



University of Malawi
Centre for Social Research

Cross-border Trade Monitoring study: Malawi Country Report

Under the auspices of



Report by

Maxton Grant Tsoka

P.O. Box 278

Zomba

Malawi

mtsoka@csrunima.org

mgtsoaka@yahoo.com

www.csrunima.org

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Maxton Grant Tsoka

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List of Abbreviations

| | |
|--------|--|
| ACP | Africa, Caribbean and Pacific Group |
| ADMARC | Agricultural Development and Marketing Corporation |
| CBT | Cross border trader |
| CIF | Cost insurance and freight - Value including transport charges |
| COMESA | Common Market for Eastern and Southern Africa |
| EPA | Economic Partnership Agreement |
| FEWS | Famine Early Warning System |
| FOB | Free on board - value without adding transport charges |
| GDP | Gross Domestic Product |
| GOM | Government of Malawi |
| ICBT | Informal Cross Border Trade |
| MGDS | Malawi Growth and Development Strategy |
| MK | Malawi Kwacha - Malawi's local currency |
| MPRS | Malawi Poverty Reduction Strategy |
| MRA | Malawi Revenue Authority |
| MSE | Micro and small enterprise |
| NGO | Non-Governmental Organisation |
| O&D | Origin and Destination |
| SA | South Africa |
| RBM | Reserve Bank of Malawi |
| SADC | Southern African Development Cooperation |
| SARPN | Southern African Regional Poverty Network |
| VAT | Value Added Tax |
| WTO | World Trade Organisation |

1. Introduction

1.1 Project overview

Malawi is a member of the World Trade Organisation (WTO) and is party to its protocols. As an ACP member, Malawi also has trade agreements with the EU in the context of the Cotonou Convention and is currently negotiating the Economic Partnership Agreement (EPA) under the Eastern and Southern African Region group. Probably more relevant to this study is Malawi trade agreements within the region where small-scale traders can benefit from the trade protocols.

Malawi is a member of SADC and has ratified the SADC Free Trade Protocol. Malawi has also committed itself to the establishment of the common market in Eastern and Southern Africa Region under COMESA. Apart from these regional trade agreements, Malawi has signed trade agreements with Zimbabwe, South Africa and Botswana. She also maintains joint permanent commissions with Mozambique and Zambia, where trade issues, among others, are discussed. Malawi is negotiating bilateral trade agreements with Mozambique, Tanzania and Zambia.

Clearly, Malawi and other state parties to SADC and COMESA are committed to promoting intra-regional trade. The bilateral agreements are also a testimony of the governments' wish to have increased bilateral trade. Although the existence of small-scale cross-border traders is known, trade protocols in SADC, COMESA and bilateral agreements focus more on formal sector trade than cross border trade undertaken by small entrepreneurs, or informal sector cross border trade. Yet, small-scale or so-called informal traders are apparently responsible for the movement of considerable quantities of goods through the region. These traders seem to supply large-scale businesses, wholesale and retail shops as well as small and medium enterprises. This is over and above those that run their own retail outlets. Their low overheads, ability to conceal some of their imports (i.e. not declaring all), undervaluing their imports and negotiating tax (tariff) payments makes them favourable suppliers. As a result, they are given orders to supply almost everything that is transportable by bus or truck.

The Malawi Revenue Authority (MRA) is aware of the increased use of these traders by other businesses. It is also aware of the capacity of these traders. It devises various ways of dealing with them in order to collect reasonable tax from them. For example, MRA border officials are given some target of taxes they are supposed to collect from a bus even before the bus manifest is known. Apart from that the MRA collects average prices of goods to counteract the frequent under-valuation small-scale traders engage in. Despite this, little is known about the role small-scale traders play in the national economy. Further, there have been no efforts to document this so as to inform policy. The result is that small-scale traders are not accorded the 'respect' they deserve as critical gap fillers and this sector of cross-border trade is sometimes viewed as informal trade and as such given little attention by policy makers.

1.2 Objectives of the study

This study is a first step, just beyond an exploratory study, in this area. The main objective of the study is to provide the Malawi Government, the SADC and COMESA with some information about small-scale cross-border trade, especially its contribution to national economies and regional trade, which can be used to formulate policies that would support (and not suppress) cross-border trade as a reliable vehicle

for economic development by identifying areas where border management could be made more efficient to facilitate the movement of people and goods, as well as to identify any negative effects of this aspect of cross-border trade

The study has ten objectives. These include the following:

1. Monitor small scale cross border trade between selected countries in COMESA and the SADC
2. Identify the value, types and volumes of trade carried by small scale traders through selected land border posts
3. Record duties paid by traders
4. Record the number and sex of traders passing through selected border posts
5. Record origins and destinations of traders' journeys and types of transport used
6. Provide a basic outline of the relative contributions of male and female traders
7. Estimate, if possible, the contribution of small scale trade to formal trade statistics and the exclusion of small scale trade from formal trade statistics
8. Identify points leading to congestion at border posts
9. Identify possibilities for policy change, streamlining and harmonisation at border posts to ease congestion and promote managed movement
10. Make recommendations for possible policy changes relevant to data gathered.

1.3 Scope of the study

The study in Malawi covered three border posts; one in the north of the country, one in the centre of the country and one in the South. The border posts are Songwe in the North between Malawi and Tanzania, Dedza in the Centre between Malawi (West) and Mozambique and Mwanza between Malawi (South West) and Mozambique. The original plan was that the study would cover Mwanza (conduit to the Southern Countries including Mozambique, Botswana, and mainly Zimbabwe and South Africa), Muloza (to capture trade from Mozambique mainly agricultural commodities) and Kaporo (originally thought to be the border post).

During the preliminary discussions with MRA the team was informed that Kaporo is an inland customs post and that the border post is in fact Songwe. We were further informed that Muloza border post has very little traffic and that we would benefit if we also monitored Dedza traffic. We, therefore, changed the North post to Songwe because that was what the study intended to cover. However, we did not change Muloza. After only one day of study implementation, it was discovered that Muloza had literally no cross-border trade worthy monitoring. The team then shifted to Dedza border post, after consulting SAMP, and started work on the third day. Traders to the North, Centre and South East use Dedza border post as an alternative post to Mwanza. The border posts monitored in the study represent the three busiest land border posts in volumes of trade.

The study was conducted over ten days, including Sunday. The actual data collection started on Monday, 31st July 2006 and ended on Wednesday, 9th August 2006¹.

¹ For the Dedza Team, data collection started on Wednesday 2nd August and ended on 11th August 2006.

1.4 Outline of the report

The report has nine sections, including this introduction. The introduction has presented the project overview, objectives and scope of the study. The methodology section outlines the data collection tools and limitations of the study. Following the methodology are sections discussing the role of imports in the Malawi economy, sources and levels of imports and the role and place of micro and small enterprises in Malawi. The micro and small enterprises are discussed as proxies for cross border traders. Following these sections is a section on informal cross border trade between Malawi and its neighbours as reported by FEWS Net. The report then examines officially recorded imports through the three border posts from 2000 to 2005 and the ten-day period during which the study was implemented. The analysis of the imports is along three lines; the value of and tax on the imports and the resultant tax ratio. These are presented in the context of the monitored small scale cross border trade at the border post. The last section on the ten-day monitoring also presents the characteristics of small scale cross border trade and traders, including their profiles, journeys and experiences at the border post. A section on conclusions and recommendation closes the report.

2. Methodology

The study used a literature review, key informant interviews and a survey to obtain the data to achieve the objectives. Permission to conduct the survey was obtained from the Malawi Revenue Authority (MRA) and Immigration Department. Once the permission was granted, the team visited the Mwanza Border post as part of its training.

2.1 Key informant interviews

The briefings by the relevant authorities during the development of the study also acted as key informant interviews as most of the information required was provided, and where clarification was required the MRA and Immigration authorities provided such. Further information was obtained from border post key informants by the supervisors in the course of their work during the survey period.

2.2 Literature review

There is dearth of literature, grey or otherwise, on cross-border trade into Malawi. FEWSNet produces some information on informal cross border trade but their work is concentrated on food crops. There has been very little done, if at all, on informal small-scale cross-border trade into Malawi. The literature review, therefore concentrated on formal trade statistics. The annual economic reports produced by the Ministry of Economic Planning and Development as well as the latest Financial and Economic Review produced by the Reserve Bank of Malawi provided balance of payments data. The National Statistical Office, using their external trade database, provided the data on imports and relevant taxes for the three border posts.

2.2 Border monitoring

There were three separate activities undertaken at the border post. The first was the counting of travellers by gender, and where possible, whether they were a trader or not. Counters were employed to count those entering and going out of the country separately. The second was the monitoring of the valuation of imports for the

purposes of assessing the amount of tax a cross border trader was supposed to pay. The monitoring forms were used to record the sex, nationality and race of traders; the type and where possible, volumes of goods carried; value of goods carried; duties paid; and other observations.

The third involved conducting personal interviews with a number of traders using a closed questionnaire. The questionnaire focused on the origin and destination (O&D) of the traders, the sources of their imports and also buying and selling points of their imports. The questionnaire was mostly administered to traders that used coaches. Only a few truck drivers were interviewed because truck drivers spent very little time at the border after paying their taxes, if any at all. Those traders interviewed were randomly but not systematically sampled among cross border traders. It was only possible to interview traders that had paid their taxes but were waiting for others to pay their taxes before boarding their buses. Table 1 presents the number of questionnaires administered by border post.

Table 1: Interviews conducted by border post

| Border Post of Interview | Number | Percent |
|---------------------------------|---------------|----------------|
| Mwanza | 128 | 38.9 |
| Songwe | 116 | 35.3 |
| Dedza | 85 | 25.8 |
| Total | 329 | 100 |

Each research team member kept diaries where they recorded relevant observations. The observations made have been incorporated in relevant field team reports

2.4 Limitations of the study

This study was, on the whole, implemented well with very few hitches and technical problems that could affect the usability of the data collected. There was no major event that affected the collection of data in the designated ten days. Officials at the borders worked for, instead of against, the study. Their cooperation, if anything, made the exercise possible. There are, however, some factors that need to be highlighted so as to give the right qualification to the data collected.

(a) Traders from border areas

Of the three borders selected, only the Songwe Border post represents a border post that is used by informal as well as small-scale traders. It was only at Songwe that counting and categorisation of those going out and in was difficult. At Songwe, crossing the border post for some was like crossing a bridge between their home and a trading centre. These people moved with a border pass and could do the crossing more than two times a day. The immigration statistics do not include those that cross with border passes. This means that the figures recorded by the counters are higher than those recorded by the immigration officials.

There are a number of implications here. The first is that the probability of smuggling through non-motorised vehicles and informal crossings (by people with border passes) around Songwe is higher than at Mwanza and Dedza although the borders there are just as porous. The second is that the number of people crossing the border post is

large to the extent that the immigration officials at Songwe were unable to form objective criterion that would assist in categorising travellers as traders or non-traders. As a result, the Songwe team did not get assistance in categorising travellers as traders and non-traders when counting border crossers.² The third is that the value of imports is under-estimated at Songwe because most of the informal trade is ‘not formalised’ by passing through the border post. This means that value of unrecorded trade through informal trade is higher at Songwe than Dedza and Mwanza. The research team was unable to establish the extent of informal crossings but were told that it is common at Songwe as traders employ men to transport imports through informal channels using bicycles.

This problem was not as extensive at Mwanza or Dedza. One of the reasons is that the nearest trading centers, on the other side of the border, are not in walking distance. However, the major reason is that most of the travellers through these border posts use motorised transport to major cities.

(b) Problems in distinguishing traders from travellers

The law governing the collection of customs duty provides that non-traders can import MK20,000 (roughly US\$140) duty-free. Traders are not entitled to this allowance. Since cross-border traders require no licence, it has been difficult for the revenue authority to categorise traders. As a result, all small-scale traders enjoy this MK20,000 duty free status every time they cross the border. The implication of this is that transaction’s import taxes by traders are undervalued by MK20,000. Of course, this is one side of the story.

(c) High taxes and declaration of imports

Traders are not the best persons to be truthful to the tax collector especially when the taxes are perceived to be exorbitant. As a result they play a number of tricks to pay what they feel is the ‘right’ tax. Most traders do three things. Firstly, they do not declare all their imports. Secondly, they undervalue those they declare. To do this they may deliberately bring no receipts for their imports. Others bring fake ones. Thirdly, they negotiate for further reductions after tax on their declared imports is assessed. One other tactic they employ is to be-friend to particular MRA officials. It was observed that ‘frequent fliers have their preferred flight attendants.’ Traders hunt for their favoured MRA officials to assess their imports.

Apparently, the tax collectors are aware of the tricks and they also employ their own. Apart from physically checking the imports (but they cannot be very thorough because of the number of parcels to check and the amount of items to check in each parcel), they use their own average prices. Further it was learnt, from traders, that MRA officials are given targets to meet per each coach that passes through the post. Thus the seriousness or the extent of ‘following the book’ is dependent on the target and the number of passengers in a coach. Whether what is eventually levied is ‘justified’ or not is difficult to tell. What is possibly true is that the MRA meets its targets and the traders pay levels that still leave room for them make some profits. Traders, nonetheless, complain that the taxes are too high and that the average prices given to their imports by officials are generally higher than what they actually paid.

² The team was informed that traders comprise roughly 80% of the travellers.

With the widespread cheating among traders, both the assessed value and its related tax are an under-valuation. Even when the effect of under-taxing related to the MK20,000 duty free allowance extended to every traveller is considered, the import values as well as the taxes are under-estimated. The under-estimation is exacerbated by traders' use of 'informal' border posts.

(d) Use of clearing agents for small-scale traders

Due to the increased volume of cross-border traders, the MRA decided that imports worth more than MK30,000 should be processed through customs and clearing agents. Although, this is only true for Mwanza and Songwe border posts where such a system exists. Such imports, although belonging to the sector of cross-border trade this study was interested in, were not monitored. Thus, at the Mwanza and Songwe border posts, the imports handled by MRA officials at the desk are low. The team attempted to obtain the value and taxes levied through the 'agents' route. This brought three challenges. The first was that at Mwanza the team was only given the tax collected from these major imports, leaving out the value of the goods taxed. The second was that the team could not monitor how taxes are assessed³. Third, the value of imports and taxes levied on the imports were assessed using two systems, which could in practice be different. It is more than certain that the valuation and assessment of taxes of the two routes are different. The only possible recommendation related to the cut-off point is that it is too low given the value of the Malawi Kwacha (close to MK140 per one US Dollar in 2006). It should be noted, though, that the cut off point is not strictly followed.

