

Trade Facilitation to Integrate Africa into the World Economy



Facilitating increased trade between African countries and the rest of the world is essential for Africa's future economic well-being, and it is an objective that deserves the serious attention of governments, subregional organizations, the African Union and NEPAD alike. In improving the continent's ability to trade, governments and subregional organizations need not only to make the energy sector more efficient, as was discussed in the previous chapter, but they have to tackle other persistent constraints, most particularly the poor state of the continent's transport infrastructure and the labourious customs and payments procedures prevailing in many countries – factors that result in the very high costs of overland transport for exports and imports, most especially for Africa's 15 landlocked countries. These hindrances severely constrain the continent's trade growth, and they have become a major disincentive to the kinds of private investment that are essential to keep the continent's economies on the path of closer integration into the world economy.

“High costs of overland transport limit Africa's trade potential”

This chapter explains how a well-planned and well-managed trade facilitation process will be of direct benefit to the conduct of both business and government. Traders must be given the opportunity to reduce their costs, through fewer delays in the movement of goods, faster customs clearance and a more transparent framework for competition. For their part, governments can only benefit from the resulting improved economic performance, higher revenue yields, more efficient deployment of resources, more effective regulation and improved trader compliance with the rules. Trade facilitation is a matter of huge importance for all developing countries, just as it is an objective generally supported by the international business community. WTO has sought to identify the central issues, each of which is examined here in terms of its relevance to conditions in many African countries, including those that are landlocked.

Most trade facilitation initiatives undertaken so far in Africa have not shown much success. Generally, this has been attributed to factors such as non-compliance with the agreements, poor programme implementation, lack of coordination among and between countries, lack of cooperation among relevant agencies within countries, inadequate skilled labour and, most importantly, the absence of a multisectoral approach to trade facilitation. Africa is still faced with very high transaction costs resulting from the blockages and delays prevailing in so many countries, although these are sometimes aggravated by the difficulty of meeting increasingly stringent international trade standards.

Tackling the challenges of opening up to international trade requires a comprehensive and coordinated approach by African countries that needs to include improvements in infra-

structure; provision of efficient and competitive services in the areas of roads, railways, ports, information and communications technology; the removal of illegal and reduction of check points that constitute a *de facto* tax on trade; the simplification and harmonization of customs and border procedures; the use of new technology by customs agents; and the strengthening of regional trade facilitation initiatives.

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International
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than in 1960
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The growing importance of trade facilitation

In recent years, the volume of goods that move across borders has increased exponentially thanks to changes in the international trading environment, which stem from the global integration of modern production systems, new forms of electronic commerce and the development of containerized transport. This has allowed large cost reductions in cargo handling and has increased cargo transshipment. Indeed, the value of international trade was 50 times higher in 1999 than it was in 1960.

However, African countries have not yet benefited from the increases in international trade. Their poor performance is partly due to high transaction costs, which significantly contribute to the cost of tradable goods and consequently determine the degree of integration of a country into the world economy. These costs generally fall into two categories: direct costs, which include transportation and the cost of compliance associated with the collection and processing of information; and indirect costs or time-sensitive costs, which are brought about by administrative and customs procedures that delay goods, leading to increased transportation fees and inventory charges.

As liberalization continues to reduce artificial trade barriers, transaction costs are becoming higher than the cost of tariffs. For instance, the effective rate of protection provided by transport costs is now, in many cases, considerably higher than that provided by tariffs (Amjadi and Yeats, 1995). For some countries, such as Chile and Ecuador, transport costs exceed by more than twenty times the average tariffs they face with US markets (Clark et al., 2001). In many instances, the cost of complying with customs formalities has been reported to exceed the cost of the tariffs to be paid. SMEs, which are the dominant actors in developing countries, are the most affected by these high transaction costs.

The dramatic increase in the volume and complexity of world trade, both in terms of type of goods being traded and in the conduct of import and export transactions, makes it essential for administrations to provide simple, predictable and efficient customs procedures for the clearance of goods and movement of people while simultaneously tackling increasingly complicated national and international requirements to ensure compliance with national laws, international agreements and security demands.

These considerations and the need to reduce costs have pushed trade facilitation into the forefront of public policy discourse. Although several attempts have been made to define trade facilitation, to date no consensus has been reached on a standard definition. In a narrow sense, trade facilitation efforts address the logistics of moving goods through ports or the documentation associated with cross-border trade. More recent definitions have

been broadened to include the environment in which trade transactions take place, that is, the transparency and professionalism of customs and regulatory agencies, as well as the effects of harmonization of standards and conformity with international or regional regulations. For instance, the International Chamber of Commerce (ICC) defines trade facilitation as “the adoption of a comprehensive and integrated approach to simplifying and reducing the cost of international trade transactions, and ensuring that the relevant activities take place in an efficient, transparent and predictable manner based on internationally accepted norms and standards and best practices”.

“*Transparency and efficiency are crucial to improving international trade*”

Trade facilitation should therefore not only be perceived as a “transportation or customs problem”, but rather as a broader issue, which straddles many aspects of weak capacities that exist in many developing countries – especially in Africa – inhibiting their effective participation in international trade. However, trade facilitation is not just the concern of developing countries. Indeed, developed countries are leading the clamour for trade facilitation measures in WTO. The international business community is increasingly demanding greater transparency, efficiency and procedural uniformity for cross-border transportation of goods, as well as the need for an efficient legal redress mechanism, proper co-ordination between customs and other inspection agencies, use of modern customs techniques and improvement of transit regimes. In response, WTO members added trade facilitation to the agenda at the Singapore Ministerial Meeting in 1996. The Singapore Ministerial Declaration called upon the Council for Trade in Goods to conduct exploratory research into cross-border barriers, and analyse the effects of these barriers on traders and consumers. The WTO Secretariat has circulated a “checklist of issues” that summarize the central issues of trade facilitation. These, include:

- Physical movement of consignment (transport and transit) and border-crossing problems;
- Import and export procedures, including customs;
- Information and communications technology;
- Payments, insurance and other financial requirements that affect cross-border movement of goods in international trade; and
- International trade standards

Trade facilitation is in the interest of governments and the business community alike. Government benefits include increased effectiveness of control methods; more effective and efficient deployment of resources; correct revenue yields; improved trader compliance; accelerated economic development; and encouragement of foreign investment. Benefits to traders include reduced costs and delays; faster customs clearance and release, through predictable official intervention; a simple commercial framework for doing both domestic and international trade; and enhanced competition.

