases. The issue is whether the funding from the different types of capital in use by each case varies to an extent that it cannot be generalised to the formal and informal cross-border traders. Analysis of the evidence from the cases is given in appendix E.

8.3.1 Physical and human capital
None of the four cases own the premises they are operating from. nor do they have any significant physical capital in the form of mode of transportation for their trading activities. Thus the evidence across the cases converges in supporting the argument that the traders choosing informal trading routes appear to have low physical capital

The only minor exception was the case of two who owns a pick up. which is not in any way used in the trading business. He actually lamented that the business would be doing much better if he had a lorry. Case two also owns a private primary school
together with his brother. But, according to him, it is the income from the maize trading that he uses to supplement the school business. Case three also owns a bicycle as a means of transport. However, she does not use it to ferry goods across the border. It is basically used by her children only on the Tanzania side of the border where she is based. It is used on errands by her children and sometimes the neighbours. The children cannot be sent across the border with good because they would not know how to deal with the customs police and the 'set' payment procedure.

Evidence of human capital is also minimal across the four cases. In terms of level of education, only case two had formal schooling up to the level of completing secondary school. The same person also had post school training as a primary school teacher. Cases three and four who are Tanzanians finished primary schooling as per the mandatory requirement in that country when they were of school going age. Case one who is a Kenyan never went to school at all, but can read and write. All of the four cases had no formal training in trade. But all had informal training by virtue of previously having run their own trading business. Cases one, three and four had such previous businesses in other products different from the ones they are currently trading in. Only case one had been an apprentice in trading at an uncle's shop.

8.3.2 Social capital

The claim that networks are important in the performance of the informal cross-border trade is strongly supported by evidence gathered in the four cases. All the four traders use networks in their placement, information gathering and transportation process to boost trading activities such as sales, purchases, finance and even transportation.

All the four cases use networks in sales albeit differently. They all have a base of regular customers. They knew such regular customers through networks of other customers, transporters and friends, former colleagues and religious organisations. There were notable exceptions in cases three and two that come from the border region. The proximity of their places of birth to the border means they are able to use a network of relatives. Case two, being formerly in employment within the border region, has added network of former colleagues and their relatives and friends. The two cases that are based on the Tanzania side of the border have most of their regular
Customers coming from Kenya. For the cases based on the Kenyan side, only case one who sells cooking oil has his regular customers based on the Tanzanian side. Case two who sells maize has regular customers from both the Kenyan and Tanzania sides of the border depending on the seasonality of the product.

Apart from selling goods to the customers for resale, the regular customers are valuable source of information. The customers give valuable information such as what product is currently moving fast for cases one and three. Within the oils and cosmetics, which these two cases deal in, there are brands that are preferred by consumers at any one given time. The customers can sometimes also promote these products to the consumers. Case two is always selling in large quantities to the same set of customers who can also be his suppliers depending on the season. The information he gets does not only help him know about the availability and unavailability of the product in other places, but also in setting the selling price. Case one's customers also sometimes become his suppliers with products from both the sides of the border.

The way their shops/stores were arranged next to each other also facilitated the network between them. This enabled them to refer customers to each other’s shops and to use common facilities such as money changing services for case one and heavy duty weighing scales for case four. Being near each other helps them to know each other's customers and the defaulting ones. The traders also send these customers to other traders near them for any product that is out of stock in their premises. Sometimes, they even get such products for the customers from the other traders. Only cases one and four were situated near the border crossing points. This is because the products they were trading in cooking oil and rice were the products that were most physically seen crossing the informal border crossing points. However, case three who was trading in maize did not have his store situated next to similar ones.

Regarding purchases, there was evidence of network between all of them and the sources of their products. All of the four cases had regular suppliers for most of the products they were selling. While all of them had to go purchasing from the suppliers premises, cases one and two sometimes had the goods brought to their premises for them to buy. The only exception was case three that was not doing her bulk purchases.
from regular suppliers. But she had regular suppliers for the goods she was purchasing within the border region.

There was also evidence of networks in transportation by all the four traders. On one hand, there was network between the traders and their colleagues in trading. Between themselves, there was network in transportation from the point of purchase to their premises for cases two, three and four. The three cases all teamed up with fellow traders in transporting their purchases. They did that in most cases through the transporters who are known to them. On the other hand, there was network on transportation process between them and the customers, the suppliers and the transporters.

On networking with others, the transporters were mainly used between the traders and their suppliers and customers. There was evidence that all the traders were dealing with only the transporters that are personally known to them. The known transporters were not only entrusted with transporting the traders’ goods, they were also entrusted with customers and suppliers’ goods from and to the traders’ premises. With respect to customers, all the four cases except case three was making transport arrangements for them. The arrangements were mainly regarding how the goods are to pass through the informal border crossing points. This is because it is the transporters who go through such crossing points with the goods as the customers walk across the formal routes. With respect to the suppliers, only case one and two networked with the transporters to facilitate the crossing of the informal border crossing points with goods to the traders’ premises. They would organise with the transporters that are known to them to help the suppliers, especially the ones from the Tanzania side of the border. It is to be noted that the traders also gain by using the transporters that they know. All the four cases reported that the transporters also introduce to them some customers in return.

There was also evidence of network in their sources of finance. All the four traders were members of organisations through which they could obtain some finance for their businesses. Cases three and four had traders’ based associations from the border region and their home districts. Case two was in association with former colleagues while case one had a religious based organisation. Cases two, three and four were
getting such funds on rotating basis, while case one would do so whenever there is need.

The need to find some contract enforcement mechanism in terms of trust relations in a trading environment where they do not exist has the support from all the four cases. Evidence of transactions based on trust relations exists in the form of credit facilities, which are extended to known and tested customers. Repeated transactions, relations and his placement evidence other forms of trust.

Credit transactions between the traders and their suppliers and customers were evident in all the four cases. Cases one, two and three who were getting some of their supplies from the border region, had access to supplier credit. But case four who was getting all her supplies of rice from outside the border region had no such credit facility. Also case three was not getting any credit for the purchases from the hinterland of Tanzania. Case One uses his trust relations to do most of his purchases on credit, while Case two does minimal purchase on credit.

Regarding credit sales to customers, the proportion sales on credit were not equal for all of the four cases. Case one and four seemed to be giving more credit than the rest. Case two was giving the least credit because of the seasonality of the product that he deals in. In all the four cases, there was use of the other customers to enforce the payment of credit sales. Case one, two and three use groupings of customers as a form of informal contacts through which they can trace any customers who has not paid his/her credit. The credit taken is not a secret between the seller and the buyer, but is known to most members of the group. In fact, the customers can be heard holding conversation of how much quantity of goods each one of them has taken on credit. For Case three, all her credit customers are based within the border region. She uses the physical addresses of the customers to enforce the payments of credit sales. Forms of opportunism do happen occasionally, credit sales are sometimes not enforceable. In Case two, the customers spread the risk of marketing to him as a seller by cheating about their selling prices in their own markets.
All the four cases use trust relations in the transportation process. They all deal with only the transporters that they know. These are the transporters they make arrangement with to give their services to their customers and suppliers. Also there is the element of upfront payment for the services of the transporters without issuing even receipts or any signed contract agreement. Within the traders themselves, there was also an evidence of trust relations in the transportation process. All the four cases reported teaming up with fellow traders to transport goods from the point of purchase to their trading premises at the borer region.

All the four cases use trust relations in the cash handling process between them and their suppliers and customers albeit differently. Case one keeps cash for his former Tanzanian customers who are now his suppliers. There are also instances when customers send money to him through the others who have come to purchase. Case four receives cash from customers through third parties. She receives cash through matatu drivers for sales made on her behalf by relatives. Some customers also send to her money through the bus drivers. Thus, sometimes the customers do not have to wait until their next purchase to come and make payments for the credit sales. They can send the money before the next purchase through the drivers of the buses that they regularly use.

Trust was cultivated through repeated transactions between all the four cases and their customers. All of their regular customers know and address them by names or nick names. They also know and address such customers by name. The traders even were heard enquiring about customers whom they had not been seeing for some period from those who had come.

*Norms* are an important part of social capital that is drawn on by the traders when making everyday trading decisions. The norms that were evident in facilitating informal cross-border trade were those of cooperation, reciprocity, norms governing verbal contracts and the generalised norms articulated by habit.

There was evidence of norms of cooperation in all the four cases. There was some similarity on some of the norms of cooperation across the four cases; others were
evident on only some of them. The most visible norm of cooperation that was common in all the four cases was the fact that they were buying and selling in both currencies. This was seen to be more of a way of maintaining the norms of cooperation than trading in currencies. The other norm of cooperation which was similar in all the cases is the issue that they were all purchasing from the same sellers.

As mentioned earlier, there were other norms of cooperation that were evident in only some of the cases but not all of them. An example of such norms of cooperation is the arrangement of the trading premises next to the other traders selling similar products. Cases one, three and four had their premises arranged in that manner. Such arrangements encourage positive actions like directing customers to other traders' shops if one does not have the goods at that time or does not have enough of it. Other examples of norms of cooperation are actions such as purchasing in groups for cases two, three and four. Such purchase in groups with other traders to minimise the transportation cost and encourage other positive actions among the traders. Finally, there is the issue of cases three and four sending other traders to purchase for them at no extra cost. It is however important to note that both of the traders are from Tanzania side of the border.

There was also evidence of norms of reciprocity, some of which were similar across the four cases while others were not. One of the norms of reciprocity, which was similar in all the cases, was the payment of 'set'. All the four cases were making such payment to the people manning the informal border crossing points. They also negotiate for their customers the amount of 'set' to pay through the transporters. Another norm of reciprocity that is common in all the cases is selling on credit. By selling on credit, there is an implicit mutual expectation that such benefit should be repaid in the future by customers' loyalty to the traders. According to one of the traders "you cannot do business here without selling on credit". The norm of reciprocity that was applicable to only case one is being able to get financial help from only the Muslim community.

The norms of verbal contracts were evidence in all the four cases. There was upfront payment of some services like transportation, the money for the customs through the lead transporters and the 'deal chasers'. The payment for 'set' was also done upfront
through the transporters at the time of negotiating for the cost of transportation including the amount that has to be paid for the goods to cross the border informally.

There was also evidence articulated by habits which were observed in all the four cases. Thus, there was some similarity in the way the all the cases were operating despite the difference in background of all the traders involved. Examples of such include the fact that the traders have to purchase in both currencies even though sometimes there is the risk of losing when taking it back to the other currency. The sellers always start the selling conversation by welcoming the customers to their premises *karibu mieja* (welcome customer) to their premises. This is a regular greeting regardless of if one is a regular customer.
CHAPTER 9
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

9.1 Introduction.
This study set itself the task of increasing our knowledge and understanding of the informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border. This chapter brings together what has been found in the preceding chapters and assesses what has been learnt, the implications and what remains to be discovered.

In the first section (9.2), a summary of the main findings is put forward in this thesis. The aim is to make a fundamental contribution to the theoretical understanding of the cross-border trade generally and specifically the informal cross-border trade at Isebania/Sirare border between Kenya and Tanzania. After examining the existing literature, drawing heavily on social capital theory, a new explanatory frame is introduced (§5) which sought to relate the phenomena of the informal cross-border trade to the social capital and hence to its elements of networks, trust and norms of behaviour. At the heart of the explanation offered for the persistence of informal cross-border trade is the notion of funding inherent in the capital framework.

In the second part (§ 9.3), we will examine the limitations of the empirical work given the fieldwork methodology.

Recalling the necessarily tentative nature of much of this work, section 9.4 considers the implications of the study as well as the position of this research in the wider social capital research programme. Much remained to be addressed in the theory put forward from the outset. Following empirical test and analysis in the previous two chapters, an assessment can now be made of where the theory remains weakest and hence where further work is required. Finally the overarching motivation to research in this area is recalled: what are the practical ramifications for the policy makers and development practitioners?

9.2 Summary of main findings
The research described in this thesis started from the attempt to understand a simple but highly distinctive feature of East African trade structure: the persistence of
informal cross-border trade despite the area being a free trade area and therefore having open official border crossing points. The cross-border trade between Kenya and Tanzania and elsewhere in Africa, observers have noted anecdotally and with some disquiet, goes through two routes: the officially recognised formal route; and the unrecognised and unrecorded and seemingly invisible informal route. The binary nature of the routes taken by traders while crossing the border with goods characterises trading activities across the continent. However, to date the whole understanding of the informal cross-border form of trade has been limited. Serious questions confront both the researchers and policy makers: Does the informal cross-border trade really matter to the regional trade? What explanation can we offer for its persistence? Are these supported by the evidence? In this thesis each of these questions has been addressed.

The sustaining motivation for the attention paid to cross-border trade across the world, derives from its putative role of expanding markets for individual countries within a region. This has generated a long-running debate among academics and policy makers. Given the existence of the multiple international policy instruments (§2), it is not clear why the duality of the trade routes persist. What remains an inescapable fact is that the vast numbers of border region traders, especially in developing economies, ignore the formal border crossing rules, and in most cases use the informal routes. The critical question is how the regional economies can be integrated to form bigger markets for rapid development of the countries in the region. It is argued that the role of the informal cross-border traders needs to be located in the answer to this question.

Turning from the abstract to the reality of cross-border trade between Kenya and Tanzania, the imperative difference in the trade regimes is inescapable (§3). Initially, difference in the trade regimes since the colonial period has resulted in different stages of development in each country hence the difference in the availability of goods on either side of the border. There was therefore strong need for trade between the two countries. With globalisation, the experience of Europe and the rest of the World suggest that cross-border trade is useful even when countries are at a similar level of development. The question raised is how cross-border trade should be carried
to incorporate all those who are involved in it, including the informal cross-border traders who take the informal routes.

Clear, unassailable data on the cross-border trade between Kenya and Tanzania is not available. An examination of the East African literature and the theoretical literature (§4) reveals that not only is there no convincing explanation for the persistence of informal cross-border trade between Kenya and Tanzania, but there is a lack of a well developed theory to address the broader binary nature of cross-border trade. Orthodox economic theory as originally found in relation to trade, cannot account for the many empirical features which appear central to the question at issue. In particular, orthodox theory is silent on the relevance of networks and social structure. Many recent studies of cross-border trade have emphasised the significance of the primordial nature of the borders- conceived to have been arbitrarily drawn thereby dividing even families in addition to the putatively purely economic. Although these directions seem to show great promise to the problem at issue here, an enduring criticism is the lack of coherent theoretical framework with which to bring these diverse threads together. Social capital represents one radical attempt to broaden the scope of economics. In this study a social approach has been used to construct a framework within which an explanation of the persistence of informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border can be built.

A concept frame for the analysis of border crossing was developed based on the type of capital (§5). The notion of type of capital was introduced as a basis of capturing the dual aspect of the border exchange and therefore crossing process. Three types of capital were identified, each associated with the use of the formal and informal routes in order to solve problems of co-operation and coordination in exchange. Two of these types of capital represent the more or less individually owned asset whose usage is within the decision of an individual, the other is formulated as a result of interaction of individuals. Returning to the question of cross-border trade, it was asserted that we understand the 'choice' of route, formal or informal in a border crossing environment, by association between the route and the type of capital owned or accessible to individual traders. The concept of funding was introduced to describe a feature of crossing where the choice of the route to be taken while crossing the border with goods is dependent on the type of capital one can access.
The essence of the argument put forward here is that the formal border crossing environment between Kenya and Tanzania at Isebania/Sirare border affords little space for the informal cross-border traders. Problems in exchange are generally exacerbated by high level of background uncertainty in terms of the regulatory environment. Formal cross-border traders with the type of capital they own enjoy a comparative advantage.