(e) Difficulties in identifying travellers

The Dedza border post is under-construction. The usual entry and exit points have been disturbed by the construction. It was therefore difficult to identify those who were truly entering or exiting. The counters had to rely on the immigration officials to identify travellers. This could have the effect of over or under-recording of travellers passing through Dedza the border post.

(f) Communication

It was assumed that those passing through Songwe would be able to communicate in English or Chichewa. Unfortunately, some of the traders could only converse in languages other than these. The research team had to use translators. It is possible that during such translations, though low in frequency, some information may have been lost, especially for those speaking only Swahili because the translators were only able to translate Tumbuka.

(g) Bias towards public transport traders

Traders using coaches/buses were mostly interviewed because they spent enough time at the border while waiting for other passengers to go through the process. This means that cross-border traders in private vehicles were not interviewed using the origin and destination (O&D) survey instrument, although their imports were monitored.

(h) Suspicion that the team was spying for the MRA

³ The MRA officials explained the official version of how taxes are assessed used this route.

There was an oversight during the preparation of the study in terms of producing identification cards for the study team. This meant that the traders were not sure whether the team was working for MRA or indeed independently. At some border posts, the research team was forced to have the University of Malawi vehicle parked close to where the interviews were taking place. At all the posts, MRA officials introduced the study team. All in all, very few traders used this as an excuse although it still took some negotiation for some traders to agree to be interviewed. The effect of this could be two-fold. The first is that we lost some traders for the O&D survey. The second is that respondents could have deliberately given wrong information, especially the values of imports and what was actually imported. Of course, most participated freely and willingly considering that the O&D survey was anonymous and the interviews took place after the values and taxes had already been assessed by MRA officials. Some even specifically mentioned what they had not declared while others mentioned illegal substances they carried through the border as they were going out.

(i) Difficult questions to ask

The teams agreed that the O&D questionnaire was straightforward and mastered the questionnaire within two to three days of training. However, there were a few problem questions. One such question required the respondent to indicate whether s/he uses a permit to conduct cross-border trade. Some respondents asked what the question meant while others just answered. Where the respondent asked, some interviewers failed to give satisfactory responses, especially in the early days. Judging from the responses, some traders thought it meant business permits in Malawi (and not a permit/visa to conduct cross-border trade). Thus responses on this question have to be discounted. There was also some problem regarding the information on the taxes a trader has to pay. A combination of interviewer failure and respondent failure to understand the question produced responses that meant that the information sought was on the tax assessed during the assessment just done and not generally. The cases are not many but the problem should be borne in mind when reading the analysis on this aspect.

(j) Estimation of the contribution of the cross border trade to formal trade

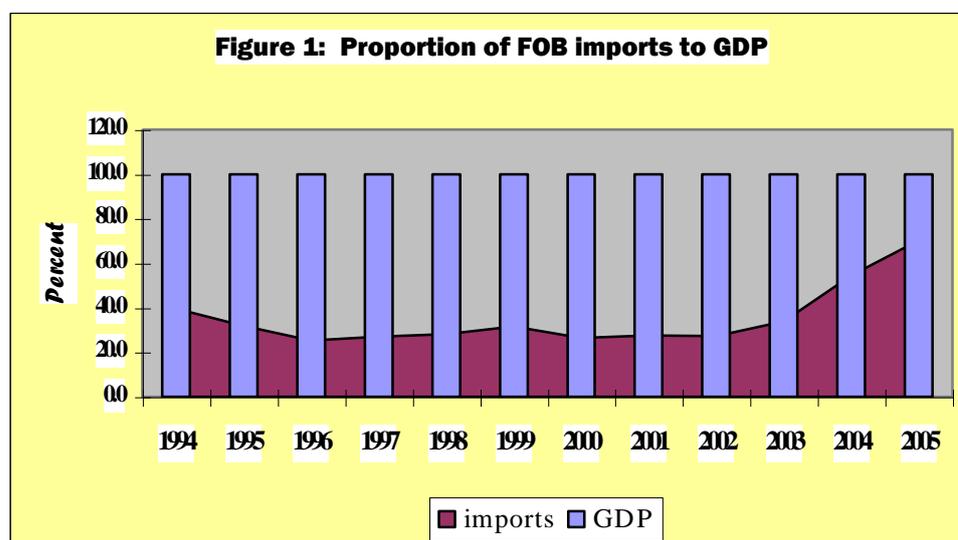
The data collected on the three border posts can provide a basis for the estimation of the contribution of cross border trade to formal trade statistics. Given that the data is for 10 days, this can be assumed to be a random 10-day period and can therefore be multiplied by 36.5 to obtain an estimate for a year and can then be compared with last year's value of imports after factoring in inflation. This assumes complete information for the three border posts. Given the different valuation systems and absence of data on values of imports at the biggest border post of Mwanza, the estimation has not been done as planned.

3. Role of imports in the Malawi economy

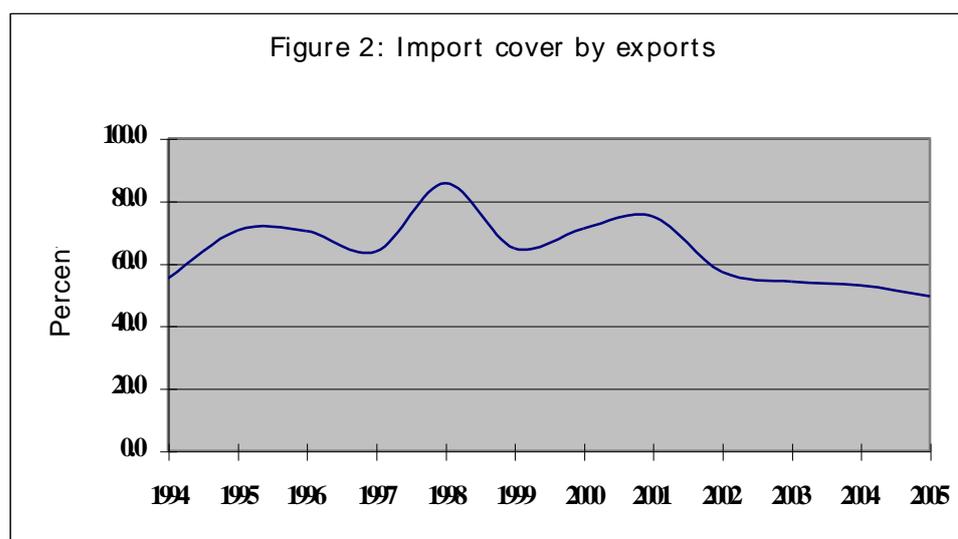
Imports are a component of aggregate domestic supply. They supplement national production. Net imports (the difference between imports and exports) when added to what is output on the domestic market give aggregate supply. Considering that the cross-border monitoring survey concentrated on imports free on board (FOB) by not

including transport cost to the traders, the analysis on the role of imports has used FOB imports instead of imports inclusive of freight charges, insurance, i.e. CIF imports.⁴

Over the period 1994 to 2005, FOB imports averaged 35% of GDP. The proportion started to increase from 27% in 2000 to 70% in 2005 (Figure 1). The high increase in the first years of the 2000s was due to increased imports of grain in response to food insecurity.

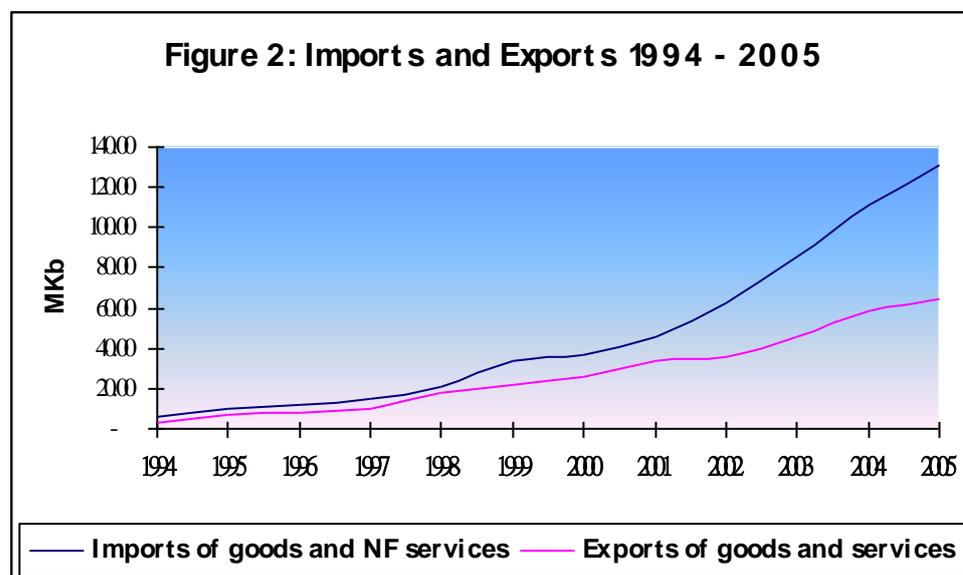


The proportion of imports covered by exports has been unstable over time. However, it has been dropping steadily since 2001. As already stated, this state of affairs is attributed to increased imports of maize over the period. The highest import cover by exports was in 1998 when the value of exports was 86% of the value of imports. The lowest was in 2005 when exports barely covered half of the imports. In fact, the performance has been below the recent historical lows since 2003 (Figure 2).



⁴ Being a land-locked country using road transport mostly, the freight component is high. The average proportion of non-factor services (freight and insurance) for the period 1994 to 2005 was 36%.

Malawi's foreign trade balance, in Malawi Kwacha, has been negative for a long time and the gap between imports and exports of goods and non-factors services has been widening since 2001. This is clearly demonstrated in Figure 2.



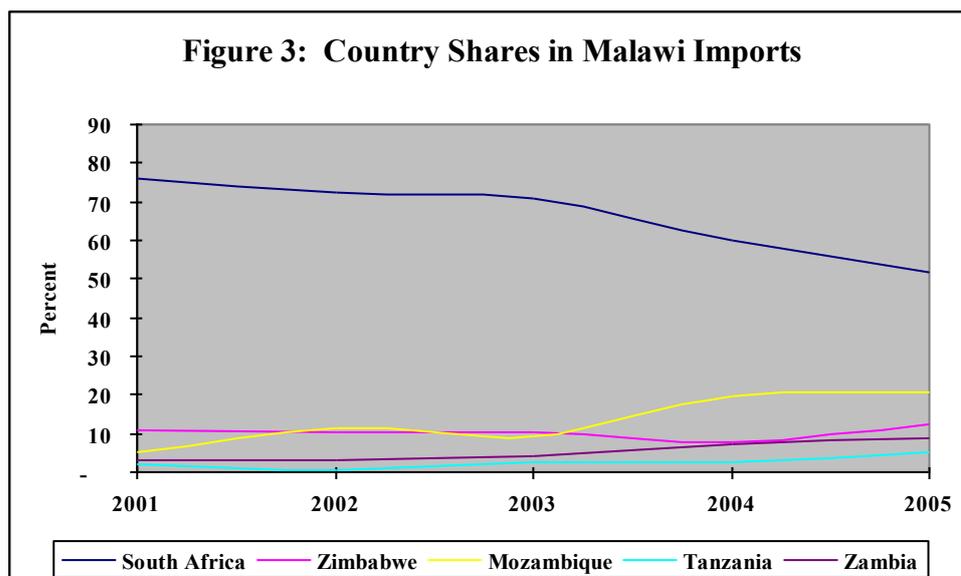
4. Malawi Imports – Sources and Levels

Most of the Malawi imports are from the SADC region, mainly South Africa. The proportion of imports from SADC in total imports average 56% for the period 2001-2005. The lowest proportion was recorded in 2004 when imports from SADC were below half. The share of imports from South Africa in imports from SADC averaged 66% but it has steadily been declining over the period as shares of neighbouring countries as well as Zimbabwe has been increasing in varying degrees. In particular, share of imports from Mozambique has been increasing quite rapidly and has now substantially overtaken imports from Zimbabwe although the share of imports from Zimbabwe also increased in 2005. Similarly, the share of imports from Zambia has also increased. Imports from Mozambique and Zambia have been nipping at the South Africa share (Table 2 and Figure 3).

Table 2: Malawi Imports and Share of SADC in the Value of Imports

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|--------|--------|--------|---------|---------|
| Total imports (MKm) | 39,480 | 53,657 | 76,650 | 101,555 | 139,967 |
| SADC (% of total imports) | 57.0 | 57.3 | 56.5 | 49.5 | 60.6 |
| <i>Proportion of imports from SADC</i> | | | | | |
| South Africa | 76.3 | 72.3 | 70.7 | 60.3 | 51.6 |
| Zimbabwe | 10.8 | 10.1 | 10.5 | 8.0 | 12.6 |
| Mozambique | 5.3 | 11.3 | 9.4 | 19.6 | 20.5 |
| Tanzania | 1.9 | 0.7 | 2.7 | 2.7 | 4.9 |
| Zambia | 3.1 | 3.1 | 4.2 | 7.3 | 9.0 |

Source: RBM. 2005.



5. Role of Micro and Small Enterprises in Malawi

“In Malawi, MSEs are intricately inter-woven with the livelihood strategies of especially the poor. They make a significant contribution to the overall national employment and provide income to business owners, their employees and households.” NSO et al 2001:19.

The recognition of the role of informal cross border traders starts with the recognition of the role micro and small-scale enterprises. The Malawi Government developed policies in support of micro-small-scale and medium scale enterprises in the 1990s in recognition of the role these play in the economy. It even developed a micro-finance policy to support the development of the enterprises. The Government even tried to implement revolving funds in support of the enterprises. There are also associations and NGOs who focus on the promotion of these enterprises. Before discussing the position of Government regarding micro and small enterprises, we will discuss findings from a study specifically focussing on the role of these enterprises.

The number of people engaged in the enterprise determines the category the enterprise is given. Micro enterprises employ less than four persons including working relatives, paid or unpaid while small enterprises are those that employ between 5 and 50 persons. Most of the importers monitored through the three border posts monitoring fall into the MSE category. Most of them also operate in towns, except smallholder farmers.