The following sections explore the central issues of trade facilitation in the WTO checklist, assessing and comparing, to the extent possible, the African situation with that of other regions of the world as well as outlining the special situation of landlocked countries. It also highlights current trade facilitation efforts in Africa using examples of national, bilateral, subregional and multilateral initiatives, and provides recommendations for the way forward to facilitate trade in Africa including a discussion of trade facilitation in a multilateral framework.

Africa's physical and procedural constraints on trade

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The continental
road network is poorly
developed
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The movement of goods in Africa is rendered difficult by a host of different factors. The continent has a generally inadequate road and rail network, its transport services operate at a low level of efficiency, many routes are subject to official and unofficial roadblocks, and there are slow and cumbersome border-crossing procedures. Transport costs in many African countries have been recorded as the highest in the world, and many of the factors are attributable to unnecessary delays and corruption.

The continental road network is not only poorly developed but also badly maintained. Very little of the network has been updated to accommodate larger vehicles, which can cause major damage on unsuitable surfaces. Inefficiency is equally manifest in the lack of care of vehicles, shoddy routine maintenance and poor operating practices. Vehicle operating costs are considerably higher in Africa than elsewhere in the world. Transport operators in turn shift the burden of their high costs onto their passengers and freight customers. Studies have shown, however, that allowing competition into transport services can lead to dramatic reductions in costs.

Another contribution to Africa's high transport costs comes from the proliferation of rules governing road transport, and the wide variations in technical standards adhered to by different countries, leading to uncertainty and a multiplicity of forms at national borders. Problems regularly arise with transit charges and visa requirements for transport crews. An additional and unnecessary burden is imposed by the roadblocks put in place on major roads in many countries. Different administrative services are deployed to control and in some instances collect payments from passing vehicles, payments that may include local or regional taxes, transit charges or simple bribes. Naturally enough, Africa's landlocked countries are especially disadvantaged by the long distances from their nearest seaports.

Escalating cost factors

Calculating overall transport costs to include both monetary and indirect costs related to conveyance, storage and handling of goods has demonstrated that transport costs in Africa are the highest in the world. A recent study by UNCTAD indicates that the freight cost as a percentage of total import value was 13% for Africa in 2000 compared to 8.8% for developing countries and 5.2% for industrial countries. At the subregional level, the freight cost for West Africa as a percentage of total import value was 14% while that for East and Southern Africa, including the Indian Ocean region, was 15.2%. The ratio for North Africa stood at 11% (UNCTAD, 2002). A study in the 1990s indicated that transport costs in SSA countries of Cameroon, Côte d'Ivoire and Mali were on average five or six times higher than in Pakistan (Rizet and Hine, 1993).

When transport costs are added, the consumer prices of imported goods are much higher than they would be elsewhere. Equally, high transport costs undermine the competitiveness of exports in foreign markets. This is why the level of transport costs can limit a

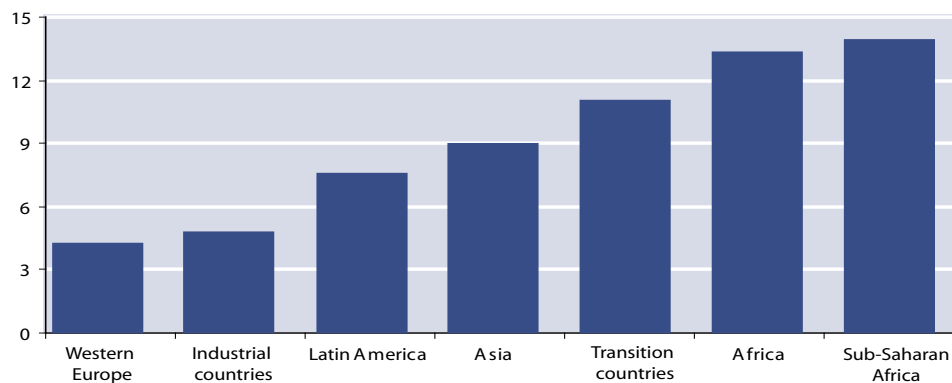
country's participation in international trade. A study by Limao and Venables (2000), using a sample of countries from Africa and the rest of the world, indicates that in general a 10% increase in transport costs will lead to a reduction in trade volumes by approximately 20%. Booth et al (2000) share this view, arguing that high transport costs are the main reason why trade liberalization in Africa has not had the level of success experienced in Asia and Latin America. As liberalization continues to reduce artificial trade barriers, the effective rate of protection provided by transport costs is now, in many cases, considerably higher than that provided by tariffs (Amjadi and Yeats, 1995).

Africa in general, and SSA in particular, has the highest cost rates in the world, as shown by figure 5.1, and the lowest share of international trade. In 2000, Africa's share of world exports was only 2.7%, while SSA's share of exports fell from 1.9% to 1.4% during the 1990s (ADB, 2003) (see also Annex table A5.1).

“Consumer prices are higher due to excessive transport costs”

Figure 5.1

Transport costs by world regional and country groupings, 2000 (freight cost as a percentage of total import value)



Note: The transport cost rate is the ratio of transport costs as a percentage of the value of imports.

Source: Calculations by ECA

Transport costs are incurred both in the shipping and in the inland movement of goods to and from the coastline. However, goods often incur more than half their total door-to-door transport times and costs in the course of the inland movement. For example, the total cost added to coffee in Côte d'Ivoire from producer to port is about 170%, and about 60% for cocoa, with transport accounting for a significant share in both cases (De Castro, 1996). Limao and Venables (2000) compared the transport costs of land and sea legs of a journey and found out that the former is around seven times more costly for the same distance.

