

**A REPORT ON A JOINT RAPID ASSESSMENT OF INFORMAL
CROSS BORDER TRADE ON THE MOZAMBIQUE-MALAWI
BORDER REGIONS CONDUCTED BETWEEN
27 JUNE–1 JULY 2005**

By

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I Introduction

This report presents the findings of a rapid assessment of the informal cross-border trade along the Malawi-Mozambique borders between 27th June and 1st July 2005. The assessment was conducted by a joint mission consisting of FEWS NET, WFP and Mozambique Ministry of Agriculture' Agricultural Marketing Information Service (SIMA).

The rest of the Report is organised into two sections. Section 1 gives the background on the informal cross-border trade monitoring initiative; the settings in southern Malawi and northern Mozambique; the objective of the Mission; coverage; and methodology used. Section 2 presents the main findings and analysis; conclusions; and recommendations.

Section 1: Background & Objectives

1.1 Background Information

Southern Malawi, which is virtually surrounded by Mozambique, is the most populous and therefore a major consumption region of Malawi. However, the region is agriculturally poor and often a food deficit area. On the other hand, Northern Mozambique is a low cost maize producing area of the country, which is very far from the major consumption areas in the south. As a result, southern Malawi provides very viable market for produce from northern Mozambique. This is enhanced by the less restrictive trade regime as well as the porous nature of the borders between the two countries.

Informal cross border trade played a significant role in averting widespread food insecurity in Southern Africa during the major regional drought of 2002 and 2003. However, information on informal trade has been mainly anecdotal and its contribution towards redressing supply/demand imbalances had not been adequately quantified in Southern Africa. In absence of this data, import requirements can be over-estimated leading to over supply of imports (commercial or food aid) depression of trade and production incentives. Since the volume and direction of trade can change from year to year, monitoring systems are necessary, rather than one-off studies which provide background information or snap shot views of trade at a given period. In July 2004, in order to address this information gap, WFP and FEWS NET in collaboration with other partners established a cross border monitor system in approximately 29 border crossings covering seven countries in southern Africa including Tanzania, Malawi, Zambia, Zimbabwe, Mozambique, Democratic Republic of Congo and South Africa. Through this monitoring, it was established that between July 2004 and March 2005, over 70,000 MT of maize was informally exported to Malawi by Mozambique, mainly from the Zambezia Province through the Milange-Muloza border post. Past estimates put the trade at 70,000 MT during the 2001/2 season and 130,000 MT in 2002/3.

However, in 2003, surplus maize production in Malawi had a negative affect on Mozambican farmers, as prices dropped and their market in Malawi shrunk

considerably. At the same time within Mozambique, very high transportation cost could not permit movement of the merchandise from the northern surplus to the southern deficit areas. The current period of poor production in Malawi and fairly favourable production in Mozambique have thus created favourable conditions for this trade.

1.2 Objectives and Methodology

The main objective of the rapid assessment was to increase our understanding of the drivers of the informal trade for better prediction of imports and policy information. Specifically, it was intended to generate understanding of:

- a) organization and structure of the system of marketing: the commodities traded, main actors, infrastructure and costs;
- b) price structure and differentials that trigger trade across the borders;
- c) the extent to which exchange rate movements influence the informal trade;
- d) the significance of the trade to livelihoods of households in the two countries; and
- e) the effects of government actions, including relief programmes on cross border trade.

Two border points were selected for the assessment: the Milange-Muloza border along Zambezia Province (Mozambique) and Mulanje district (Malawi); and the Kalanje–Mtembo border along Mandimba district in Niassa Province (Mozambique) and Magoche district in (Malawi). The selection of the two border points was based on their large volumes of trade in maize and beans compared to other borders, but also time limitation for the assessment. Although the assessment focused on Mozambique and Malawi, it serves as a benchmark for analysis of cross border trade in other Southern African countries covered by the project.

The methodology used was a combination of various information gathering techniques. A checklist adapted from a questionnaire earlier developed for the purpose formed the basis for focus group discussions and key informant interviews. Information was sourced primarily from traders, transporters, farmers, government officials and consumers at both border locations and in Blantyre. Observations of activities were taken and recorded, and these also formed important input.