By contrast, the relative persistence of the informal cross-border trade despite the free trade area between the East African countries could be explained by the reliance on the funding emanating from social capital generated as a result of the interaction between the traders themselves on one hand and other actors on the other hand. Informal cross-border traders have been able to rely on the social capital which they continuously build as they go through the process of crossing the border informally with goods. In contrast, it was hypnotized that the position of the formal cross-border traders has not resulted in similar position when crossing the border. In summary the relative persistence of informal cross-border trade can be understood as a result of logical outcome of opportunity created by socially developed capital.

Informal cross-border trade generates a range of potential gains. The concept of social capital captures how the gains are generated. The face-to-face transactions associated with informal cross-border trade also raises the possibilities of active cooperation between the traders. Social capital may provide regulatory mechanisms, often through unsaid rules, codes and reputation on trading relationships. Trading networks, trust relations and norms of behaviour do minimise transaction costs and ensure that the threat of opportunism by collaborating traders does not override the potential gains of cooperation.

In order to protect themselves against these misfortunes, the funding generated through social capital appears to play a central role in not only the inter-trader relations but generally also with all the chain of actors that have to get involved for the successful crossing of the border. The traders reported various ways of developing and maintaining such relationship through the use of the various elements of social capital.
Networks which are a major component of social capital is necessary for the successful operation of the informal cross-border trade. Generally, for the informal cross-border trader the exchange process does not just involve the simple exchange between the buyer and the seller. Before the customer finally receives the goods from the point of purchase to the point of physical possession on the other side of the border, the exchange process must as a matter of necessity involve other actors to facilitate its passage across the border. One transaction triggers a series of other coordinated actions. The informal cross-border trade goes on not only because of the relations between the traders but also other actors within the border region.

The first set of such actors includes the customs officials who threaten to charge some form of duty if they are not given some money without issuing receipt (form of bribe). Normally, the receipt they give does not reflect the full amount paid for the products. The second set of actors consist of the border police who participate in the informal cross-border trade by institutionalising the payment of ‘set’ (see chapter 6) as the traders pass the informal border crossing point. The third set of actors is the moneychangers who give such services to all the customers that trade across the border. The money changers at times give advice to the new traders on where to get the goods, and how to cross the border with the goods through the transporters. In most cases the moneychangers refer these traders to the traders and the transporters that they know and deal with on a regular basis. The fourth sets of actors are the transporters and the deal chasers. While the transporters move the goods physically from one side of the border to the other, the deal chasers do the payments at the border customs as the goods pass by.

We might say that the essence of the market in this view is the nature of coordinated action involved. The analogy of division of tasks in the process of crossing the border can be made of division of labour in firms to minimise production costs. In the case of the border trade, the coordination results in the reduction of cost of trading by limiting the time spent on crossing through the division of tasks and probably in the actual amount paid through the deal chasers, the customs officials and the border police.
At a personal level, the traders have to rely on reputation that is built through networking with fellow traders. Reputation is important where trading does not consist of one-off transactions. In trading environments such as the border region, where formal institutions in the shape of courts, laws and contracts are non-existent, informal trading ties can be critical to doing business. The traders have to build and use horizontal, frontward and backward ties. To minimise the transaction costs, the traders use the horizontal ties to coordinate the purchasing as well as selling functions. In purchasing for example, they send fellow traders to purchase on their behalf but share the space in the means and the resulting cost of transportation of the products. The traders who have to get the goods from the hinterland of either country to the border region tend to purchase from the same source. The general positioning of traders in similar products next to each other may be important in their sharing of some facilities (such as heavy duty weighing scale), which in most cases are too expensive for each individual trader to own. The positioning of the premises is also strategic to them in serving their customers effectively as well as cross checking on the customers’ reliability from fellow traders.

The backward ties with the suppliers and forward ties with the customers are mainly used as a means of receiving and giving credit, securing supplies and selling the products. In both ties, the informal networks acts as a security for the trader extending credit facility because the networks can be used as a means of enforcing payment and tracing the culprit in case of default. The trader receiving credit must somehow be traceable through these informal networks as a precondition.

The importance of the use of networks to obtain credit is amplified by, on one hand, the inability of the traders to borrow capital from the formal institutions such as banks. The majority of the traders cannot fulfil the prerequisites stipulated by banks and other credit institutions. On the other hand, those operating in products that are seasonal, in which the traders respond to supply pressures, are likely to show more cooperation with the buyers by lending more during those times of glut. When the supply is plenty, they have to rely on customers known through networks to buy in large quantities on both credit and cash basis. Similarly, when there is shortage of a given product the traders have to rely on information and help from a network of relatives, friends, agents and even suppliers to secure the supply of such products.
Closely related to the networking is the element of trust. In the coordination of the process of initiating and completing the buying and selling process through a network of actors mentioned above, there must be some element of trust among them. The actors deal and cooperate with those known to them or introduced to them by at least one of the other actors in the circuit. For example, the customs officials normally deal with the transporters or deal chasers known to them. They do not deal with the traders who are the owners of the goods on which the duty is to be paid. Also, most of the traders selling in bulk to the customers coming from outside the border region always have to recommend to them the transporters to cross the border informally with the goods. Such transporters are known to the traders and are expected to know and use their contact with the rest of the actors to facilitate the movement of the goods from one side of the border to the other.

Also, credit is given to trust-based and trust-tested trading relationships. Credit is only given to those who have been purchasing from the same trader for some time. Initially, only a small proportion of the total sales are given on credit at a time to test the reliability of the customer. The amount given on credit is increased gradually as the customer also comes more regularly. In most instances, as the ratio of credit sales to total sales increases, the trader makes an attempt to know the premises of those customers who are normally based outside the border region. Such customers are normally based on the opposite side of the border with the seller, but there are a few instances when they are based on the same side. The customers to whom credit is extended normally come in groups which are known to the traders. These customers come in groups according to where they are coming from, and the means of transport that they use. Thus in terms of transport, they use certain buses, which come and leave at specific hour of the day. Such groupings form informal contacts through which the traders at the border can trace any customer who has not paid his/her credit. Sometimes, a pre arrangement can be made for any of the group members to be sent by the debtor to come and pay the border based trader who had given that credit. Thus, the credit taken is not a secret between the buyer and the seller, but is known to most members of the group. In fact, the customers can be heard holding a conversation of what quantity of goods each one of them has taken on credit. Closely related to trust is norm as an element of social capital.
Norms are an important part of social capital that is drawn on by the traders when making decisions on whether to trust an individual. Norms of reciprocity are the most visible norms. Reciprocity can be seen as both calculative and cumulative when building part of working relationship. There are also some more generalised norms which can be observed to be applicable in almost all the situations in a given region.

The generalised norms are evidenced in almost all the trading transactions at the border. Examples can be expressed by the greetings to the customers ‘karibu Mteja’

welcoming them to purchase. Also, much as the customers are selling and buying in two different countries, they can use any currency on any side of the border. Most of the traders whose premises are situated at the border also act as money changers. They all seem to know the applicable exchange rate at any given time. But the rate of exchange they use is usually slightly lower than the quoted rates. In almost all situations where credit is given, there is an implicit interest rates used in the credit sales. The credit facilities is usually extended to customers who buy in bulk, and are normally charged slightly lower prices.

The calculative norms are evidenced by credit being given to those customers who pay their credit. Those customers who normally meet their credit obligations are the ones who qualify to get credit again in future. If a customer fails to pay credit when due as per the terms of the agreement then they kind of disqualify themselves from getting credit from the same source in future. This amounts to loss of working capital for such customers.

A significant conclusion that emerges from the review of the informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border is that the funding from social capital cannot be viewed independently from entrepreneurship. The evidence strongly supports the issue that the entrepreneurship among informal cross-border traders is related to their accumulation and use of social capital. In a trading environment such as the border region where formal institutions in the shape of courts, laws and contracts have no sway, informal social ties can be critical to good

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49 Karibu is a Swahili word which means welcome. ‘mteja’ means customer.
business. Reputation is important where sales/purchases are not one-off transactions. An entrepreneur’s business reputation is also socially constructed, and economic ties influence social standing.

9.3 Limitations of the empirical work

Although the cases and the survey data indicate a strong support for the hypotheses and the broader argument, it is important to recognise the limitations of the primary empirical work.

The fieldwork methodology was necessarily based on triangulation of two research approaches, the first one ethnographic in nature and the second being survey. However, in a number of important respects there were limitations to the implementation which could undermine the work. Ethnography requires long term investigation and immersion in the field. Although the research exercise involved considerable contact on a large number of occasions with the traders, there was little opportunity for direct observation of the events studied. Access is a critical problem here. Although traders were for the most part happy to discuss their affairs within the context of their own premises, supported by the explicit understanding to maintain confidentiality, it was clear that more observation would not have been feasible. Practically the exchanges and the processes which the research sought to investigate did not occur in simple one-off meetings or other events. Reliance on the reporting of the participants is thus inevitable. However this leads to the threat that the events reported are subject to systematic bias, most obviously form ex post rationalisation by the respondent.

A greater use of the triangulation would have been highly desirable in attempting to control for systematic biases in the reporting of events. Interviewing other participants in each of the critical exchange tasks would have been particularly valuable, both as a primary source of comparative data – from the differences in the way participants see things and as a means of controlling quality – determining whether there is consistent in the evidence. Regrettably access problems rendered such an approach impossible.
Although the study of four products in two sub-sectors has advantage in attempting to control for extraneous factors, it does lead to the question of whether the findings are strictly generalisable to the wider argument. Also, despite the limitations, I feel that the results give a fair picture of cross-border trade not only in the four products studied, but all the other products that are traded across Isebania/Sirare border.

9.4 Recommendations

9.4.1 Theoretical perspectives

The examination of informal cross-border trade has drawn heavily on the emerging social capital theory. There has been a marked interest in the last decade in the application of these ideas to problems of economic development. This thesis has shown the fecundity of the theory. In doing so, we have developed a framework for the analysis of the exchange process which allows for the application of social thought to a range of questions. The aim has been to show how the social approach can be used to describe more clearly how actors are embedded within the wider social environment. The work here represents a modest contribution to the emerging empirically based literature on social capital theory.

The key concept of funding has been introduced here in order to be, on one hand, inclusive of all the capital dealt with in the thesis and, on the other hand, to increase the richness of the description of the social environment. It is a concept which it is argued has special relevance to the context of the late developing economies. With globalisation and liberalisation since the last half of the last century, profound changes have been wrought in the social structure of many economies within the developing world. From the social perspective, the resultant funding can be expected to have potentially profound impact on the trading regimes of those economies. It is speculated that the important characteristic of funding is the tendency to reproduce. There is the promise of improving understanding of social change by further examining this question.

Although fieldwork methodology was based on both qualitative and quantitative methodology, there was more emphasis on the qualitative nature of it. This has given a general picture of how the informal cross-border trade works. In future, other methodologies could be used to cover more of the quantitative data.
Finally the application of the concept frame to understanding questions of cross-border trade has been very promising. In the review of the literature there was found to be lack of convincing theories explaining the binary nature of the routes. The approach taken here may be usefully applied to other contexts.

9.4.2 Future investigations

Returning to the question of informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border, while the empirical work has increased the knowledge of the informal cross-border trade and shown significant support for the argument and the concept frame, much work remains. Further work is needed simply to describe the informal cross-border trade at Isebania/Sirare border. More statistics regarding the volume and types of goods are needed, preferably in a comprehensive study.

More goods from the same sectors and other sectors need to be examined in order to determine the generalisability of the conclusions drawn here from the four goods from the two sectors. Empirically the weaker area of the research has been the formal cross-border traders. A set of in depth case studies of various formal cross-border traders is needed.

The study could be extended by tracing the goods both backwards to their source and forward to their destination. This idea was found to be too complicated and expensive for this study. As a follow up research, it would have merit, especially if it could show that sources and/or destinations differ for informal and formal trade routes.

This study is based on informal cross-border trade between Kenya and Tanzania at Isebania/Sirare border. The border crossing point cuts through the Kuria sub-tribe. It would be interesting to know how the informal cross-border trade is done in other parts of the borders within the East African Community cutting through the nomadic tribes. Other future work can also be done in borders within Africa not governed by any regional trade agreement.

Broadly it is argued that further work in this area is of considerable importance. Although the findings from this study are tentative, the implications are highly
relevant to policy. There is a major global and regional interest in encouraging cross-border trade. We have argued at length earlier that attention is strongly justified given the need to expand the regional markets (§2). If interventions in support of the phenomena are to be successful then it is crucial that they are designed in the context of an understanding of the problem and its origins. Accepting the tentative nature of the conclusions from the study, we now turn to consider the implications for the policy.

9.4.3 Policy recommendations

This study places the development of the informal cross-border trade between Kenya and Tanzania at the heart of regional trade agreements. We have argued that the persistence of informal cross-border trade despite the region being a free trade area should be a matter of considerable concern. Central to the origin of the informal cross-border trade is the notion of funding. Attempts to improve the exchange environment for the informal cross-border traders should therefore focus on how this funding from the social capital can be maximised or mitigated.

At the outset it is crucial to note that the minimisation of funding cannot be achieved by simple regulation. A policy objective of minimising regulation as a route to enabling cross-border trade is, according to analysis developed here, can be very dangerous. Moreover, it was noted that non-tariff barriers such as customs, immigration, administrative procedures and regulations and licenses, have not been fully eliminated and negatively impact on trade and co-operation. Informal cross-border trade forms an integral part of the regional economy. It should therefore be included in conceptions of regional patterns of trade and in policies concerned with developing regional economy and poverty reduction through the promotion of regional and economic linkages. Any renegotiation of the regional agreements, including the protocol on free trade, should also take account of informal cross-border trade to ensure that informal entrepreneurs are not disadvantaged in comparison with their formal sector counterparts.

Given the transnational nature of the business of informal cross-border traders and their movements, the regional initiatives should pursue a program to sensitize local government officials to the constraints faced by informal cross-border traders and
promote regional integration-related policy reforms. To downplay the general feeling between nations that one country is benefiting more from free trade than the other, successful exporting nations should channel some lobbying efforts through a well-developed structure of cross-border traders' representatives that continuously and aggressively promote the business communities viewpoint to the government.