Empirical evidence suggests that the burden of high transport costs is greater in landlocked African countries than elsewhere in the world. In 1995, the World Bank reported that the final prices of imported products in these countries were from 30% to 80% higher than the “free on board” (f.o.b.) value of goods. Hendeson et al. (2001) reported the range to be between 30% and 40%. UNCTAD has also reported values for

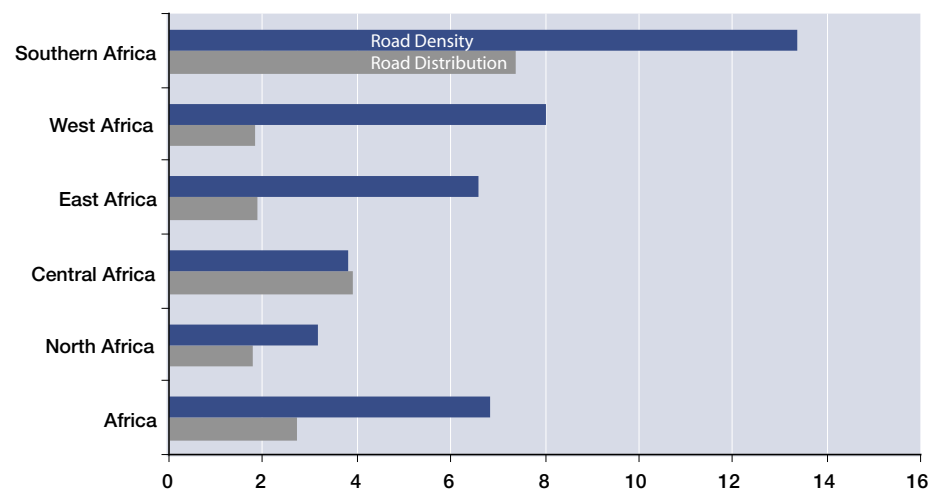
specific landlocked African countries as follows: 55.5% for Malawi, 51.8% for Chad, and 48.4% for Rwanda (UNCTAD, 2001).

Poor road and rail conditions

The current level of road density, or coverage, in Africa is estimated at 6.84 km per 100 sq km, far below that of Latin America (12 km/100sq km) and Asia (18 km/100 sq km). Roads also fail to reach enough of the continent's people. Africa's road network distribution is very low, at 2.71 km for 10,000 persons, resulting in poor accessibility, a low frequency of transport services and high transport costs. The road density and distribution of Africa's five subregions is shown in figure 5.2.

Figure 5.2

Africa's road network, by region and subregions, 2002 (density and distribution)



Note: The network density is in km per 100 sq km. The distribution is in km per 10,000 inhabitants

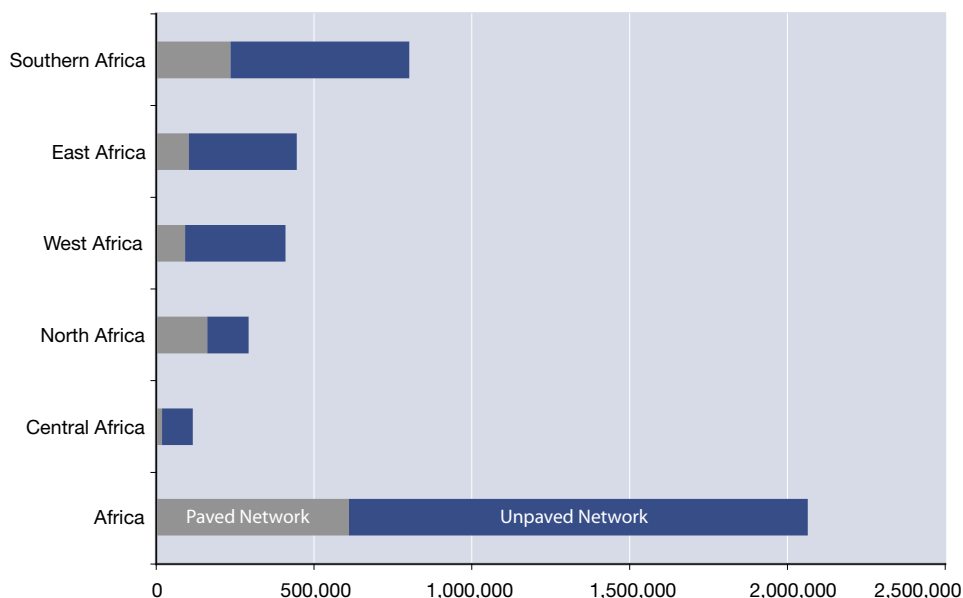
Source: Calculations by ECA

Although the road subsector accounts for 90% of inter-urban transport in Africa, it is generally in a deplorable state. The total length of roads in the region is 2.1 million km, out of which only 29.7% is paved, the remaining portion being made of either earth or gravel. Figure 5.3 shows that the total length of unpaved roads is by far larger than that of paved roads in all the subregions of the continent, with the exception of North Africa where 55.27% of the network is paved.

In addition to its low density, distribution, and the fact that a large proportion is unpaved, much of Africa's road network is in a state of disrepair as illustrated by table 5.1, which shows the network conditions in the Central African Economic and Monetary Community (CEMAC) and the Common Market for Eastern and Southern Africa

Figure 5.3

Africa's road surfaces, by region and subregions, 2002 (length in km)



“55% of Africa's mostly unpaved roads are in poor shape”

Source: Calculations by ECA

(COMESA) in 1999. In CEMAC, 34% of paved roads and 55% of unpaved roads were in poor condition in 1999. Similarly 34% of paved roads and 68% of unpaved roads in COMESA were in poor condition in the same period. Poor quality roads inevitably result in high vehicle maintenance costs, the burden of which is usually transferred to those requiring transport services (importers, exporters, local businessmen, ordinary commuters etc.), through high fares and fees.

Table 5.1

Road network conditions in CEMAC and COMESA, 1999

	Paved road network %			Unpaved road network %		
	Good	Fairly good	Poor	Good	Fairly good	Poor
CEMAC	32	34	34	20	25	55
COMESA	40	25	34	12	20	68

Source: ECA, from official sources

Most roads in Africa were not constructed to carry the heavy goods vehicles that are now commonly used. The excessive axle loads of large container-carrying vehicles can damage road surfaces, and this will only push the costs of transport even higher. A major challenge to African countries is how to maintain or rehabilitate existing roads while also expanding

the network to isolated areas. The geometry of many existing roads (i.e. lane and shoulder widths, as well as vertical and horizontal alignments) has to be adjusted, taking into consideration the increased use of heavy goods and container vehicles.