Section 2. Main Findings

2.1.0 Trading Dynamics

2.1.1 Types of Commodities Traded

The main agricultural commodity traded at the two border points was maize. Other crops included beans and pigeon peas, varying in magnitude from one border to another. The direction of trade flow was established to be from Mozambique to Malawi. The maize that passed through the Milange-Muloza border came from the districts of Mocuba, Ilé, Gurué, Lugela and Namarroi in Zambézia Province. Meanwhile, the maize from productive areas of the

districts of Ngauma, Lichinga and Mandimba in Niassa Province fed the border point of Kalanje–Mtembo.

The people involved in the trade included Malawians and Mozambicans. The mission observed that the marketing system was well developed and efficient. Activities on both sides of the border were found to be well coordinated, with a large number of intermediaries as discussed in detail below.

According to key informants at the Milange-Muloza border, maize trade takes place throughout the year. However, traders are most fully engaged from April (i.e. right after the harvest) and this peaks in May or June. But from August the volumes of commodities traded begins to fall. However, in the current year the volume of trade is believed to be lower compared to the same period in the previous year, at a daily average rate of 2000 bags. According to the official of Ministry of Agriculture border (Phytosanitary Officer) on the Mozambican side maize was also exported formally but their volumes are considerably lower.

At the Kalanje-Mtembo border, maize and beans are the main commodities traded and this involves both Malawians and Mozambicans. At the time of the assessment, some farmers were still selling maize from last year's production, which is a reflection of the good production last year. According to the informant, maize harvests had never lasted for so long before. Maize was also being sold locally for consumptions within Mozambique. At this border, June and July are the peak months for the trade, and volumes decline from October to March. According to key informants, during the lean period Mozambican farmers who still hold maize stocks carry them for sale in market on the Malawi side of the border.

2.1.2 Marketing Chain

The marketing chain at the two borders shows some slight variation. The Milange-Muloza border point was found to be the most sophisticated, busiest, and to handle the largest volume of informal maize trade. There are several assembly points on both sides of the border. The main actors were identified by key informants to include farmers; agents; small, medium and large traders; along with market facilitators providing transport and storage services and facilities.⁷

Farmers who produce the commodities (inside Mozambique) sell them to agents at farm-gate or on the local market inside the country. During the lean period between October and March, some farmers take their produce for sale in Malawi by themselves. It was established that some *agents* purchase maize from farmers on their farms (or on local markets) on behalf of traders. The maize is assembled and transported using lorries and trucks to the main assembly points close to the Malawi border. They compete with *small-scale traders* who sometimes purchase maize directly from farmers in areas close to borders. *Medium-scale traders*, mainly on the Malawian side of the border,

⁷ Appendix 1 represents an attempt to depict the marketing chain in the informal cross-border maize trade.

provide the main finance for the trader – usually to agents on the Mozambican side who purchase on their behalf. But many conduct trade inside Mozambique and therefore tend to have operating bases on both sides of the border. They sell the produce onwards to large-scale traders and to others down the marketing chain. The *large-scale traders* are mainly based in Blantyre and other big towns, and they purchase maize from the medium scale traders on the Malawian side. They sometimes receive maize in Blantyre or other towns. These traders sell onwards to institutions, millers, processors & wholesalers/ retailers, who in turn supply or sell to consumers.

However, there are variations in the pattern of transactions, many small and medium scale traders buy maize and beans directly from farmers and sell them to buyers from Blantyre. As a result, several assembly points are found within the districts of Mandimba, Ngauma and Lichinga.

2.1.3 Mode of Transport

Lorries and trucks are used to move maize primarily to main markets or assembly points on the Mozambican border. They are also the main means of transportation from the borders (Malawian side) to Blantyre and other main towns. But transportation of informally traded maize across the borders is almost exclusively done using bicycles. The amounts usually three (occasionally four) 50-90kg bags per trip on the cycles are regarded as petty trade or for personal consumption, and therefore exempt from formal export licenses in Mozambique.⁸



Figure 2: Bicycle transporters arranging to transport maize from Milange (Mozambique) to Muloza (Malawi)

⁸ In the case of Mangochi border, movement of quantity of maize of more than 25 bags is classified as formal trade and therefore will require export license from the provincial authorities.

