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TRADE FACILITATION AND ECONOMIC  
TRANSFORMATION IN AFRICA

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## ABBREVIATIONS

ACET	African Center for Economic Transformation
AEO	Authorised Economic Operators
ASYCUDA	Automated System for Customs Data
CBM	Coordinated Border Management
CET	Common External Tariff
COMESA	Common Market for East and Southern Africa
CRM	Customs Reform and Modernisation
DRC	Democratic Republic of Congo
EABC	East African Business Council
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ET	Economic Transformation
ETLS	ECOWAS Trade Liberalization Scheme
GIZ	German Development Corporation
IDS	Institute of Development Studies
IT	Information Technology
ITC	International Trade Centre
NMC	National Monitoring Committee
NTB	Non-Tariff Barrier
OSBP	One-Stop Border Post
RADDEx	Revenue Authorities Digital Data Exchange
RCTG	Regional Customs Transit Guarantee
REC	Regional Economic Community
RIDMP	Regional Infrastructure Development Master Plan
RTBG	Regional Transit Bond Guarantee
SADC	Southern African Development Community
SAIIA	South African Institute of International Affairs
SCCC	Sub-Committee on Customs Cooperation
SCT	Single Customs Territory
SIRESS	SADC Integrated Regional Electronic Settlement System
SSATP	Sub-Saharan Africa Transport Policy Programme
TCI	Trade Concentration Index
TMEA	TradeMark East Africa
TMS	Transit Management System
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNECE	UN Economic Commission for Europe
UN-OHRLLS	UN Office of the High Representative of Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
US	United States
USAID	US Agency for International Development
USITC	US International Trade Commission
WCO	World Customs Organization
WTO	World Trade Organization

# EXECUTIVE SUMMARY

Trade facilitation can stimulate economic transformation in Africa by raising exports, supporting export diversification, reallocating resources to more productive activities, improving access to cheaper and better-quality imported inputs and enabling participation in value chains. Many African regions have begun to formulate regional approaches to trade facilitation, and there are important examples of particular approaches working well. The introduction of one-stop border posts (OSBPs) at Chirundu (on the Zambia–Zimbabwe border) and at the Busia border crossing between Kenya and Uganda have reduced the time and costs involved in moving goods across borders. The OSBP at Busia has also made it easier for small traders to cross the border, giving them access to a wider market and improving their livelihoods. Similar improvements in border crossing times have been recorded along the Trans Kalahari, Maputo Development and Northern Corridors.

Outside of these examples, however, the implementation of trade facilitation agreements has generally been problematic. It remains a challenge to translate the good intentions expressed in Africa's regional trade agreements into concrete actions towards trade facilitation.

## Issues for discussion

The key issues participants may wish to consider for further discussion are as follows:

- What more can be done to harmonise regional trade facilitation instruments in cases where countries have overlapping membership in more than one regional economic community?
- What are the remaining constraints (political and other) to the elimination of NTBs hampering cross-border trade flows in Africa? How can these be addressed?
- What can be done to ensure effective implementation of mutually agreed protocols, programmes or schemes aimed at promoting intra-regional trade in Africa?
- Do governments provide enough space for engagement with the private sector on issues related to trade facilitation?
- Why are African countries not jumping to ratify the World Trade Organization Trade Facilitation Agreement? Is it a governance problem? Or because of lack of policy coherence?

In addition, participants may wish to discuss the following issues related to specific regions:

### *SADC*

- How can SADC countries improve coordination in the management of regional transit systems?
- What should be done to address concerns about the potentially adverse effects of trade facilitation on local employment, revenues and the livelihoods of the most vulnerable?

### *EAC*

- How can cross-country coordination in the operationalisation of trade facilitation be improved in a way that takes into account the varying levels of commitment to regional integration across EAC member states?

### *ECOWAS*

- How can ECOWAS countries mitigate internal constraints hampering them from being more effective partners in regional development and integration processes?
- How can ECOWAS countries enhance the role of the private sector in regional integration in order to promote economic transformation?

### *ECCAS*

- What are the remaining bottlenecks hampering implementation of the free trade area in the ECCAS region? How can they be addressed?

# 1. INTRODUCTION

The importance of economic transformation towards greater productivity and higher-value activities for economic growth and poverty reduction is widely accepted. Even so, relatively little work has been done to date on the main drivers of economic transformation, particularly in low-income countries (te Velde, 2013). This is especially true in relation to the role of trade in the economic transformation process.

In this paper, we consider the role trade facilitation – involving the simplification, harmonisation, standardisation and modernisation of trade procedures to reduce trade transaction costs – can play in assisting economic transformation in Africa. We focus in particular on trade facilitation related to cross-border customs procedures, transit and logistics. In principle, trade facilitation measures that reduce trade costs can influence economic transformation by lowering the cost of inputs, raising competition in the domestic market, boosting the competitiveness of exports and facilitating the integration of domestic firms into modern value chains. These factors enable domestic producers to raise their productivity, improve their competitiveness in traditional products and facilitate the export of new higher-value products, thereby contributing to the movement of labour from low- to higher-productivity activities.

We outline and explain the links between trade facilitation and economic transformation and then examine progress to date in designing and implementing these types of trade facilitation measures in four African regional economic communities (RECs): the Southern African Development Community (SADC), the East African Community (EAC), the Economic Community of West African States (ECOWAS) and the Economic Community of Central African States (ECCAS). We conclude with a discussion of the implications of these efforts for the broader process of economic transformation in Africa, and pose a series of questions relating to issues that still need to be addressed for trade facilitation to play a greater role in assisting economic transformation in African countries.

## 2. TRADE AND ECONOMIC TRANSFORMATION

The structure of trade in most African countries tends to be characterised by a concentration of products that are exported to a limited number of destinations. By product concentration (Table 1), the exports of Botswana, Nigeria or Zambia, for example, are concentrated largely in just two or three products,<sup>1</sup> and associated primarily with their natural resources. By destination, even countries with access to the sea have very high levels of export concentration, mostly to developed and emerging countries.

This concentration increases the risk associated with variability in the prices of a few commodities. Moreover, it limits the possibilities of output and trade expansion. African countries struggle to compete in other products in their traditional markets, or they find it difficult to move into new activities or products. Intra-African trade provides a dynamic vehicle for output expansion, particularly in non-traditional products, contributing to the output and trade diversification required in economic transformation (ET) processes (ACET, 2014; McMillan et al., 2015). Export diversification facilitates structural change (i.e. reallocating resources to higher-productivity activities). And more exports to non-traditional partners can expand opportunities for economies of scale in traditional products as well. Combined with integration into international value chains, higher levels of efficiency achieved through diversification in trade leads to increases in productivity within sectors. Therefore, increased trade within the region (both intraregional trade and trade with the rest of the world) enhances ET.

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<sup>1</sup> The inverse of the Trade Concentration Index (TCI) provides the hypothetical number of equally exported products generating that index. So, if the index is 0.50, the number of hypothetical equally exported products would be two. The TCI assesses the degree of concentration of a given country's exports. A TCI with a value of 1 indicates that only a single product is exported. In contrast, lower values that are closer to 0 are preferable as they reflect a more equal distribution of exports across a greater number of exported products.

**Table 1: Trade concentration index by product and destination, 2014**

Reporter	By product	By destination
Botswana	0.57	N/A
Ethiopia	0.12	N/A
Ghana (2013)	0.19	0.10
Nigeria	0.54	0.07
Rwanda	0.11	0.29
Uganda	0.07	0.07
United Republic of Tanzania	0.05	0.10
Zambia	0.32	0.25
Zimbabwe	0.13	0.49

Note: TCI by product  $i$  (using HS 6 digit product classification) for country  $j$  is calculated as:

$TCI_{ij} = \sum \left( \frac{x_i}{x_j} \right)^2$ , where  $x_i$  is country  $j$ 's exports of product  $i$  and  $x_j$  is country  $j$ 's total exports. In turn, the TCI by destination for country  $j$  is

calculated as  $TCI_j = \frac{\sum_{k=1}^{n_j} \left( \frac{x_{jk}}{X_j} \right)^2}{1 - \frac{1}{n_j}}$ , where  $X_j$  is the total value of exports from country  $j$ ,  $x_{jk}$  is the value of exports from country  $j$  to destination

market  $k$ , and  $n_j$  is the number of destination markets to which country  $j$  exports. Selection of countries based on data availability and regional representation. The lower the value, the more diversified the exports in terms of products and destinations.