Recent estimates by the World Bank have put the asset value of the African road network at \$150 billion, and the cost to fully restore all roads on the continent that are classified to be in poor condition at \$43 billion. The World Bank also estimates that the extra cost of insufficient maintenance in Africa amounts to about \$1.2 billion a year (Heggie and Vickers, 1998).

The African rail network is currently estimated to be about 89,380 km long, with a density of 2.96 km per 1,000 sq km. Three railway width gauges predominate in Africa, i.e. 1.000m, 1.067m and 1.435m, and this inhibits the physical integration of the networks within and between the various subregions. The interconnection of the networks is poor, especially in both Central and West Africa, and the available rolling stock is of a generally lower standard than in other regions of the world. Disjointed railway networks result in frequent loading and off-loading of goods, which only increase delays and transport costs as well as the probability of pilferage. In an effort to improve rail connection in the region, the Union of African Railways (UAR) has recommended the following solutions, at the interconnecting points of lines with different gauges: transshipment of goods separately or in standardized containers; operating of passenger and goods train sets that cannot be divided; and use of rolling stock equipped with axles that have changeable gauges.

Some signs of improvement

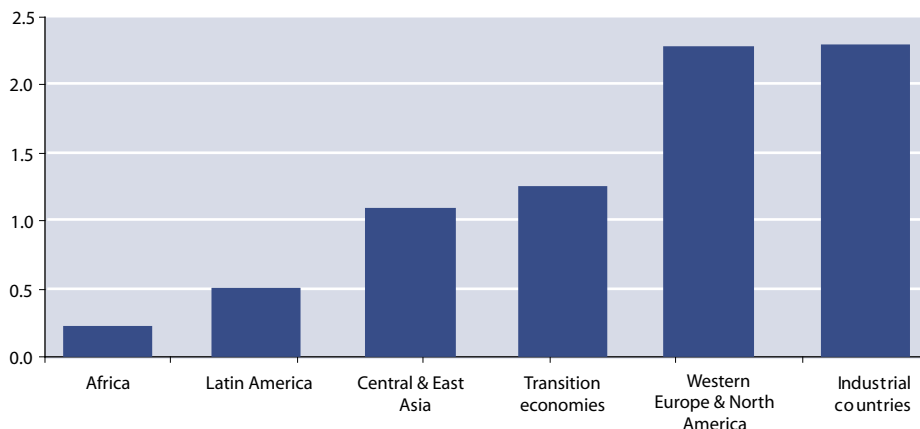
Overall, density of infrastructure in Africa is still significantly below the rest of the world (see figure 5.4). As a point of reference, it is apparent that Latin America's overall infrastructure – including roads, railways, airports with paved runways and telephone lines – works out to be twice as dense as that of Africa. The gap is wider still with Central and Eastern Asia and Eastern Europe, where density is four times higher than in Africa.

There has, however, been some progress in Africa's infrastructure development. The length of Africa's surfaced road network grew by 128% between 1991 and 2000, from 242,000 km to 547,742 km. The development of the surfaced network confirms the importance African governments increasingly attach to improving the road network. The case of Ethiopia also shows that a road sector development programme can produce good results (see box 5.1).

Road Funds, created within the framework of the Road Management Initiative (RMI) of the Sub-Saharan African Transport Policy Programme (SSATP), a joint initiative of ECA and the World Bank, are playing a key role in improving Africa's road network. At least 20 SSA countries have established Road Funds, most of which have put in place independent auditing and transparency measures and are managed by boards of directors with a mixture of private and public sector representation. About half of the RMI members have been able to establish community-run road agencies to execute or manage roadworks. Road Funds provide a sustainable means of maintaining existing stocks of infrastructure.

Figure 5.4

Density of infrastructure by world regions and country groupings, 2002/03



Note: The index of infrastructure density is the average density of road and rail networks, airports with paved runways, and telephone lines.

Source: Calculations by ECA

“Independent road management funds gauge transparency levels”

Box 5.1

Road sector development in Ethiopia

Ethiopia has had quite a successful experience in its recent efforts to improve its roads. An evaluation in June 2002 of the country's Road Sector Development Programme (RSDP), launched in 1997, showed an increase in the total classified road network by 40% over a period of five years, with an increase of 107% in regional roads, including tertiary roads. There was also an increase in the proportion of roads in good condition from 18% in 1995 to 30% in 2002. The second phase of the RSDP is even more ambitious, and aims to increase road density to 34 km per 1,000 sq km by 2007 from the present density of about 30 km per 1,000 sq km. In addition the distribution by population is targeted to reach 5 km per 10,000 people in 2007. Another target of RSDP II is to increase the percentage of roads in good condition, from the current 30% to 45% by 2007.

Source: Ethiopian Roads Authority, 2003

Inefficient vehicle use and management

Inefficiency of transport services is manifested in several ways including high vehicle prices, lack of information about demand, existence of transport cartels, poor operating practices, inadequate routine maintenance and unnecessarily fast driving, all of which lead to high vehicle operating costs and low vehicle utilization. Transport operators usually transfer the burden of high vehicle operating costs to consumers by raising their fares. Similarly, operators increase their fares to offset low revenues because of low vehicle utilization.

“ Competition encourages better, safer and cheaper transport services ”

Vehicle operating costs in Africa are significantly higher than elsewhere in the world. Table 5.2 shows that the vehicle operating cost per kilometre for two-axle trucks in Tanzania (50.1 US cents) is substantially higher than in Pakistan (21.0 cents) and Indonesia (19.7 cents). Higher fuel prices, maintenance costs, tire costs and overheads in Tanzania all help to explain the wide margin of difference.