This aspect of the trade is particularly well established on the Milange-Muloza border, with an estimated 1,500 cyclists involved. They are mostly young men aged between 25 and 40 years. The arrangement is that owners of maize (i.e. traders) on the Mozambican side hire the services of transport agents (who are estimated to number about 40) to move their merchandise across the border. The agents in turn organise a team of cyclists (usually 10 or more) to do the actual movement of the bags of maize, along a journey of about 20-30 minutes. The cyclists carrying the consignments belonging to one trader normally assemble on the Mozambican side of the border to wait for the agent to pay the MK8.00 per bag levy before they all cross into Malawi. The cyclists are paid MK20.00 per each bag transported, while the agent gets a commission of MK5.00 per bag.

This is very important source of livelihoods for both cyclists and agents, and their families. According to key informants and the cyclists who were interviewed, transporting merchandise represents a main income for most of them. Some of the cyclists pointed out that they have been in the business for 3 or more years. The cyclists are locally known as *Adyanji* (meaning that they would have nothing to eat if it were not for this business).

2.2.0 Market and Price Analysis

2.2.1 Market Analysis

Malawian traders are the main financiers of the trade, in large part through Mozambican traders and agents. A wide range of marketing services are provided (especially in marketing maize) which include assembling, packaging, transportation and storage. Small quantities of maize bought at field locations are usually assembled and repackaged into 50kgs bags (in Mulanje-Moloza border) or 90kg bags (in Kalanje/Mtembo) border. Some quality checks are carried at this stage, though this is generally not regarded to be rigorous. Several storage facilities / warehouses have been constructed that are hired out for overnight storage. All these functions along with transportation add to marketing costs and the price of maize (see Table 1).

The Malawian Kwacha (MK122 equivalent to 1USD) is the currency of transaction along the two borders, where it is accepted up to 120 kilometres inside Mozambique. The main reason for the use of the Kwacha is that the Mozambican population along these borders obtain most of their consumer goods from Malawi.

The exchange rate was MK1 to 175-180 MZM and had limited impact on the price maize and volumes trade. However, according to key informants, farmers in Niassa some 80 km from the Kalanje/Mtembo border only accepted the Mozambican currency. This was largely because they spend their proceeds on consumer goods supplied from the Mozambican side. It was also reported that increased supply of the Mozambican currency (the meticaís) in the area due to payments made to tobacco farmers in Mozambique had some

impact on the exchange rate, and had short-term effect on the price of maize in the area.

2.2.2 Price Analysis

It was generally noted that price differentials between Mozambique and Malawi is not the major driver of the trade, rather lack of a viable alternative market in Mozambique was the main driver of the trade. As a result, in broad terms farmers were found to be price takers. However, the large number of agents and traders ensured some degree of competition, most especially at the main assembly points. At the Kalanje/Mtembo border, prices paid to farmer depended largely on the road condition, and less on the distance that is covered. But in locations of scarcity and where many agents and traders are buying, they are often forced to compete against one another to the advantage of farmers. However, beyond a certain distance inside Mozambique, transportations costs make trading unprofitable. For this reason, traders and agents carry out purchases first in locations close to the borders, only moving further inwards as supplies near the borders diminish.

Although market prices are collected by the Mozambican and Malawian Market Information Systems in Milange and Kalange area, these do not play any significant role in market information to this trade. Instead, the traders rely on colleagues for price updates. The price of maize was reported to be higher (MK 17.80 per Kilogram) during the month (June) compared with their levels in April and May (i.e. MK 15.00 per kilogram and MK 16.00 per kilogram, respectively). But transportation costs, especially movement of maize across the border using bicycles remained generally unchanged. The summary of analysis of the prices and marketing costs at different stages are presented in Table 1 below for the two border points.