Source: UN Comtrade using TradeSift.

The elimination or reduction of barriers to trade within the region can facilitate these processes. The reduction of tariffs, the elimination of non-tariff barriers (NTBs) and the simplification of customs procedures, among many other trade policy measures, are key to increasing both exports and imports (Jouanjean et al., 2015). While the importance of export growth is well understood, the role of access to cheaper and better-quality imported inputs in the transformation process is not highlighted enough. Greater access to higher-quality and competitively priced inputs can increase the competitiveness of domestic firms, provide incentives for innovation and greater efficiency and facilitate the relocation of resources to more productive firms and sectors.

The links between trade and productivity have received considerable attention in the literature. Either trade makes firms more productive (Girma et al., 2004; Wagner, 2007) or the more productive firms engage in trade (Krugman, 1980; Melitz, 2003). Regardless of the direction of causality, ET has higher chances of being successful if it is driven through the trade–productivity link.

## 2.1 TRADE POLICY AND REGIONALISM

From a purely economic perspective, unilateral trade liberalisation theoretically presents immediate and concrete advantages (i.e. trade creation dominates). Even so, from a political point of view, regionalism provides greater bargaining power (Winters, 1996), particularly when negotiating with other trade blocs (Whalley, 1998), and creates opportunities for reciprocity of measures facilitating the introduction of these reforms in the domestic market. However, either when the liberalisation is unilateral or when it is done through a trade agreement, there will be losers that may require accompanying policies to address the transition.

In the past 50 years, many trade blocs have formed in Africa. In general, they have experienced relative success in eliminating, or at least substantially reducing, tariffs on intraregional trade. In some cases, the introduction of common external tariffs (CETs) and the creation of customs unions (e.g. the Southern African Customs Union and the EAC) have reinforced this. Moreover, the tariff liberalisation process is still active with other interregional agreements such as the Tripartite Free Trade Area.

The success of further integration, in the form of the elimination of NTBs, has been mixed. Although there have been efforts to constitute common markets by eliminating de jure restrictions to foreign suppliers, especially those applying to partners, they have frequently been offset by the introduction of new measures that discriminate against non-domestic firms or providers, including those located in regional trade partners.

## 2.2 TRADE FACILITATION

Costs associated with transport and logistics affect trade. They can be pecuniary (e.g. customs fees or transit permits) or relate to the time spent loading, unloading and transporting cargo across borders. The time and resources spent on completing the required paperwork, procuring permits and licences and paying administrative fees all add to the total trade cost. For landlocked countries, these costs may be two or even three times as high. Higher cross-border administrative pecuniary and time costs can render any tariff reduction or elimination of NTBs ineffective. Poor hard infrastructure (transport and communication) and poor soft infrastructure (institutions and regulations) are also major determinants of the high costs and low levels of trade in Africa (Limao and Venables, 2001).

Improvements in both hard and soft infrastructure and simplifying customs procedures are key to trade facilitation. The latter includes the harmonisation and simplification of international border procedures for exports and imports. These procedures involve collecting, presenting, communicating and processing data necessary to move goods across borders.

Trade facilitation operates in three areas:

1. **Simplification:** This is the reduction of the documentation and procedures associated with the clearance of goods. Typical actions include the avoidance of duplication of procedures, operational flexibility (i.e. opening times of customs), time release measures, automation of procedures, etc. They also cover trade formalities (i.e. import licensing).
2. **Harmonisation:** This relates to actions that make customs procedures compatible with international standards. Trade costs are reduced when traders have to meet a single rather than multiple standards. Typical actions include memoranda of understanding between customs, alignment of procedures and adherence to international conventions, consultations between customs and international exchange of trade data.
3. **Transparency:** Trade costs are minimised if customs procedures and regulations are known beforehand and are clear and their application is consistent across ports of entry and over time. The impact of changes in procedures will also be minimal if they are announced well in advance to allow traders to make the necessary adjustments. Harmonisation enhances transparency but it is necessary to ensure enforcement is fair and consistent.

## 2.3 TRADE FACILITATION AND ECONOMIC TRANSFORMATION

There are multiple channels through which trade facilitation can promote economic transformation:

- **Lowering the cost of inputs:** As in the case of tariff reduction, trade facilitation will make imported products cheaper. This will benefit domestic firms by reducing the cost and improving the availability of imported inputs. This will directly affect the competitiveness of traditional products in new markets and facilitate the export of new products, contributing to diversification.
- **Increasing competition:** Simpler customs procedures will bring additional competition to the domestic market. This will benefit consumers directly. In addition, it will increase economies of scale in traditional sectors by boosting the size of efficient firms and reducing that of inefficient ones. Nevertheless, it is important to note that these dynamics will generate adjustment costs as inefficient firms shrink in size or are forced to close down owing to heightened competition from imports in the domestic market. The result may be higher unemployment in the short term, which may persist unless other domestic firms are able to expand and absorb the displaced labour. Addressing these negative externalities may require proactive policy approaches such as the creation of retraining opportunities for displaced workers or tax and/or investment incentives that encourage domestic and foreign firms to employ additional workers or offer training opportunities to upskill their existing workforces.



- **Boosting exports:** Trade facilitation will make exports more competitive worldwide by reducing their cost. This will imply more opportunities for existing products and for new products, diversifying the export supply. The effect is stronger if the trade facilitation efforts are undertaken through multilateral agreements as exporters will benefit from the simplification, harmonisation and improved transparency of customs procedures and other export-related processes in their trade partners.
- **Facilitating integration into value chains:** Trade facilitation will reduce trade costs and make the supply of final and intermediate goods more predictable and less susceptible to delays. Domestic firms providing intermediate goods can participate more in regional and global value chains by increasing the reliability of their supply. These benefits will extend to firms importing intermediate inputs as they will find it easier to upgrade their production with reliable sources of better-quality (and possibly cheaper) inputs. The reduction of these inefficiencies will help firms capture more value-added and increase their participation in value chains.

Both multilateral and bilateral agreements on trade facilitation will benefit those participating in them. Nevertheless, their effects go beyond intraregional trade. Simpler and harmonised customs procedures will allow landlocked countries to reach more destinations and export a greater number of products by reducing both transit times and costs. In the context of regional value chains, this will also aid transit countries by allowing them to provide more goods and services associated with transit trade. That said, trade facilitation that opens up markets to higher levels of competition can also generate negative effects in the domestic economy (such as the downsizing or closure of less efficient domestic firms and higher levels of short-term unemployment highlighted above), and policy support may be required to ensure the impact of the resulting adjustment costs on domestic economic actors – small firms, small traders and the poor and most vulnerable in particular – is minimised.

### 3. TRADE FACILITATION EFFORTS IN AFRICA

Adopting a case study approach, we now turn to a discussion of key regional trade facilitation agreements and measures been designed in SADC, the EAC, ECOWAS and ECCAS. Our analysis includes an assessment of the efforts made, and challenges encountered, in implementing these agreements and measures, and, where possible, their contributions to facilitating intraregional trade.

#### 3.1 SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Within SADC, difficulties encountered when crossing borders represent a significant impediment to intraregional trade and market integration (Balchin et al., 2015). These difficulties are exacerbated by the comparatively high number of landlocked SADC member states: goods traded in the region often have to cross multiple national borders. Within this context, improved trade facilitation is regarded as an important aspect of efforts to boost intra-SADC trade (AECOM International Development, 2011).