Table 5.2

Estimated composition of operating costs for two-axle trucks (1995 US cents per km)

	Tanzania	Pakistan	Indonesia
Capital costs	10.6	1.8	2.7
Fuel	15.4	9.3	5.8
Crew	2.7	3.2	3.2
Oil	1.0	1.0	0.7
Maintenance	6.1	2.2	4.3
Tires	7.8	1.1	1.2
Overhead	6.5	2.4	1.8
Total	50.1	21.0	19.7

Source: Ellis and Hine, 1998

Levels of vehicle utilization are extremely important in determining the burden of vehicle capital costs and interest repayments. There is a significant difference between utilization in Africa and Asia. For example, the average annual utilization of two- and three-axle trucks in Tanzania was found to be 60,000 km compared to 80,000 km for Indonesia (Hine et al., 1997). According to other studies reported by Rizet and Hine (1993), annual utilization in Pakistan was found to be 123,000 km compared to an average of 50,000 km in the SSA countries of Cameroon, Côte d'Ivoire and Mali. Vehicles in the three SSA countries travelled empty for 34% of their journeys, compared to only 12% running empty in Pakistan. In this context, a national network of transport brokers who match loads with available vehicles can reduce empty running and increase vehicle utilization.

Transport costs are usually a measure of the degree of competition. A study in Cameroon showed that competition led to better, safer and cheaper services in the northern part of the country. In just two years after competition was introduced, transport charges dropped by 40%. No such improvement was observed in the south-west province of the country where strong syndicates were in control of vehicle parks, resulting in long waiting times at queues while available loads had to be shared amongst registered vehicles (Lisinge, 2001).

Excessive rules and regulations

A multitude of international agreements and protocols intended to simplify and harmonize trade and transport between States have been signed in Africa. These bilateral

agreements tend to undermine regional and subregional agreements. For instance, it has been estimated that in West African Economic and Monetary Union (UEMOA), only 30% of the rules governing road transport are subregional, the remaining 70% being either bilateral or national. There are also more than 100 agreements between UEMOA member States in the area of transport. The proliferation of rules covering the same area leads to uncertainty and a multiplicity of forms and procedures (see box 5.2).

Box 5.2

Subregional road transport agreements in Africa

Several subregional-level agreements and protocols governing international transport exist in Africa. In West Africa, the two most important conventions on transport are the Inter-State Transport Convention (TIE) and the Inter-State Road Freight Transit Convention (TRIE). These conventions, both of which were signed in 1982, define the conditions of road transport between member States and provide for the transit, without interruption, of freight as well as the non-payment of customs and other fees, with the cover of a single TRIE document. In Central Africa, international road transport is governed by the Inter-State Convention for Road Transport of Miscellaneous Goods (CIETRMD), the inter-state convention for multi-modal transport of goods, the Inter-State transit for Central African countries (TIPAC) and the transport regulation for road transport of dangerous goods.

Other communities, including SADC and COMESA, also have transport protocols and there are transport corridor initiatives such as the Northern and Central Corridor initiatives, both in East Africa. Overall, 28 transit transport corridors have been identified in SSA.

Good examples of bilateral cooperation between transit and landlocked countries are those between Cameroon and its landlocked neighbours of Chad and the Central African Republic. These conventions identify the transit corridors that are jointly managed by the national land freight authorities of Cameroon and its neighbours; specify the percentage of freight to be transported by Cameroonian transporters and their counterparts from the landlocked countries; and stipulate that all vehicles in possession of specified documents plying the identified corridors should be subjected only to limited controls at jointly selected checkpoints.

Source: ECA, from official sources

Variations in approved technical standards for vehicles – axle load limits and vehicle dimensions – height and width in different subregions of Africa are a block on free competition between transport operators. This is because vehicles that fail to meet the standards of a given subregion would be compelled to offload at border posts and have their goods transferred to vehicles that meet the approved standards. ECOWAS, CEMAC and COMESA all apply different vehicle standards from each other. table 5.3 shows that if these standards were applied, a 22m long truck operating in Nigeria (a member State of ECOWAS) would not be allowed to operate in neighbouring Cameroon (a member State of CEMAC) whose maximum allowable vehicle length is 18m. In Southern Africa, maximum authorized measurements are lower in Mozambique than neighbouring countries,

“ Overlapping regional, subregional and bilateral agreements can cause confusion ”

which is a constraint on transport operators from Malawi, South Africa and Zimbabwe. While axle load limits are necessary to prevent damage of road surfaces, applying different standards in different subregions results in delays and additional expenses and discourages international trade.

Table 5.3

Technical standards for vehicles in Africa's different regional economic communities (RECs), 2004

RECs	Axle load limit			Max. load (tonne)	Max. length metres	Max. height metres	Max. width metres
	Single axle (tonne)	Tandem axle (tonne)	Triple axle (tonne)				
CEMAC	13	21	27	50	18	4	2.5
COMESA	10	16	24		22		
ECOWAS	12	21	25	51	22	4	2.5

Source: ECA, from official sources

Transit charges constitute an additional burden for Africa's transport operators. At present, there are divergences in transit costs among member States in different African subregions, resulting in lack of transparency and high road user charges. COMESA has taken the lead in the harmonization of transit charges at the subregional level, and ECOWAS has also begun to consider establishing a common system for transit charges, basically for heavy vehicles.

Agreements regulating transport operations in the subregion do not always take into account questions relating to crew members, i.e. the driver and apprentices. These employees are confronted with administrative problems concerning their documents (driving licences, residence permits, work permits, etc.). The suppression of visas between ECOWAS countries has, however, improved the situation in most of West Africa. Other subregional agreements may be necessary.

Unnecessary roadblocks

Roadblocks pose a serious challenge to trade in Africa as they cause both delays and increased costs. In Cameroon, *The Economist* (2002) reported 47 roadblocks between Douala and Bertoua, a distance of about 500 km. Nearly all ECOWAS member states also maintain numerous checkpoints, where drivers are sometimes subjected to administrative harassment and extortion (see table 5.4).

Payments at checkpoints include, among other things, various taxes, transit charges and bribes. Such payments tend to vary with the type of vehicle, the type of goods transported and whether the transporter is a country national, and they may involve the police, customs officers and/or *gendarmes*. Furthermore, while some of these checkpoints are legal,

Table 5.4**Checkpoints along major ECOWAS highways, 2003**

Highways	Distance (km)	Number of checkpoints	Checkpoints per 100 km
Lagos-Abidjan	992	69	7
Cotonou-Niamey	1,036	34	3
Lome-Ouagadougou	989	34	4
Accra-Ouagadougou	972	15	2
Abidjan-Ouagadougou	1,122	37	3
Niamey-Ouagadougou	529	20	4

Source: ECOWAS official site, 2003

“Transit corridors to seaports are basic trade requirements for landlocked countries”

others are illegal. Added to the inconvenience is the risk of goods being diverted from their intended destinations. In some cases, containers are looted directly on the truck or train on which they are being transported.