Table 1: The Cost Structure of Marketing Function

Activity/Function	Milange-Muloza Border MK/50Kg Bag	Mtembo-Kalanje Border MK/72Kg Bag
Farm-gate price (80km radius)	870.00	900.00
Transport (to trading post)	0.00	210.00
Trading/Assembly point (Milange or Mtembo)	890.00	1,110.00
Storage (Milange)	2.00	0
Transport (Cyclists)	20.00	40.00
Transport (Brokers)	5.00	0
Customs (Mozambique post)	8.00	10.00
Storage (Muloza)	4.00	0
Trading/ Assembly point (Muloza or Kalanje)	925.00	1060.00
Transport (Muloza to Blantyre)	65.00	133.00
Total Cost (Blantyre)	990.00	1,193.00
Consumer Price (Blantyre)	1,043.00	1,501.92

Source: Interviews with stakeholders on 28-30 June 2005

The analysis reveals that transportation contributes largest to marketing costs, accounting for 10-15%. In the case of Milange/Muloza, this consists 2.5% of bicycle transport across the border and 6.6% for from Muloza on the Malawian side to Blantyre. Storage costs were found to be generally low - about MK6.00 per 50 kg bag per day. The turnover of commodities is generally high, with the outcome that maize storage rarely exceeds one to two days at the assembly points. There are no customs levies on the Malawian side of the border, but token charge (MK8.00-10.00 per bag) at the Mozambican crossing, which is about 1% of the total value. The analysis also reveals that Mozambican farmers received about 87.9% of overall value of maize delivered in Blantyre. This is also about 80% of the consumer price in Blantyre.

2.2.3. Effects of the imports on relief program

Analysis of import parity for one metric ton of maize delivered in Blantyre through informal import was computed and found to be approximately US\$165.00. This compares favourably with the cost of official imports from South Africa estimated to be approximately US\$250 per metric ton. It must be pointed out, however, that direct comparison of parity prices of the two sources of imports for Malawi could be misleading as basis for decision-making. Among other factors, informal maize imports from Mozambique need further processes including cleaning and sorting to reach the international accepted quality standards of formal imports.

2.3.0 Conclusions and Recommendation

2.3.1 Summary/Conclusions

There was clear evidence of a vibrant and large volume trade in maize, beans and pigeon peas between the Milange-Muloza and Mandimba-Kalanje borders, flowing from Mozambique into Malawi. The findings are consistent with records of the Southern Africa cross border food trade monitoring initiative over the past one year.

The mission also noted the existence of very well structured (but long) marketing chain involving farmers, agents, small-, medium- and large-scale traders, millers, wholesalers and consumers. These are linked by marketing functions including assembling, packaging and re-packaging, storage, and transportation.

The main means of transportation were established to be lorries and bicycles. Lorries are used to carry produce from farms and local markets to assembly points near the border and from the border points to consumer markets. However, bicycles are used to ferry the maize across the border.

The Malawi Kwacha was found to be the preferred currency of transaction where it is used up to 120 km inside Mozambique from the Milange-Muloza border and 80 km from Mandimba-Kalanje border. Movements in exchange rates on the borders have little effect on direction and volume of trade.

While farmers were generally found to be price takers and prices are important for the cross border trade, price differentials between Malawi and Mozambique were not thought to be the main trigger of the trade. Competition among agents ensured to some degree that the prices offered were broadly competitive.

Overall, households in both countries are believed to benefit from this trade. Besides providing very important market outlet to farmers, thereby overcoming lack of markets inside Mozambique, the trade was found to be a vital source of livelihoods for those involved. It and also provided access to consumer goods and services from Malawi. On the other hand, traders and others participants from Malawi earn livelihoods from this trade. Crucially, this trade contributes significantly to food availability in Malawi with potential impact on stability of food prices in the country.