#### SADC TRADE FACILITATION AGREEMENTS AND IMPLEMENTATION EFFORTS TO DATE

The origin of contemporary trade facilitation efforts at the SADC-wide level can be traced back to the introduction of the SADC Protocol on Trade in 1996, which included a focus on streamlining, simplifying, harmonising and modernising customs procedures (Annex II) and on trade facilitation and transit (Annex IV). In the case of customs cooperation, for instance, the Protocol requires that SADC member states adopt common nomenclature for customs procedures, simplify and modernise their customs procedures, employ a system of goods valuation in line with the World Trade Organization (WTO) system and cooperate with each other to train staff, communicate information and investigate and address customs offences (SADC, 2012). The Protocol was accompanied in the same year by the SADC Protocol on Transport, Communications and Meteorology.

A raft of regional trade facilitation measures preceded these two protocols. Several measures relate to customs procedures and border management to facilitate trade. These include the development of Coordinated Border Management (CBM) guidelines and systems to ensure much of the clearing process for goods is undertaken ‘behind the border’ so as to minimise disruptions to the cross-border movement of goods and people (Pearson, 2011). This has also seen the establishment of several national and regional single windows in SADC. Initiatives have also been introduced directly at border posts in order to improve the flow of trade, including agreements to harmonise the hours of operation at certain border posts (Shumba, 2015), and an initiative to convert certain border posts in the region – such as the Chirundu border post between Zambia and Zimbabwe – to a one-stop border post (OSBP) system with a view to reducing both the time and costs associated with the clearance of goods through border crossings.<sup>2</sup> Efforts have also been made to automate customs administrations and harmonise IT systems within SADC, and some countries have introduced customs reform and modernisation (CRM) programmes. These efforts represent a significant step towards achieving interconnectivity of customs and other border agencies in the region. Encouragingly, most SADC countries have also been eager to involve the private sector in discussions on customs-related matters, with several countries doing so on a formal basis through forums.<sup>3</sup> At a regional level, the SADC Secretariat has engaged the private sector on specific customs issues through technical committees and ad hoc working groups (UNCTAD, 2014).

Other trade facilitation measures in SADC focus on transit and logistics. For instance, the SADC regional transit management system (TMS) was adopted in 2009 as an instrument for harmonising and standardising procedures for the transit of goods within the region (Kasse, 2014). As of late 2014, the TMS had not yet been fully implemented, although some test models had been (GIZ and SAIIA, 2014). Attempts have been made under the auspices of the TMS to establish a SADC regional transit bond guarantee (RTBG).<sup>4</sup> Attention has also been given to developing the necessary trans-boundary infrastructure to facilitate transit trade in SADC, with the SADC Regional Infrastructure Development Master Plan (RIDMP) of 2012 providing a general framework through which to do so. Several strategic trade routes within the region have been linked (via connectivity along roads, rail and ports) through development corridor initiatives such as the Trans-Kalahari Corridor, the Maputo Development Corridor and the North–South Corridor. Finally, the SADC Integrated Regional Electronic Settlement System (SIRESS) has been created to cut out intermediaries and, hence, more easily facilitate cross-border regional payment transactions that boost intra-SADC trade.

We summarise these, and other, regional trade facilitation initiatives in Table 2.

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<sup>2</sup> The Chirundu OSBP opened in December 2009 as part of a trade facilitation pilot under the North–South Corridor Pilot Aid for Trade Programme. It is the first functioning OSBP in Africa, and currently the only operational one in SADC (SADC, 2015; Zimbabwe Ministry of Industry and Commerce, 2011). Its central feature is that immigration and customs procedures are carried out just once in each direction (with entry and exit formalities performed sequentially in one facility); this is in contrast with most border posts in the region, where it is necessary to complete paperwork on each side. The introduction of the OSBP is intended to cut the processing time at the border, reduce transit times for both traders and transporters, boost the reliability and competitiveness of supply chains by facilitating the predictable movement of goods between Zimbabwe and Zambia and increase revenue collection (Viljoen, 2013; Zimbabwe Ministry of Industry and Commerce, 2011).

<sup>3</sup> These countries are the Democratic Republic of Congo (DRC), Lesotho, Mauritius, Malawi, Mozambique, South Africa, Swaziland, Tanzania and Zambia.

<sup>4</sup> In the SADC context, where the transportation of goods to their final destination often requires transit through a number of countries, transporters may be required to acquire several national customs bonds – at a substantial collective cost – since a bond is necessary for each customs territory that is crossed. The idea of the regional customs bond is to enable transporters crossing multiple SADC countries to take out a single bond for their entire journey (Pearson, 2011).

**Table 2: Summary of key regional trade facilitation agreements in SADC**

Category	Trade facilitation agreement/measure	Description	Country or regional examples
<b>Customs procedures and border management</b>	CBM guidelines and systems	Assist member states to modernise border management systems, minimise disruptions at border crossings and promote integration and cooperation between border agencies	CBM systems in Malawi, Mozambique and Zambia
	OSBPs	Convert certain border posts to a one-stop system (customs and immigration procedures performed once in each direction) to reduce the time and costs associated with clearing goods through border crossings	Chirundu OSBP between Zambia and Zimbabwe  16 other border posts identified for possible conversion by 2020
	National and regional single windows	Designed to integrate customs declaration and other processes by enabling parties engaged in trade or transport activities to lodge all standardised information and documentation relevant to import, export and transit-related requirements with a single entry point	Single windows in Botswana, Malawi, Namibia, Mozambique <sup>5</sup> and South Africa  Trans-Kalahari Corridor regional single window utilises cloud computing technology to automate processes of customs authorities in Botswana, Namibia and South Africa and facilitate communication between their respective customs systems (Koh Tat Tsen, 2011; Poverello, 2012)
	Automation and harmonisation of customs administrations	Harmonisation of IT systems customs administration systems in the region use  Attempts to harmonise customs laws and operations across SADC through Sub-Committee on Customs Cooperation (SCCC)  A SADC Customs Declaration and a Transit Control Form have already been designed and agreed, as have simplified procedures for analysing risks associated with facilitating intraregional trade	Most customs administrations adopting automated system for customs data (ASYCUDA) system (except for Mauritius, South Africa and Tanzania)  SCCC involves all SADC heads of customs
	CRM programmes	Management tools for customs administrations to develop capacity to implement organisational improvements	Mauritius, Namibia and South Africa
	<b>Transit and logistics</b>	Regional TMS	Instrument for harmonising and standardising procedures for the transit of goods within SADC
SADC RIDMP		Framework to guide the coordinated and integrated development of trans-boundary infrastructure in SADC	Trans-Kalahari Corridor, Maputo Development Corridor, North-South Corridor
SIRESS		Electronic payment system to settle regional transactions among banks	SADC-wide

Sources: Kassee (2014); Pearson and Chaitezvi (2013); SADC (2011, 2015); Shayanowako (2015); Viljoen (2013); UNCTAD (2014), USAID Southern Africa Trade Hub (2015).

## EVIDENCE ON THE EFFECTS OF SADC TRADE FACILITATION AGREEMENTS AND MEASURES

Evidence of the effects of the abovementioned trade facilitation initiatives in SADC remains limited, outside of a few specific examples. This is complicated further by the reality that many regional trade facilitation measures have only recently been introduced, meaning it is not yet possible to properly assess their effects. Nevertheless, evidence on effects (albeit anecdotal in several instances) is available for certain trade facilitation initiatives and measures.

<sup>5</sup> The single window in Mozambique was set up to handle large numbers of customs declarations (up to 1,500 each day and a total of 400,000 each year) (UNECE, n.d.).