The resultant loss of time and increase in vehicle operating costs from roadblocks are considerable. In theory, the trip from Bangui in the Central African Republic to Douala in Cameroon which could be done in 3 days, in actuality takes between 7-10 days. A study on transit transport in ECOWAS in 1999 revealed that enormous amounts of time and money are wasted each year at checkpoints in the region. Overall, lost revenue was estimated at 2 billion CFA.

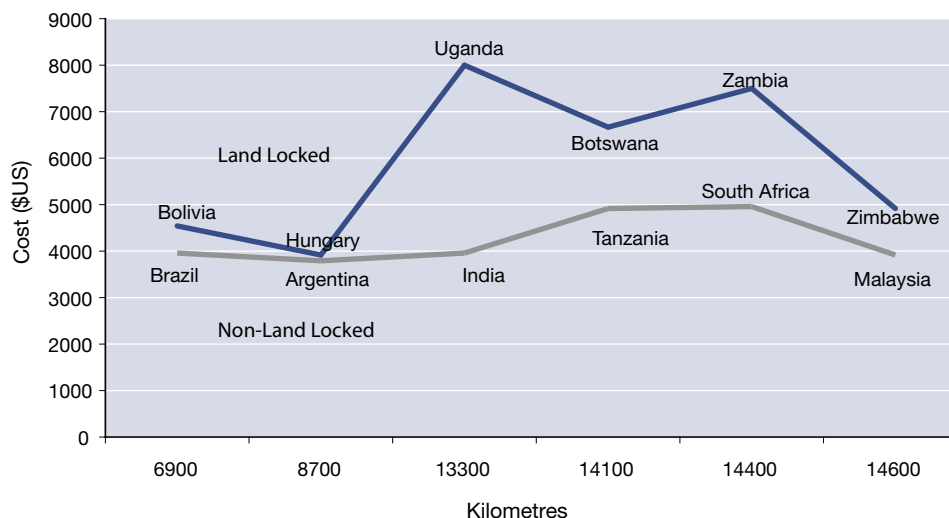
The challenges for landlocked countries

The ability of landlocked countries to trade relies on the existence of efficient and easily accessible transit corridors. In addition to their own infrastructure, landlocked economies need good roads and railways in their neighbouring countries. Econometric evidence suggests that being landlocked constitutes a geographical disadvantage with relevant effects on transport costs and trade flows. For instance, Limao and Venables (2000) compute that transport costs for the median landlocked country are 50% greater than costs for the median coastal economy, after controlling for other determinants of transport costs. Figure 5.5 shows that for pairs of countries – one landlocked and the other non-landlocked – the cost of shipment of goods for similar distances is always greater for the landlocked country.

Africa has 15 landlocked countries, whose distance to the sea ranges from 220 km for Swaziland to 1,735 km for Chad. The generally low density and poor quality of infrastructure on the continent tends to aggravate these disadvantages further. Weak infrastructure imposes a large burden on competitiveness, not just against the average coastal economy but also against the average landlocked country in other continents (see figure 5.6). This is because of the poor average quality of infrastructure even in those countries with direct access to the sea.

Figure 5.5

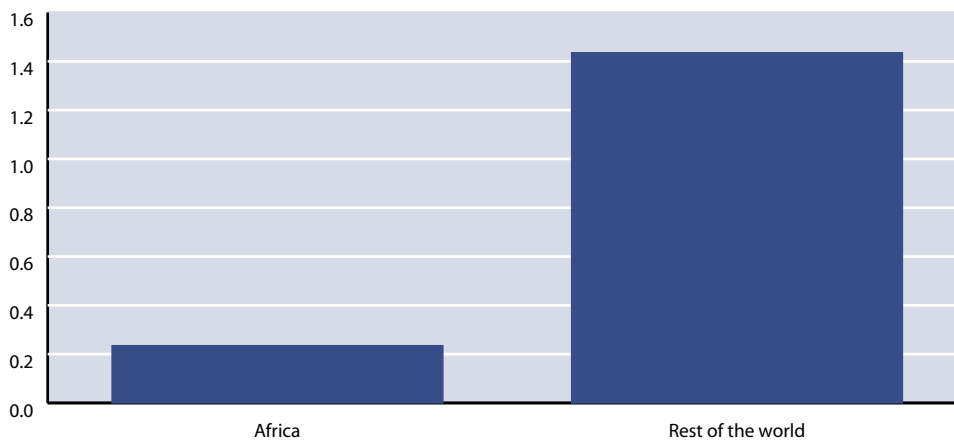
Shipment costs in selected landlocked and non-landlocked countries



Source: Calculations by ECA

Figure 5.6

Infrastructure density in transit countries, a comparison between Africa and the rest of the world (index of infrastructure density)



Notes: The index of infrastructure density is the average density of road and rail networks; airports with paved runways; and telephone lines. The index is computed from a sample of African countries and other countries of the world and ranges from 0.03 to 7.5, with an average of 1.15. The higher the index, the denser the infrastructure network.

Source: Calculations by ECA

The infrastructure gap between African landlocked countries and landlocked transition economies in Europe is particularly evident. As one example, the transit countries of the Czech Republic are Austria, Germany and Italy. For these three countries the

average index of infrastructure is 3.3. In Africa, Malawi has transit through Botswana, Mozambique, South Africa, Zambia, and Zimbabwe, with an average transit infrastructure density of 0.22. Further, Burundi has transit through Kenya, Tanzania, Rwanda and Uganda, whose average value of infrastructure density does not reach 0.14.

Africa's pervasive customs barriers

Customs inefficiencies hinder the integration of developing countries into the global economy and can also severely impair import–export competitiveness and inflows of FDI. The key problems that plague customs operations in developing countries in general, and African countries in particular, include excessive documentary requirements; outdated official procedures; insufficient use of automated systems; a lack of transparency; predictability and consistency in customs activities; and inadequate modernization of, and cooperation among, customs and other governmental agencies.