In Malawi, and in the recent past, there has been only one major study on the role of micro and small enterprises (MSE) namely the Malawi National Gemini MSE Baseline Survey⁵. According to the survey, there were 747,396 micro and small enterprises in 2000. Of these, 41% were in commerce and trade. Dominant MSE activities included vending of natural resource-based goods like firewood, charcoal and fish, as well as the buying and selling of finished manufactured goods, in grocery

⁵ NSO et al, 2001. Malawi National Gemini MSE Baseline Survey 2000.

shops, hawkers and on stalls in informal markets. Further, most of the MSEs (91%) were micro enterprises with up to four employees, 44% with the owner as the only person engaged in the enterprise and 30% with two employees. In fact, 97% of the MSEs in commerce and trade were micro enterprises. The 747,396 enterprises employed 1,700,683. Of these 32.8% were in commerce and trade, accommodation and restaurants, employing an average of 1.82 per cent (lower than the national average of 2.28 for the average MSE in 2000).

Of the 606,245 owners of the MSEs, women owners were 34% and men owners were 35%. The rest were husband and wife (30%) and multiple proprietors or joint-owners (1%). The largest proportion of women proprietors (46%) were running commerce and trade enterprises, although women also featured prominently in micro-processing like beer brewing and food processing.

Annual sales of the MSEs varied widely as their activities did. Slightly over a quarter (26%) of the MSEs reported annual sales of less than MK10,000 (US\$168 in 2000) while 15% had annual sales above MK100,000 (US\$1,680). The majority of them operate at home (73%) in rural areas including small towns and lakeshore areas (83% of the rural enterprises). The remaining 17% operated in cities (Blantyre, Lilongwe, Mzuzu and Zomba) especially in low-income areas. Low-income urban stratum areas hosted 12% of all MSEs and comprised 71% of enterprises in urban areas.

MSEs employed 38% of the total working age population and women comprise 42% of those employed in this sector. Employment in commerce and trade and hotel MSEs was 33% of total MSEs employment (less than its proportion of 41% in total number of MSEs), second only to crop production. A fifth (20%) of the employees were employed in enterprises operating in small towns, urban low income and urban commercial areas. These are the areas most cross-border traders operate. Female employment was highest in urban-low income areas with 52% of the employees being women. Unfortunately this is where most of the unpaid workers in the enterprises were found. There were 26% unpaid employees in this section of the urban areas. Apart from this section, most of the urban settings had low levels of unpaid employees. The lowest area of female participation was in urban commercial areas (15%).

The MSE sector involved and provided additional incomes to about 26% of the households surveyed. As the survey report indicates, *“MSEs play a critical role in the livelihoods of those that are involved”*. Page 24. In a country of limited employment and income earning opportunities, MSEs are a *“possible tool in the fight against rural and urban poverty”* (NSO et al., 2001: 25). In 2000 when consumption poverty line was MK19.50 per day per person, the average firm’s daily profit of MK76.00 helped those involved in MSEs live above the poverty line.

However, assuming one household member out of a five-member household involved in an MSE, this average is still below the poverty line if the profit is divided amongst the household members equally. The average profit for commerce and trade and hotels was just as low (MK78.00 per firm). Thus MSEs on their own could not, on average help households live above the poverty line. Only 27% earned enough to live above the poverty line because *“Many households use MSEs to help them diversify income sources, improve cash flow, and as a fall back during hard times. At the macro*

level, the MSE sector generates annual profits worth US\$281 million equivalent to 15.6% of the country's GDP at 2000 prices." (Ibid.: 25).

MSEs are an important supplementary source of income. However, this varied with the location of the enterprises. According to the survey, 63% of the MSE owners reported that more than half of their income came from their enterprises but the proportion was low in urban and semi-urban areas. For example, while on average 30% of the owners said all or almost of their income was derived from their businesses, the proportions were 69%, 36% and 27% for owners in urban commercial, small towns and low-income areas, respectively.

Again, new businesses are embarked on in order to generate extra money in support of household needs. As many as 75% of those interviewed said they added new businesses in pursuit of additional money to support their household needs. Again, this varied by location. The proportion of those that engage in new businesses just to generate resources to supplement household income were 73% in urban low-income, 68% in urban commercial areas and 63% for small towns. Indicating that these businesses are basically used to supplement their household income, 75% said they used their profits for household needs as opposed to 15% who said they re-invest in the same business. In terms of gender, a higher proportion of female owners (85%) use their profits for households needs than male owners (73%).

The survey also looked at the role the enterprises play in alleviating or reducing poverty. It was found that MSEs employed 38% of the work force. This is high indeed. However, due to the low profits and salaries in the sector, MSEs alone scarcely move those involved out of poverty. In fact, for the smaller urban low-income households, MSEs provide less than half of the household income. Thus MSEs under which cross-border traders fall, are a necessity but are not necessarily sufficient to move households out of poverty. This is due to their limit in scope, again as a result of many constraints including capital and business management skills on the part of the owners.

6. MSEs in policy and programmes

The recent Malawi Growth and Development Strategy (MGDS) is a medium-term development policy and programme document, which is planned to run for five years. Sub-theme 5 of the first theme of 'Sustainable Economic Growth' is economic empowerment. The sub-theme aims at increasing the productivity of small businesses to enhance employment and income of women and youth. However, there is no strategy on commerce and trade, let alone cross-border trade. The strategy only offers training to small businesses. It is only assumed that cross-border traders, as small businesses business will benefit from the programmes in this sub-theme. It should be noted, though, that the MGDS is oriented towards large-scale businesses.

It was its pre-cursor, the Malawi Poverty Reduction Strategy (MPRS) that was oriented towards micro and small-scale businesses. MSEs fell under Pillar 1 of the MPRS titled 'Sustainable Pro-poor Growth'. One of the issues that made the growth sustainable was the promotion of MSEs to move into medium and large-scale enterprises as well as the broad-based strategies. Firstly, the pillar called for the development of micro, small and medium enterprises by offering special (financial

and non-financial) assistance, introducing cost-saving technologies and product specialisation. It also proposed introducing export banks and bulk purchasing. However, the orientation was export promotion. Secondly, the pillar proposed the development of a vibrant credit and microfinance market to support MSEs, increase the coverage, access and cost of credit. Thirdly, the strategy aimed at inculcating the notion that even smallholder agriculture was a business. This entailed encouraging the formation of farmers association and increasing the supply and access to agricultural inputs and credit. However, the sub-goal on domestic and external trade focussed more on exports than imports and in any case, MSEs did not feature in commerce and trade.

What is clear from other policy documents that predated these two crucial documents is that MSEs are considered as stop gap livelihood strategies. They are not taken as possible take-off avenues. This results in gross neglect of the sector when it needs assistance most. Farmers are left to face the market alone when some organisations, including Government, are expected to offer some assistance at least market intelligence. Likewise, promising entrepreneurs are left to search for foreign markets when the country maintains foreign missions abroad that can easily and cheaply assist in identifying markets. Micro enterprises unsurprisingly require some micro push to grow. Likewise, small enterprises require small assistance to take off into sustainable 'business skies'. Cross-border traders require simple assistance from Government trade officers, some understanding from the revenue authority and genuine trust from financiers. Simple assistance from various quarters can turn the MSE sector into a cost effective and poverty-reducing sector.

7. Informal cross-border trade in agricultural products

Table 3: Trade in Maize, Rice and Beans in tonnes

| | 2004/5 | 2005/06 | Apr-Jun 06 |
|----------------------|---------------|----------------|-------------------|
| Imports of maize | 76,042 | 156,499 | 27,537 |
| Exports of maize | 671 | 1,158 | 2,493 |
| Net imports of maize | 75,371 | 155,341 | 25,044 |
| | | | |
| Imports of rice | 2,602 | 2,603 | 199 |
| Exports of rice | 451 | 178 | 1,554 |
| Net imports of rice | 2,151 | 2,425 | - 1,355 |
| | | | |
| Imports of beans | 3,400 | 5,200 | 613 |
| Exports of beans | 449 | 95 | 181 |
| Net imports of beans | 2,951 | 5,105 | 432 |

Source: FEWS Net

FEWS Net started monitoring cross-border trade in selected agricultural products in 2004, i.e. the 2004/5 marketing season. Before that time, there was no systematic data collection of cross border trade across by the so-called informal traders. FEWS Net used customs officials to record trade. Using the FEWS Net data, there has been an increase in the volume of unrecorded cross-border trade. Most of the trade was in

food crops. This trade flourishes with food shortages in Malawi vis-à-vis its neighbouring countries, especially Mozambique.⁶ Table 3 provides some details of the major food crops that have been traded across the borders since April 2004.

As expected, maize imports dominate the informal cross-border trade between Malawi and its neighbouring countries. FEWS Net has also recorded imports into Malawi of other commodities, especially in the first quarter of the 2006/07 marketing season. In terms of volume, wheat, fertilizer and groundnuts are the other major imports. Soybeans are the only major export crop (Table 4).

Table 4: Other commodities traded by ICBT in tonnes

| Commodity | Apr-Jun 06 | Commodity | Apr-Jun 06 |
|--------------------|------------|-----------------------|------------|
| Wheat | 6,985 | Sunflower exports | 496 |
| Fertilizer | 5,689 | Sunflower imports | 373 |
| Wheat flour | 2,975 | Unshelled g/nuts | 230 |
| Shelled g/nuts | 1,855 | Maize flour – exports | 52 |
| Soybeans – exports | 1,249 | Cowpeas | 33 |
| Corn soy blend | 1,140 | Fresh cassava | 14 |
| Soybeans imports | 889 | European potatoes | 10 |
| Cotton – exports | 830 | Sorghum | 8 |

Source: FEWS Net

Mozambique is the main source of the major imports (maize, wheat, fertilizer, rice and groundnuts) and Tanzania is the main destination for rice exports. Groundnuts are mainly exported to Tanzania and South Africa. FEWS Net concludes that cross border trade plays a very important role as a source of food and income for households in Malawi and neighbouring countries.⁷

Apart food crops, there are many others goods that are traded across the borders. According to Mwaniki,⁸ non-food goods traded include crafts, furniture, jewellery, doilies, electrical goods and perfumes, among many others. Mwaniki reports that Article 2 of the SADC Protocol recognises the need to improve the environment for informal cross border trade to flourish. It is, therefore, incumbent upon member states to put in place policies, programmes and mechanisms that would facilitate the flourishing of the informal cross border trade.

8. Imports processed at Mwanza, Dedza and Songwe border posts

Data was collected from the National Statistical Office on imports that pass through the three border posts chosen for this study which are the top three conduits for

⁶ The 2006/07 marketing season seems to be different. Malawi has produced surplus maize yet there are maize imports from Mozambique because of price differential necessitated by the high ADMARC prices. Traders are buying in Mozambique to sell to ADMARC.

⁷ FEWS Net reports were downloaded from the Southern African Regional Poverty Network (SARPN) @ www.sarpn.org.za.

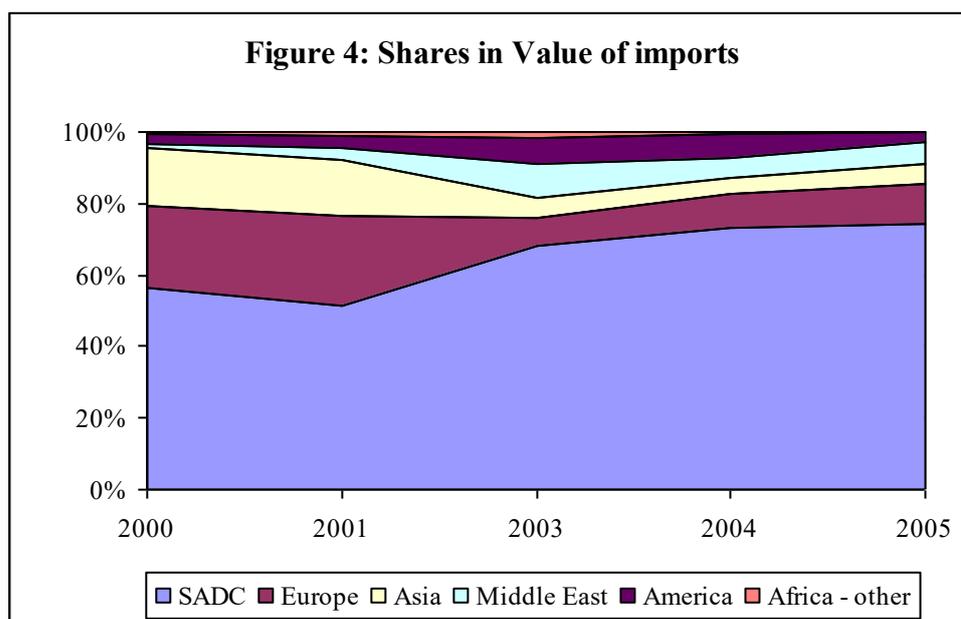
⁸ See Mwaniki, John. Undated. 'The Impact of Informal Cross Border Trade on Regional Integration in SADC and Implications for Wealth Creation' @ www.sarpn.org.za

Malawi's trade. Appendix 3 presents detailed tables on imports and taxes thereon by border post.

8.1 Value of imports through the three border posts

Most recorded imports pass through the three border posts targeted by the study. However, not all imports are processed at the border posts. According to the MRA, Blantyre is the largest processing office seconded by Lilongwe. The share of imports processed at the three border posts has steadily increased over the years from 17% in 2001 to 32% in 2005. Mwanza is by far the busiest border post; it averaged 80% of total imports processed by the three border posts in the period 2000 to 2005 and Songwe averaged 15%. The Dedza border post is becoming more prominent since the Mozambique Government built a good road in the Angonia province. From a share of only 1% in 2000, imports processed at Dedza increased to 14% in 2005.

Most of the imports recorded at the three border posts are from SADC countries. The share of imports from the SADC processed at the border posts has been increasing at the expense of imports from Europe and Asia (Figure 4). Note that this is contrary to the finding above where the share of imports from SADC in total imports declined from 57% in 2001 to 50% in 2004 but rose to 60% in 2005. This difference is explained by the fact that this discussion is based on imports processed at the border posts being studied, not total imports to Malawi.