Improved facilities at border posts, and the OSBP initiative in particular, are said to have reduced clearance times for cargo and associated costs at specific border crossings (SADC, 2015). This assertion is backed by the experience with the Chirundu OSBP. Introduction of the OSBP has led to a substantial reduction in the time taken to clear customs by streamlining procedures for crossing the border and, thereby, significantly reducing processing times (SADC, 2015; Zimbabwe Ministry of Industry and Commerce, 2011). This has reduced the time taken for freight to cross the border from days to hours, with some estimates indicating that waiting times for commercial traffic have plummeted from between three and five days to just a few hours (Byiers and Vanheukelom, 2014; Kasse, 2014; Pearson, 2011). At the same time, however, the volume of traffic passing through the Chirundu OSBP has, at times, meant that it has operated less effectively. There have been delays and severe congestion, and on occasion large queues of commercial trucks at the border, with reports of trucks having to wait more than a week for clearance to cross the border (Woolfrey, 2013). Nevertheless, according to SADC (2015), the average crossing time for vehicles at Chirundu is now less than 30 hours. This has led to a reduction in the cost to clear goods at the border, thereby improving competitiveness (Viljoen, 2013). These improvements have been accompanied by a substantial increase in the volume of traffic crossing the border, while also boosting revenue generation. According to Woolfrey (2013), greater efficiency in operating systems at Chirundu and higher traffic volumes since opening of the OSBP have led to a doubling of monthly tax collections on the Zambian side, from \$10 million to \$20.3 million between 2009 and 2012.

Implementation of the one-stop system at Chirundu has resulted in other benefits. According to Viljoen (2013), it has contributed to a reduction in the numbers of fraudulent activities committed by both importers and clearing agents. In addition, implementation of a simplified trade regime at the border post has created a better trading environment for small traders – with some now able to enjoy duty-free access on certain goods and benefiting from being able to use simplified documents (TradeMark Southern Africa, 2013). The result has been higher levels of legal cross-border trade and revenue generation, and lower transit times for small traders crossing the border on foot or by bus (ibid.).

Border clearance times have reduced along the Trans-Kalahari Corridor also. According to the official website for the corridor, the 'dwell time' at borders along the corridor has decreased to a maximum of one hour. This has been accompanied by increases in both commercial and passenger traffic. Similarly, the Maputo Development Corridor has resulted in significant improvements in road and rail connections and lower border crossing times (Byiers and Vanheukelom, 2014). Through these improvements, the development corridors in the SADC are playing an important role in supporting economic integration and promoting intraregional trade and investment, while also anchoring spatial development in the region (SADC, 2015). Their presence has been particularly important for landlocked SADC countries, which now benefit from cheaper alternative transport routes to the region's various seaports (ibid.).

Other more general trade facilitation initiatives have also had positive effects. SIRESS, for instance, has led to a significant reduction in clearance times for intraregional transactions – from two to three days to within 24 hours (SADC, 2015). Efforts at harmonising customs procedures in the region have reduced the time and costs traders face in meeting customs requirements (ITC, 2012). This has provided a boost to small-scale cross-border traders; in Zambia, for instance, these traders have raised their exports to neighbouring SADC countries (Botswana, the Democratic Republic of Congo (DRC) and Tanzania) in the wake of the trade facilitation reforms (ibid.). Finally, the various transit-facilitating measures stemming from the SADC Protocol on Transport, Communications and Meteorology are estimated to have contributed to reducing the freight-to-import costs gap between landlocked least developed countries in Southern Africa and South Africa (the major transit country in the region) (UNDP et al., n.d.).

## **IMPEDIMENTS TO THE IMPLEMENTATION OF TRADE FACILITATION MEASURES IN SADC AND OUTSTANDING ISSUES**

The discussion of regional trade facilitation agreements and measures presented above points to the presence of a strong policy framework (at least at the regional level) and considerable intent to improve trade facilitation in SADC. However, this is counteracted, at least to some extent, by difficulties associated with the implementation of trade facilitation agreements in the region. Such difficulties, elucidated further below, mean that, while at the SADC level much work has been done to advance

trade facilitation on paper, more needs to be done in terms of implementation in order to achieve greater impact from the various agreements and measures.

The scope for many SADC countries to implement region-wide trade facilitation efforts continues to be hampered by differences in implementation requirements and instruments across the various RECs (Pearson, 2011). For example, the low level of implementation of the provisions of the SADC Model Customs Act and various SADC customs instruments and international conventions in the past has been attributed, at least in part, to overlapping memberships with other RECs (AECOM International Development, 2011).

The co-membership of certain SADC countries in the Common Market for East and Southern Africa (COMESA) and/or the EAC has also affected their ability to implement the RTBG and, more broadly, the SADC regional TMS, since they have already adopted other transit instruments associated with those RECs (Kassee, 2014). There has also been a degree of reluctance in the past to embrace regional transit bonds in SADC owing to the potential loss of local employment or revenues for clearing and forwarding or insurance agents if national bonds are no longer utilised (GIZ and SAIIA, 2014; Pearson, 2011). Previous evaluations have also revealed a general lack of awareness of the regional transit bond system among stakeholders in SADC, particularly among border staff (GIZ and SAIIA, 2014). As a result, while the relevant SADC ministers have approved the RTBG, it is not operational. More broadly, implementation of the SADC regional TMS has been undermined by a lack of clarity in terms of implementation guidelines and mandates, surety and liability concerns related to the RTBG and poor connectivity across countries in relation to the management of transit information (UNCTAD, 2014).

Variation in the quality of infrastructure and in levels of modernisation and automation of customs (as well as the use of different computer systems to process customs operations) across SADC countries, together with capacity constraints and a lack of technical expertise in some member states, poses challenges to the implementation of customs instruments and to initiatives aimed at harmonising customs procedures (Kassee, 2014; Shayanowako, 2015; UNCTAD, 2014). Poor or out-dated infrastructure at border posts and in customs administrations is not conducive to the adoption of modern customs controls (Shayanowako, 2015).

Certain challenges have also affected the implementation of the one-stop border system in the SADC region. There has been a tendency towards the construction of concessioned infrastructure at border posts in Southern Africa, and this approach has not formed part of a broader plan to implement OSBPs (Pearson, 2011). As a result, in the case of the Chirundu OSBP for example, it was necessary to modify the physical infrastructure at the border post as it was not initially designed as an OSBP (Pearson, 2011; Woolfrey, 2013).

These challenges and impediments point to the following outstanding issues that need to be addressed in relation to trade facilitation in the SADC region:

- There is a need for greater harmonisation of customs and other trade facilitation instruments across the different RECs involving SADC countries.
- Much work still needs to be done to ensure transit systems in the region are operating effectively – including addressing concerns about local employment and revenue impacts, enhancing cross-country connectivity and providing greater clarity on responsibilities and mandates.
- Improvements to both hard (roads, physical border post facilities) and soft (customs technology) infrastructure, as well as human resource capacity at border crossings and within customs authorities in SADC, would ease the flow of goods and services across borders in the region.
- More coherent regional policies and greater emphasis on regional cooperation (rather than nationally focused efforts) in the development of border posts would improve the implementation of one-stop systems in the future (Pearson and Chaitezvi, 2013).

## 3.2 EAST AFRICAN COMMUNITY

The EAC is a REC formed between Burundi, Kenya, Rwanda, Tanzania and Uganda. It started its customs union in 2005 and then moved to a common market in 2010.

Trading in the East African region is made difficult by poor infrastructure, lengthy procedures and the presence of several barriers. Trade facilitation is widely regarded as a means to achieve closer links between the EAC economies. As the chair of the East African Business Council (EABC) recently put it, 'achieving the Single Customs Territory in all its manifestations is a crucial step towards the realization of the full integration [...] all our initiatives should be geared towards trade facilitation' (Mosha, 2014).