Finally an area of tremendous potential importance is breaking down the barriers between the formal and the informal cross-border traders. This could be done by the two states directly and indirectly fostering the creation of social capital by providing necessary public goods such as property rights and public safety. Given a stable and safe environment for public interaction, crossing of the border at any point, and property rights, it is more likely that trust will arise spontaneously as a result of iterated interactions of rational individuals. Failure to facilitate this sector of trade means that it will not be able to develop the potential of this sector to: contribute to poverty alleviation, the development of the regional markets and entrepreneurs to bring together informal and formal sector activities.
REFERENCES


250


Cross Border Trading between Isebania and Serare

Legend:
- Mosque
- Border Road
- Temporary Structures
- Other Roads
- Panya Roads
- Other Structures
- Main Road
- Immigration
- Temporary Fences
- Oil Selling
- Market
- Rice Selling Areas

Kenya

Tanzania

Scale 1: 10,000
# APPENDIX B

## CLASSIFICATION OF TRADERS BY TRADE ROUTES

<table>
<thead>
<tr>
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<td>Total</td>
<td>86</td>
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<td>43</td>
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</table>

**Key:**

- 0 is the trader not using the indicted route
- 00 the customer not using the indicated route
- 1 the trader using the indicated route
- 01 the customer using the indicated route
- - the traders who did not indicate the routes used
### Table 7.1a: Human Capital vs. Trade Routes

<table>
<thead>
<tr>
<th>Variables</th>
<th>Trade Routes</th>
<th>Pearson Coefficient (Sign.)</th>
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<tbody>
<tr>
<td></td>
<td>Formal Route</td>
<td>Informal Route</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Trade related training</td>
<td>3.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Apprenticeship</td>
<td>39.4</td>
<td>50.3</td>
</tr>
<tr>
<td>Parents in Business before</td>
<td>45.5</td>
<td>53.5</td>
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</table>

Source: Author Survey

### Table 7.2b: Occupation Previous to Business

<table>
<thead>
<tr>
<th>Previous Occupation</th>
<th>Formal Route N = 33</th>
<th>Informal Route N = 159</th>
<th>Pearson Coefficient (Sign.)</th>
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<tr>
<td>Regular public sector</td>
<td>6.0</td>
<td>3.8</td>
<td>5.558 (0.474)</td>
</tr>
<tr>
<td>Regular private sector</td>
<td>15.2</td>
<td>5.7</td>
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</tr>
<tr>
<td>Casual public sector</td>
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<td>1.3</td>
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<tr>
<td>Casual private sector</td>
<td>12.1</td>
<td>20.8</td>
<td></td>
</tr>
<tr>
<td>Farmer</td>
<td>60.6</td>
<td>59.1</td>
<td></td>
</tr>
<tr>
<td>Others</td>
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<td></td>
</tr>
<tr>
<td>None</td>
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<td>5.0</td>
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</tr>
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</table>

Source: Author Survey

### Table 7.3c: Highest Level of Education

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Formal route N = 33</th>
<th>Informal route N = 159</th>
<th>Z- values (Sig.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>3.0</td>
<td>2.5</td>
<td>-0.868 (0.385)</td>
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<tr>
<td>Some primary</td>
<td>9.1</td>
<td>12.6</td>
<td></td>
</tr>
<tr>
<td>Completed primary</td>
<td>45.5</td>
<td>48.4</td>
<td></td>
</tr>
<tr>
<td>Some secondary</td>
<td>12.1</td>
<td>15.1</td>
<td></td>
</tr>
<tr>
<td>Completed secondary</td>
<td>27.3</td>
<td>20.1</td>
<td></td>
</tr>
<tr>
<td>A level</td>
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</tr>
<tr>
<td>University</td>
<td>0.0</td>
<td>1.3</td>
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</table>

Source: Author Survey
Case one: Mohamed Abdul

Abdul is a male Kenyan national of Somali origin, who is 46 year old. He has 11 siblings all based in North Eastern province of Kenya, except the eldest brother who is in Europe. The brother based in Europe is not in touch with the rest of the siblings. All the siblings do not have any formal education except the one in Europe. Abdul also is not in touch with any of his siblings and relatives except his mother in law who is based in United States of America. Sometimes she sends him money to boost his business. He has eight children with the first-born from a previous marriage studying at a University in Kenya. Six of the children are still in primary schools within the border region. There is one child who dropped out of secondary school in form two as a result of constant poor performance.

Abdul has a small-scale trading business situated in Isebania on the Kenyan side of the border. He is the sole owner of the business, which deals in groceries on retail/wholesale basis. Cooking oil is one of the major products that he sells. Basically, he is the one who mans the cash counter when within the trading premises. The business has one permanent employee of Somali origin and one casual worker. The casual worker works everyday but is paid on daily basis. Both the permanent and the casual worker gets goods to the customers but the permanent one also handles cash when Abdul is not within the business premises. There are other casual workers whose services are engaged when there are a lot of goods to be carried either into or out of the business premises. Their payment depends on the number and size of luggage they carry per day.

D.1.1 Organisations

An association of Muslims who live around the border region is the most important organisation that he belongs to. This association of Muslims has membership on both sides of the border; they go to one Mosque that is situated on the Kenyan side of the border. He also belongs to a clan association with other Somalis trading within the Isebania/Sirare border region. This association has membership outside the border region on the Kenyan side of the border. Some of the members are based in Migori, which is twenty-six kilometres from the border. The members of the association help...
one another if there is a problem like funeral, and any other. It is a loose association where helping each other is not confined to only the Somali's trading at the border, other Somalis who find themselves in any trouble within the border region are normally helped.

Thus, the help is not limited to specific members of the group; it is extended to any person of Somali origin who happens to come to the border region and has any problem. Included in this category are those Somalis who are not from the border region but have any problem with immigration department. If they happen to have any problem with the immigration, they are helped by those based at the border and others from towns like Migori, which are nearest to the border. For example, there were two instances when, some Somalis from the Tanzanian side of the border were trying to come into Kenya through the formal border crossing point without proper documentation. The Kenyan immigration officers arrested them, but Abdul together with some other traders of Somali origin contributed money and paid for them to be released from the police custody. He says that "we have to help each other when one is in need, it does not matter where one is from as long as he is of Somali origin".

Abdul goes to the Mosque many times a day. In fact, he closes his business premises at 1.00pm and 4.00pm every day in order to go and pray at the Mosque. Within the Mosque, he is one of the most active members. He is the chairman of the committee members of the Mosque who want to build nyumba ya kulala, ya kusoma, ya mwalimu,( lodging, room for reading and a house for the teacher) and even houses for renting.

Any problem that he may have is taken care of by the people of the Mosque. If he is in need of money, he borrows from any of the people he goes to the Mosque with. He cannot borrow from other sources, which will demand interest because in his Muslim faith, they do not believe in interest—it is considered “haramu” (unholy, a taboo).
D.1.2 Business start up

Abdul came to trade at Isebania in 1999. He was previously based in Namanga, dealing in clothes and currency. He was selling ready-made clothes from Nairobi and Somali (which he was also getting from Nairobi). While selling clothes, he realised that there was shortage of American dollars and Kenyan shillings at Namanga because of the demand for these currencies from Arusha (the town in Tanzania which is nearest to Namanga border, situated 630 kilometres from Isebania/Sirare border). To gain from this currency shortage, he and other traders used to come to Isebania in order exchange the Tanzania shillings to American dollars and Kenyan shillings. After some times, business in Namanga was not doing well because Tanzanians were also importing clothes from the same sources. As a result, he decided to shift his trading base to Isebania.

When he came to Isebania in 1999, he started with the business of buying maize and rice from Tanzania and selling to Kenya. There was a shortage of maize in Kenya in that year, but rice always moves from Tanzania to Kenya. He traded in maize and rice for one season of the year (about six months). He then moved to buying spare parts from Kenya and selling in Tanzania. He did the spare part business for one year and then moved to buying clothes from Kenya and selling to Tanzania. Lastly by mid 2001, he moved to the current business of buying groceries mainly from Kenya and selling to Tanzanians on wholesale and retail basis. The Tanzanians are both from the border region and the hinterland of that country. He also sells to Kenyans who are based at the border region on retail basis.

D.1.3 Purchases

Abdul purchases most of the goods from Migori and the wholesalers based at Isebania on the Kenyan side of the border. At the border, he purchases from the Kenyan wholesalers as well as Tanzanians who are transiting from Nairobi. He does some of his purchases in Nairobi or Thika (a distance of 399 kilometres from Isebania/Sirare border). However, purchases from such far away places are rare. There are also

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50 This is another border town between Kenya and Tanzania based on the eastern side of Kenya and is about 550 kilometers from Isebania/Sirare border
certain goods that are brought to him to buy by some Tanzanian customers as they come to purchase on the Kenyan side of the border.

Most of the times the purchases at the border and the near by towns are done from the people he knows. He came to know some of them when he was still based in Namanga. There are others that he started buying from and he became their regular customers. Lastly, there are those traders of Somali origin that he purchases from at the border who he was introduced to by friends, specifically, those who are also Somalis like him.

There are also those purchases, which he does on goods brought to him to his shop. These are goods brought by Tanzanians who are his former customers and those who are still his customers. The sellers that constitute his former customers now go to Nairobi to purchase goods, on their way back to Tanzania, they sell some of the goods to him at a price lower than the wholesalers at the border do. According to him, there are also “Tanzanian sellers also bring goods for us to buy. They come to us the shop-keepers, and ask if we need certain goods”. If they place orders for such goods, then the Tanzanians bring the goods either to his premises or up to the border on their side. He makes arrangements for the informal crossing of the border with the goods brought up to the Tanzania side of the border.

Sometimes he goes as far as Nairobi or even Thika to get products like Toss (a washing detergent which was in high demand at that time). He goes that far because there he buys at ex-factory price, which enables him to get higher profits than if he bought from wholesalers around the border region. Also, he goes to Tanzania to get those goods that are in short supply in Kenya, like sugar, spare parts and any other goods that are more profitable to buy on the Tanzanian side and sell on the Kenyan side of the border.

There are some goods that he makes orders by telephone. When he makes such orders, the suppliers’ drivers deliver such goods to his premises. He makes payments for them through the same drivers. Most of such purchases through the telephone are

51 These are goods that are in transit and have not been subjected to VAT in Kenya or any sales tax in Tanzania.
from Migori and further places like Nairobi or Thika. When the sellers from those far places deliver goods, it is not only his goods that they deliver but also other traders’ orders as well.

The mode of payment for purchase are sometimes cash, credit or even barter in some instances. The cash purchases are mostly the ones from as far away places such as Nairobi or Thika. The cash purchases are made when he goes for the goods from Nairobi and Thika or when he rings and the goods are delivered to his premises from such places. The credit purchases are mainly from the people he is well known to who are based within and around the border region. These are the sellers who are mainly operating from Migori and Isebania. Some of the people who own these wholesale businesses are of Somali origin. The purchases from Tanzania are also sometimes done on credit. However, he says that those selling to him on credit are known to him “Kibiashara” (business terms) because biashara laina kabila, (business has no tribe), thus they are not necessarily Somalis only. Even those who deliver goods from Migori are paid some days after delivery when most of those goods have been sold. Because they mainly sell to him on credit, he pays after making some sales, but not necessarily selling their products. His former Tanzanian customers who now purchase goods from Nairobi also sometimes sell to him on credit as they transit the border to the hinterland of Tanzania where their businesses are based.

The items that are brought by Tanzanian sellers from their side of the border are sometimes sold to him on cash, credit or in exchange with any other good that are in shortage in Tanzania. The Tanzanians some times bring to him goods which are also available in Kenya but because of currency parity, the profit margin is higher if he purchases from Tanzania than if he purchased from Kenya. These goods are sometimes exchanged with others with similar values, instead of him paying for them in cash.

D.1.4 Sales

Abdul sells his goods at both wholesale and retail prices. The wholesale buyers are mostly Tanzanians who mainly purchase to go and resell. There are also Tanzanian customers from the border region purchase at retail prices for domestic consumption. Most of the Kenyan customers are from the border region who purchase on retail
basis for domestic consumption. However there are a few Kenyan customers who buy at wholesale prices for resale.

Most of the Tanzanian customers who buy in bulk are regular customers that he has known for a considerable period of time. He came to know some of them when he was still based in Namanga, he used to buy and sell currency to them. There are other customers that he came to know when he was trading in maize, spare parts and clothes. Some of these customers have also been trading in various goods. According to him “when trading at the border, one has to keep on changing the products to trade in depending on what is available in one country and what is in shortage in the other”. There is also some set of regular customers who just come to buy from him every week and with time they have come to know each other by name and even nick name. The old customers bring other new ones and so on and so forth. Most distant customers from Tanzania come from Mwanza (which is situated about 150 kilometres from the border).

The customers buying in bulk are given trade discount. There is no price list for both the wholesale and retail sales. The prices quoted and used for selling to the retail customers are basically the same. But for the wholesale customers, the selling prices depend on the quantity purchased and the bargaining power of the customers. Those who buy in larger quantities are sold to at slightly lower prices. The Tanzanian customers are sold to in their currency, which is later on converted to Kenyan shillings.

He sells for cash, credit and sometimes on barter basis. He sells on cash basis to most of the retail customers and some of the wholesale customers. The few retail customers who sometimes purchase on credit are basically those running the small hotels that take items like sugar and pay within two to three days. They always pay by the time they come for the next purchase.

He sells on credit to customers that he has known for long, especially the ones from Tanzania. The amount of credit he gives depends on how long he has known the customer and how well they have been paying the previous debts. However, sometimes these well known customers can disappear with the money and he says
that 'those are risks we have to bear'. The customs police sometimes confiscate goods from the Tanzanian customers when crossing the border. According to him, the customers eventually pay for such goods if they bought on credit. They normally pay for such goods in instalments. Such instalments are not paid with any interest. Generally, most of the creditors pay. However, sometimes some people end up not paying all the money, others have even died before settling such debts.

The barter sales are made to those Tanzanians who bring some goods from that side of the border as they come to purchase from his shop. When the customers come with such goods, they exchange them with the type of goods they need from his shop. Care has to be taken to make sure that the goods taken and given have equivalent value.

D.1.5 Transportation

Goods are transported into and out of Abdul’s premises. While most of the transportation arrangements for goods into his premises are done by the sellers, the arrangements for transportation out of his premises are done by him.

In most instances goods are transported to his premises by the sellers. The sellers from the Kenyan side of the border deliver his goods as they do so to other traders who have also ordered. For the purchases done within the border region, the transportation is mainly done by the bicycle transporters who he has to arrange and pay for. The former Tanzanian customers who are now supplying him with goods from Nairobi also make arrangements for deliveries to his premises. However, supplies from the Tanzania side of the border are brought by the suppliers up to the border area and then he has to organise how they are brought from that side of the border to his premises. He has to organise how to informally cross the border with the goods because he is the one who knows the border police and the reliable transporters. The Tanzanian suppliers can be arrested by the police or be cheated by the transporters on the amount payable as "set".

The transportation of goods out of his premises involves the sales to the Kenyan customers on one hand and Tanzanian customers on the other hand. The sales to the Kenyan customers is mainly on retail basis and he does not have to make any transport arrangements for them because they do not have to cross the border with
goods. He however makes transport arrangements for the customers from Kenya who buy on wholesale basis. These goods are transported by the bicycle known to Abdul from his trading premises to the bus stage where such customers take their means of transport to their places of operation. Almost all the Tanzanian customers always have the transportation of the goods across the informal border crossing points done for them by Abdul. According to Abdul, he has to do such arrangements because for one, he finds that the Tanzanian customers are more afraid of the authorities. At the same time the Tanzanians do not know the transporters and he has to minimise the risk of the goods being confiscated. The border police generally only accept “set” from the transporters or traders that they know and deal with many times in any one day.