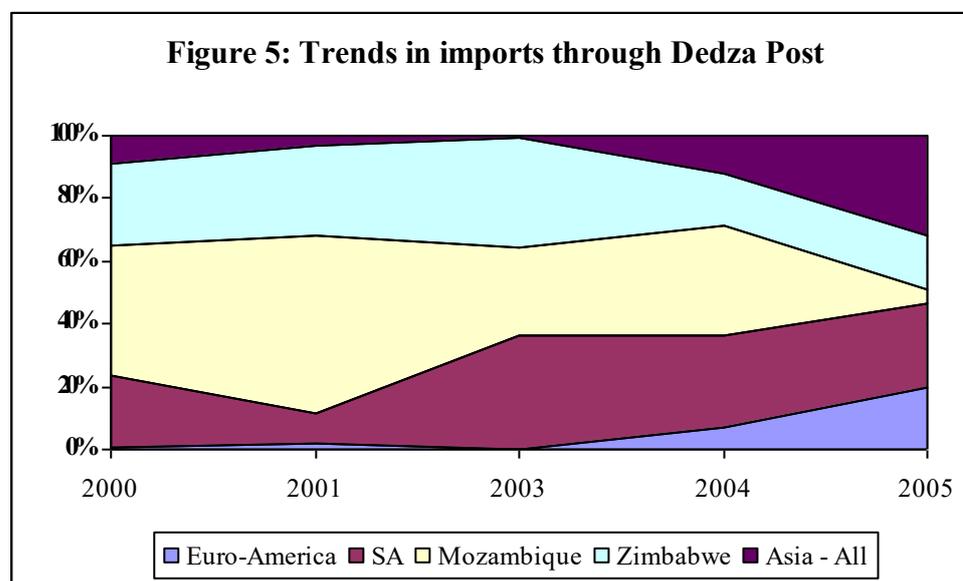


As expected, the picture is different when processed imports are analysed by border post. Table 5 presents average country and regional shares of imports processed at the three border posts for the period 2000-2005. While imports from South Africa pass through and get processed in all the border posts, the Mwanza border post is a conduit for imports from South Africa and other SADC countries south of the country. The Songwe border post is a conduit for imports from Europe, the Middle East and Tanzania. The few imports from COMESA (predominantly Kenya) almost exclusively pass through Tanzania. While imports from Asia (including Australia) pass through all three border posts, Songwe handles more than any of the two border posts. As already indicated, the Dedza border post has been revived by developments

in Mozambique. Before the road improvement, Dedza catered for imports mainly from Mozambique (41% in 2000). But by 2005, the composition had drastically changed. According to the MRA, imports from the south (Southern Africa route) destined for the Central, Northern and parts of the Eastern Regions of Malawi now opt for this border post. By 2005, goods from the Middle East, the Indian Subcontinent and other parts of Asia were processed at Dedza Border Post (see Figure 5 for the shares of the four key sources).

Table 5: Sources of processed imports by border posts

| | Mwanza | Songwe | Dedza |
|----------------------------|--------|--------|-------|
| South Africa | 42.3 | 12.8 | 26.7 |
| Zimbabwe | 9.5 | 0.1 | 25.1 |
| Tanzania | 0.2 | 19.9 | 0.2 |
| Zambia | 0.5 | 0.1 | 0.2 |
| Mozambique | 14.2 | 0.2 | 28.2 |
| SADC – Other | 2.1 | 0.0 | 0.0 |
| COMESA | 0.7 | 1.2 | 0.0 |
| Africa – other | 0.2 | 0.0 | 0.0 |
| Europe | 12.7 | 26.6 | 5.0 |
| America – All | 6.8 | 0.6 | 0.6 |
| Middle East | 2.2 | 29.7 | 7.1 |
| Indian subcontinent | 2.3 | 1.0 | 0.5 |
| Asia – Other | 6.3 | 7.8 | 6.1 |
| Total | 100 | 100 | 100 |



8.2 Tax levied on imports processed at the three border posts

The amount of tax levied depends on a number of factors. Some of the critical factors include the type of goods and the source of the imports. Different types of goods have different types of taxes levied on them. Depending on the source of the goods, the same type of good can be charged different rates in line with trade arrangements between Malawi and the source of the imports. This is clearly demonstrated when tax income is compared to import values. Imports from SADC and Asia are generally

‘overtaxed’ as compared to those from Europe and America. Imports from America are almost zero-rated. See Table 6.

Table 6: Proportions of Value of imports and tax on imports

| Year | SADC | | Europe | | Asia | | America | |
|------|-------|------|--------|------|-------|------|---------|-----|
| | Value | Tax | Value | Tax | Value | Tax | Value | Tax |
| 2000 | 56.3 | 58.8 | 23.3 | 14.1 | 17.2 | 22.6 | 2.7 | 3.9 |
| 2001 | 51.6 | 60.0 | 24.7 | 6.0 | 19.0 | 30.7 | 3.6 | 2.2 |
| 2002 | 49.3 | 58.2 | 19.6 | 4.4 | 18.6 | 36.5 | 11.1 | 0.9 |
| 2003 | 68.3 | 77.3 | 7.6 | 1.7 | 15.0 | 19.7 | 7.5 | 0.9 |
| 2004 | 74.1 | 53.4 | 9.7 | 7.0 | 9.8 | 38.9 | 7.0 | 0.2 |
| 2005 | 74.4 | 87.6 | 11.2 | 2.4 | 11.7 | 8.8 | 2.5 | 0.8 |

Tax proportionally higher

The picture becomes clear when the proportion of tax to value of imports is computed and compared.

8.3 Tax ratio of processed imports at the three border posts

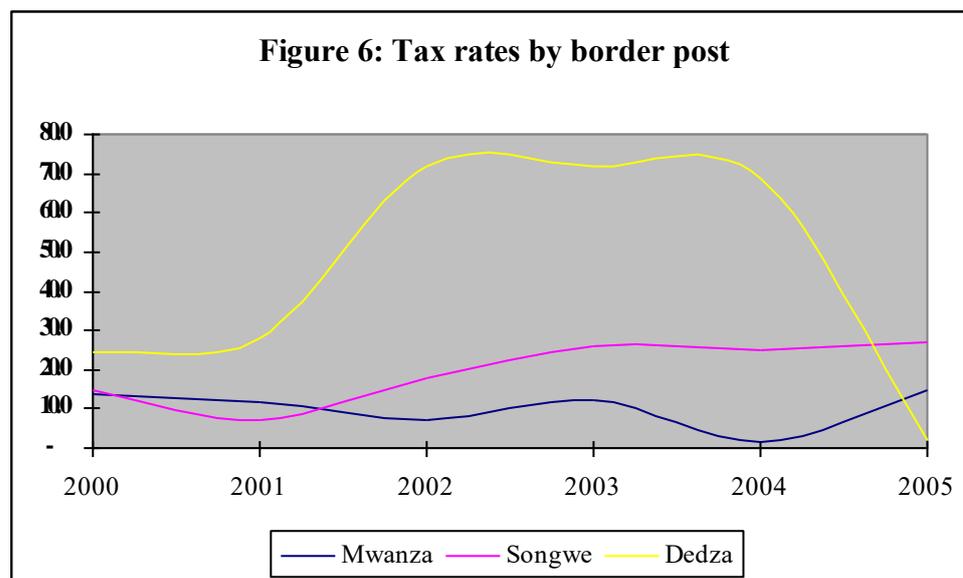
On average, imports from the Middle East, South Africa and Asia are more taxed than the average. The lowest tax ratios (tax rates for the purposes of the discussion) are recorded for imports from the Americas. COMESA imports also enjoy low tax rates in line with Malawi’s obligations. It seems SADC countries are not enjoying such low tax rates. However, tax rates have been declining since 2000 for most countries. Apparently, the average tax rate on South African imports, have not declined as much as those of Middle East. Regions with relative big drops in tax rates included the Americas (from 83% in 2000 to 10% in 2005), Mozambique (55% in 2000 to 13% in 2005), Middle East (35% in 2000 to 1% in 2005) and Tanzania (27% in 2000 to 13% in 2005). See Table 7.

Table 7: Proportion of tax to value processed imports at the three border posts

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Average |
|---------------------|------|------|------|------|------|------|---------|
| South Africa | 24.9 | 21.5 | 23.7 | 34.1 | 34.4 | 16.4 | 25.8 |
| Zimbabwe | 13.4 | 21.1 | 21.6 | 19.8 | 23.6 | 6.3 | 17.6 |
| Tanzania | 27.2 | 36.5 | 14.7 | 10.1 | 12.6 | 13.0 | 19.0 |
| Zambia | 12.7 | 10.7 | 38.0 | 37.6 | 16.3 | 13.0 | 21.4 |
| Mozambique | 54.8 | 4.8 | 15.1 | 20.8 | 20.0 | 12.9 | 21.4 |
| SADC – Other | 32.7 | 1.1 | 5.5 | 35.4 | - | 11.0 | 14.3 |
| COMESA | 16.0 | 24.7 | 0.6 | 2.8 | 5.4 | 21.5 | 11.8 |
| Africa – Other | 45.4 | 4.9 | - | 0.0 | 28.3 | 9.9 | 14.8 |
| Europe | 10.4 | 6.5 | 10.5 | 6.0 | 15.5 | 4.9 | 9.0 |
| Americas – All | 83.3 | 11.7 | 0.3 | 12.0 | 18.9 | 10.1 | 22.7 |
| Middle East | 34.8 | 51.8 | 28.7 | 50.5 | 15.0 | 1.4 | 30.4 |
| Indian Subcontinent | 12.7 | 25.9 | 22.7 | 25.6 | 21.2 | 11.6 | 20.0 |
| Asia – Other | 18.3 | 17.4 | 29.6 | 32.2 | 33.8 | 18.4 | 24.9 |
| Total | 17.8 | 15.6 | 32.2 | 36.8 | 31.6 | 14.7 | 24.8 |

An analysis of border post-by-border post tax rates shows that there is an element of tax collection efficiency in the tax rates presented above. While appreciating the possibility of differences in type of imports passing through the different border posts, we would not expect such different tax rates given the same tax schedules are used.

Figure 6 clearly demonstrates the differences and variability of tax rates, which cannot easily be explained by types and origin of imports.



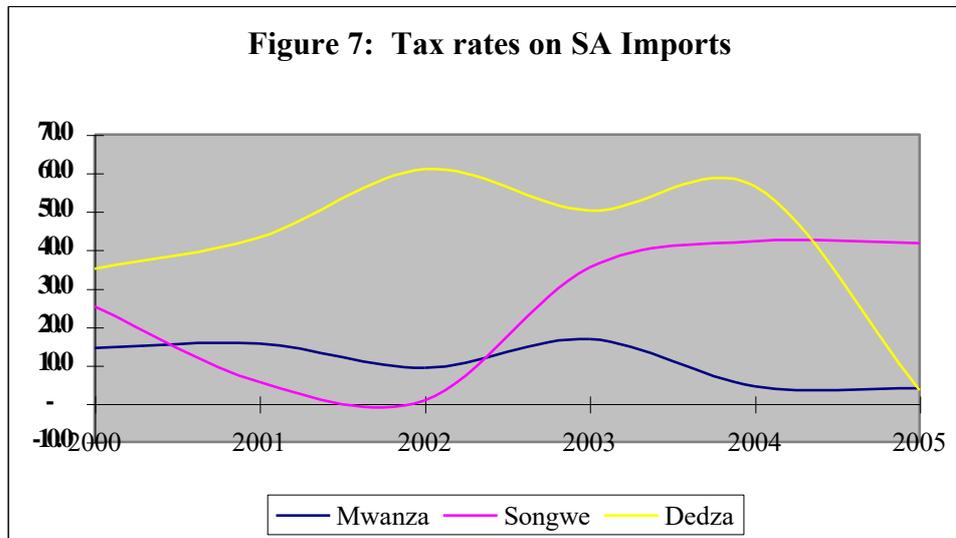
To show that the tax rates are not necessarily a function of origin of the imports, an analysis is done on the tax rates for the major trading partners but without controlling for types of imports. Currently, there is no credible reason to believe that there are major differences between types of goods from the same country passing through various border posts. Table 8 presents the tax rates for selected sources of imports.

Table 8: Tax rates by origin of imports and border post

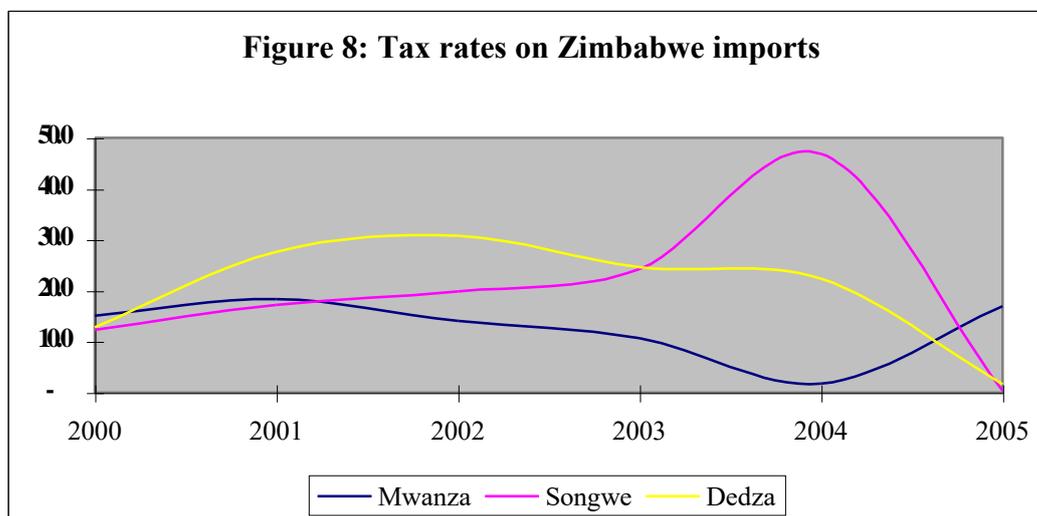
| | Border post | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|-------------|------|------|------|-------|------|------|
| South Africa | Mwanza | 14.4 | 15.6 | 9.3 | 16.8 | 4.5 | 4.0 |
| | Songwe | 25.3 | 5.6 | 0.9 | 35.3 | 42.2 | 41.7 |
| | Dedza | 35.1 | 43.2 | 60.9 | 50.2 | 56.6 | 3.5 |
| Zimbabwe | Mwanza | 15.1 | 18.4 | 14.1 | 10.7 | 1.7 | 17.0 |
| | Songwe | 12.3 | 17.2 | 19.8 | 24.3 | 46.8 | 0.4 |
| | Dedza | 12.8 | 27.7 | 30.8 | 24.6 | 22.4 | 1.7 |
| Europe | Mwanza | 7.9 | 10.1 | 1.2 | 2.6 | 0.2 | 3.6 |
| | Songwe | 9.8 | 0.7 | 5.9 | 9.4 | 46.2 | 11.2 |
| | Dedza | 13.3 | 8.9 | 24.4 | - | 0.1 | 0.0 |
| Middle East | Mwanza | 68.5 | 47.3 | 0.1 | 7.2 | 1.8 | 4.0 |
| | Songwe | 15.9 | 15.8 | 21.1 | 31.3 | 28.3 | 24.2 |
| | Dedza | 20.0 | 92.2 | 64.9 | 113.1 | - | 0.1 |

Clearly, the differences in the tax rates are due to more than the type of goods. For illustration purposes, the tax rates for imports from South Africa and Zimbabwe are presented in Figures 7 and 8. It is clear that Mwanza tax rates are appreciably lower for most part of the period than those for Dedza, while Songwe, on the other hand, seems to have 'slumbered' in 2001 and 2002 only to 'realise' that it had to 'penalise' the South African imports thereafter. Strangely, Dedza drastically 'reduced' the tax

rate on South African imports to a level similar to that of Mwanza. Is there any explanation for these differences beyond administration inefficiencies?