This section looks at some of the trade facilitation measures that have been undertaken in the EAC, their implementation challenges and their potential impact on economic transformation in the region.<sup>6</sup>

### CUSTOMS UNION AND SINGLE CUSTOMS TERRITORY

The customs union aimed to eliminate all internal tariffs and adopt a CET for goods coming from outside the EAC; to harmonise standards and procedures for trade and investment; and to eliminate NTBs in the region. The Customs Union Protocol also sets out rules of origin and criteria for national treatment of goods. Therefore, while the customs union is concerned mostly with tariff rates, it includes trade facilitation aspects, as these are intertwined with the achievement of a common trade area.

In a fully functioning customs union, all internal border controls would be minimised or completely removed. However, in the EAC Customs Union, national revenue authorities did not have a framework to ensure this coordination, especially in terms of revenue-sharing. For this reason, in 2013 the EAC countries signed the Framework for the Attainment of the EAC Single Customs Territory (SCT). The SCT aims to achieve effective trade processes in the region through trade facilitation. As stated in the Framework, 'The main objective of the Single Customs Territory is to lower the cost of doing business and enhance intra-EAC trade by integrating Customs Clearance processes and reducing internal border controls' (preamble, para. 2). In order to do so, the SCT aims to reduce internal border controls for goods to the minimum; and establish a revenue management system, to collect revenues at the first point of entry and remit them to the respective partner states.

The SCT is based on three main pillars:

1. Free circulation of goods: This refers to the fact that, once goods (either imported or locally produced) are within the EAC, they should be able to circulate freely in all the national territories of the EAC. Therefore, goods in transit will only be entered at the first point of entry. Under this pillar, provisions are made to ensure a more flexible warehousing regime, whereby goods can be warehoused in a partner state that is not the country of destination. These new provisions will be made possible by the use of a single regional bond system instead of the existing national ones.
2. Revenue management: Partner states have agreed to ensure that the assessment and collection of revenue will be undertaken at the first point of entry and then the revenues will be remitted to the destination partner state; the use of compatible and interfaced ICT systems; and implementation of the Regional Customs Transit Guarantee (RCTG) Scheme.<sup>7</sup>
3. Appropriate legal and institution framework to ensure functioning of the SCT.

The SCT is currently being implemented, therefore the impact of this process is not yet visible. However, once in place the SCT should considerably reduce times and costs of trade in the region.

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<sup>6</sup> This section is by no means comprehensive, and aims only to provide an overview of the key initiatives and the status of trade facilitation in the EAC.

<sup>7</sup> The EAC SCT will work through the RCGT, which is under COMESA. It is interesting to note that Burundi, Kenya, Rwanda and Uganda are members of COMESA but Tanzania is not.

## ELIMINATING NTBS

However, the free movement of goods in the region is still affected by the presence of NTBs. Partner states have achieved considerable progress in eliminating NTBs, but some old barriers still persist and new ones are created every year. Existing NTBs vary from the presence of multiple inspections at borders and on the traffic routes, and non-harmonised procedures and charges, to more or less overt discrimination against products from other partner states.

The EAC Secretariat has put in place a time-bound programme for the elimination of NTBs, where deadlines are set by which certain NTBs should be dealt with and eliminated. The EAC Secretariat regularly releases information on the existing NTBs in its publication *The status of elimination of non-tariff barriers in East African Community*. As per this document, in March 2015 four barriers were reported as new and 18 as old and unresolved. Some of these barriers relate to trade facilitation issues. For example, they concern the lack of coordination of different agencies at borders, or the non-harmonised rule and regulations applied by national authorities.

The monitoring system is coupled with national mechanisms to report NTBs and promote their elimination. Each partner state has set up a national monitoring committee (NMC) on NTBs. The NMCs members are drawn from government, the private sector and civil society and meet on a regular basis to discuss the list of NTBs and how they should be tackled. Some NTBs might require discussion between the government and the private sector, for example; others should be addressed at the regional level as they concern technical barriers to trade, standards, etc.

## IMPROVING CUSTOMS PROCEDURES

A key component of trade facilitation processes in the EAC is the improvement of customs procedures. These have been shown to be lengthy and cumbersome as they involve multiple players with non-harmonised practices and regulations.<sup>8</sup> Multiple initiatives are in place to improve customs procedures in the EAC, as shown below.

### ELECTRONIC PLATFORMS FOR CUSTOMS PROCEDURES

Use of electronic platforms for customs procedures allows for recording data about trade flows and revenue streams on an electronic system. Eliminating the use of paper-based records, these platforms ensure faster and better record-keeping for both the private sector and the government as they shorten cargo processing times, reduce the possibility of errors and of corruption and ensure better handling of customs duties.

The EAC countries have all made progress towards adopting electronic platforms for customs procedures. Kenya has adopted a system called Simba, although there are plans for its replacement.<sup>9</sup> Tanzania uses the Tanzania Customs Integrated System, Rwanda and Uganda migrated from ASYCUDA++ to ASYCUDA World and Burundi still uses ASYCUDA++ (Chimilila et al., 2014). In addition, some countries are implementing electronic single window systems that allow for integration of data from multiple sources – not only from customs but also regarding quality certifications, health and safety inspections. Kenya was the first to introduce a single window system (Kabuga, 2011); Tanzania recently introduced a similar system (Chimilila et al., 2014).

Finally, EAC countries operate Revenue Authorities Digital Data Exchange (RADDEX) for the interchange of customs data. Yasui (2011) reports that, in 2009, RADDEX captured 95% of the goods transiting from the port of Mombasa in Kenya to Kampala in Uganda. This decreased the average time required at the Ugandan border from three to four days to only three hours in 2010 (ibid.).

### ONE-STOP BORDER POSTS

Among the key trade facilitation measures applied by the EAC is the creation of OSBPs. OSBPs are facilities that allow one single inspection of cargo by all agencies (customs, immigration, standards and

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<sup>8</sup> For example, some countries report the lack of harmonised working hours at selected borders (EAC, 2015).

<sup>9</sup> See <http://www.nation.co.ke/business/KRA-to-replace-faulty-Simba-system/-/996/2998700/-/3x4h33z/-/index.html>

agricultural authorities, etc.) on one side of the border, without repeating the inspection on the other side. This considerably reduces transit times and can ease congestion at borders.

The legal framework is provided by the EAC OSBP Bill, which was passed by the East African Legislative Assembly in 2013 but has not yet been approved by the heads of state.<sup>10</sup> At the moment, a number of OSBPs are under construction in the region.<sup>11</sup> Since this is still work in progress, the impact of the OSBPs on trade flows and on growth and development is still under evaluation. However, some researchers have tried to highlight the impact of trade facilitation at borders on poverty around borders. For example, Tyson (2015) found that, at the Busia border between Kenya and Uganda, trade facilitation had, on balance, improved the economic livelihoods of traders (both formal and informal) through the expanded market opportunities brought about by the improved crossing procedures.

## FACILITATING CLEARANCE OF GOODS

Clearance of goods at borders can also be rationalised by relying on different methods to reduce the number of cargoes to be inspected. Risk-based inspections and the use of the Authorised Economic Operators (AEO) programme (discussed below) can promote faster processing times and decreased congestion at borders.

### RISK-BASED INSPECTIONS

At present, many countries in the world apply risk-based inspection systems. This means risk profiles are developed for each cargo, and only cargo that poses higher risks is inspected (USITC, 2012). Not all EAC countries apply this system, and most cargo is controlled. For example, in 2014 the World Bank reported that 60% of all cargo was inspected in Kenya, and 51% in Tanzania (World Bank, 2014). For comparison, Zambia only inspected 8% of the incoming cargo (ibid.). While a high number of inspections ensures thorough control on health, safety and security standards, it also delays trade and border crossing. Therefore, the EAC Partner States are considering the introduction of risk-based systems in border procedures (USITC, 2012).