D.2 Case two: Ben Mwita

Ben Mwita is a male Kenyan national from Kuria sub tribe\(^{52}\). He is 58 year old, with seven siblings, one brother and six sisters. Both he and his brother are married with several children. Mwita and his brother had formal education up to secondary school and were trained and employed as primary school teachers. Mwita has since retired from his teaching job in public primary school while the brother is still in his teaching job. The sisters never went to school and are all married. Mwita has six children. Three of them have completed secondary school, while the other three are still schooling. The remaining three are still in school, two in primary and one in secondary. Of the children who finished secondary school, the first-born is working as a trained primary school teacher while the other two are yet to join any post school training institution.

Mwita is a small-scale trader whose business involves buying and selling maize. He is the sole owner of the business, his main activity is to buy and sell maize on both retail and wholesale basis. The business premises are located at Isebania, on the Kenyan side of the border. He has one permanent employee who does the weighing of incoming and outgoing maize. There are also casual workers whose services get engaged to on or off-load maize to the lorries or any other means of transport in use at any particular time. The payments to the casual workers are based on piece rate basis.

\(^{52}\) Kuria is the tribe that was subdivided by the border boundary such that some of them are Tanzanians while others are Kenyans even if they are from the same family.
He has been in the business of buying and selling maize on a full time basis since his retirement from a teaching job two years ago. Previously, he was working as a full time primary school teacher and part time trader in maize. Currently, apart from trading in maize, he is also a director in a primary school business with a younger brother. He has always worked and done business around the border region.

Mr. Mwita completed secondary school before training as a primary school teacher. He has no formal training in trading. However, he started trading in maize on part-time basis when he was still teaching in nearby primary schools. He keeps records of the weights of maize bought and sold and also the payments and receipts of cash.

He rents the premises where he is currently trading at a rate of three thousand Kenya shillings per month. He owns a pick-up vehicle but does not use it to transport maize; it is used for the school business.

D.2.1 Organisations
Apart from immediate and extended family which he says is tightly knit and helps each other most of the times, he belongs to two associations, a church organisation and a teachers' association.

Mwita is an active member of the Seventh Day Adventist church. He is a church elder, and does not even trade on Saturdays even though that is a very busy market day. He closely associates with the members of the church because that is where his family and even the extended family all meet on Sabbath day. Those who go to the same church with him normally take care of the most important problems that the other church members might be having. One of the problems they take care of is funeral arrangement for a bereaved member of the church. The church does not take care of financial problems related to business that any of the members may have.

He says that there are quite a few of his customers who are members of the same church. Also most of the members of church sometimes refer to him their relatives to come and buy or sell maize. Some of those people sent to him sometimes end up
being very regular customers. They also normally introduce to him other customers and sellers of maize.

He belongs to an association of primary school teachers from around the border area on the Kenyan side. The members of the association are the teachers that he had earlier taught with in the same schools before he retired. Most of the members of this association are still working while some have also retired from their teaching jobs like him. The members of the association normally contribute cash and share to two members at the end of each month on a rotating basis. Apart from such monthly contributions, they also help each other when any one of them is bereaved. Such help is however confined to immediate family of the members of the association and not to the extended family. Some members of this group are his customers/sellers. They sell to him their produce and buy from him when they need. However, there are those who go farther from the border, buy maize from farmers at lower prices and then come and sell to him at slightly higher prices. Thus, they act as middlemen.

There is no association of traders dealing in maize at the border region. Such association does not exist because, according to him, there are very few traders who are always trading in maize due to its seasonality. Thus, during harvest time, there are very many people trading in it on small-scale basis. These part-time maize traders open up stores for buying and selling it at the border during such periods. After harvest season is over it becomes too expensive for most people to trade in maize because they have to move into the hinterland of both countries to either buy or sell it. It is only cost effective for traders who can buy in larger quantities or those who own vehicles like Lorries to trade in maize at such times. However, the traders who are situated next to each other always contribute whenever there is a problem like bereavement of any of the people trading, regardless of their area of trade.

D.2.2 Business start up

Mwita has been in the business of buying and selling maize on full time basis since his retirement from a teaching job two years ago. Previously, he was a full-time primary school teacher and part-time trader in maize for about ten years. The fact that he was teaching in a nearby primary schools made it possible for him to successfully teach and trade at the same time.
He started trading on maize on part-time basis because his children needed more money for school fees for their secondary education than he could afford from the salary from the teaching job. He could not afford to educate them at secondary level with his income as a teacher. His younger brother had also been trading in maize and he thought the business was good. As a trader on part-time basis, he employed somebody on full-time basis to buy maize during the times when he was busy at school. However, the employee was only allowed to buy and not sell maize. He had to confine the activities of the employee to buying only because it is not easy to control the money if he was to do both the buying and the selling. Mwita would also come and buy and sell maize after working hours. During that period, he used to sell most of the maize to the cereals board in bulk.

Trading on full-time basis involves buying and selling all the time when he can afford to in terms of its availability and his having of the necessary cash. Unlike other businesses, his customer base is expected to be as big as that of those who sell to him. He can only sell what he buys from the many sellers. At the time of the study, most of the maize was coming from Tanzania and being sold to Kenyans, both at the border and the hinterland.

Currently, apart from trading in maize, he is also a director in a private primary school business with a younger brother. They started up the school business when he was still teaching and trading on maize on part-time basis. Part of the income from the maize business was invested in the private primary school. Even now, he still uses some income from maize to supplement the school business.

**D.2.3 Purchases**

He purchases maize from both the Kenyan and Tanzanian side of the border depending on which of the two sides has a better harvest. The sellers either bring the maize to his store or he goes to buy it from the hinterland of either country depending on where the produce is available and where is there is a shortage.
From the Kenyan side, those who bring to his store for him to purchase are mainly farmers and middlemen. The farmers mainly bring maize to sell to him during the harvest season. Such purchases from the farmers are mainly in small quantities that they are able to carry on their heads. Sometimes they also use push carts and donkeys to transport the maize to his premises. Included in the list of farmers are his relatives, those he has known in the course of doing business, those he came to know when he was teaching, others sent by those that he knows and those who just bring maize in the course of coming to the market.

The middlemen are the small-scale traders who buy maize from the farmers at a price slightly lower than what Mwita pays to purchase from them. The middlemen buy the maize from the farmers from around the border or the other smaller markets, which are situated further from the border. According to Mwita, some of the farmers and middlemen sell the cereals frequently to him because they trust that his weighing scale is accurate (maize is weighed and bought and sold per kilogram). Such sellers bring each other or send word around about the accuracy of his weighing scale so that more and more people come with their produce. On talking to a few of the sellers, they confirmed that they like selling their maize to him because his weighing scale usually gives at least two kilograms more than what the other maize buyers would give for a fifty kilogram bag. The middle men always use push carts and donkeys to transport the maize to his premises.

He goes to buy maize from the hinterland of Kenya when there is a shortage of it in Tanzania. However, sometimes it is not possible for him to continue to operate on a large scale if the maize has to be bought from Kenya. According to him, getting maize from the hinterland of Kenya needs more resources in the form of cash and means of transport. This is because at such times, to get the maize, one has to go as far as Nakuru and Kitale. (situated 298 and 352 kilometres respectively from Isebania/Sirare border). Also because of the distance, one has to buy in large quantities to fill and hire a lorry. The problem at such times is that it is expensive to hire the lorries because payment is based on mileage and the number of days the lorry is used. But, sometimes it takes many days to get the produce. Also if the lorry breaks down (most cases one cannot be sure of its mechanical condition), the period of payment becomes longer because of the time it takes to get the lorry repaired. At such times, there is also the
risk of the maize being stolen on the highway as one waits for the repair work to be done. There is also the added expense of paying tips on the many roadblocks erected by police on various parts on the Kenyan roads. During such periods, it is mainly those people who own lorries who manage to get the maize from the Kenyan side to sell to the Tanzanians at the border.

From the Tanzanian side, he purchases maize from those who bring it to his store and also goes out to buy it from that side of the border. Those who come to sell include his relatives, brokers, those he has come to know in the course of doing business and others who just come.

The relatives from the Tanzanian side who bring maize to his store know him. According to him, when the border between the two countries was demarcated, "the border cut through families but we still operate as families, not like people from two different countries". This means that even in matters like business they regard one another as family members they don't treat each other as coming from two different countries. Some of these relatives cross the border with the donkeys carrying maize through the 'panya' routes, while others who bring in smaller quantities use head carriers. These relatives who come from Tanzania have also introduced to him their relatives and friends as sellers of maize. More often than not, Mwita retains most of those suppliers introduced by relatives.

He also buys maize from Tanzania through brokers. Brokers are Tanzanian sellers who have obtained a licence authorising them to transport maize in bulk within their country. Sometimes they buy from traders who bring maize from the hinterland of Tanzania to the border to sell. After purchasing maize in bulk, the brokers bring the maize to the border area on the Tanzanian side and then go to the Kenyan side to look for market for it. Often, they are seen coming to his store to ask if he needs to purchase some maize. Mwita buys maize from the same brokers. A friend who had been dealing with him introduced him to the first broker. There after, he came to know other brokers through the first one. He normally purchases maize from the same brokers that he has always known. According to him, "if you deal with somebody you don't know well, you can easily be conned". The goods purchased from the brokers on the Tanzanian side can sometimes be transported in the trailers across the border.
and customs paid at the rate of Kshs. 120 per sack. A lorry carries 100 sacks of 90 kilograms each while a trailer carries 150 - 200 of similar sacks of maize. Such maize can also be transported by bicycle through the “panya” route and “set” paid to the border police. The maize is transported over night or for a period of two nights, depending on how many bicycle transporters are doing the work. The bicycle transporters must be known to the purchaser to avoid any loss of maize while crossing the border.

Mwita also goes to Tanzania to purchase maize in groups with other traders. The maize is purchased from the markets in Tanzania. The nearest market is Tarime (which is 15 Kilometres from the border). Sometimes they go as far as Mwanza (which is 250 Kilometres from the border) to purchase maize. He goes to Tanzania in a group of three or four traders to fill a lorry of one hundred bags of ninety kilograms each. However, they do not just go to these markets with traders from Kenya only, they must be taken there with somebody from Tanzania. He says, “We must be connected by somebody we know from the Tanzanian side”. That person must know the market conditions and the prices; otherwise “the Tanzanian sellers can cheat one”.

There are those sellers whom he has come to know in the course of doing business. These are the suppliers or farmers who just come to sell their maize at his store. However, sometimes they come back again and again and then become regular customers. He says that you have to talk nicely to the customers in order to win them.

**Purchase routes**

Generally, the networks of the purchase routes of the maize from Tanzania to Mwita’s store can be as follows:

- Farmers - Mwita’s store
- Farmers - big buyers - border (broker) - Mwita’s store
- Farmers - small buyers - market (Tarime to Mwanza) - big buyers - border (broker) - Mwita’s store
- Farmers - small buyers - market (Tarime to Mwanza) - Mwita’s store

He purchases on cash basis from those who supply in small quantities even if he knows them. Those who sell in larger quantities but are not his regular suppliers are also paid in cash. The middlemen and brokers, who supply larger quantities but are
known to him, sometimes are not paid if his money is still held up in unsold stock. Thus, he purchases on credit from the regular suppliers regardless of which side of the border they come from. But the purchases, which he does from the Tanzanian markets are strictly on cash basis, because even though the people they know take them, the actual buying is done from the people they do not know in the markets. The people in the markets are Tanzanian farmers, traders or middlemen.

D.2.4 Sales
He sells to Kenyans and Tanzanians depending on where the maize is available and where there is shortage. At the time of the research, there was shortage of maize on the Kenyan side of the border, so it was moving from Tanzania. This means that all his customers were based on the Kenyan side of the border, starting from the border region to as far away places as Sindo (situated 150 kilometres from Isebania/Sirare border) in Suba district and generally the lowland areas of Lake Victoria. He sells within the store but sometimes he takes it to other markets in different regions. Within and outside the store, he sells to both regular and irregular customers. He also sells to Kenya National Produce Board and millers and supplies schools on order.53

Within the store, he sells in small and large quantities. The small quantities for domestic consumption are generally sold at higher prices than the larger ones, which are bought for resale. All those who buy in smaller quantities are situated at the border region on both the Kenyan and Tanzanian sides. There are a few people from the border region who buy in moderate quantities like one sack for resale.

Those who buy from within the store in large quantities are mainly from the hinterland of Kenya. They buy at wholesale prices for the purposes of reselling in markets where there is shortage of maize. Most of them come regularly, e.g. once a week or a fortnight. The traders who come from the same markets/shopping centres normally come in groups. They use same buses with the traders from other markets; this makes most of the customers from same regions to generally know each other and tend to buy from the same traders.

53 Kenya National Produce Board is a parastatal, which was set up by the Kenyan Government to purchase maize during the harvesting season, store it and sell to areas where there is less harvest and even the areas they have bought from if there is shortage later on. This in effect was to reduce the fluctuations in maize prices
Sometimes he takes the produce to the Kenyan markets on the lowland areas of Lake Victoria in Suba district on market days in a hired lorry. On a good day, he can manage to sell all the 100 sacks of 90kgs in one day. Sometimes he sells for a longer period of three to four days. In those markets, he sells to customers that he had previously known from his stores and their friends that they introduce to him. He also sells to other people, who have come to such markets, whom he does not know. According to him, 70 per cent of the people he sells to on those trips, are the customers (including those they have brought) who normally buy from his store at the border. When he sells the produce for a period longer than one day, he normally gets accommodation for himself and storage of his goods from one of the trusted customers.

Once in a while, he goes to those interior areas of Kenya to do market survey on the selling prices and to check on the harvest season. First, he goes there in order to avoid being cheated about the selling price of maize in those areas. According him, "sometimes when the customers come buying, they quote the price at which they are going to sell the products. These prices are sometimes deliberately quoted low to make us sell at a lower price as the customers increase their profit margin." Second, he goes to ascertain if the maize plantation is nearly ready in those areas to avoid overstocking and buying at a price at which he will not be able to sell without making losses. This is because when the harvest is done in those areas, he might not be able to sell the maize at the prevailing prices. At the same time, they might harvest enough, so there might not be market for his product there.

Within and out of the store he sells to regular customers. These are customers who have been buying from his store for some period of time. They know each other by name with the customers who come regularly. Some of the irregular customers also become regular after buying from him a number of times. The regular customers direct and bring other customers who also become regular after purchasing maize for some time.
Apart from individual customers, sometimes he supplies to schools on order and also sells maize to the National Cereals Board\textsuperscript{4}. However, to be able to supply a school with maize, one has to be introduced by a friend or a relative. According to him, “It is easier to get such order if you know the head teacher or if you are introduced to him by a friend or a relative”. Currently, he supplies maize to his brother’s school and two secondary schools around the border on the Kenyan side. At the moment he is not taking maize for sale to the National Cereals Board because they take dry maize with less moisture, which means losing on the weight of purchase. Also, they only take one colour of maize, which is not easy to get if it is not harvesting season. But the cereals board has two problems. First, they delay in making the payments for the maize delivered. Second the government of Kenya sets their prices of buying the maize, which sometimes does not take into consideration the fluctuation in supply, hence its cost to the traders.