Zimbabwe imports have met different fates at different border posts in the same year. Starting from a fair year (2000), Zimbabwe imports never had ‘similar treatment’ thereafter. While Dedza and Songwe consistently showed higher tax rates on Zimbabwe imports, Mwanza rates were low and declining up until 2004. By 2005, though, both Songwe and Dedza had lower tax rates than Mwanza, which increased the rate. In fact tax rates on Zimbabwe imports started declining at Dedza border post starting from 2002. Similar inconsistencies are clear for the other sources of imports.



The inconsistencies in tax levied on imports from same country during the same period could point to possible tax administration problems. Since the above analysis has assumed that the products passing through the three borders were similar, we have thought that some preliminary analysis should be done on some selected products to verify whether the assumption is correct or not. Table 9 presents tax rates for select products.

Table 9: Tax levied on the same products at different border posts in 2005.

| Product | Mwanza | Songwe | Dedza | Average |
|--|-------------|-------------|-------------|-------------|
| Modified starches; glues; enzymes | 17.0 | 61.9 | 2.0 | 27.0 |
| Aluminium and articles thereof | 13.3 | 61.9 | 45.6 | 40.3 |
| Animal or vegetable fats and oils | 16.2 | 94.9 | 107.6 | 72.9 |
| Art of stone, plaster, cement, asbestos, mica mat | 26.2 | 90.9 | 15.7 | 44.3 |
| Knitted or Crotched articles of apparel and clothing accessories | 45.5 | 85.5 | 76.4 | 69.1 |
| Not Knitted or Crotched articles of apparel and clothing accessories | 48.8 | 70.9 | 65.5 | 61.7 |
| Articles of iron and steel | 6.3 | 41.5 | 12.4 | 20.1 |
| Beverages, spirits and vinegar | 61.4 | 46.9 | 50.4 | 52.9 |
| Average | 29.3 | 69.3 | 46.9 | 48.5 |

It is clear that different border posts charged the same products differently. Take starches, fats and oils for example. How can the proportion of tax to value of imports be that different? This is also true for aluminium. On the basis of the averages, Mwanza is the softest border post, Songwe the most consistent and meanest and Dedza the most inconsistent. However, product by product analysis shows that in some products, tax rates at Mwanza are in between the two other border posts (e.g. starches and art of stone) and in others the highest (e.g. beverages). The tax rates for beverages, spirits and vinegar seem to be similarly treated at the three border posts. Again, tax rates at Dedza and Songwe seem to be closer for some products but not most. One wonders whether the tax is levied on the basis of a tax schedule, or is based on guesswork, or targets as some traders alleged during the survey.

9. Trade recorded by officials & border monitors during the survey

This section presents an analysis of the recorded traders' imports that passed through the three borders during the ten-day period of the survey as well as those monitored by research assistants who observed the valuation of imports at each border post.

9.1 Imports by small-scale traders from official documents

The total value of imports processed through the three border posts and the related taxes during the ten-day period could not accurately be collected due to a number of technical problems. At the Mwanza border post, the value of imports processed through the agents route was not provided. What was provided was only the total tax assessed and paid. At Dedza the required values and taxes were provided because it does not use agents for small-scale traders. At Songwe, the MRA office indicated that they could not provide the values of imports on a daily basis because they use a manual system. There is only one clearing agent at the Songwe MRA office but the agent was only able to provide data for all but the last two days. The agent also uses a manual system. While the tax data is complete for all the border posts, values for all traders' imports are only available at the Dedza border post. Consequently the analysis in this section will be dictated by the available data.

Tax collected at the three border posts shows that Mwanza collected MK53 million while Dedza collected MK30 million and Songwe MK22 million from cross border traders (Table 10). As can be observed, the collections varied daily. Tax collection was high on the days incoming coaches pass.

Table 10: 10-day tax on cross border trader's imports

| | Mwanza | Songwe | Dedza* |
|--------------|-------------------|-------------------|-------------------|
| 31-Jul | 3,669,218 | 4,265,458 | 2,712,729 |
| 01-Aug | 5,331,342 | 4,007,515 | 147,352 |
| 02-Aug | 2,178,441 | 2,666,271 | 2,885,493 |
| 03-Aug | 2,094,459 | 378,963 | 40,163 |
| 04-Aug | 1,934,016 | 1,862,988 | 2,667,558 |
| 05-Aug | 4,816,074 | 2,445,114 | 1,857,240 |
| 06-Aug | 12,678,675 | 830,745 | 104,705 |
| 07-Aug | 6,219,703 | 1,555,236 | 2,961,335 |
| 08-Aug | 11,281,520 | 2,331,087 | 1,636,173 |
| 09-Aug | 2,798,436 | 1,708,021 | 15,012,748 |
| Total | 53,001,882 | 22,051,399 | 30,025,495 |

* Dedza team started on 2nd August and completed on 11th August, 2006

Reflecting the annual data picture presented above, the proportions of tax to value of imports were different at the border posts (Figure 9).

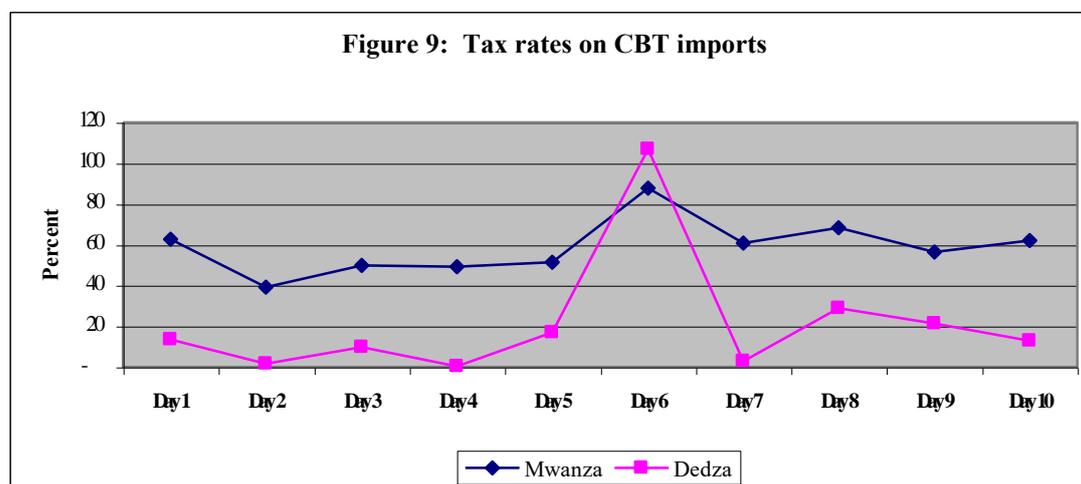


Table 11: Tax on imports handled by clearing agent at Songwe

| Date | Value | Tax | Tax rate |
|-------------|------------------|------------------|-----------------|
| 31-Jul-06 | 1,499,490 | 1,268,568 | 84.6 |
| 01-Aug-06 | 2,066,256 | 648,936 | 31.4 |
| 02-Aug-06 | 51,736 | 113,042 | 218.5 |
| 04-Aug-06 | 295,941 | 33,899 | 11.5 |
| 05-Aug-06 | 588,975 | 493,312 | 83.8 |
| 06-Aug-06 | 107,900 | 2,735 | 2.5 |
| 07-Aug-06 | 219,039 | 4,113 | 1.9 |
| All | 4,829,336 | 2,564,607 | 53.1 |

Mwanza tax rates were higher (average 62%) than Dedza's (average 13%). Since there are no import values for imports that pass through agents at Mwanza, it has been difficult to compare the tax rates charged by agents and those by the MRA officers. Table 11 provides the tax rates for the goods processed by the agent at Songwe.

Table 12 presents an analysis of tax rates for the goods processed at Songwe during the study period.

Table 12: Tax rates on similar goods by Songwe Agent

| Goods | Quantity | Value | Tax | Tax rate |
|--------------------------|--------------|------------------|------------------|-------------|
| Aluminium Pots | 1800 sets | 513,963 | 208,625 | 40.6 |
| Aluminium Pots | 1800 sets | 513,963 | 208,625 | 40.6 |
| Clothing - Baby wear | 7200 pieces | 162,000 | 143,283 | 88.4 |
| Clothing - Baby wear | 1800 pieces | 243,000 | 213,239 | 87.8 |
| Clothing - Boy Suit | 480 pieces | 26,640 | 23,349 | 87.6 |
| Clothing - Boy Suit | 900 pieces | 43,200 | 37,866 | 87.7 |
| Clothing - Boy Suit | 1200 pieces | 54,000 | 48,370 | 89.6 |
| Clothing - Boys shirt | 240 pieces | 15,750 | 13,816 | 87.7 |
| Clothing – Skirts | 600 pieces | 39,600 | 34,705 | 87.6 |
| Clothing – Trousers | 50 pieces | 95,096 | 8,941 | 9.4 |
| Dresses | 500 pieces | 180,000 | 117,481 | 65.3 |
| Dresses – Baby | 2400 pieces | 72,000 | 63,681 | 88.4 |
| Dresses – Baby | 7200 pieces | 216,000 | 189,479 | 87.7 |
| Dresses – Baby | 3600 pieces | 127,800 | 143,494 | 112.3 |
| Dresses – girls | 180 pieces | 83,700 | 73,360 | 87.6 |
| Dresses – girls | 1200 pieces | 55,800 | 48,966 | 87.8 |
| Fridge | 26 pieces | 328,500 | 291,031 | 88.6 |
| Fridge – used | 1 Unit | 5,625 | 4,344 | 77.2 |
| Parts - Engine Mountain | 8 cartons | 3,786 | 7,256 | 191.7 |
| Parts – Gasket | 7 cartons | 3,975 | 7,619 | 191.7 |
| Parts - Pistons and Kits | 26 cartons | 18,078 | 34,646 | 191.6 |
| Powder | 3 cartons | 45,647 | 9,118 | 20.0 |
| Powder | 120 boxes | 109,519 | 2,057 | 1.9 |
| All | Total | 3,651,604 | 2,259,456 | 61.9 |

The tax rates show that the agent was consistent even when assessments were done on different days. Further, it shows that the average tax rate was lower than the annual Songwe averages presented above.

9.2 Analysis of monitored imports

Border monitors recorded 302 cases of small-scale traders. Of these 52% were monitored at Songwe, 31% at Mwanza and 17% at Dedza border posts. The total assessed value of imports was MK6.0 billion and the tax charged from declared goods was MK4.0 billion or 66% of assessed value.

The tax rate was highest at Songwe border post where an average of 81% was charged on imports as opposed to 50% for Mwanza and 47% for Dedza. Considering imports monitored by the study only, Songwe traders declared the highest values in the ten-day period, 52% of total declared value, as opposed to 27% for Mwanza and 21% for Dedza. In terms of contribution to total monitored tax collected, Songwe traders contributed 64%, Mwanza traders contributed 21% while Dedza traders contributed 15% (Table 13).

Table 13: Tax collected on various goods at different border posts

| Goods | Songwe | Mwanza | Dedza | Total |
|--------------------------------------|----------------|-----------|-----------|-----------|
| | MK | MK | MK | MK |
| New shoes and clothes | 1,018,597 | 286,764 | 35,198 | 1,340,559 |
| Fabrics and textiles | 1,302,685 | 11,672 | - | 1,314,357 |
| Electrical goods | 199,926 | 465,189 | 181,232 | 846,347 |
| Household goods | 416,940 | 190,601 | 168,908 | 776,449 |
| Hardware | 109,809 | 71,932 | 313,736 | 495,477 |
| Groceries | 43,368 | 150,825 | 160,220 | 354,413 |
| Stationery | 830 | 36,135 | 301,698 | 338,663 |
| Fresh fruits and vegetables | 31,208 | 153,516 | 10,500 | 195,224 |
| Motor vehicle spares | | 8,575 | 86,973 | 95,548 |
| Furniture | - | 59,470 | 24,607 | 84,077 |
| Old shoes and clothes | 3,800 | 9,500 | - | 13,300 |
| Meat/eggs/fish | - | 13,000 | - | 13,000 |
| Cosmetics | 7,138 | - | - | 7,138 |
| Other goods | 8,537 | 188,759 | | 197,295 |
| Total declared value | 3,142,838 | 1,645,938 | 1,283,072 | 6,071,848 |
| Collected tax | 2,545,956 | 829,720 | 601,763 | 3,977,439 |
| | Percent | | | |
| Contribution to total declared value | 51.8 | 27.1 | 21.1 | 100 |
| Contribution to total collected tax | 64.0 | 20.9 | 15.1 | 100 |
| Proportion of tax to declared value | 81.0 | 50.4 | 46.9 | 65.5 |

Table 14: Per trader tax by goods and border posts

| Goods | Songwe | Mwanza | Dedza | Total |
|-----------------------------|---------|--------|--------|---------|
| | MK | MK | MK | MK |
| New shoes and clothes | 11,708 | 20,483 | 17,599 | 13,015 |
| Fabrics and textiles | 651,343 | 5,836 | - | 328,589 |
| Electrical goods | 22,214 | 12,573 | 30,205 | 16,276 |
| Household goods | 14,891 | 11,913 | 18,768 | 14,650 |
| Hardware | 18,302 | 17,983 | 26,145 | 22,522 |
| Groceries | 8,674 | 11,602 | 20,028 | 13,631 |
| Stationery | 830 | 18,068 | 27,427 | 24,190 |
| Fresh fruits and vegetables | 3,901 | 19,190 | 10,500 | 11,484 |
| Motor vehicle spares | | 8,575 | 28,991 | 23,887 |
| Furniture | - | 29,735 | 12,304 | 21,019 |
| Old shoes and clothes | 3,800 | 9,500 | - | 6,650 |
| Meat/eggs/fish | - | 13,000 | - | 1,300 |
| Cosmetics | 7,138 | - | - | 7,138 |
| Other goods | 8,537 | 26,966 | | 24,662 |
| Total declared value | | | | |
| Collected tax | 16,216 | 8,827 | 12,035 | 13,214 |

On the basis of this alone, Songwe tax collectors are either too ‘mean’ or Mwanza tax collectors are too lax. This is still true when per trader costs are considered. See Table 14. Clearly Songwe Border post is above average. Even when this is viewed in terms of types of goods that pass through the border post, Mwanza is expected to collect more considering the high share of electrical goods carried by traders (Table 13).