According to estimates by UNCTAD, an average customs transaction in Africa involves 20-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60-70% of all data at least once. Frequently, documentation requirements are ill-defined and traders are not adequately informed on how to comply with them, thus increasing the potential for errors. This problem is even worse at borders, especially as border posts and customs offices, in most cases, are physically separated. In essence, there are two complete sets of controls for each border post, with each having a multitude of forms and documents to be filled and checked.

The lack or insufficient use of automated processes is a major source of delays, costs and inefficiencies, as paper documents are usually presented at the time of border crossing, and verification of the information submitted takes place at that time. Experience in customs administrations that have increased the use of information technology shows that border-crossing times can be reduced considerably, while control and revenue collection functions are improved. African countries have recognized the need to simplify and speed up customs procedures by use of automated systems. The case of Tunisia TradeNet is a good example (see box 5.3). Other African countries have also introduced the use of the Automated System for Customs Data (ASYCUDA). See box 5.4.

Customs delays: causes and effects

Lack of transparency and predictability is a major source of uncertainty as regards costs and time involved for international trade transactions. When information on applicable regulations is not readily available, trade operators have to spend money to obtain the information. Enterprises operating in an environment that is not transparent frequently have to add expenses for bribes, penalties and administrative or judicial appeals. As these additional expenses do not vary according to the value of the goods or the volume of sales, they serve to increase the operational costs per unit and put firms in developing countries in a much weaker position than larger firms.

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Customs
inefficiencies can
impair import-export
competitiveness
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Box 5.3

Speeding up customs operations in Tunisia

Tunisia TradeNet (TTN) is an automated system, which can be accessed through a PC after subscribing, provides a one-stop trade documentation-processing platform connecting the principal actors of international trade. It serves as a tool for exchanging international trade documents, maritime community documents and other administrative documents and allows for payment of documentary credits and settlement of duty taxes. It is also a tool for business transactions such as processing purchase orders, shipment and delivery bills, invoices and transfer orders. In terms of international financial transaction, the TTN facilitates the exchange of bills of lading between Tunisian banks and European banks. In addition, it serves as a marketplace where offers and requests are made and transactions processed.

Prior to the creation of TTN in February 2000, the complexity of trade documentation processing in Tunisia meant delays in clearance of goods for imports. For example, the vessel turnaround time in Tunis varied from 5 to 17 days, with an average of 8 days, and port facilities were often overloaded. TTN is expected to reduce shipment clearance to 3 days. Overall, it is estimated that TTN will result in a productivity gain of 7%.

TTN was created with equity of \$2 million and is jointly controlled by the State (85%) and the private sector (15%). With investment of \$3.5 million, the corporation employs 40 personnel, including 20 engineers. Today, 100 subscribers use TTN. In the long run, about 2,000 companies are expected to use the system, with brokers being the main target.

The main challenge to its successful implementation is the unfamiliarity with its benefits on the part of customs agents and other professionals within the trade community. A customs training centre has been created to deliver courses to the principal actors in Tunisia's international trade.

Source: ECA, from official sources

Box 5.4

Automated System for Customs Data (ASYCUDA)

The Automated System for Customs Data (ASYCUDA) process was developed under UNCTAD's Special Programme for Trade Efficiency to assist in the clearance of goods. ASYCUDA aims to: (a) reduce the administrative costs of external trade control activities; (b) help governments to bring about more effective application of external trade regulations, leading in most cases to an increase in revenue; (c) accelerate the clearance of goods, while maintaining effective control of the flow of goods; and (d) produce timely and reliable data, as a basis for external trade statistics and management reports. ASYCUDA is available to UNCTAD member governments free of cost in the framework of an UNCTAD-executed technical assistance project. At least 29 African countries are known to have experience in the use of ASYCUDA.

At the subregional level, a project under the auspices of COMESA, for the computerization of customs operations using ASYCUDA, has been beneficial to customs administrations in the region, where the implementation of a standard system is seen as instrumental in the establishment of a customs union. Two different versions of the system are in use in the region. Kenya remains the only country along the main transit corridors in East Africa that does not use the system. The Kenya Revenue Authority is considering various options for its replacement, including ASYCUDA.

Source: ECA, from official sources

Customs departments and other government agencies involved in trade are often inefficiently structured internally. Common problems include inadequacies in physical infrastructure, training and education, inefficient emoluments of staff, and lack of co-ordination and co-operation between customs administrations and between customs and tax administration. In addition to ongoing difficulties in reducing corruption and bureaucracy in general, the current need for more stringent security procedures, especially those introduced for trade with the US, poses a new and serious challenge to customs administration (see box 5.5).

Box 5.5

New security measures increase customs delays and transaction costs

One of the most significant developments in the international transportation of goods since 2001 is the proliferation of security initiatives in maritime transport, most of which have been introduced for trade with the US. These initiatives have implications for transport costs and operations.

US security initiatives focus on customs treatment for incoming cargo, particularly in containers and include: the Container Security Initiative (CSI) and the Customs-Trade Partnership against Terrorism (C-TPAT) which brings commercial parties together, including importers, carriers, brokers, warehouse operators and manufacturers, to conduct trade in a secure environment. The International Maritime Organization (IMO) Maritime Safety Committee has also been involved in efforts to reduce the risk of terrorist attacks through maritime transport. To this end, the IMO has developed an International Code for Security of Ships and Port Facilities, which provides a platform on which ship operators and port authorities can cooperate to detect and deter acts of maritime terrorism.

The resultant additional costs that tight security entails may reduce demand for lower-value goods moving in containers. It may even make some products uncompetitive and could harm the trade of developing countries. UNCTAD has listed some likely outcomes of new security measures on developing countries, which include the following: (i) shipping companies operated by developing countries will see their costs and liabilities increase; (ii) ports in developing countries will need to undertake a port security assessment and prepare a port security plan (failure to do so could lead to vessels calling at these ports being barred from US ports); (iii) ports will need to expand their container inspection areas; and national customs may need to invest in costly container scanning systems.

Source: ECA, from official sources

The problem of delays at customs and border posts is well known throughout Africa. For instance, an enormous amount of time is wasted at border posts in Southern Africa, as table 5.5 illustrates. Waiting for up to 24 hours to cross a border appears to be the norm rather than the exception. The table shows that border delay is estimated at 36 hours at both the South Africa-Zimbabwe border post at Beitbridge and the Zimbabwe-Zambia border post at Victoria Falls. In East Africa, long delays are recorded in the transportation of goods along the Djibouti-Ethiopia corridor. Numerous stages in the process of clearing and transporting commercial goods in transit from the port of Djibouti to Addis Ababa often take more than 20 days.