Sometimes he sells on credit to the customers he knows. These are mainly regular customers that he has been selling to for a period of time. Such customers address him by his name, just as he also knows their names. But, according to him selling on credit is not good because, sometimes they pay on instalments and may also disappear with the money—“but we need the cash to purchase and keep stock”.

\textbf{D.2.5 Transportation}

Mwita owns a pick-up vehicle but does not use it for transporting maize. It is used for the school business. He hires lorries to transport the produce to the hinterland of Kenya. The maize he buys from Tanzania and transport in groups with other traders is brought up to the Tanzanian side of the border in hired lorries. From there he uses bicycles to transport the maize across the border to the Kenyan side. On crossing the border, he goes mainly through the panya routes at night, especially after 11pm when the border police are asleep or after making arrangements with them to pay less ‘set’. The amount of goods passed through the “panya” routes depends on what is available at the time. “You can pass through contents of a whole lorry in two days – at night – to avoid paying customs duty”. He goes through ‘panya’ routes because, for one, you can go through free and, for another it is cheaper to pay “set” than to pay customs

\textsuperscript{4} He was referring to supplying schools on order as supplying on tender, but it is not open to competitive bidding.
duty. At the time of the study, the customs duty was one hundred and twenty Kenya shillings per a sack of maize, making the duty payable for a lorry load be twelve thousand Kenya shillings.

He also uses hired lorries to transport maize into the hinterland of Kenya. He would hire the lorry alone because, it is cheaper to transport on the Kenyan side. Also it does not involve much cash flow because he normally transports maize which had been purchased earlier. What is paid to the Kenyan police at the roadblocks within the country is also little compared to what has to be paid in order to pass through the border from Tanzania side. On going to Tanzania side, even if one can afford to buy a lorry load of maize, it is important to team up with others for security of the buyers and for getting accurate information about where the maize is available.

The goods are transported to his premises using head carriers by the farmers. The middlemen mainly use push carts and donkeys. The middle men from the Tanzania side, who use donkeys as means of transport, come very early in the morning to avoid congestion of the informal border crossing points and also in order to pay less “set”. The brokers use lorries or trailers up to the border on the Tanzania side but, in most cases, Mwita has to organise with the bicycle transporters to carry the goods across the border through the panya routes. He organises the informal crossing of the border because, in most cases, the brokers do not know the transporters or the border police.

The buyers from the Kenyan side of the border mostly use buses which transport them from the markets where they operate to the border. Sometimes they team up and hire lorries or individually hire pick ups. Those who come by buses or hire lorries do so in groups which are formed on the basis of where they come from. They may be coming from the same market or different markets situated in the same area. In most cases, he knows some of the customers within the groups. In some instances, he can even find that he knows all of such customers by name.

D.3 Case three: Jane Piri

Jane is a female Tanzanian national from Wasukuma sub-tribe. She is 38 years old. She has five siblings, two sisters and three brothers. One brother is working as a civil engineer in Dar es Salaam, another one is a farmer, while the last one is still in
secondary school. The two sisters got married after completing their primary education. She is married as a first wife with five children. The husband has another wife who is based at home running a small grocery business there and also farming. All her five children are in primary schools on the Kenyan side of the border, where she considers standard of education to be higher than those in Tanzania.

Jane has a small-scale groceries trading business situated at Sirare on the Tanzanian side of the border. The business deals in cosmetics as one of the main products. She owns the business together with the husband. She has no permanent employees. Sometimes she employs the services of casual workers to help her carry heavy loads, especially when she has purchased in bulk. She is the main person who sells at the shop most of the times, but sometimes if she has to go anywhere for a long period of time, such as going to purchase, she organises with her husband to stand in for her. When she is out for a short time, the children are usually left to mind the shop. When the children are minding the shop, they normally go to call her if there is a customer who wants to purchase in bulk and she is within reach.

Jane comes from Magu (a small town in Tanzania, situated 250 kilometres from Isebania/Sirare border) in Tanzania. She came to Sirare to do business in 1998. Previously, she was doing the business of selling special clothes. She used to buy them from the border region and sell them in Magu, her hometown. Jane is also a trained tailor. She was tailoring at Magu before venturing into trading in special clothes from Kenya to Tanzania through Isibania/Sirare border. When the income from the clothes business started declining, she moved to rice business after comparing the prices at Isebania and that at Mwanza which is situated close to Magu her home town. She moved from rice trading to cosmetic business two years ago.

D.3.1 Organisations
She is a member of three organisations, where she regularly contributes money. The fourth organisation, which she belongs to but does not involve regular contribution of money and comes in to help if a member has a problem, is the church which she

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55 Special clothes refers to ready made clothes which were then being imported into Kenya from other countries, and then bought by Tanzanians through Isebania/Sirare border.
attends every Sunday. Two of the money contributing organisations are based in Magu, her home town in Tanzania. The third one is based in Sirare where she is currently trading at the border.

The first Magu based association that she belongs to is a tailoring group, which she had joined before coming to Sirare to trade. The group members contribute money at the end of each month. The contribution is then given out to each member on a rotating basis. She takes her monthly contributions to the group whenever she is going to purchase cosmetics any time around the end of the month. This means that sometimes she takes her contribution just before the end of month while other times it is taken after month end. She gets her shares when it is due to her at the beginning of the month after the others have contributed by the end of the previous month.

The second Magu based organisation that she belongs to is FINKA a non-governmental organisation (NGO) for lending money to traders who are members of any trading group. The NGO lends money at an interest rate of 25% per annum to only those individuals who belong to traders' based associations. The two Magu based associations are connected in a way. She joined FINKA after becoming a member of the tailoring group. Thus, they started the tailoring group in order to be able to access the loan, which was being given by FINKA.

At the border, she belongs to a group that is made of people whose trading businesses are situated in the same area as hers and are within reach. The members of the group do not necessarily trade in the same goods; most of them actually trade in groceries. Here they contribute money weekly and give to any of the members on a rotating basis. When she gets her contribution, she normally uses it to buy more stock for her business. But the last time (when I was there) she used her share of contributions to take her sick child to hospital. Apart from these weekly payments, they also contribute some specified amount of money if any of them losses an immediate (comprising of wife, husband, and a child) member of the family.

The last organisation that she belongs to at the border is the church where she goes. She is a protestant who goes to church every Sunday, a day when she does not even open her business premises. Jane does not hold any official position in the church but
is an active member who helps the others when they are in need. On Sundays, after the church service, she and a few members of the church go praying for the sick and recently bereaved members. She also considers belonging to church as a kind of association, which helps its members whenever one in need. For example, when her child died, the church members played a big role in the funeral preparation. The church members contributed money and were responsible for cooking and feeding the mourners. According to her, since her home district is far from the border region, the church members are the people she considers to be very close to her.

D.3.2 Business start up
Jane has a small-scale groceries trading business situated at Sirare on the Tanzanian side of the border. The business deals in cosmetics as one of the main products. She owns the business together with the husband who also provided some capital for starting up of the business. However, some of the starting up capital was the savings that she had made from the other businesses she had done previously; tailoring, selling of special clothes and rice at the border.

She has no permanent employees. Sometimes she employs the services of casual workers to help her carry heavy loads, especially when she has purchased in bulk. She is the main person who sells at the shop most of the times, but sometimes if she has to go anywhere for a long period of time such as going to purchase, she organises with the husband to stand in for her. When she is out for a short period of time, especially over lunchtime, or when she goes to collect credit from her customers on the Kenyan side of the border, the children are usually left to mind the shop. When minding the shop, and she is within reach, the children normally call her if there is a customer who wants to purchase in bulk. Even the children know these customers who regularly buy in bulk.

Jane comes from Magu (a small town near Mwanza) in Tanzania. She is a trained tailor, and was tailoring at Magu, before venturing into trading in special clothes from Kenya to Tanzania through Isibania/Sirare border. She had been doing special clothes business, buying from Kenya and selling in her hometown in Tanzania through Sirare/Isebania border since 1998. She was buying special clothes from Isebania or
Migori on the Kenyan side of the border, crossing the Isebania/Sirare border informally and then going to sell at Magu. When the income from the clothes business started declining, she ventured into rice business at the border after comparing its prices at Isebania and in Mwanza. Thus she came to settle in Sirare to sell rice initially. Then she moved from rice trading to cosmetic business two years ago because rice trading involved too much traveling and she had a baby.

D.3.3 Purchases

Jane purchases her stock of cosmetics from both Kenya and Tanzania. Only a few types of cosmetics are bought from either Isebania or Migori on the Kenyan side of the border; the rest are purchased from Tanzania.

While purchasing on the Kenyan side, she goes to the shops where people know her because, "if you buy from them often, they come to know you and they can give a good price. Also, after some times, they can extend a little credit if you don’t have enough cash, biashara ni kujua (business is about being known)". She buys in small quantities one or two boxes at a time. These are transported to the Tanzania side of the border by bicycle transporters. Usually she knows, and comes with those transporters from her trading premises. She pays 'set' of one hundred Tanzanian shillings per box through the transporters to the border police for the goods to be sent cross the border informally.

From Tanzania the nearest place of purchasing is Musoma, while the furthest place is Mwanza. In both places, she does her purchases in the same shops. However, she goes to same shops because they are conveniently placed near the bus stop and other means of transport. But she does not expect to be given credit because according to her the places are big towns where there are so many people who purchase from such shops. Also, she thinks that she buys in small quantities compared to their other customers (she buys as little as ten to fifteen cartons while other customers buy in lorries and trailers) that it is not possible for the shop owners to even notice her. Lastly, she does not often go to purchase enough to be noticed because, sometimes she sends other traders to purchase for her.
On coming from purchasing goods on the Tanzanian side, she normally hires vehicles in a group with other traders to transport the cosmetics from the place of purchase to Isebania. The group with which she hires vehicles does not necessarily consist of the same people. It is any set of those people that she knows operate at the border and regularly buy from Musoma and Mwanza. Generally she knows such traders up to their trading premises. Sometimes she sends other traders, who are going to Mwanza or Musoma, to purchase the cosmetics for sale for her. She can send most, but not all, of the individuals who trade in cosmetics although she knows all them. According to her, "you can only send those traders who are friendly to you" although she knows all the traders who sell cosmetics on the Tanzania side of the border.

D.3.4 Sales
She sells to Kenyans and Tanzanians living around the border region. The Kenyan customers mainly buy on wholesale basis for resale, with a few buying in small quantities for use. Tanzanians mainly buy on retail basis for domestic use, although a few of them also buy on wholesale basis to go and resell. However, she sells to customers mainly on wholesale prices.

She has regular customers who normally come to purchase from her shop from the Kenyan side of the border. She can trace her regular customers from three sources. First, there are those regular customers she knew when she was still selling clothes. When she moved to selling cosmetics, she informed those who used to sell clothes to her. Some of them had also moved to selling cosmetics because the clothes business was no longer viable to them. Those individuals that she knew but were still trading in clothes introduced her to their relatives or friends who are dealing in cosmetics. The second source of her regular customers is the people with whom she goes to the same church. After knowing each other through the church and learning what she deals in, there are some church members who started buying from her regularly. They also introduced their friends and relatives who are not their church members. The third set of regular customers are those who just started buying from her without being introduced by anybody. Those who were buying from her regularly initially introduced some of the other regular customers. If a regular customer finds that her stock of the specific cosmetic is over, she refers them to other shops, especially to the
ones owned by friends. There are also walk in customers who come to buy only once and those who come once in a while.

She sells on credit to some regular customers. According to her, “there is no way you can do business without selling on credit. Some of these regular customers come buying every week, after sometimes, we come to know each other by name, and then I start selling to them on credit”. She knew some of the customers she sells on credit to when she was still selling clothes and was not even living at the border region. If one refuses to give credit, the customers move to other shops, which are ready to give the credit. Such shops do not necessarily give the credit immediately, but the customers know that after buying for some times they will be able to get goods on credit.

The customers normally pay for the credit sales in their next visit, which is usually within one week. She knows most of the premises of those customers she sells to on credit, especially the ones living on the Kenyan side of the border. Sometimes, she goes to collect the debt if the customers delay payment. Normally, as she goes to collect debt, she uses such periods to enquire from the customers the faster selling cosmetics so that she can stock more of them. However, not all the debts are paid, “sometimes the customers disappear with the money, and there is nothing one can do about that because that is the risk we have to take”. In other cases, the customers are just there but are not in a position to pay. The ratio of the customers who eventually fail to pay is very low compared to those who pay. Sometimes such customers whom they have been selling cosmetics to change to other lines of business.

D.3.5 Transportation

Jane passes the purchases from Kenya through the informal routes with payments of one hundred Tanzania shillings per carton as ‘set’ to the border police regardless of the weight of its contents. The goods are normally carried on bicycle by the transporters she knows. Sometimes she requests the male traders whose premises are situated near hers to carry for her the goods as they go to purchase theirs.

The cosmetics purchased from the Tanzanian side of the border are transported by bus or hired lorries. Even in cases where she transports them by bus, she prefers to go with the other traders for security reasons. The lorries are hired collectively with the
other traders because it is cheaper, convenient and safer than doing it alone. In any case, according to her, she has not reached that level of operation where she can purchase contents to fill a whole lorry load.

All Kenyans who buy on wholesale pass through the 'panya' routes as long as they buy any quantity that can fill at least a carton box. The customers pay ten Kenyan shillings per carton as 'set' while crossing. In most cases, the customers pass through the formal border crossing points as the transporters pass through the panya routes with the goods. The Kenyans form the Isebania side of the border know the same transporters that are known to her, so Jane does not have to introduce them. She must look for transporters she knows to carry good for those customers who are form places outside Isebania. The customers who buy in small quantities pass through the formal border crossing point concealing the goods.

D.4 Case four: Cate Boke

Cate Boke is a female who is a Tanzanian national by marriage but was born in Kenya. She is 32 years old. She has nine siblings, five sisters and four brothers. One brother is a farmer, while the other three are businessmen. One of the three brothers is in the business of selling kerosene at the border while the other two brothers are businessmen in Kehancha town (it is situated 12 kilometres from the border on the Kenyan side) selling rice. Two sisters are married in Tanzania where they live. Of the remaining three sisters, one lives with her; the other sells beans and rice at Sirare market on the Tanzanian side of the border while the last one is a farmer in Kenya where she is married. All the siblings completed primary school. She has six children: five are still in primary school on the Kenyan side of the border, while the first born recently dropped out of primary school and got married. The children go to schools on the Kenyan side of the border because she considers education standards there to be higher than that of Tanzania.

Cate Boke is a small-scale trader dealing in rice at Sirare on the Tanzanian side of the border. She rents the rice store where she trades and also sublets to other rice traders at two hundred Tanzanian shillings per sack, for the period it remains unsold. A sack of rice can be off loaded and sold the same day or it can take several days before
being sold but the rent would still be the same. She has one employee who helps in the weighing of incoming and outgoing rice. The other workers are casual labourers who are paid, for carrying the sacks of rice into the store by her. When casual labourers carry sacks out of the store for weighing and subsequent selling, they are paid by the buyers. However, in most cases, those who carry the rice out of the store for weighing and sale are usually also the transporters who are responsible for transporting the rice across the border.

The premise she is trading from is a temporary building, which she is renting at the rate of ten thousand Tanzanian shillings per month. The building belongs to her brother in law who was initially trading in rice there before her. He has since moved to the business of transporting beef cattle from Tanzania to Kenya.