9.3 Gender dimensions of small scale cross border trade and taxes

Cross border trade has some gender dimensions. For example, there were almost equal numbers of male and female traders (51% and 49%, respectively). Most of the women passed through the Songwe border post (63% of all female cross border traders recorded and 62% of all traders at Songwe border post were female). It seems male traders are not particular about border posts. Of all the male traders monitored, 40% of them passed through Songwe, 38% through Mwanza and the rest through Dedza. Male traders were in the majority at Dedza and Mwanza border posts.

On the basis of the total value and value per trader statistics, male traders import more than their counterparts. Despite being slightly more in number, the value of imports of male traders was twice as much as that of female traders. Strangely, the tax paid by male traders was just one-and-half times that of female traders (Table 15). This leaves an impression that female traders are over-taxed.

Table 15: Gender dimensions of cross border trade and taxes

| | Total value | | | Per trader tax | | |
|-----------------------------|-----------------|-----------|-----------|----------------|-----------|---------|
| | Female | Male | Total | Female | Male | Total |
| Groceries | 168,633 | 185,780 | 354,413 | 14,053 | 13,270 | 13,631 |
| Fresh fruits | 76,643 | 118,582 | 195,224 | 7,664 | 16,940 | 11,484 |
| Meat/eggs | - | 13,000 | 13,000 | - | 13,000 | 13,000 |
| Electrical goods | 146,624 | 615,770 | 762,394 | 14,662 | 15,019 | 14,949 |
| Furniture – total | 59,470 | 24,607 | 84,077 | 29,735 | 12,304 | 21,019 |
| Household goods | 323,204 | 407,595 | 730,799 | 14,052 | 14,055 | 14,054 |
| New Clothes and shoes | 793,030 | 506,859 | 1,299,889 | 10,717 | 18,102 | 12,744 |
| Old Clothes and shoes | 13,300 | - | 13,300 | 6,650 | - | 6,650 |
| Fabrics/textiles | 12,087 | 1,302,270 | 1,314,357 | 4,029 | 1,302,270 | 328,589 |
| Cosmetics | - | 7,138 | 7,138 | - | 7,138 | 7,138 |
| Hardware and general | 131,641 | 363,836 | 495,477 | 26,328 | 21,402 | 22,522 |
| Stationery | 130,422 | 207,411 | 337,833 | 21,737 | 29,630 | 25,987 |
| Motor vehicle spares | 8,575 | 57,473 | 66,048 | 8,575 | 28,737 | 22,016 |
| Other goods | 84,674 | 112,621 | 197,295 | 21,169 | 28,155 | 24,662 |
| Total declared value | 1,948,302 | 3,922,943 | 5,871,245 | 12,989 | 26,869 | 19,835 |
| Total collected tax | 1,540,206 | 2,334,192 | 3,874,398 | 10,268 | 15,988 | 13,089 |
| | <i>Per cent</i> | | | | | |
| Contribution to total value | 33.2 | 66.8 | 100 | | | |
| Contribution to total tax | 39.8 | 60.2 | 100 | | | |
| Proportion of tax to value | 79.1 | 59.5 | 66.0 | | | |

Indeed, female traders paid more than their fair share of the tax collected. The total value of goods for female traders was 33% of the total value recorded yet the tax paid

by female traders on their goods was 40% of total tax collected. Furthermore, female traders paid tax of up to 79% of their declared value of goods while male traders paid 60%, yet female traders mostly imported clothes, shoes and furniture. Do the goods carried by female traders attract more taxes than the goods imported by male traders? Could it be that women traders have weaker negotiating powers? Is this not contrary to what is often thought, i.e., that women traders get favours at the border posts from the mainly male assessors? Is it because most women pass through Songwe, where the meanest of tax collectors are? Could it be that tax collectors are generally strict with female traders and lax with male traders? More digging is needed on this gender difference, which is also reflected in the tax collected from the border post most used by women.

10.0 Origin & Destination Survey

10.1 Imports recorded in origin and destination survey

The origin and destination (O&D) questionnaire had also asked questions about the types of carried by traders and their values. Table 16 presents the goods that were imported by the traders surveyed at the borders using the O&D instrument.

Table 16: Types of goods imported by traders

| | Number | Per cent |
|-----------------------------------|------------|------------|
| New clothes/shoes | 123 | 37.5 |
| Household goods | 74 | 22.6 |
| Electrical goods | 73 | 22.3 |
| Groceries | 58 | 17.7 |
| Fresh fruit and vegetables | 23 | 7.0 |
| Cars and spare parts | 18 | 5.5 |
| General supplies | 18 | 5.5 |
| Hardware | 14 | 4.3 |
| Stationery | 9 | 2.7 |
| Cosmetics and jewels | 7 | 2.1 |
| Furniture | 4 | 1.2 |
| Others | 3 | 0.9 |
| Total Traders | 328 | 100 |
| Total declared value (MK) (n=294) | 30,470,443 | |
| Average per trader (MK) (n=294) | 103,641 | |

In terms of number of traders carrying the goods, the four major goods carried were clothes and shoes (34%), household goods (18%), electrical goods (18%) and groceries (9%). The total value of all the goods imported was MK30.5 million and averaged MK103,641 for the 294 traders that responded to the question. The findings are similar to those obtained from the monitors' form. The common items recorded on the forms were the same. However, the declared value (although the respondents are not necessarily the same) was much less on the border monitors forms, who were stationed with MRA officials. The total for the 302 border monitors forms was MK6 million yet the total for the 294 O&D interviewees was MK30 million. Thus while

there is seemingly overtaxing, the undervaluing and non-reporting and the MK20,000 waiver more than match any overtaxing.

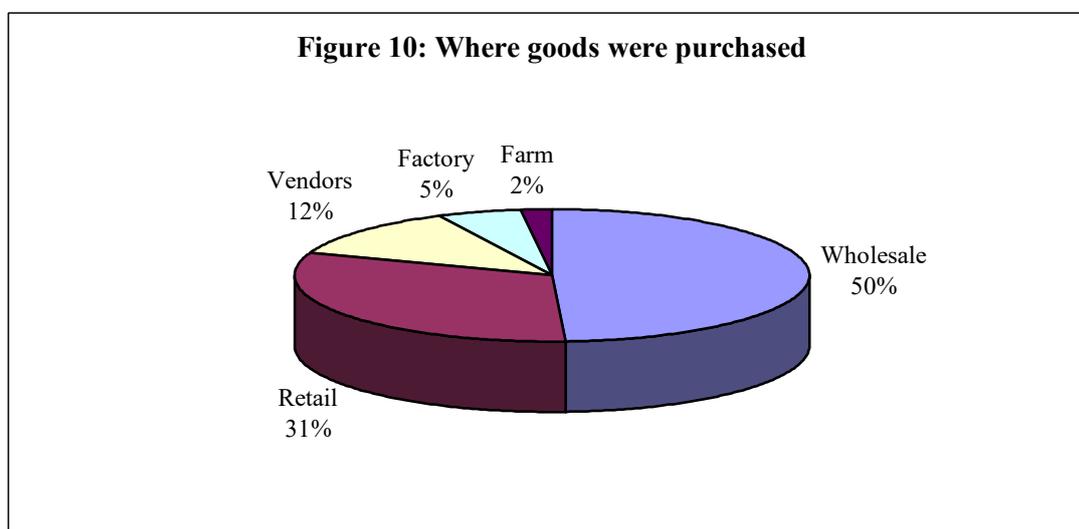
10.2 Exports by cross border traders

Very few traders (7% of all interviewed) took goods for sale when leaving Malawi. For the few that take goods out, *khangas/capulanas* are the commonest goods taken for sale outside Malawi. Others include groceries (1% of traders), fish (1%), curios (1%) and furniture (1%). The estimated value of the few goods traders carried out of the country averaged MK39,053 per person and totalled MK742,000. This, on average, is far much higher than the per person averages recorded for imports.

The majority of those who carried goods out of the country sold them in South Africa, specifically Johannesburg (46%) and Karasburg (23%). The few that took goods for sale out of the country bought them from informal markets (48%) and wholesalers (33%) and sold them to a network of friends (36%), in informal markets (31%) and to retailers (17%).

10.3 Places where goods were bought and sold

South Africa was the main source of imports for the cross border traders interviewed; 59% said they purchased their merchandise from South African cities, mainly Johannesburg (52%). Tanzania came second (35%) particularly the border town of Kyela (22%) as well as Dar e Salaam (8%) and Mbeya (4%). Zimbabwe is not as popular as only 6% said they sourced their imports from Harare and nowhere else in Zimbabwe. Figure 10 presents the places where the goods were purchased in those cities and towns.



As to where the goods were sold in Malawi, cities are the most popular selling points. Out of the 363 selling districts mentioned, 83% were in cities (Lilongwe 36%, Blantyre 29%, Mzuzu 12% and Zomba 6%). Karonga and Mangochi towns were other key selling points with 4% and 3% shares, respectively. In terms of selling places, 43% of the traders said they use their own shops as outlets for their imported goods. Others sell to individuals (17%), door to door (16%), retailers (15%) and informal market (12%). See Table 17.

Table 17: Selling points at destination

| Outlet | % of traders | % of outlets |
|-----------------------------|--------------|--------------|
| | <i>N=302</i> | <i>n=397</i> |
| Own shop | 43.3 | 35.8 |
| Friends/family/individuals | 17.1 | 14.1 |
| Door to door | 16.2 | 13.4 |
| Retailers/shops/restaurants | 14.6 | 12.1 |
| Informal market | 12.2 | 10.1 |
| Own stall - informal market | 7.9 | 6.5 |
| Order | 7.9 | 6.5 |
| Marketing board | 0.6 | 0.5 |
| Company | 0.6 | 0.5 |
| Govt/Govt Dept | 0.3 | 0.3 |
| Private Institutions | 0.3 | 0.3 |
| Total | 100 | 100 |

The majority of the goods bought outside Malawi (61%) were made in the region; South Africa (40%), Tanzania (19%), Other SADC countries (3%) and COMESA countries (1%). Asian countries came second with China (19%) topping the list. Very few of the goods (2%) were made in Europe.

10.3 Origins and Destinations

Almost all of those interviewed (99%), except 2 traders, were going to Malawi. Most of the business trips (94%) had started in Malawi. Of those that started from Malawi, 34% started from Blantyre, 31% from Lilongwe and 11% from Mzuzu. Traders passing through Songwe border post were more likely to have originated their business trips from all over Malawi, especially from rural districts and Mzuzu compared to those that passed through Mwanza and Dedza (Table 18). So, most traders that were interviewed at the Mwanza border post started their business trips from cities 74%, i.e. Lilongwe (32%), Blantyre (29%), Zomba (3%) and Mzuzu (10%). Those at Dedza originated from cities as well, mainly Lilongwe (71%).

Table 18: Origin of business trip by border post

| Origin of trip | Songwe | Mwanza | Dedza | Total |
|----------------|--------|--------|-------|-------|
| Outside Malawi | 8.6 | 8.6 | 0.0 | 6.4 |
| Lilongwe | 16.4 | 19.5 | 71.4 | 31.7 |
| Blantyre | 13.8 | 54.7 | 10.7 | 29.0 |
| Zomba | 2.6 | 3.9 | 2.4 | 3.0 |
| Mzuzu | 21.6 | 3.9 | 4.8 | 10.4 |
| Karonga | 12.1 | 0.0 | 1.2 | 4.6 |
| Mwanza | 0.0 | 0.8 | 1.2 | 0.6 |
| Other Malawi | 25.0 | 8.6 | 8.3 | 14.3 |
| Total | 100 | 100 | 100 | 100 |

Those who purchased their goods from South Africa comprised 59% and those who bought goods in Tanzania comprised 35%. Those coming from Zimbabwe were 5%. Only one trader came from Botswana.

Cities were the major destinations for the traders; 81% of the traders were going to cities (Lilongwe 37%, Blantyre 30%, Mzuzu 11% and Zomba 3%). Some were just crossing the border to the next border town (5%). Again, the destinations of the traders varied by the border post they were interviewed (Table 19).

Table 19: Destination of trip by border post

| Destination | Kaporo | Mwanza | Dedza | Total |
|---|--------|--------|-------|-------|
| Outside Malawi (<i>border towns</i>) | 1.7 | 0.8 | 0.0 | 0.9 |
| Lilongwe | 24.1 | 18.0 | 84.5 | 37.2 |
| Blantyre | 14.7 | 60.2 | 4.8 | 29.9 |
| Zomba | 1.7 | 6.3 | 1.2 | 3.4 |
| Mzuzu | 23.3 | 3.1 | 6.0 | 11.0 |
| Other Malawi (<i>towns and districts</i>) | 34.5 | 11.7 | 3.6 | 17.7 |
| All | 100 | 100 | 100 | 100 |

As a mirror image of the origin pattern, Songwe border post is more of a national conduit. Traders interviewed at Songwe were going to both urban and rural areas. Mwanza catered more for traders going to cities of the Southern Region of Malawi, while Dedza catered for traders going to Lilongwe.

11. Characteristics of cross border trade and traders

11.1 Profile of traders

Border monitors found that female traders comprised 51% of the traders monitored. Most of the traders (97%) were black Africans and Malawian (96%). Only 2% were Tanzanian. The rest (2%) came from countries within the SADC region. The profile of traders recorded from the 328 traders that responded to the O&D questionnaires was similar. As noted above, participants in the O&D survey were dominated by those using public transport as those with private vehicles were difficult to interview. Of the 328 completed questionnaires, five did not indicate the sex of the trader. Of the 323 respondents, 43% were female traders. Of the 326 traders whose nationality was indicated, 94% were Malawian, 3% were Tanzanian and 2% were Zimbabwean. There was one South African and one Zambian.