### AUTHORISED ECONOMIC OPERATORS

In 2013, EAC countries started the AEO, a World Customs Organization (WCO) framework to promote trade facilitation (Barczyk, 2014). This framework allows businesses that comply with customs laws and regulations to benefit from preferential treatment for the clearance of goods, through the use of simplified procedures that can reduce time at borders.

In 2014, the AEO legal framework was ratified by the EAC and the selection criteria and benefits for the AEO were agreed on. Implementation of the programme is still ongoing (ibid.).

## EFFECTS OF TRADE FACILITATION MEASURES IN THE EAC

Formal trade between EAC countries increased in nominal values following implementation of the customs union between Kenya, Tanzania and Uganda in 2005; these countries were joined by Burundi and Rwanda in 2009. For example, Uganda's imports from other countries in the region almost doubled in the period 2005-2011, increasing from \$416 million to \$722 million. Kenya's exports grew by more than 50%, from \$974 million in 2005 to \$1,544 million in 2011. However, while trade flows grew, intra-EAC exports have remained stable as a share of total exports. This means EAC countries have not increased their trade with other EAC countries more than their trade with the rest of the world.

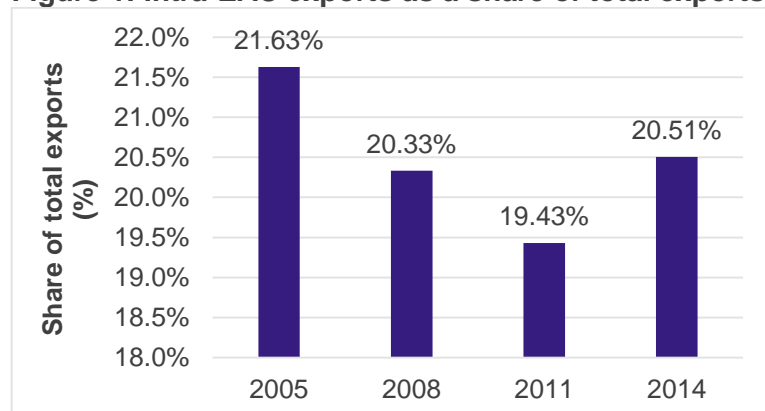
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<sup>10</sup> See <https://www.trademarka.com/news/bilateral-agreements-fast-track-one-stop-border-posts/>

<sup>11</sup> The border posts under construction are Kabanga/Kobero (Tanzania–Rwanda border), Lunga Lunga/Horohoro (Kenya–Tanzania), Busia (Kenya–Uganda), Mutukula (Tanzania–Uganda) and Ruhwa (Burundi–Rwanda) (TMEA, 2014).



**Figure 1: Intra-EAC exports as a share of total exports, 2005-2014 (\$ millions)**



Source: Authors' calculations using ITC Trade Map.

To our knowledge, there have been very few efforts to assess the impact of trade facilitation measures in the East African region. A study by Crown Agents and the Institute of Development Studies (IDS) finds the evidence of outcomes and impacts of trade facilitation measures is scarce, and focuses mostly on the impact on trade costs and trade flows rather than on broader results (Crown Agents and IDS, 2012).

To our knowledge, no studies have empirically tested whether trade facilitation measures have promoted economic transformation in the EAC. However, many have tried to assess whether trade facilitation has promoted the growth of trade flows in the region. For instance, using a gravity model, Shinyekwa and Othieno (2013) argue that introduction of the EAC has been more trade-creating than trade-diverting for the countries involved. Other studies have focused on the impact of specific trade facilitation measures, such as OSBPs. Looking at the impact of eight border posts in the EAC, Khaguli (2013) concludes that these have been able to promote trade flows in the region.

A recent study on the performance of border posts along the Northern Corridor (connecting Eastern and Central African states to the port of Mombasa) reports a steady decline in transit times at some border posts, owing to improvements in trade facilitation that include reorganisation and rationalisation of processes and infrastructure (SSATP, 2012). For example, the time to cross the Kenya–Uganda border at Malaba fell from an average of 27 hours in November 2011 to just over three hours during the first few months of 2012. This dramatic decline is likely to owe, at least in part, to trade facilitation measures undertaken by the government of Kenya (ibid.).

## KEY ISSUES FOR TRADE FACILITATION IN THE EAC

This section has shown that the EAC has achieved considerable progress in improving trade facilitation in the region. However, it will take some time for the progress to start showing. In the meantime, the EAC should prioritise the following issues:

- Eliminate the remaining NTBs. Efforts to eliminate these date back to 2009, but this remains one of the main problems for trade in the region. This suggests the problem may lie partially in the political will of countries to resolve the NTB issue. Therefore, a rigorous political economy analysis of the stakeholders involved in NTBs might be necessary to identify the key constraints to their elimination.
- Implement and operationalise the SCT. Once the SCT is in place, goods will need to be checked at the first point of entry only. This will also help reduce NTBs, as border controls will become unnecessary.
- Improve coordination of EAC countries in operationalising trade facilitation matters. Some EAC countries are very committed to the regional integration process; others are not able or willing to cede part of their policy space to commit to regional decisions. The EAC should ensure all partner states are comfortable with the level of commitment required of them, but also allow countries that are more interested in regional integration to further pursue it without delays.

### 3.3 ECONOMIC COMMUNITY OF WEST AFRICAN STATES

Established in 1975, ECOWAS aimed at promoting economic growth through the integration of its 15 member countries.<sup>12</sup> Forty years on, regional integration remains a major aspiration. But the process of harmonisation of policies, laws and regulations with institutional-building has been slow, and the challenges to trade facilitation remain daunting, holding back regional development and the desired economic transformation.

Writing in 1997, two decades after the establishment of ECOWAS, Jebuni (1997) observed that efforts at promoting regional integration had been ineffective. Intraregional trade remained low, the share of intra-regional trade flows of member states of ECOWAS in total trade was less than 10% and most community protocols were not implemented. For most member countries, the immediate post-independence import substitution industrial policies, built behind high tariff walls, were at variance with the protocols of opening markets and promoting free trade in the region. There were also misgivings about the effects of intraregional trade liberalisation on individual member countries' balance of payments and government revenue since most countries depended heavily on international trade taxes. The 1970s, 1980s and part of the 1990s were also periods of pockets of regional conflicts, political instability and weak governance, which did not bode well for issues of regional integration.

The 1990s saw the revamping of ECOWAS. Political stability and the economic reforms of the late 1980s through the mid-1990s created better prospects for regional integration and favourable conditions for intraregional trade. The ECOWAS treaty was revised in 1993 to move from intentions to defining strategies. The revised treaty laid out the vision on trade and designed the ECOWAS Trade Liberalization Scheme (ETLS) as a free trade area that will form the foundation for the development of a common market.<sup>13</sup> This section examines the achievements, challenges and prospects for trade facilitation going forward.

#### OVERVIEW

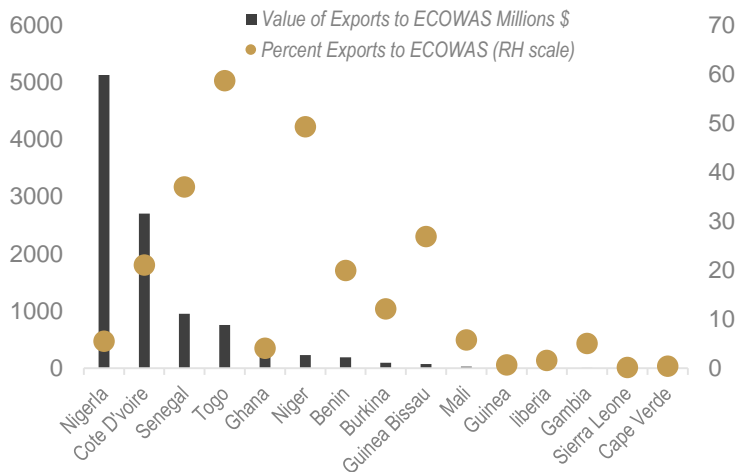
Although the integration process has been slow, regional policy-makers increasingly acknowledge the imperative for regional integration because of the small size of individual country markets in the region, small populations (with the exception of Nigeria), landlocked geography and weak economies. Per capita income in the region in 2014 ranged from a low of \$226 in Liberia to Cape Verde's \$2,743. Most member states' per capita income ranges between \$420 and \$814. Moreover, most member states are least developed countries. An enlarged regional market of about 336 million people with 2014 average per capita income of \$798 should enhance the opportunities for industrial growth, making it possible for businesses to widen the scope of their enterprises and to benefit from economies of scale.