D.4.1 Organisation

She belongs to three organisations. In two of them, she contributes money on a regular basis. The third organisation is the church which she attends, whenever she can, on Sundays. One of the associations where she contributes money is composed of friends trading within the border region on both sides of the border. The friends are trading in different goods and not necessarily rice only. The other organisation is composed of close and extended family members, also from both sides of the border.

In the friends' association, they contribute money, which is given to each member every Friday on a rotating basis. Some members of this association trade in rice while others do not. She injects her shares of contributions into the business whenever she gets it, unless there is a more pressing issue like school fees. She considers the other money contributing association she belongs to as a family one. The members are her brothers and close cousins who are traders. They contribute a little money monthly but it is not given out to anybody. It is kept for emergencies such as situations when the police, at a roadblock or anywhere else, hold up the goods of any of the members. The person (must be a group member) who receives such help normally refunds the emergency money after sometime. The money can also be used for funeral arrangements without refund if there is a death within the family. The help for funeral expenses is, however, not confined to members of the group who are contributing: it is extended to all the other family members as well. This is because, as people who
are trading and considered income earners within the family. Whenever there is a funeral, the rest of the family members expect them to contribute more.

She considers belonging to her church also as form of an association because they help each other if there is need. The church she attends is situated on the Kenyan side of the border. But the church membership is not confined to Kenyans only. There are many people who go to the church from the Tanzanian side of the border. However, it is important to note that most of her relatives who trade at the border are members of this church. She does not close the trading premises on Sunday when she is going to church. This is because there are other sellers whom she sublets the premises to, who do not go to church on Sundays. Some of these sellers are not even from the border region. The church members help each other whenever any of them has any misfortune. The help is not, however, extended to business losses. The help comes in circumstances such as bereavement of a member of the church. In such instances, the other church members contribute money, food and any other necessary service. They also stay with the bereaved family at the residential premises and hold prayer meetings every night.

D.4.2 Business Start Up

Boke and her husband were maize farmers before they started doing any business. They saved some income from farming which was used to start up a grocery shop at Tarime town (it is situated 15 kilometres from Isebania/Sirare border on the Tanzania side). They continued farming in maize while running the grocery shop at the same time. The income from farming was used to improve the business.

Then, when tobacco farming was introduced in their village, they went into it to raise more capital. After earning some income from tobacco, she moved to the border region to do any viable trade as the husband continued farming. On coming to the border, she started by trading in fish at the fish-market in Sirare. After trading in fish for about two years, she was introduced to rice trading by a relative who thought that the profit margin on rice was better than that of fish trading. She has been trading on rice for the last four years. The trading premises are situated near the border crossing point and are clustered together with other stores selling rice. It is only in periods when there is plenty of supply of rice that other temporary stores are opened a few
blocks from the ones which always sell rice. Her rice store and some of the others situated next to it share facilities such as heavy duty weighing scale which she owns.

D.4.3 Purchases
Boke purchases all the rice that she sells from the stores situated in the hinterland of Tanzania. The nearest place of purchasing rice is Magu, while the farthest is Mwanza and other areas where rice is grown in between the two places. They purchase the rice from the farmers or the machine owners.

The rice farmers take their harvest to the machine owners for processing. There after they can either sell the processed rice to the traders directly or sell to the machine owners. The machine owners keep such stock of rice for sale to the traders. Sometimes there are middlemen who buy the unprocessed rice from the farmers to take to the machine owners to process. The middlemen then sell the processed rice to the traders. The middlemen may also sometimes buy the processed rice from the machine owners and later sell to the traders.

Sometimes when the traders go to purchase and there is no enough rice, or the queue for those purchasing is long, they hire guesthouses to sleep in until they have done enough purchase. Boke normally uses shared accommodation in such guesthouses with the people from the border region. The machine owners keep their money for them as they wait to purchase. The traders also know the middlemen that they deal with regularly but they cannot keep money for them. The middlemen, that they know, sometimes give them preferential treatment when there is scarcity of rice. When rice is scarce and expensive, the people that Boke regularly purchases from give her preference even in pricing. This is because when there are shortages of rice, the buyers from Dar es Salaam usually come and purchase at much higher prices. The traders from the border region cannot purchase at such prices because they may not be able to pass the price increases to their customers. So they purchase from the machine owners, and the middlemen they know, at prices lower than those paid by the traders from Dar es Salaam.
She normally hires lorries or trailers in a group with other traders to transport the rice from the place of purchase. The group with which she hires vehicles is not necessarily same individuals all the time. Basically, they are people that she knows and regularly buy rice from the hinterland of Tanzania and sell at the border. According to her, when they go in a group, the purchase is usually done individually, but “transport is shared by those known to me”. Sometimes she brings a whole trailer of rice alone without pooling up with others in transportation to the border.

Other traders, sometimes, do the purchase of rice for her. When she still has a big stock of unsold rice, she can send other traders who are going to Mwanza or any place where rice is available at a good price to get for her. She gives the traders, who are sent, money for all the other costs incurred to bring the rice to the border including transportation, cess and loading.

D.4.4 Sales
Bokc sells rice to both Kenyan and Tanzanian customers. She sells within and outside the store at both retail and wholesale price. However, most of the rice is sold at wholesale price to those who are going to sell it to consumers and even other wholesalers. Most of her main customers who buy in large quantities at wholesale prices are from the hinterland of Kenya. According to her, the people nearest to the border region are from Kuria sub tribe but they don’t eat much rice.

Her customers on the Tanzanian side where her business is situated, mainly buy rice in small quantities for domestic consumption. Such small quantities are sold at retail price. However, there are a few shopkeepers and traders from the border region on both the Kenyan and Tanzania side who buy in moderate quantities like 50 kilograms for resale. Included in this category of customers are those who sell by the roadside especially on the Kenyan side of the border. There are also other shopkeepers and those selling in the markets, within the border region, that buy at wholesale prices in such small quantities. But they don’t even buy often because most people who consume rice go to her store and other rice-stores to buy.

She sells to customers from the Kenyan side within her premises and also takes to the Kenyan markets and schools on order. Within her premises, she sells mostly to
customers from the hinterland of Kenya who makes the bulk of her sales. There are also a few customers from the border region who buy at wholesale prices but in smaller quantities for resale and those who purchase at retail prices for domestic consumption.

All the customers from the hinterland of Kenya buy in large quantities at wholesale prices. They are traders from other markets who come to purchase in order to go and sell. Most of them come weekly or even twice a week. Thus, they are regular customers. Other customers, who were buying regularly, initially introduced some of the regular customers to her. They buy from her or anybody else who has enough stock of rice within her store. She knows most of these regular customers by name, just as they also address her with her nickname of ‘Mali Ngumu’. If any of the customers known to her comes and finds that her stock is too little or over, she helps them to get good rice from other traders who are her friends, and have good rice at a negotiated price. In such instances, if the customer wants very large quantities like twenty sacks, “I negotiate for the customers from these fellow traders to give them a good price”. She sells ninety percent of her rice at wholesale price. Out of these, seventy percent are sold to regular customers and those who have come with them.

She sometimes sells on credit to the customers she has known for some-time. They make the payments for such credit sales when they next come, usually within one week. Sometimes the customers sold to on credit send others with the money if they are not coming to purchase at the time agreed, or if the agreement at the time of sale was that she/he will send the others or anybody else with the money. At times, those sold to on credit send the bus drivers and conductors from the Kenyan side with the money. In such instances, it is the seller who goes to the Kenyan side of the border to collect the money from the bus drivers or conductors because they don’t know the premises of the sellers. In an instance when a customer who was supposed to pay failed to send the money through those who came to purchase that day, the customers were heard talking among themselves how they must get money from nyar Gwasi (the name of the defaulting customer) when they are coming next. Also, they said among themselves that she should be advised not to be giving dates, which are so near for repayment of such goods lent. Apparently, she had purchased the rice on credit and
promised to send the money in two days, but it rained in those places where she was expecting to sell on the two market days, so she did not sell as expected.

Boke does not always only sell her own rice within the store. She sometimes sells goods on behalf of those who keep rice at her store. She sometimes sells rice for the traders who are subletting her store at a commission. For example, at the time of the field work, she would sell rice at a retail price of twenty Kenya shillings per kilogram instead of the wholesale price of eighteen. The difference in the selling price is her commission.

The credit customers do not always pay when the money is due. There was an instance when Boke had to go to Kisii (a town in Kenya situated 68 kilometres from the border) to look for a customer who had disappeared with money for some time. Apparently it was not the first time she was going to trace him. When the customer failed to pay, she traced him to his trading premises in Kenya through the other customers he used to come with.

She also sells in bulk to schools and some people on the Kenyan side of the border on order. In both cases, her brothers who are traders, friends and other relatives introduced her to the buyers. According to her, “you cannot get an order to supply a school if you are from Tanzania side unless one is introduced by somebody known to you on the Kenyan side”. She delivers the rice to the schools on weekly basis depending on how much they want. The payment is made to her once at the end of the month for the rice supplied in the course of that month. Currently she is supplying rice to three schools on order. There are other traders based on the Kenyan outside the border region whom she also supplies on order. These traders do not come to her premises to buy, she takes them the rice whenever they request. They send word to her to take rice whenever they are in need. The word is sent through other traders, friends and relatives. Some of these traders pay in cash for the rice delivered while others take it on credit. Those who take goods on credit normally send other people that are known to both of them such as friends, relatives and other traders with money to bring to her. If they delay to send the money, she sends word to them through the same channels. Basically, she does not have problem of non-payments for such sales
on order. The payment may delay, but she has not had a situation of writing such debts off, as in the case of those who come and buy on credit from her premises.

Sometimes she goes to Kehancha (the nearest market on the Kenyan side, and is her birth place) to sell mainly on market days in a group of other traders. The market day falls on a Sunday when the sales activities at the border are low. The other traders are not necessarily Kenyans, some are Tanzanians they trade with at the border. But according to her, “most Kurias who come from the border region have Kenyan identity documents, even when you know them up to their homes in Tanzania”. Sometimes she sends goods to be sold for her in Kehancha by friends and relatives. “I send to them rice, they sell and then later on go for the money after they have sold. From the sales proceeds, I give them some little money, or they just sell for me when they are selling their rice and I don’t give them anything”. Sometime when she is unable to go to Kehancha, she measures some rice, puts in a vehicle (like a matatu) and instruct them to give the rice to specific people who sell for her. She goes to get the sales proceeds after some days or the relatives send to her the money through the matatu drivers. She gives the rice to Matatu operators that she knows.

However, sometimes she does not get all the money for such goods that she sends to Kehancha. Some friends and relatives sometimes fail to give her all the money from the sales, “Once somebody disappeared with money for two sacks of groundnuts, I did not go to the police”.

Basically, the selling activities at her trading premises are not confined to her or those who have stored their rice there. On entering or passing near the store, any of the people who work in and out of the store, even on casual basis can say a word of welcome *(karibu mieja)* for the customer to come in. Such individuals includes her, those she is subletting to, the transporters, deal chasers and any body involved in the sale and movement of rice

**D.4.5 Transportation**

The regular customers from the hinterland of Kenya, in most instances come in groups and use same means of transport depending on the areas they originate from. Such customers mainly use the formal border crossing point on both sides of the
border as the rice is transported through the informal border crossing routes on the Tanzania side of the border by the bicycle transporters.

Boke always gives her customers the transporters to do the transportation of the goods through the unofficial border crossing points. The traders make upfront payment for the cost of transportation, the cost of passing through the ‘panya’ routes and the amount to be paid to the customs by the ‘deal chasers’. The transporters pay ‘set’ to the border police on the Tanzanian side and off load the rice at the Kenyan customs offices. Here, the ‘deal chasers’ pay the customs duty for the goods. The amount of duty they pay, they confess, does not depend on the value or the quantity of rice, but how well they negotiate with the customs officers. But, always the amount written on the receipts is less than the amount they pay. Those who buy in smaller quantities like a one hundred and forty kilogram sack sometimes use head carriers instead of bicycle transporters. The head carriers sub-divide the luggage into smaller quantities and either pass through the formal border crossing point on the Tanzania side unnoticed or use the informal route and pay ‘set’. The route they take depends on how strict the border police are on any given day. On the Kenyan side they always have to pass by the customs offices and pay ‘some amount’ before crossing the border.

For the rice that Boke sells in Kenya, she either uses bicycle transporters to take them across the Tanzanian side of the border to Kenya through the process described above or head carriers. Or “I make sure that I carry a few things at a time so that I am not stopped when passing the official border crossing point”. Sometimes, people from the border region like her use routes that are further away from the border, to avoid payment of ‘set’ and any amount to the Kenyan customs officers.

There are Kenyan buyers who purchase in very large quantities that go to the machines where the rice is processed. They buy as much as a convoy of three trailers full and above. Such buyers go directly to the hinterland of Tanzania and pass through the formal border crossing point of both countries.

Purchases of rice are always done in the hinterland of Tanzania. They use hired means of transport together with other traders. In a few instances, there are traders who can afford to purchase and transport whole trailer loads of rice. Sometimes she sends
those who are going to purchase to do so for her at a shared cost of transportation of the goods.