11.2 Mode of transport

The traders interviewed mostly used passenger coaches to travel to the border post (96%) and from the border post (91%). Those that travelled by truck to the border post were 2% but 6% travelled by truck from the border post. While 1% travelled by car to the border post, 3% travelled by car from the border. Thus some traders switch transport means after going through customs and immigration formalities at the border post.

11.3 Purpose of business trips and selling points

Asked about the purpose for their travels, over half of those interviewed (59%) said they left Malawi to buy goods for their business, while 37% said they purchase to sell elsewhere. Only 3% said they take goods out of Malawi to sell in another country and buy goods there to sell back in Malawi. Of those that said they go to shop for their business, 61% of them sell the goods in their own shop (53%) or on a stall in an informal market (8%). Others (17%) said they went out of Malawi to purchase goods to sell door to door. Those who sell to other sellers accounted for 22% of the traders interviewed. Those who are involved in bi-direction trade buy and sell in informal markets, individuals and deliver by orders. See Table 20 for details.

Table 20: Selling points by type of trader

| | Buy for own business | Buy to sell | Bi-way seller | Total |
|------------------------------|----------------------|-------------|---------------|------------|
| Own shop | 52.9 | 10.3 | 7.1 | 35.8 |
| Own stall in informal market | 8.0 | 4.8 | - | 6.5 |
| Retailers/shops/restaurants | 3.8 | 25.5 | 14.3 | 12.1 |
| Sellers in informal market | 8.4 | 10.3 | 35.7 | 10.1 |
| Door to door | 17.2 | 8.3 | - | 13.4 |
| Network of individuals | 8.4 | 22.8 | 21.4 | 14.1 |
| Marketing board | 0.4 | 0.7 | - | 0.5 |
| Order | 0.4 | 15.2 | 21.4 | 6.5 |
| Company | 0.4 | 0.7 | - | 0.5 |
| Government/Government Dept | - | 0.7 | - | 0.3 |
| Private Institutions | - | 0.7 | - | 0.3 |
| All | 100 | 100 | 100 | 100 |

11.4 Frequency of travel and duration of stay in another country

Over three quarters (80%) travelled for business at least once a month while 37% travelled once a month and 33% twice a month. There are others traders who travel more frequently (Table 21). For example, 6% percent travel once week, 2% twice a week, nearly 2% travel at least once a day. There are others who travel less frequently too; 17% travel a only couple of times a year and 2% once a year or less.

Table 21: Frequency of travel for business

| Frequency of trip | Songwe | Mwanza | Dedza | Total |
|--------------------------|------------|------------|------------|------------|
| More than once a day | 1.7 | 1.6 | 1.2 | 1.5 |
| Every day | 0.9 | 0.0 | 0.0 | 0.3 |
| A couple of times a week | 5.2 | 0.8 | 1.2 | 2.4 |
| Once a week | 5.2 | 9.4 | 1.2 | 5.8 |
| Once a month | 44.8 | 26.6 | 28.6 | 33.5 |
| Twice a month | 28.4 | 35.2 | 50.0 | 36.6 |
| Couple of times a year | 11.2 | 24.2 | 15.5 | 17.4 |
| Once a year or less | 2.6 | 2.3 | 2.4 | 2.4 |
| Total | 100 | 100 | 100 | 100 |

Those who travelled more than once a week (i.e. more than once a day, daily, twice a week) mostly travel through Songwe. These traders mainly cross the border to Kyela Town across the border in Tanzania. Weekly travellers mostly went through the Mwanza border post although a good proportion went through the Songwe border post as well. Those who travel frequently were interviewed at Dedza border post as 54% of those interviewed at Dedza indicated that they travel at least twice a month as opposed to 48% for Mwanza and 41% for Songwe (Table 21).

The frequency of travel is also a reflection of how long the traders stay in the countries where they go to buy goods. For example, those who stay at most a week comprised 65% of the all traders interviewed; 24% for 2-3 days, 24% for 4-7 days, 14% for half a day or less and 3% for a whole day. Others spend between a week and a month (29%) while others spend longer. Apparently there are no big differences between those who go to shop for their business and those who buy simply to sell to other sellers for their business. If anything, those who go to shop for their business reported spending less than a week more than those who buy to sell to other vendors (Table 22).

Table 22: Period of stay during business trip

| | Buy for own shop | Buy to sell | Sell and buy |
|------------------------------|------------------|-------------|--------------|
| <i>Whole day or less</i> | 27.2 | 2.5 | 0.0 |
| <i>Between 2 and 7 days</i> | 42.6 | 56.6 | 45.5 |
| <i>Between 1 and 2 weeks</i> | 19.0 | 24.6 | 36.4 |
| <i>Between 3 and 4 weeks</i> | 6.2 | 8.2 | 9.1 |
| <i>One month and above</i> | 5.1 | 8.2 | 9.1 |
| Total | 100 | 100 | 100 |

12. Negotiating border posts

12.1 Permits

Most of the traders (93%) did not need any permit for their business. Possibly reflecting the problems in responding to this question, 5% said they required visitors permits (5%). Very few traders (1%) said they required an agriculture permit (1%). There were four others who required business licences (1 trader), company permit (1 trader), fruit permit (1 trader) and a timber permit (1 trader).

12.2 Claiming VAT

Regarding VAT claims the analysis is only on those that purchased their goods from South Africa. Of the 328 O&D questionnaire respondents, 58% had purchased their goods from South Africa. Of those who purchased from South Africa, 51% said they ever claim VAT, 4% said they sometimes claim, while 43% said they do not. Asked why they did not claim claim VAT, the respondents gave four main reasons. These included that (i) the prices of the goods were net of VAT already (29%), (ii) it takes too long (25%), (iii) the respondent did not know how to claim VAT (17%) and (iv) the respondents found the VAT offices already closed by the time they arrived at the border (15%). Three traders said they don't claim VAT because they have no money to corrupt the officials. Other reasons given by one trader each were illiteracy, technical failure to cash the cheque, invoice not easily accepted, difficulty in keeping

receipts, too little money for the bother and lack of knowledge on the importance of claiming VAT.

12.3 Information on duties

Asked whether they ever get information about duties they are supposed to pay, 73% responded in the affirmative while 3% said they get it sometimes. The rest said they do not get the information. Customs offices are the commonest source of information about duties, taking up 50% of the responses. Fellow traders, with 39%, are the second commonest source of information. Others like traders associations (4%) and print and electronic media (4%) were not common sources of information. Other sources mentioned included clearing agents (1%) and government departments (1%).

13. Experiences crossing *the* border

13.1 Time taken to cross the border

The majority of the traders interviewed said it takes at least one hour to cross the border when entering the country. While 9% said it takes between one and two hours to cross the border, 69% said it takes more than two hours. As expected, the biggest hold up is at Malawi customs offices (95%) as the traders enter Malawi. When asked how long it takes to cross the border on their outward bound journey, 55% of the traders said it takes at most half an hour, 30% said it takes between half and one hour to cross the border while 15% said it takes more than one hour. This shows that the hold up for outward trip is relatively short. The biggest hold up in that direction is at the immigration offices. This reflects that most respondents interviewed did not take significant amounts of goods out of Malawi for import to other countries and therefore were not likely to need to engage much with customs officials of other countries.

Table 23: Crossing time and office with longest hold up

| | Songwe | Mwanza | Dedza | Total |
|---|--------|--------|-------|-------|
| Time it takes to cross this border in entering Malawi | | | | |
| Less than 10 minutes | 6.0 | 0.0 | 0.0 | 2.1 |
| 10 to 30 minutes | 28.4 | 2.3 | 11.9 | 14.0 |
| 30 minutes to 1 hour | 11.2 | 6.3 | 0.0 | 6.4 |
| 1 to 2 hours | 5.2 | 16.4 | 1.2 | 8.5 |
| More than 2 hours | 49.1 | 75.0 | 86.9 | 68.9 |
| | 100 | 100 | 100 | 100 |
| The biggest hold-up at border entering Malawi | | | | |
| Customs this side | 90.5 | 97.6 | 89.3 | 93.0 |
| Immigration this side | 1.7 | 1.6 | 1.2 | 1.5 |
| Customs the other side | 6.0 | 0.0 | 0.0 | 2.1 |
| Immigration the other side | 0.9 | 0.0 | 0.0 | 0.3 |
| Late opening time | 0.9 | 0.0 | 0.0 | 0.3 |
| Customs/trader negotiations on charges | 0.0 | 0.0 | 8.3 | 2.1 |
| Off loading and checking | 0.0 | 0.0 | 1.2 | 0.3 |
| Police | 0.0 | 0.8 | 0.0 | 0.3 |
| | 100 | 100 | 100 | 100 |

As expected, the majority (64%) said the immigration formalities on the Mozambican side of the border posed the biggest hold-up. Fortunately the hold up that side is not as long as the hold up on the Malawian side.

Comparing the three borders in terms of the time it takes to cross, the Dedza border post was the worst followed by the Songwe border post. Only about half said it takes more than 2 hours to cross the border at Mwanza, compared to 87% at Dedza and 75% at Songwe. Customs offices at the Mwanza border post were mentioned as the biggest hold up by 97% compared to about 90% for Mwanza and Dedza. In Dedza as many as 8% said they get delayed when negotiating for better tax payments (Table 23).

13.2 Treatment at border posts

Traders were asked to rate the treatment they receive from officials on both the Malawi side and the neighbouring country's side. The majority of the traders did not rate the treatment received from Malawian authorities favourably compared to those on the other side. Less than a quarter of the traders (23%) said the treatment they received from the Malawian authorities was at least good compared to 69% for authorities on the other side of the border. The worst rated border post on the Malawi side was Dedza and the best-rated foreign border was Kyela. Combining the two sides, Songwe-Kyela border was the best rated and Mwanza-Zobue the worst. See Table 24 for more details.

Table 24: Ratings of authorities at the three border posts

| | <i>Songwe</i> | <i>Mwanza</i> | <i>Dedza</i> | <i>Malawi</i> | <i>Kyela</i> | <i>Zobue</i> | <i>Calomue</i> | <i>Foreign</i> |
|---------------|---------------|---------------|--------------|---------------|--------------|--------------|----------------|----------------|
| | <i>n=116</i> | <i>n=128</i> | <i>n=83</i> | <i>n=327</i> | <i>N=116</i> | <i>n=128</i> | <i>n=83</i> | <i>n=328</i> |
| Very Good | 10.3 | 5.5 | 2.4 | 6.4 | 69.0 | 9.4 | 29.8 | 35.7 |
| Good | 14.7 | 19.5 | 15.7 | 16.8 | 11.2 | 52.3 | 35.7 | 33.5 |
| Average | 57.8 | 35.2 | 49.4 | 46.8 | 13.8 | 18.8 | 20.2 | 17.4 |
| Bad | 10.3 | 31.3 | 26.5 | 22.6 | 1.7 | 11.7 | 8.3 | 7.3 |
| Very bad | 6.9 | 8.6 | 6.0 | 7.3 | 4.3 | 7.8 | 6.0 | 6.1 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| | | | | | | | | |
| At least good | 25.0 | 25.0 | 18.1 | 23.2 | 80.2 | 61.7 | 65.5 | 69.2 |
| Average | 57.8 | 35.2 | 49.4 | 46.8 | 13.8 | 18.8 | 20.2 | 17.4 |
| At best bad | 17.2 | 39.8 | 32.5 | 30.0 | 6.0 | 19.5 | 14.3 | 13.4 |

14. Conclusions and recommendations

1. Malawi is dependent on imports. Over a third of its aggregate supply is from imports. In fact imports have almost always exceeded exports. Foreign savings in the form of grants and loans normally fills the gap. This implies that country's welfare status is intricately linked to imports.
2. Regional trade is crucial to Malawi as the majority of its imports are sourced from the region. South Africa is the biggest trading partner. Mozambique is fast becoming a significant trading partner. It is a stronger supplier of agricultural products in times of need, which has been usual in the past five or so years. The problems in Zimbabwe have given a chance to Mozambique to

increase its share in Malawi's imports. There is little trade between Malawi and non-SADC COMESA countries. Kenya is the only prominent trading partner in COMESA.

3. Formal trade between Malawi and Mozambique is strongly complemented by informal cross border trade. Since 2004, the quantity of imports through the borders has increased. The role of informal cross border trade between Malawi and Mozambique has been so crucial as grain imports cover supply deficits and equalise grain prices.
4. Micro and small enterprises under which cross border traders fall, are crucial livelihood strategies although they are not effectively supported. The prominent role of micro-enterprises envisaged under the MPRS has been diluted as overall growth, regardless of its source, has taken prominence in the current growth and development strategy. With slow growth in employment, MSEs have acted as employment alternatives despite their lack of potency in significantly reducing poverty.
5. Cross border traders in Malawi face some problems in processing their imports. Apart from delays at the border post during the processing of their imports, they work without proper information. Cross border traders feel that they are overtaxed. This is counterbalanced by non-declaration and under valuation of imports.
6. Tax administration by tax officers is at a best inconsistent and worst arbitrary to cross border traders. Worse still, it is biased against female traders. Female traders pay proportionately more than male traders. Some of the tax administration seems to be border post specific. Dedza is the worst in terms of inconsistency and Songwe is the worst in terms of over charging.
7. Imports from South Africa are consistently taxed highly compared to imports from Europe and the Americas. Even imports from the Middle East have become less taxed than SADC imports.
8. Most of the cross border traders are Malawian and use their own shops and stalls to sell the goods they purchase outside their country, thereby ensuring employment of themselves and others. Thus cross border traders contribute towards employment.
9. Customs officials are rated poorly by cross border traders. However, this should be viewed against the natural tendency of businesspersons to avoid paying taxes. Some of the time spent at the border is due to false declarations and negotiation over what they should pay even after good and proper calculations.
10. Cross border traders, just like many micro and small enterprises, contribute towards filling the gap in aggregate supply and employment as well as contributing towards government through the tax they pay at the border.

It is therefore recommended that cross border trade be facilitated to enhance its contributions in the national economy. Specifically the following would go along way in facilitating cross border trade:

- (a) The Malawi Revenue Authority should create a section responsible for the promotion of informal and cross border trade. The section should be responsible for providing relevant information to cross border traders. The information can be on taxes on imports, tax assessment and administration, VAT and how to claim it, obtaining certificate of origin for goods

imported from countries with some trade agreements with Malawi, sources of imports and the importance of paying taxes.