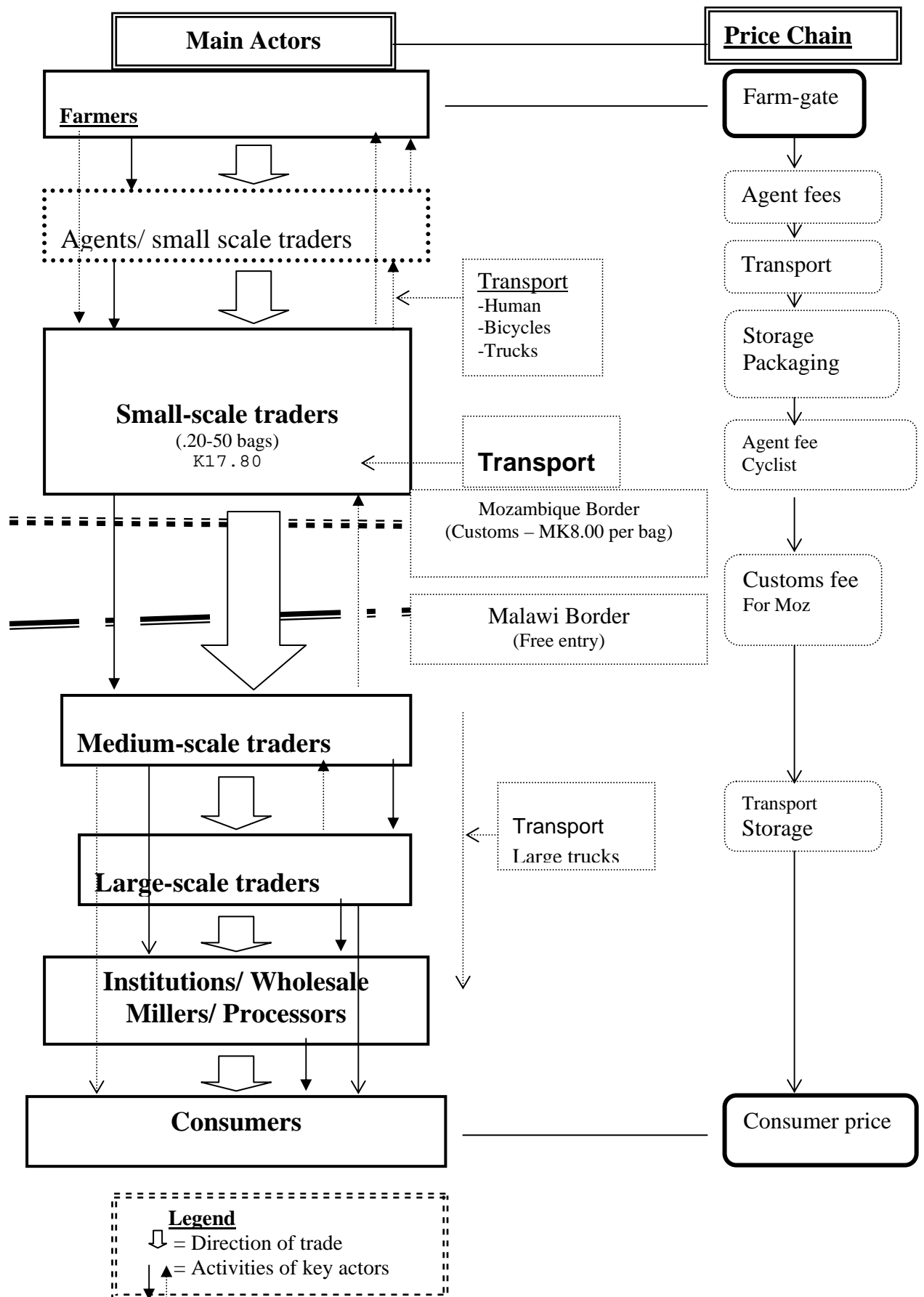
2.3.2 Recommendations:

The visit confirms the scale of informal trade obtaining at the Mozambique-Malawi borders. The Mission noted the importance of the trade to the economies of both countries. However, due to time limitations, the mission was not able to conclusively and adequately address some of its terms of reference. Determinations of the following issues require deeper analysis and a longer duration study:

1. The implications of this trade in the overall food security and livelihoods of the households (all players) in the countries concerned.
2. Establishment of a baseline for trade flows for good/bad years which can be used as a forecasting tool (for early warning);
3. Determination of effects and impacts of governmental policies on the trade.
4. Further analysis of the market structure to understand better how prices are fixed at different points;