**Routes of purchase and sale of rice**


5. Farmer – machine – Sirare stores – Kenyan purchaser (wholesaler) – Kenyan retailer – consumer

6. Farmer – machine – Kenyan purchaser (wholesaler) – Kenyan retailer – consumer
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<thead>
<tr>
<th>Variable</th>
<th>Concept</th>
<th>Evidence</th>
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<tbody>
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<td><strong>Human Capital</strong></td>
<td>Educational level</td>
<td>Case 1 no formal education</td>
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<td></td>
<td></td>
<td>Case 2 completed secondary</td>
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<td>Case 3 completed primary</td>
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<td></td>
<td>Case 4 completed primary</td>
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<td></td>
<td>Formal training</td>
<td>Case 1 no training</td>
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<td>Case 2 trained primary school teacher</td>
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<td>Case 3 no training</td>
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<td></td>
<td>Case 4 no training</td>
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<td></td>
<td>Informal training</td>
<td>Case 1 Started selling with an uncle</td>
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<td></td>
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<td>Case 2 no other training</td>
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<td>Case 3 selling with the husband</td>
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<td>Case 4 selling at a brother's shop</td>
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<tr>
<td><strong>Physical Capital</strong></td>
<td>Premises</td>
<td>Case 1 permanent/renting</td>
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<td>Case 1 permanent/renting</td>
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<td>Case 4 temporary/renting</td>
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<td>Ownership of Transportation</td>
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</tr>
<tr>
<td><strong>Networks</strong></td>
<td>Information gathering</td>
<td>Case 1 (i) talks to his Tanzanian customers (ii) Goes to Tanzanian side of the border to find out (iii) goes to hinterland of Tanzania (iv) knows customers homes and premises (v) Tanzanians buying from Nairobi</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Case 2 (i) from his Tanzanian and Kenyan customers (ii) goes to hinterland of Kenya and Tanzania (iii) uses relatives on Tanzanian and Kenyan side (iv) uses other traders on the Tanzanian side (v) uses agents on the Tanzanian side of the border. (vi) uses former teaching colleagues</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Case 3 (i) from fellow traders (ii) Customers from Kenya and Tanzania</td>
</tr>
</tbody>
</table>
| Case 4 (i) Fellow traders  
(ii) Relatives in Kenya  
(iii) Customers from Kenya |
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transportation</strong></td>
</tr>
</tbody>
</table>
| Case 1 (i) goods brought by vehicle by Kenyan sellers, and Tanzanian sellers from Nairobi, and by bicycle by Tanzanian sellers from Tanzania.  
(ii) buyers to Tanzania use bicycle and head carriers. |
| Case 2 (i) brought by sellers from Tanzania by donkeys, bicycles, vehicles and head carriers  
(ii) goes to Tanzania by vehicle in group with other traders.  
(iii) brought by Kenyan sellers bicycle transporters, vehicles and head carriers  
(iv) bought by Kenyan and carried by vehicles, bicycle transporters and head carriers. |
| Case 3 (i) goes to purchase by vehicle in group with other traders  
(ii) sends fellow traders  
(iii) buyers use own bicycle, or bicycle transporters. |
| Case 4 (i) purchase by vehicle in group with other traders  
(ii) sends fellow traders  
(iii) buyers use head carriers and bicycle transporters stationed at the stores when crossing the border. |
| **Arrangements** |
| Case 1 (i) Shop and similar ones situated on both sides of the road  
(ii) Close to one another  
(iii) Money changing Kiosks in between the shops  
(iv) Near the border crossing point  
(v) Customers who buy in bulk are given special rates |
| Case 2 (i) the store and similar ones are not situated closely,  
(ii) not near the border,  
(iii) Charge similar prices with other stores |
| Case 3 (i) shop and similar ones are on one side of the road  
(ii) close to one another  
(iii) far from the border crossing points  
(iv) Charge similar prices as other shops |
Case 4 (i) store and similar ones situated nest to one another  
(ii) are on one side of the road except in cases of glut are temporary stores opened further on the other side of the road.  
(iii) the stores are in the buildings nearest to the border crossing points  
(iv) Customers who buy in bulk are given special rates  
(v) share weighing scales and stones

| Credit facilities | Case 1 (i) buys on credit  
(ii) sells on credit  
Case 1 (i) buys on credit  
(ii) sells on credit  
Case 3 (i) sells on credit  
(ii) buys on credit  
Case 4 (i) sells on credit  
(ii) Credit repayment sent through other traders and bus driver  
Repeated transactions | Case 1 (i) most customers addressing him by name/nick name  
(ii) Knowing customers by name  
(iii) Enquiring about a customer from others  
Case 2 (i) most customers addressing him by name/nick name  
(ii) Knowing customers by name  
Case 3 (i) most customers addressing him by name/nick name  
(ii) Knowing customers by name |
| Case 4 (i) | most customers addressing her by name/nickname  
(ii) Knowing customers by name  
(iii) Enquiring about the long period of absence of a customer from others  
(iv) Enquiring about credit extended to an absent customer from those present  
(v) selling on behalf of the machine owners |
| --- |
| Relations | Case 1 (i) the buyers coming from the same place  
Case 2 (ii) the buyers coming from the same place  
Case 3 None  
Case 4 (i) giving money to machine owners to keep for us as we wait for the rice to be ready. Because of security.  
(ii) Buyers using the same means of transport  
(iii) sending goods through the matatu drivers to relatives to sell  
(iv) relatives sending money to her through the matatu drivers |
| Placement | Case 1. (i) placed next to each other, and in between them are the money changing kiosks.  
(ii) placed near the border crossing point.  
Case 2 (i) acts as a trustor and trustee between the transporter and the seller of maize from the Tanzanian side.  
Case 3 (i) sending other buyers to purchase on her behalf  
Case 4 (i) acts as a trustor and trustee between the transporter and the buyer of rice from the Tanzanian side  
(ii) sending other buyers to purchase on her behalf  
(iii) placed next to each other and near the border crossing point. |
| Norms | Verbal contracts | Case 1 (i) buying and selling on credit  
(ii) transportation of goods through the border with upfront payment but no written contracts, not even receipts  
Case 2 (i) buying and selling on credit  
(ii) transporting on credit  
(iii) transportation of goods through the border with upfront payment but no written contracts, not even receipts  
Case 3 (i) buying and selling on credit |
| Case 4 (i) selling on credit | Case 1 (i) buying from the same sources  
(ii) having regular customers  
(iii) using same transporters  
(iv) can only borrow from Muslims  
(v) payment of ‘set’ while crossing the border  
Case 2 (i) having regular sellers  
(ii) having regular customers  
(iii) payment of ‘set’ while crossing the border  
Case 3 (i) having regular customers  
(ii) knowing and going to the customers’ trading premises  
Case 4 (i) having regular customers  
(ii) getting preferential treatment when the rice supply is low.  
| Case 1(i) being situated in the same area as other similar shops and money changers  
(ii) selling and buying in both currencies  
(iii) Referring customers to other shops  
(iv) guarantor and security between money changers and former customers.  
Case 2 (i) Purchasing from Tanzania in groups  
(ii) selling and buying in both currencies  
(iii) Referring customers to other stores  
(iv) purchasing from friends, both Kenyan and Tanzanian relatives and friends of those relatives  
(v) going to sell to customers in the markets in the hinterland of Kenya  
(vi) purchasing from the same traders and middlemen.  
Case 3 (i) purchasing in groups  
(ii) selling in both currencies  
(iii) Situated in the same area with similar shops  
(iv) enquiring about the latest cosmetics from the customers. |
Case 4 (i) rice stores being situated next to each other.
(ii) The main bicycle transporters being stationed in specific stores
(iii) purchasing in groups
(iv) buyers moving in groups
(v) selling in both currencies
(vi) Referring customers to other stores
APPENDIX F: INSTRUMENTS

APPENDIX F1: CASE STUDY INSTRUMENT

CASE STUDY INTERVIEW GUIDE

General Information
1. Name of enterprise/owner ____________________________
2. a. Resident of:
   Sirare
   Isebania
b. Place of birth ____________________________
Postal address: P.O Box ____________________________

3. Sex Male _______________ Female _______________
4. Nationality Kenyan _______________ Tanzanian _______________ Other _______________

1. The Entrepreneur
1.1 Sex
1.2 Nationality
1.3 Age
1.4 Education (where, up to what level)
1.5 Family (parents siblings, in-laws, extended: where, what do they do, any related business interests, how often are you in contact.
1.6 Religious organisations (church, mosque, etc)
1.7 Business organisations (traders, association, chamber of commerce, etc)
1.8 Social organisations (ROSCA, village or clan association, welfare associations)
1.9 Closest friends

2. The business
2.1 Trading in what?
2.2 How long in trade?
2.3 Other business (before or together with trade)
2.4 Main sources of supply (location, type of business, how known)
2.5 Occasional sources of supply (location, etc)
2.6 Most distant supplier
2.7 Main customers (location, type of business, how known)
2.8 Occasional customers (location, …)
2.9 Most distant
3. Transactions

3.1 Describe a typical purchase of stock in detail (who, where, when, what, why, how)
3.2 Describe a typical cross-border sale in detail (who, where, when, what, why, how)
3.3 Trade crossings per week (total, border point, panya route)
3.4 Reasons for choice of route
3.5 Amount in a typical crossing (volume, value)
3.6 Resources used (transport, taxes/tarrifs, networks, other)

4. Business Environment

4.1.1 Government policies
4.1.2 Harassment
4.1.3 Available services (vehicle repair, banks, telephone, hotels, health facilities)

5. Success Indicators

5.1 Children in school (where, what type)
5.2 Assets (vehicle, bicycle, mobile phone, TV, type of house, etc)
5.3 Type of health facility used when sick

6. Investment of profit
6.1 Where
6.2 How much
Cross Border Trade
Traders’ Survey Questionnaire

Name of enterprise ______________________________________________
Respondents name ______________________________________________
Interviewer _______________________ Date_____________________ 2003
A0.1
A0.2
A0.3

1. Personal Data

Country of birth
A1.1
☐ 1 Kenya
☐ 2 Tanzania
☐ 3 Other _______________ Please specify

Citizenship
A1.2
☐ 1 Kenyan
☐ 2 Tanzanian
☐ 3 Other _______________ Please specify

How old are you?
A1.3
______________________ Years.
Do you have employees?

A1.4

☐ 1 Yes
☐ 2 No

If yes, are some of the employees’ non family members?

A1.5

☐ 1 Yes
☐ 2 No
☐ 3 not applicable

How did you come to know the employees who are not family members?

1 Introduced by family members

A1.6

☐ 1 Yes ☐ 2 No

2 Introduced by customers

A1.7

☐ 1 Yes ☐ 2 No

3 Introduced by friends

A1.8

☐ 1 Yes ☐ 2 No

4 Just happened to know them

A1.9

☐ 1 Yes ☐ 2 No

5 Not applicable

A1.10

6 Other __________________

A1.11

Please specify
2. Human Capital

What is your highest level of education? A2.1

- [ ] 0 None
- [ ] 1 Some Primary: please specify standard
- [ ] 2 Completed primary school
- [ ] 3 Some secondary school: please specify form
- [ ] 4 Completed secondary school
- [ ] 5 A level
- [ ] 6 University

What post school training do you have? A2.2

- [ ] 1 Vocational
- [ ] 2 Polytechnic
- [ ] 3 Professional
- [ ] 4 None
- [ ] 5 Other

Please specify

Do you have any trade related training? A2.3

- [ ] 1 Yes
- [ ] 2 No (go to 2.12)

If yes, please complete the table below:

<table>
<thead>
<tr>
<th>Type of training</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A2.4</td>
<td>A2.5</td>
</tr>
<tr>
<td>2. A2.6</td>
<td>A2.7</td>
</tr>
<tr>
<td>3. A2.8</td>
<td>A2.9</td>
</tr>
<tr>
<td>4. A2.10</td>
<td>A2.11</td>
</tr>
</tbody>
</table>
Were your parents in business before you started?  
□ 1 Yes  
□ 2 No  

Were you an apprentice in similar or related business?  
□ 1 Yes  
□ 2 No  

Occupation previous to any business related experience?  
□ 1 Regular public sector  
□ 2 Regular private sector employee  
□ 3 Casual public sector employee  
□ 4 Casual private sector employee  
□ 5 Farmer  
□ 6 Other (specify) __________________  
□ 7 None  

3. Business History  

Where is your business situated?  
□ 1 Sirare  
□ 2 Isebania  
□ 3 Other __________________  
please specify  

Ownership of Business  
□ 1 Sole owner  
□ 2 Partner  
□ 3 Private Limited Company  
□ 4 Public Limited Company  
□ 5 Other __________________  
please specify
Are other owners members of your family? A3.3

□ 1 Yes
□ 2 No
□ 3 Not applicable
□ 4 Other (specify) ______________________

Gender of the proprietor(s) A3.4

□ 1 Male
□ 2 Female
□ 3 Mixed

When was the business started? A3.5

Year ___________ Month ___________ □ Don’t know __________

How was the business started? A3.6

□ 1 Founded through own initiative
□ 2 Founded through introduction by friend
□ 3 Founded through introduction by relative
□ 4 Inherited
□ 5 Purchased
□ 6 Other ______________________

Please specify
If founded through own initiatives or purchased, what was the source of initial funding?

1 Bank □ 1 Yes □ 2 No A3.7
2 Relative □ 1 Yes □ 2 No A3.8
3 Friend □ 1 Yes □ 2 No A3.9
3 Savings and credit society □ 1 Yes □ 2 No A3.10
4 Own saving □ 1 Yes □ 2 No A3.11
5 Other ______________________

Please specify
If there was more than one source of funding, which was the most important source?

□ 1 Bank
□ 2 Relative
<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Friend</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Savings and credit society</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Own savings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Not applicable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Other</td>
<td>Please specify</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If inherited from whom? A3.14

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Grand parents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Spouse</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sibling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Not applicable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Other</td>
<td>Please specify</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4. Products and income

What is your main activity? A4.1

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wholesale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Retail</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Hawker</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Transporter</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Other</td>
<td>Please specify</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What are the other activities?

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Wholesale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Retail</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Hawker</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Transporter</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Other</td>
<td>Please specify</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In order of total annual sales revenues, indicate the estimated proportion of sales for the most important products in order of priority

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>A4.7</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>A4.8</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>A4.9</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>A4.10</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>A4.11</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>A4.12</td>
</tr>
</tbody>
</table>

1 Maize
2 Rice
3 Beans
4 Groundnuts
5 Cooking oil
6 Sugar
7 Salt
8 Bar soaps
9 Drinking juices
10 Special (new clothes)
11 Mitumba
12 Other

Please specify
For each category of the main items, indicate the quantity sold in the last one week, and the selling price and the purchasing cost per unit.

<table>
<thead>
<tr>
<th>Item</th>
<th>Quantity (indicate unit of measure)</th>
<th>Selling price (range)</th>
<th>Total (Do not fill)</th>
<th>Purchasing cost (range)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A4.12</td>
<td>A4.13</td>
<td>A4.14</td>
<td>A4.15</td>
<td>A4.16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>A4.18</td>
<td>A4.19</td>
<td>A4.20</td>
<td>A4.21</td>
<td>A4.22</td>
</tr>
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<td>A4.23</td>
<td>A4.24</td>
<td>A4.25</td>
<td>A4.26</td>
<td>A4.27</td>
</tr>
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<td></td>
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</tr>
<tr>
<td>A4.28</td>
<td>A4.29</td>
<td>A4.30</td>
<td>A4.31</td>
<td>A4.32</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A4.33</td>
<td>A4.34</td>
<td>A4.35</td>
<td>A4.36</td>
<td>A4.37</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

In which months of the year are your sales

☐ 1 Good
☐ 2 Average
☐ 3 Poor
Compared to average, what is good sales

☐ 1 One time average
☐ 2 Two times average
☐ 3 Three times average
☐ 4 Four times average
☐ 5 Other ________________________

Please specify

Compared to average what is poor sales

☐ 1 1/4 times the average
☐ 2 1/2 times the average
☐ 3 3/4 times the average
☐ 4 Other ________________________

Please specify
Please indicate your business expenditure with respect to the following.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>A4.41</td>
<td>A4.42</td>
<td>A4.43</td>
</tr>
<tr>
<td>Licenses and taxes</td>
<td>A4.44</td>
<td>A4.45</td>
<td>A4.46</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>A4.47</td>
<td>A4.48</td>
<td>A4.49</td>
</tr>
<tr>
<td>Electricity/Fuel</td>
<td>A4.50</td>
<td>A4.51</td>
<td>A4.52</td>
</tr>
<tr>
<td>Transport</td>
<td>A4.53</td>
<td>A4.54</td>
<td>A4.55</td>
</tr>
<tr>
<td>Interest (incase of loan)</td>
<td>A4.56</td>
<td>A4.57</td>
<td>A4.58</td>
</tr>
<tr>
<td>“Set”</td>
<td>A4.59</td>
<td>A4.60</td>
<td>A4.61</td>
</tr>
<tr>
<td>Telephone</td>
<td>A4.62</td>
<td>A4.63</td>
<td>A4.64</td>
</tr>
<tr>
<td>Water</td>
<td>A4.65</td>
<td>A4.66</td>
<td>A4.67</td>
</tr>
<tr>
<td>Others(list below)</td>
<td>A4.68</td>
<td>A4.69</td>
<td>A4.70</td>
</tr>
<tr>
<td></td>
<td>A4.71</td>
<td>A4.72</td>
<td>A4.73</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>A4.74</td>
</tr>
</tbody>
</table>
Please indicate your household expenditure with respect to the following.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Weekly</th>
<th>Monthly</th>
<th>Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>A4.75</td>
<td>A4.75</td>
<td>A4.76</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>A4.79</td>
<td>A4.80</td>
<td>A4.81</td>
</tr>
<tr>
<td>School fees</td>
<td>A4.82</td>
<td>A4.83</td>
<td>A4.84</td>
</tr>
<tr>
<td>Fuel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charcoal</td>
<td>A4.85</td>
<td>A4.86</td>
<td>A4.91</td>
</tr>
<tr>
<td>Paraffin</td>
<td>A4.87</td>
<td>A4.88</td>
<td></td>
</tr>
<tr>
<td>Firewood</td>
<td>A4.89</td>
<td>A4.90</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>A4.92</td>
<td>A4.93</td>
<td>A4.94</td>
</tr>
<tr>
<td>Food</td>
<td>A4.95</td>
<td>A4.96</td>
<td>A4.97</td>
</tr>
<tr>
<td>Health</td>
<td>A4.98</td>
<td>A4.99</td>
<td>A4.100</td>
</tr>
<tr>
<td>Others(list below)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A4.101</td>
<td>A4.102</td>
<td>A4.103</td>
</tr>
<tr>
<td></td>
<td>A4.104</td>
<td>A4.105</td>
<td>A4.106</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>A4.107</td>
</tr>
</tbody>
</table>
5. Physical capital

What is the type of the business premises?