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<sup>12</sup> Membership is made up of 11 least developed countries and four emerging economies (Ghana, Côte d'Ivoire, Nigeria and Senegal) and linguistically of eight Francophone, five Anglophone and two Lusophone countries.

<sup>13</sup> See <http://www.aidfortrade.ecowas.int/programmes/ecowas-trade-liberalization-scheme-etls>.

**Figure 2: Intra-ECOWAS exports, 2014**



Source: IMF, Direction of Trade Statistics.

While ECOWAS exports increased by nearly 260% between 2000 and 2014, exports from the region are increasingly destined for China and India in Asia and Spain, France and the Netherlands in Europe. The share of intra-ECOWAS exports in the region’s total exports has increased only marginally since 2000 from 7.7% to 8.3% in 2014, representing only a five-fold increase in trade volume from \$2.7 billion to \$10.6 billion. Intra-ECOWAS trade remains low largely because of the lack of diversification of products. Most countries rely on only about two or three commodities for about 75% of their exports. Nigeria’s intra-ECOWAS exports are largely in the form of crude oil, yet this represents less than 10% of its total exports (as shown in Figure 2 above).

## ACHIEVEMENTS

Since January 2015, ECOWAS has made progress in transitioning from a free trade area to a customs union. The CET and the ETLs constitute the main components of the customs union and form an important first step towards establishment of a common market. To date, eight member states have implemented the CET.<sup>14</sup> Consolidating the customs union by ensuring member countries fully implement the provisions of the CET remains the need of the moment if ECOWAS is to move to the next step of common market.

Four decades on, ECOWAS is only in the early days of its customs union. Steps are in place for the transition to a common market as soon as the CET is adopted and implemented by all. Key initiatives to build the foundation for migration to common market status include protocols and supplementary protocols supporting free movement of persons;<sup>15</sup> adoption of the ECOWAS passport that gives free entry to member states for a period of 90 days; and adoption of the ECOWAS biometric identity card. These steps are not yet fully developed and are hindered by differences in national policies.

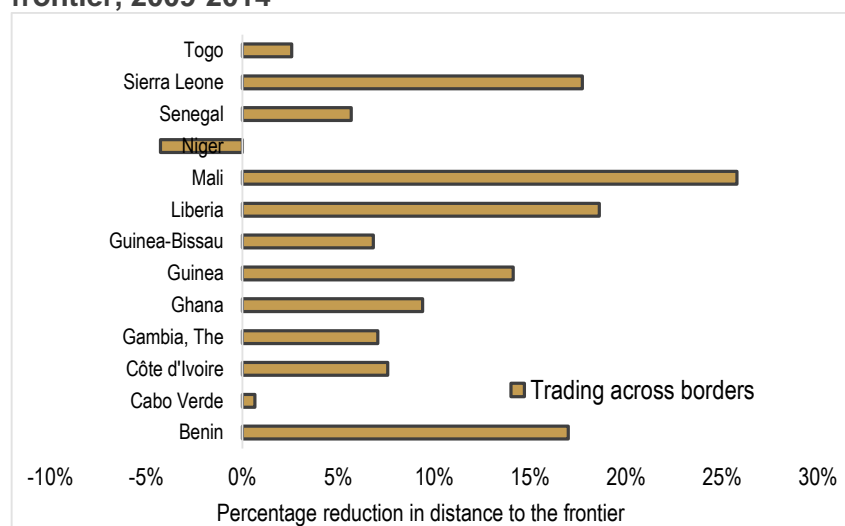
Trade facilitation is most hindered by NTBs – border post checks, duplication of inspection, corruption and poor infrastructure. As Figure 3 shows, progress in removing barriers to trade across borders has improved only marginally, nowhere more than 20% between 2009 and 2014. In 2013, the ECOWAS member states signed Supplementary Protocol Act/SA.1/07/13 to create joint border posts in order to reduce the number of checkpoints along various trade routes and also to bring sanity at the borders. Sharing border management responsibilities within a common control zone should reduce the delays, especially for fragile agricultural products. ECOWAS has drafted a Regional Border Management Manual for use in immigration and security training institutions in the sub-region.

<sup>14</sup> See <http://www.todaygh.com/ghana-lags-behind-implementation-of-ecowas-cet/>

<sup>15</sup> See <http://www.cfr.org/world/economic-community-west-african-states-ecowas-protocol-free-movement-persons-residence-establishment/p28124>

In 2014, ECOWAS, in partnership with the UN Industrial Development Organisation (UNIDO), the World Bank and the German Development Corporation (GIZ) launched a €40 million trade support and integration programme<sup>16</sup> meant to accelerate the customs union agenda, develop and harmonise trade policies in the region, compile trade data and efficiently disseminate trade information across the sub-region.

**Figure 3: Progress on Doing Business indicators, percentage reduction in distance to the frontier, 2009-2014**



Source: World Bank, *Doing Business*.

With respect to the WTO Trade Facilitation Agreement, ECOWAS has not been very active in the conversation. Notably, however, the region has been engaged in its own trade facilitation project to reduce the transaction costs associated with intra-ECOWAS trade. Notable initiatives include the Lagos–Dakar regional infrastructural development programme. The flagship Abidjan–Lagos Trade and Transportation Facilitation Project is expected to reduce the transaction cost of trade and transport in the various ports and on the roads along the Abidjan–Lagos corridor, involving Côte d'Ivoire, Ghana, Togo, Benin and Nigeria, which, combined, account for 73% of the region's population and 75% of its trade.

The common drive to improve payment systems and to facilitate trade through a single currency has made limited progress. The timeline has shifted more than once. The new 2020 deadline risks being missed because member countries are yet to make any significant progress in meeting the primary and secondary convergence criteria.<sup>17</sup> In 2015, ECOWAS backtracked on its initial approach to have two currencies (ECO for the Anglophone and CFA for the Francophone countries) and has outlined some convergence criteria that will eventually result in the establishment of a regional central bank.<sup>18</sup> Speaking at the 35th Meeting of the Convergence Council of the West Africa Monetary Zone, the Ghanaian vice-president remarked, 'We continue to expend time and efforts holding meetings', and questioned whether the multiple meetings had become an end in themselves rather than mechanisms to aid the implementation of concrete trade facilitation measures.

The sentiments reflect the generally ineffective implementation of ECOWAS protocols and conventions, which remains a recurrent challenge in the region. The lack of progress is not for the lack of policies, but

<sup>16</sup> See <http://www.ghana-news.adomonline.com/business/2014/november-28th/ecowas-launches-40-million-euro-trade-integration-project.php>

<sup>17</sup> The four primary criteria are (1) single-digit inflation; (2) fiscal deficit of no more than 3% and 4% of GDP with and without grants, respectively; (3) limiting central bank financing of deficit of no more than 10% of previous year's tax revenue; and (4) maintaining gross external reserves of not less than three months of import cover. The six secondary criteria are (5) prohibition of new domestic default payments; (6) tax revenue must exceed 20% of GDP; (7) wage bill to tax revenue ratio must not exceed 35% of GDP; (8) public investment to tax revenue ratio must not be less than 20%; (9) maintain stable exchange rates; and (10) maintain positive real interest rates.