- (b) The Malawi Revenue Authority should improve tax administration at border posts to ensure standard application of taxes. The inconsistencies in tax ratios between border posts on the same type of goods demonstrate that there is room for improvement. One way of improving this would be by frequent rotations of customs officials at border posts. Such rotation would minimise the chances of traders developing corrupt relationships with customs officials or simply developing some relationship just to reduce the probability of being taxed according to the 'book'.
- (c) The Malawi Revenue Authority should revise the cut-off point for determining which traders to go through customs clearing agents. The current MK30,000 is too low. The minimum we can propose is MK50,000 but ideally MK100,000 is reasonable. Once the cut off point is revised, it should also be indexed to inflation or the US Dollar or South African Rand. The cut off should automatically be revised every month.
- (d) The Malawi Government should provide incentives for cross border traders to declare their status as cross border traders. This would assist the Malawi Revenue Authority to identify traders and therefore apply the MK20,000 tax allowance only to non-traders. Preferential treatment at the borders could help many traders to identify themselves as cross border traders.
- (e) Further, Government should encourage cross border traders to establish an association. The association should be used to encourage cross border traders to identify themselves, pass relevant information to the traders, capacity building of traders and discussions between authorities and traders. The association can also be used to source coach services for its members at reasonable prices and convenient days for the traders.
- (f) The Malawi Government should recognise the role micro and small enterprises play in sustaining livelihoods by creating an environment that would facilitate their development. Tax incentives normally given to big business should also be extended to MSEs. The incentives should be conditioned on the formation of an association and registration for tax purposes. However, to get the right response the Government should be willing to lose some revenue in order to win the trust of the traders. In fact, Government should not only be willing to absorb a reduction in revenue but also spend on the building of the sub-sector if linkages in the economy are to be created.

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Annex 1: Value of and tax on imports thru the 3 border posts

| <u>Mwanza CIF Value</u> | 2000 | 2001 | 2002 | 2003 | 2005 |
|--------------------------------|--------------------|-------------------|--------------------|--------------------|--------------------|
| South Africa | 7525109277 | 1842341055 | 4720558972 | 9750294319 | 13331128467 |
| Zimbabwe | 1349243680 | 428571593 | 1091631806 | 2265304269 | 3004882910 |
| Tanzania | 40619039 | 2573206 | 71140871 | | |
| Zambia | 87952015 | 97548113 | | | 138536 |
| Mozambique | 59623473 | 159921351 | 475257573 | 621382843 | 11396944875 |
| SADC - Other | 252987581 | 286991674 | 172322821 | 398588370 | 69543896 |
| COMESA | 52363973 | 12963079 | 180711445 | 281837615 | 50795223 |
| Africa - other | 7780928 | 47775457 | 15151 | 30437185 | 6406280 |
| Europe | 2782920780 | 368626380 | 2166659910 | 1498087625 | 3872730971 |
| America - All | 468904014 | 230161371 | 1502288869 | 1543931414 | 895936049 |
| Middle East | 69541684 | 21202477 | 440952199 | 542193870 | 785327455 |
| Indian subcontinent | 558460741 | 115330187 | 147905774 | 668413389 | 88593503 |
| Asia - Other | 1850897199 | 683332723 | 201805786 | 495096621 | 1331878769 |
| Total | 15106404384 | 4297338666 | 11171251177 | 18095567520 | 34834306934 |

| <u>Mwanza - Tax amount</u> | 2000 | 2001 | 2002 | 2003 | 2005 |
|-----------------------------------|-------------------|------------------|---------------------|-------------------|-------------------|
| South Africa | 1086845042 | 287911311 | 440411984.00 | 1635892048 | 526795558 |
| Zimbabwe | 203866089 | 78804731 | 154101460.00 | 241353216 | 510817820 |
| Tanzania | 8129720 | 1320754 | 647766.00 | | |
| Zambia | 6523564 | 1822410 | | | 25443 |
| Mozambique | 8363645 | 857875 | 89719144.00 | 108738505 | 3737029495 |
| SADC - Other | 38999693 | 3093415 | 9523578.00 | 46492014 | 15284442 |
| COMESA | 9342729 | 2321918 | 993913.00 | 7646443 | 14590185 |
| Africa - other | 1763386 | 3823856 | 0.00 | 3259 | 0 |
| Europe | 220926747 | 37087846 | 26498965.00 | 39154249 | 138401109 |
| America - All | 91233501 | 13630508 | 11791169.00 | 30074978 | 32681108 |
| Middle East | 47637691 | 10034485 | 311382.00 | 39182947 | 31544621 |
| Indian subcontinent | 87719314 | 18453088 | 6893210.00 | 18075245 | 6998663 |
| Asia - Other | 281074372 | 54074250 | 45127967.00 | 40949055 | 218026841 |
| Total | 2092425493 | 513236447 | 786020538.00 | 2207561959 | 5232195285 |

| <u>Mwanza % of CIF</u> | 2000 | 2001 | 2002 | 2003 | 2005 |
|-------------------------------|------|------|------|------|------|
| South Africa | 14.4 | 15.6 | 9.3 | 16.8 | 4.0 |
| Zimbabwe | 15.1 | 18.4 | 14.1 | 10.7 | 17.0 |
| Tanzania | 20.0 | 51.3 | 0.9 | | |
| Zambia | 7.4 | 1.9 | | | 18.4 |
| Mozambique | 14.0 | 0.5 | 18.9 | 17.5 | 32.8 |
| SADC - Other | 15.4 | 1.1 | 5.5 | 11.7 | 22.0 |
| COMESA | 17.8 | 17.9 | 0.6 | 2.7 | 28.7 |
| Africa - other | 22.7 | 8.0 | 0.0 | 0.0 | 0.0 |
| Europe | 7.9 | 10.1 | 1.2 | 2.6 | 3.6 |
| America - All | 19.5 | 5.9 | 0.8 | 1.9 | 3.6 |
| Middle East | 68.5 | 47.3 | 0.1 | 7.2 | 4.0 |

| | | | | | |
|---------------------|-------------|-------------|------------|-------------|-------------|
| Indian subcontinent | 15.7 | 16.0 | 4.7 | 2.7 | 7.9 |
| Asia - Other | 15.2 | 7.9 | 22.4 | 8.3 | 16.4 |
| Total | 13.9 | 11.9 | 7.0 | 12.2 | 15.0 |

| <u>Songwe CIF Value</u> | <u>2000</u> | 2001 | 2002 | <u>2003</u> | 2004 | 2005 |
|-------------------------|-------------|--------------|------------|-------------|------------|------------|
| South Africa | 39231038 | 35109443.0 | 15081390 | 738034953 | 275277037 | 1528598725 |
| Zimbabwe | 6586739 | 3510776.0 | 518681 | 141196 | 4431 | 620290 |
| Tanzania | 303527142 | 183896159.0 | 10465565 | 659123492 | 1335406396 | 1115607487 |
| Zambia | 164309 | 493430.0 | | 1976 | 5005875 | 26584797 |
| Mozambique | 1200 | 2000.0 | | 3435687 | 1622260839 | 29640732 |
| COMESA | 32451397 | 5995149.0 | | 25786985 | 100390091 | 51874368 |
| Africa - Other | 5000 | 1134682.0 | | | | 1785555 |
| Europe | 1280615356 | 1285984249.0 | 483240713 | 124618537 | 164851281 | 157614935 |
| America - All | 7098856 | 12829349.0 | 439606 | 39646043 | 32302808 | 6526380 |
| Middle East | 146858231 | 193650228.0 | 1670979849 | 1399030260 | 692784482 | 658295109 |
| India Subcontinent | 16061844 | 72495681.0 | 2159939 | 2840101 | 25182764 | 23911474 |
| Asia - Other | 341483728 | 179234791.0 | 16668451 | 77309867 | 297980936 | 328254498 |
| Total | 2174084840 | 1974335937.0 | 2199554194 | 3069969097 | 2935753201 | 3929314350 |

| <u>Songwe Tax Amount</u> | <u>2000</u> | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------|-------------|-----------|-----------|-----------|-----------|------------|
| South Africa | 9910280 | 1979561 | 133075 | 260716811 | 116176581 | 637374178 |
| Zimbabwe | 809593 | 602229 | 102811 | 34299 | 2075 | 2400 |
| Tanzania | 63440244 | 35239207 | 2955572 | 45676095 | 131707058 | 113674918 |
| Zambia | 33246 | 5575 | | 200 | 816766 | 136775 |
| Mozambique | 1800 | 275 | | 481195 | 250683310 | 225187 |
| COMESA | 4576626 | 1891433 | | 757329 | 5467156 | 7414807 |
| Africa - Other | 3407 | 21029 | | | | 354009 |
| Europe | 125506839 | 8871730 | 28342050 | 11739262 | 76125226 | 17612114 |
| America - All | 3667753 | 3752835 | 75 | 108152 | 2570106 | 1328450 |
| Middle East | 23309021 | 30671965 | 352513926 | 437355510 | 195737186 | 159634693 |
| India Subcontinent | 937984 | 375 | 42308 | 820252 | 3168610 | 5534255 |
| Asia - Other | 93633704 | 54475213 | 5072038 | 40454943 | 193338183 | 111839940 |
| Total | 325830497 | 137511427 | 389161855 | 798144048 | 727089777 | 1055131726 |

| <u>Songwe % of CIF Value</u> | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------------|-------|------|------|------|------|------|
| South Africa | 25.3 | 5.6 | 0.9 | 35.3 | 42.2 | 41.7 |
| Zimbabwe | 12.3 | 17.2 | 19.8 | 24.3 | 46.8 | 0.4 |
| Tanzania | 20.9 | 19.2 | 28.2 | 6.9 | 9.9 | 10.2 |
| Zambia | 20.2 | 1.1 | | 10.1 | 16.3 | 0.5 |
| Mozambique | 150.0 | 13.8 | | 14.0 | 15.5 | 0.8 |
| COMESA | 14.1 | 31.5 | | 2.9 | 5.4 | 14.3 |
| Africa - Other | 68.1 | 1.9 | | | | 19.8 |
| Europe | 9.8 | 0.7 | 5.9 | 9.4 | 46.2 | 11.2 |
| America - All | 51.7 | 29.3 | 0.0 | 0.3 | 8.0 | 20.4 |
| Middle East | 15.9 | 15.8 | 21.1 | 31.3 | 28.3 | 24.2 |
| India Subcontinent | 5.8 | 0.0 | 2.0 | 28.9 | 12.6 | 23.1 |
| Asia - Other | 27.4 | 30.4 | 30.4 | 52.3 | 64.9 | 34.1 |
| Total | 15.0 | 7.0 | 17.7 | 26.0 | 24.8 | 26.9 |

| <u>Dedza - CIF Value</u> | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| South Africa | 39068294 | 42288183 | 63820390 | 25886284 | 20924551 | 1708502032 |
| Zimbabwe | 46073596 | 129996049 | 43280276 | 25030770 | 13115600 | 1119637517 |
| Tanzania | 20850 | 200525 | 29250 | 99452 | 823796 | 10983832 |
| Zambia | 830514 | 766144 | 730896 | 6000 | | 17643826 |
| Mozambique | 71459517 | 257402813 | 6963727 | 20537903 | 27334397 | 266246264 |
| SADC - Other | 10000 | | | 20532 | | 17034786 |
| Europe | 1456418 | 9766271 | 6032814 | | 5669768 | 1025976358 |
| America - All | | | | | | 238139104 |
| Middle East | 44016 | 201269 | 34572067 | 20346 | 169145 | 1353142909 |
| Indian Subcontinent | 611884 | 1144001 | 2768371 | 301975 | | 7541950 |
| Asia - Other | 14952816 | 12434420 | 3020939 | 253388 | 9280255 | 720415269 |
| | 174527905 | 454199675 | 161189480 | 72156650 | 78314077 | 6485263847 |
| Dedza - Tax amount | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| South Africa | 13724233 | 18282313 | 38893601 | 13001601 | 11839565 | 59983277 |
| Zimbabwe | 5883709 | 36006643 | 13344008 | 6151763 | 2934765 | 18562984 |
| Tanzania | 8504 | 78034 | 4388 | 23283 | 126615 | 1733173 |
| Zambia | 87307 | 222202 | 277806 | 3900 | | 3553486 |
| Mozambique | 187133 | 145366 | 786374 | 6333378 | 8155994 | 13726224 |
| SADC - Other | 5000 | | | 12135 | | 6000 |
| Europe | 193908 | 864437 | 1469004 | | 7200 | 275183 |
| America - All | 78683 | 75 | 1618 | 6870 | 82591 | 14964347 |
| Middle East | 122651 | 1055276 | 1796758 | 341553 | | 734870 |
| Indian Subcontinent | 1111905 | 6817870 | 1379395 | 121963 | 3614789 | 14079 |
| Asia - Other | 21403033 | 63472216 | 57948564 | 25996446 | 26934000 | 33403166 |
| | 42806066 | 126944432 | 115901516 | 51992892 | 53695519 | 146956789 |
| Dedza - % of CIF Value | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| South Africa | 35.1 | 43.2 | 60.9 | 50.2 | 56.6 | 3.5 |
| Zimbabwe | 12.8 | 27.7 | 30.8 | 24.6 | 22.4 | 1.7 |
| Tanzania | 40.8 | 38.9 | 15.0 | 23.4 | 15.4 | 15.8 |
| Zambia | 10.5 | 29.0 | 38.0 | 65.0 | | 20.1 |
| Mozambique | 0.3 | 0.1 | 11.3 | 30.8 | 29.8 | 5.2 |
| SADC - Other | 50.0 | | | 59.1 | | 0.0 |
| Europe | 13.3 | 8.9 | 24.4 | | 0.1 | 0.0 |
| America - All | 178.8 | 0.0 | 0.0 | 33.8 | 48.8 | 6.3 |
| Middle East | 20.0 | 92.2 | 64.9 | 113.1 | | 0.1 |
| Indian Subcontinent | 7.4 | 54.8 | 45.7 | 48.1 | 39.0 | 0.2 |
| Asia - Other | 12.3 | 14.0 | 36.0 | 36.0 | 34.4 | 4.6 |
| | 24.5 | 27.9 | 71.9 | 72.1 | 68.6 | 2.3 |