- [ ] 1 Semi permanent
- [ ] 2 Permanent
- [ ] 3 Home
- [ ] 4 Other ______________________  Please specify

Complete the table below with respect to business premises ownership.

<table>
<thead>
<tr>
<th>Nature of ownership</th>
<th>1 = yes, 2 = no</th>
<th>Amount paid per month</th>
<th>Amount paid per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Own premises</td>
<td>A5.2</td>
<td>A5.3</td>
<td>A5.4</td>
</tr>
<tr>
<td>2. Leased</td>
<td>A5.6</td>
<td>A5.7</td>
<td>A5.8</td>
</tr>
<tr>
<td>3. Rented</td>
<td>A5.9</td>
<td>A5.10</td>
<td>A5.11</td>
</tr>
<tr>
<td>4. Temporary Occupation</td>
<td>A5.12</td>
<td>A5.13</td>
<td>A5.14</td>
</tr>
<tr>
<td>5. Free occupation</td>
<td>A5.15</td>
<td>A5.16</td>
<td>A5.17</td>
</tr>
<tr>
<td>6. Other (specify)</td>
<td>A5.18</td>
<td>A5.19</td>
<td>A5.20</td>
</tr>
</tbody>
</table>

If you were to sell it now, how much would you sell it for?  

A5.21
What means of transport do you own?

<table>
<thead>
<tr>
<th>Means</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Bicycle</td>
<td>______</td>
</tr>
<tr>
<td>2 Vehicles</td>
<td>______</td>
</tr>
<tr>
<td>3 Pushcart</td>
<td>______</td>
</tr>
<tr>
<td>4 None</td>
<td>______</td>
</tr>
<tr>
<td>5 Other</td>
<td>______</td>
</tr>
</tbody>
</table>

Please specify

If vehicle what type?

<table>
<thead>
<tr>
<th>Number</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Saloon car</td>
<td>______</td>
</tr>
<tr>
<td>2 Pick up</td>
<td>______</td>
</tr>
<tr>
<td>3 Lorry</td>
<td>______</td>
</tr>
<tr>
<td>4 Trailer</td>
<td>______</td>
</tr>
<tr>
<td>5 Not applicable</td>
<td>______</td>
</tr>
<tr>
<td>6 Other</td>
<td>______</td>
</tr>
</tbody>
</table>

Please specify

Do you use the means of transport you have for the business?

<table>
<thead>
<tr>
<th>Number</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Yes</td>
<td>______</td>
</tr>
<tr>
<td>2 No</td>
<td>______</td>
</tr>
<tr>
<td>3 Not applicable</td>
<td>______</td>
</tr>
</tbody>
</table>

If used for business, how much would you sell it/them for now?

A5.19

A5.22

A5.24

A5.25
### 6. Social capital

Please indicate whether you belong to the following organisations, and if they have membership across the border.

<table>
<thead>
<tr>
<th>Whether belongs</th>
<th>Organisation</th>
<th>Membership across the border</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ 1 Yes</td>
<td>Church</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Mosque</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Burial</td>
<td>□ 2 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>ROSCAS</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Men group</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Women group</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Credit finance group (fin. Inst.)</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>NGO</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Traders association</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
<tr>
<td>□ 1 Yes</td>
<td>Others (specify)</td>
<td>□ 1 Yes □ 2 No</td>
</tr>
</tbody>
</table>
Which of these groups is most important to you?

(List up to three by any code and type of organisation)

<table>
<thead>
<tr>
<th>Name</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1</td>
<td>( ) A6.21</td>
</tr>
<tr>
<td>Group 2</td>
<td>( ) A6.22</td>
</tr>
<tr>
<td>Group 3</td>
<td>( ) A6.23</td>
</tr>
</tbody>
</table>

Does belonging to these group help you in your business

<table>
<thead>
<tr>
<th>Name</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group 1</td>
<td>( ) □ 1 Yes □ 2 No A6.24</td>
</tr>
<tr>
<td>Group 2</td>
<td>( ) □ 1 Yes □ 2 No A6.25</td>
</tr>
<tr>
<td>Group 3</td>
<td>( ) □ 1 Yes □ 2 No A6.26</td>
</tr>
</tbody>
</table>

Are any of the group members from the same family

<table>
<thead>
<tr>
<th>Group</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A6.27</td>
<td>A6.28</td>
<td>A6.29</td>
</tr>
</tbody>
</table>

Yes = 1
No = 2

Are members mainly of the same religion

<table>
<thead>
<tr>
<th>Group</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A6.30</td>
<td>A6.31</td>
<td>A6.32</td>
</tr>
</tbody>
</table>

Yes = 1
No = 2
**Are members mainly of the same gender**

<table>
<thead>
<tr>
<th>Group</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A6.33</td>
<td>A6.34</td>
<td>A6.35</td>
</tr>
</tbody>
</table>

Yes = 1  
No = 2

**Do members mainly have the same occupation**

<table>
<thead>
<tr>
<th>Group</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A6.36</td>
<td>A6.37</td>
<td>A6.38</td>
</tr>
</tbody>
</table>

Yes = 1  
No = 2

**Do members mainly have the same level of education**

<table>
<thead>
<tr>
<th>Group</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A6.39</td>
<td>A6.40</td>
<td>A6.41</td>
</tr>
</tbody>
</table>

Yes = 1  
No = 2

**When you have financial problem in your business, whom do you approach?**

1. **Husband**  
   - □ 1 Yes    □ 2 No    A6.42
2. **Wife**  
   - □ 1 Yes    □ 2 No    A6.43
3. **Relative**  
   - □ 1 Yes    □ 2 No    A6.44
4. **Friend**  
   - □ 1 Yes    □ 2 No    A6.45
5 Group □ 1 Yes □ 2 No

6 If yes to group, please indicate (code)

7 Other________________________________________

Please explain

What is the estimated number of your relatives who are traders? ______ A6.49

What is the estimated proportion of traders whom you know around the border region?

□ 1 all the traders
□ 2 Most of the traders
□ 3 About half of the traders
□ 4 About one-quarter of the traders
□ 5 Less than one quarter of the traders

What is the estimated number of your confidants who are traders? __ A6.51

What is the estimated number of your suppliers who are known to you personally? A6.52

In a week, what proportion of your customers are people you have met before? A6.53

□ 1 all the customers
□ 2 Most of the customers
□ 3 About half of the customers
□ 4 About one-quarter of the customers
□ 5 Less than one quarter of the customers

Are there transporters who are known to you personally? A6.54

□ 1 Yes
□ 2 No
To what extent do you use transporters who are known to you?  
☐ 1 Always  
☐ 2 Most of the time  
☐ 3 About half of the time  
☐ 4 About quarter of the time  
☐ 5 Not applicable  

What mode of transport do you use  

<table>
<thead>
<tr>
<th>Mode of Transport</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>
| 1 Bicycles              | ☐   | ☐   | A6.56  
| 2 Vehicles              | ☐   | ☐   | A6.57  
| 3 Human carriers        | ☐   | ☐   | A6.58  
| 4 Push carts            | ☐   | ☐   | A6.59  
| 5 Not applicable        | ☐   | ☐   | A6.60  
| 6 Others                | ☐   | ☐   | A6.61  

Please specify  

Do you have regular suppliers?  
☐ 1 Yes  
☐ 2 No  

How did you come to know your regular suppliers?  

<table>
<thead>
<tr>
<th>How Did You Know</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>
| 1 Introduced by other regular customers | ☐   | ☐   | A6.63  
| 2 Introduced by my friends | ☐   | ☐   | A6.64  
| 3 Introduced by agents    | ☐   | ☐   | A6.65  
| 4 Bought regularly and became friends | ☐   | ☐   | A6.66  
| 5 Not applicable          | ☐   | ☐   | A6.67  
| 6 Other                   | ☐   | ☐   | A6.68  

Please explain  


If the regular supplier is not there, what do you do?  
☐ 1 delay buying  
☐ 2 buy from some one else  
☐ 3 Not applicable  
☐ 4 Other ___________________________  
Please explain

How do you finance your bulk purchases?

1 Pay in instalments  
☐ 1 Yes  ☐ 2 No  
A6.70
2 Team up with fellow trades  
☐ 1 Yes  ☐ 2 No  
A6.71
3 Borrow from relatives/friends  
☐ 1 Yes  ☐ 2 No  
A6.72
4 Borrow from the bank  
☐ 1 Yes  ☐ 2 No  
A6.73
5 Supplier credit  
☐ 1 Yes  ☐ 2 No  
A6.74
6 Other  
☐ 1 Yes  ☐ 2 No  
A6.75

Please explain

Do your regular suppliers sometimes sell to you on credit?  
☐ 1 Yes  
☐ 2 No  
A6.76

Suppliers give you credit after purchasing from them for how long?  
☐ 1 Less than three months  
☐ 2 Three months to six months  
☐ 3 Six months to one year  
☐ 4 Longer than one year  
☐ 5 No supplier credit  
A6.77

Describe the usual credit arrangements from your suppliers  
( you pay after how long, do you pay all the credit at once or in instalments, do you pay with interest in money terms or interest in kind)  

__________________________________________

__________________________________________

__________________________________________

__________________________________________

__________________________________________

__________________________________________

329
How do you pay your regular suppliers?

1 Cash terms

☐ 1 Yes ☐ 2 No A6.79

2 Credit arrangements

☐ 1 Yes ☐ 2 No A6.80

3 Barter arrangements

☐ 1 Yes ☐ 2 No A6.81

4 Other ____________________________ A6.82

Payment for purchases on credit account for how much of your weekly/monthly purchases

☐ 1 Very little (less than 15%)
☐ 2 About one quarter (between 16% - 35%)
☐ 3 About one half (between 36% - 65%)
☐ 4 About three quarters (between 66% - 85%)
☐ 5 All the purchases
☐ 6 Not applicable

How much of your goods do you get from the regular suppliers? Would you say: A6.84

☐ 1 all of it
☐ 2 Most of it
☐ 3 About half of it
☐ 4 About one-quarter of it
☐ 5 Less than one quarter of it
☐ 6 None

Do you have regular customers? A6.85

☐ 1 Yes
☐ 2 No

How did you get your regular customers?

1 Brought by other customers

☐ 1 Yes ☐ 2 No A6.86

2 Brought by my friends

☐ 1 Yes ☐ 2 No A6.87
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>A6.88</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Brought by agents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Bought regularly and became customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Not applicable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please explain

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>A6.89</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you do not have the goods the regular customer needs, what do you do?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 I tell them to delay buying</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 I refer them to my friend's shop</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 I tell them to buy from someone else</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please explain

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>A6.90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you trust your regular customers in matters of lending?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 No</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>A6.91</th>
</tr>
</thead>
<tbody>
<tr>
<td>How do your regular customers normally pay for the goods?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Cash terms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Credit arrangements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Barter arrangements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Not applicable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please specify

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>A6.92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe the usual credit arrangements between you and your customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(They pay after how long, do they pay all the credit at once or in instalments, do they pay with interest in money terms or interest in kind)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

331
Sales on credit to your customers account for how much of your weekly/monthly sales?

- Very little (less than 15%)  
- About one quarter (between 16% - 35%)  
- About one half (between 36% - 65%)  
- About three quarters (between 66% - 85%)  
- All the sales  
- Not applicable

You have credit arrangements with your customers after knowing them for how long?

- Less than three months  
- Three months to six months  
- Six months to one year  
- Longer than one year  
- Not applicable

How much of your goods and services do you sell to the regular customers? Would you say:

- All of it  
- Most of it  
- About half of it  
- About one-quarter of it  
- Less than one quarter of it
7. Trade Routes

Do you cross the border with goods?  
☐ 1 Yes  
☐ 2 No (go to A7.14)

If yes, when was your most recent crossing (in terms of date)?  
Date_______________ Month______________  
Year_______________________

How did you cross the border with the goods?  
Kenyan side  
☐ 1 Formal  
☐ 2 Informal  
Tanzanian side  
☐ 1 Formal  
☐ 2 Informal

How often do you cross the border with goods weekly?  
☐ 1 Every day  
☐ 2 On market days (twice a week)  
☐ 3 Three days in a week  
☐ 4 Four days in a week  
☐ 5 Five days in a week  
☐ 6 six days in a week

Would you say that your level of crossing this week was:  
☐ 1 Low  
☐ 2 Average  
☐ 3 High

Usually, how do you cross the border with goods?  
Kenyan side  
☐ 1 Formal  
☐ 2 Informal
Tanzanian side  □ 1 Formal  A7.8
□ 2 Informal

Do you use transporters?  A7.9
□ 1 Yes
□ 2 No

Between you and the transporter, who decides the route through which the goods should be transported?

Trader
Kenyan side  □ 1 Formal  A7.10
□ 2 Informal

Tanzanian side  □ 1 Formal  A7.11
□ 2 Informal

Transporter
Kenyan side  □ 1 Formal  A7.12
□ 2 Informal

Tanzanian side  □ 1 Formal  A7.13
□ 2 Informal

If no to question A7.1, do you sell to others who cross the border?  A7.14
□ 1 Yes
□ 2 No

Usually how do your customers cross the border with goods?
Kenyan side  □ 1 Formal  A7.15
□ 2 Informal

Tanzanian side  □ 1 Formal  A7.16
□ 2 Informal
How often do your customers cross the border with goods weekly?  

☐ 1 Every day  
☐ 2 On market days (twice a week)  
☐ 3 Three days in a week  
☐ 4 Four days in a week  
☐ 5 Five days in a week  
☐ 6 six days in a week  

Would you say that customers level of crossing this week was:  

☐ 1 Low  
☐ 2 Average  
☐ 3 High