<sup>18</sup> See <http://graphic.com.gh/business/business-news/49114-wami-abandons-eco-for-new-currency.html>

owes to the lack of implementation of agreed policies at the national level. Notable issues in this regard include lack of implementation of the ETLS and the Protocol on the Free Movement of Goods and Persons and the Rights of Resident and Establishment, non-compliance by some member states with the provisions of the Community Levy Scheme, the negative impacts of exogenous shocks on national economies and the fragile political and security situation in some member states. These are all inimical to regional openness, cooperation and ultimately growth, sustainable development and transformation.

### KEY ISSUES FOR TRADE FACILITATION IN ECOWAS

Our analysis of progress on trade facilitation in ECOWAS highlights the following questions for discussion:

- What must individual ECOWAS countries do to mitigate some of their major internal constraints to make them effective partners in development and integration processes in the region?
- How can member countries leverage the development of regional integration in ECOWAS through an enhanced role of the private sector to promote economic transformation in the region?

## 3.4 ECONOMIC COMMUNITY OF CENTRAL AFRICAN STATES

Like ECOWAS, ECCAS aims to promote regional economic cooperation among its member states in Central Africa.<sup>19</sup> Created in 1983, the community started formal operation in 1985. The community became active only in 1999 when the treaty recognising it as a REC within the African Economic Community was signed.

Among the various RECs in Africa, progress in the functioning of ECCAS has lagged considerably behind for a host of reasons, including the series of conflicts in the Great Lakes region; weak financial commitments of member states to support the common cause of the community; overlapping membership of member states in other regional blocs, which also make it difficult for member states to fully honour their financial commitments; weak commitments to regional policy partly because of overlapping membership in other regional groupings; and a fairly heterogeneous group by way of language and culture. Although all members of the Economic and Monetary Community of Central Africa region are members of ECCAS, there are members in ECCAS, such as Burundi, that have joined the East African Customs Union.

Sticking to the level of integration in ECCAS, the region has not been able to do much. In 2004, ECCAS set up a free trade area with the hope of transforming it into a customs union by 2008. This, however, has been unsuccessful.<sup>20</sup> Implementation of the free trade area in the ECCAS region is yet to gain wider cooperation from all member states as bottlenecks still persist in some countries.

## 4. CONCLUDING REMARKS

While good progress has generally been made in reducing tariffs on intra-African trade, and more generally on Africa's trade with the rest of the world, the persistent presence of NTBs, together with inadequacies in soft infrastructure – including inefficient customs procedures and trade logistics services – and poor-quality hard infrastructure (roads, railways, ports), continues to act as an impediment to trade on the continent.

Improvements in these areas can potentially produce significant gains. Trade facilitation plays an important role in stimulating economic transformation, including by raising exports, stimulating export

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<sup>19</sup> The 10 member countries of ECCAS are Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, DRC, Gabon, Equatorial Guinea and São Tomé & Príncipe.

<sup>20</sup> Refer to African Development Bank (2011) for details.

diversification, reallocating resources to more productive activities, improving access to cheaper and better-quality imported inputs and enabling participation in global value chains.

That said, the process of trade and economic transformation necessarily involves winners and losers and generates adjustment costs. Higher levels of trade may lead to more concentration, generating negative spatial effects such as wider interregional inequality and urban crowding (Cadot et al., 2015). Furthermore, higher levels of competition resulting from opening up to trade, together with the movement of resources from lower- to higher-productivity activities during the economic transformation process, may adversely affect inefficient domestic firms and raise unemployment (at least in the short term). But these negative externalities can be addressed through policies that incentivise training and provide alternative employment opportunities for displaced labour; or compensatory measures that mitigate negative spatial effects. Indeed, by influencing the location of economic activity, trade facilitation itself can contribute to more spatially balanced growth in Africa (Cadot et al., 2015).

Many African regions have begun to formulate regional approaches to trade facilitation. There are important examples where particular approaches have worked well. For example, some trade facilitation initiatives have generated positive effects directly, such as the reductions in the time taken for freight to cross the Zambia–Zimbabwe border since the introduction of the OSBP at Chirundu, similar reductions in border crossing times along the Trans-Kalahari, Northern and Maputo Development Corridors (the latter has also benefited from improved road and rail infrastructure) and the expansion in market opportunities that has improved the livelihoods of small traders (both formal and informal) at the Busia OSBP. Other trade facilitation initiatives may generate positive effects indirectly, for instance by improving value chain and network connectivity in Africa (Shepherd, 2015).

Our analysis shows, however, that implementation is a major issue. In many cases, the implementation of regional trade facilitation agreements has not been consistent even within RECs. In SADC, this has been affected by the fact that many SADC countries are members of more than one REC and thus face varied implementation requirements and instruments. Within the EAC and ECOWAS, coordination problems between members have made it difficult to operationalise trade facilitation agreements and measures; in the case of the latter, this has hampered the trade facilitation agenda. For their part, countries within the ECCAS grouping have struggled to agree and implement measures to address trade costs.

## 5. POINTS FOR FURTHER DISCUSSION

The challenges around implementation highlighted above suggest that across all the RECs there is considerable scope for further discussion on how to translate the good intentions expressed in most of the trade agreements into concrete actions towards trade facilitation. We highlighted in Section 3 a range of outstanding issues that require attention in order to enhance the effectiveness of trade facilitation agreements and measures in each of the RECs. These are reproduced in the first column of Table 3 as points for further discussion. There are also a number of issues that are common to several RECs; we highlight these as key points for further discussion in the second column of Table 3.

**Table 3: Key points for further discussion**

Specific issues for discussion	Common issues for discussion
<p><b>SADC</b></p> <ul style="list-style-type: none"> <li>• How can SADC countries improve coordination in the management of regional transit systems?</li> <li>• What should be done to address concerns about the potentially adverse effects of regional transit systems such as the RTBG on local employment and revenues?</li> </ul> <p><b>EAC</b></p> <ul style="list-style-type: none"> <li>• How can coordination in the operationalisation of trade facilitation be improved across EAC countries in a way that takes into account the varying levels of commitment to regional integration across the member states?</li> </ul> <p><b>ECOWAS</b></p> <ul style="list-style-type: none"> <li>• What must individual ECOWAS countries do to mitigate some of their major internal constraints to make them effective partners in development and integration processes in the region?</li> <li>• How can member countries leverage the development of regional integration in ECOWAS through an enhanced role of the private sector to promote economic transformation in the region?</li> </ul> <p><b>ECCAS</b></p> <ul style="list-style-type: none"> <li>• What are the remaining bottlenecks hampering implementation of the free trade area in the ECCAS region? What can be done to address these issues?</li> </ul>	<ul style="list-style-type: none"> <li>• What more can be done to harmonise regional trade facilitation instruments in cases where countries have overlapping membership in more than one REC? (particularly relevant for SADC and ECCAS)</li> <li>• What are the remaining constraints (political and other) to the elimination of NTBs hampering cross-border trade flows? How can these constraints be addressed? (particularly relevant for EAC and ECOWAS)</li> <li>• Beyond signing protocols, what can be done to ensure effective implementation of mutually agreed protocols, decisions and to implement programmes or schemes aimed at promoting intraregional trade in Africa?</li> <li>• Governments often engage in trade agreements without exploring what impact these agreements have on the domestic private sector, which are also the primary doers of whatever the agreements entail because they are the exporters and importers. Do governments provide enough space for engagements with the private sector? Are there effective channels for private sector complaints about concrete problems? And where in the decision chain in trade facilitation is the role of the private sector most needed?</li> <li>• Why are African countries not jumping to ratify the WTO Trade Facilitation Agreement? Is it a governance problem, especially related to potential revenue loss? Or does it owe to a lack of policy coherence?</li> </ul>

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