Appendix I

Figure 1: Marketing & Price Chain: Farmers to Consumers



4.1 Appendix II: List of People Interviewed

Milange

- Mr Morais
- Enock Napiko
- Ernesto Tomás
- Martins Sement
- José Silvio

Muloza

- Rafael Masenda

Kalanje

- Saide Captine
- Sanudi Kwadyaye
- PA Ntembo (Luelele)
- Locality chief, Constâncio Sulemane

4.2 Appendix IV: Photos



Figure 3: Maize being readied for transportation to urban centres of Malawi at Muloza



Figure 4: Repacking maize into 50 Kg bags at Muloza, Malawi

4.3 Appendix III: Terms of Reference

Terms of Reference for Joint Field Visit By the Southern Africa Informal Cross Border Food Trade Monitoring Initiative (FEWS NET and WFP) and SIMA of Some of Malawi and Mozambique Borders: 27 June – 1 July 2005.

Southern Malawi, which is virtually surrounded by Mozambique, is the major market for produce (especially maize) from Northern Mozambique. Despite being the most populous and therefore a major consumption area of Malawi, Southern Malawi is agriculturally poor. On the other hand, Northern Mozambique is a low cost maize producing area of Mozambique which is rather far removed from the major consumption areas of Southern Mozambique. Because of this, and the porous nature of the borders, a significant volume of cross border trade takes place between the two countries.

Records from the Southern Africa informal cross border food trade monitoring initiative indicate that between July 2004 and March 2005, over 70,000 MT of maize was informally exported to Malawi by Mozambique, mainly from the Zambezia Province through the Milange-Muloza border post. Past estimates put the trade at 70,000 MT during the 2001/2 season and 130,000 MT during the 2002/3 season. In 2003, a surplus production in Malawi negatively affected Mozambican farmers as prices dropped and their market shrunk considerably. Recently, there have been

indications that some Mozambican producers are still holding on to large stocks of maize because prices being offered by Malawian buyers are not attractive. In addition, the Malawi Government has announced an unprecedented relief programme in which 250,000 MT of maize will be distributed free across the country as part of an effort to mitigate the over 450,000 MT cereal deficit. It is expected that most of this maize will come from formal imports (largely from South Africa). These developments are likely to cause some instability in the trade between the two countries in the short term and have potentially serious consequences for the future.

The important role informal cross border food trade plays in the economies of the two countries cannot be overemphasized. In order to better understand the drivers of this trade and enable better prediction of the imports, a joint rapid assessment of the trade along selected borders of Malawi and Mozambique is proposed for the period 27 June to 1 July 2005. The joint assessment will include the Southern Africa informal cross border food trade monitoring initiative sponsored by FEWS NET and WFP and SIMA, the Mozambican agricultural information system. Although the current assessment focuses on Mozambique and Malawi, it is hoped that its results could provide benchmarks and serve as lesson learning for analysis of cross border trade in other Southern African countries including Zimbabwe, Zambia, Tanzania and the DRC.

Specific objectives of the joint field trip include the following:

- Determining what levels of price differentials trigger cross border trade.
- Determining the role the exchange rate plays and how its variability impacts on informal trade.
- Understanding the marketing structure of the cross border trade: types of traders; Modes of transport used and their costs; infrastructure used or available etc.
- Determining marketing margins at the selected border points.
- Determining the effect of carry over stocks in Mozambique on the size of the subsequent seasons' crop?
- Understanding the effect of relief programmes in Malawi on cross border trade.
- Assessing how big the Malawian markets are for agricultural products from Mozambique?
- Assessing availability of MIS (es) monitoring trade at the selected border points as well or in other border points?
- Understanding how the Malawian Agricultural Commodity Exchange (MACE) works? and exploring whether there is scope for collaboration between MACE and SIMA?
- Determining what kind of data could be collected in future that would provide a better understanding of likely trade e.g. farm gate prices? Border prices? Transport costs? etc

The rapid assessment will be conducted through field visits and interviews with key informants. A joint report will be issued at the end of the visit.