Overall, delays at African customs are on average longer than the rest of the world: 12 days in countries south of the Sahara, compared to 7 days in Latin America, 5.5 days in Central and East Asia, and slightly more than 4 days in Central and East Europe (see figure 5.7). Such delays add costs for importers for each day that goods wait at customs' warehouses.

Table 5.5

Delays at selected border posts in Southern Africa, 2000

Corridor	Border post	Countries	Estimated border delay (hours)
Beira	Machipanda	Mozambique and Zimbabwe	24
	Zobue	Mozambique and Malawi	24
	Mutare	Mozambique and Zimbabwe	26
Maputo	Ressano Garcia	South Africa and Mozambique	6
	Namaacha	Swaziland and Mozambique	4
North-South	Beitbridge	South Africa and Zimbabwe	36
	Chirundu	Zimbabwe and Zambia	24
	Victoria Falls	Zimbabwe and Zambia	36
	Martins Drift	South Africa and Botswana	6
Trans-Caprivi	Kazungula	Botswana and Zambia	24
Trans-Kalahari	Buitepos	Namibia and Botswana	6
	Pioneer Gate	Botswana and South Africa	4
Tanzam	Nakonde	Zambia and Tanzania	17

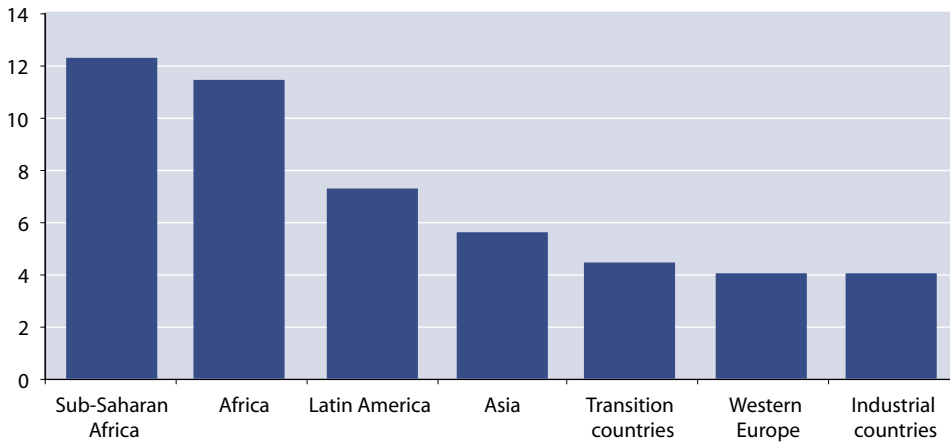
Source: World Bank, 2000

The longest delays are observed in Ethiopia (30 days), Cameroon (20 days), Nigeria (18 days), Malawi (17 days) and Uganda (14 days). See also Annex table A5.1.

The effect of customs efficiency on trade facilitation is evident from the correlation between customs delays (measured in days) and trade volumes (measured as a percentage of GDP) (see figure 5.8). There are two important effects behind the direct linkage of these two variables. First is the increase in the cost of trade that results from having commodities stacked at the customs for several days or weeks, especially when they are perishable. The second effect is the uncertainty about the outcome of the procedures, as the delay gets longer. Uncertainty in turn is a powerful disincentive for individuals to trade. In one form or another, all African countries are affected by the problem of cumbersome customs and border procedures and this has a negative impact on trade development in the continent.

Figure 5.7

Delays at customs, compared by world regional and country groupings (days)

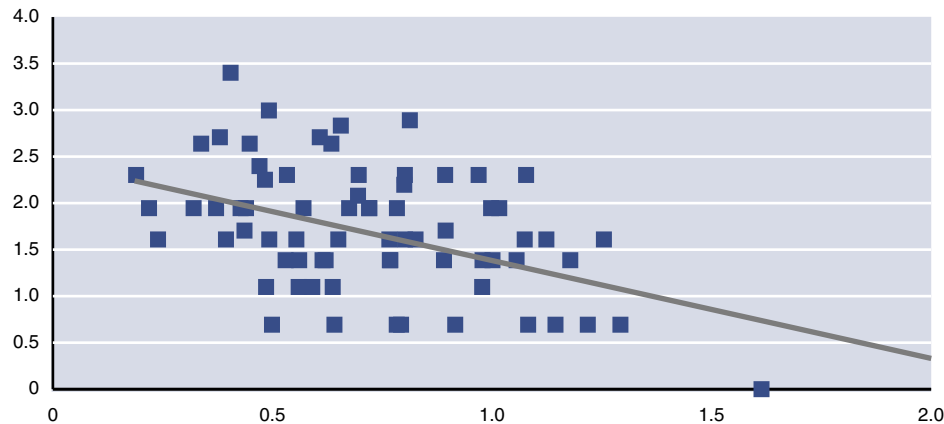


Source: Clark et al., 2001

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Uncertainty is a powerful disincentive to individual traders
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Figure 5.8

Correlation between customs delays and trade volumes, 1990-2003 (log of days)



Source: International Financial Statistics, and IMF Direction of Trade Statistics, 1990-2003

Tackling corruption

Customs administrations are among the world’s organizations most vulnerable to corruption. They are situated in the centre of the international supply chains and are strategically positioned to facilitate or hamper trade. In many countries, the major manifestation of corruption is the bribe to inspectors to do what they are paid to do (i.e. to ensure the timely entry of legitimate cargo). As customs officials are often underpaid, they consider bribes as a legitimate means to improve their income.

“Corruption by customs officials greatly hinders business”

Bribes are a substantial cost factor to many producers and they therefore undermine competitiveness. However, as the marginal cost of customs delay is often higher than the bribe, importers or exporters are willing to pay to have their goods cleared without further inconvenience. For example, in a survey on Mozambican enterprises, 43% of the firms replied that corruption by customs officials is a major problem to their business (Biggs et al., 1999). In Nigeria, many firms do not attempt to fight the bureaucracy and corruption associated with exporting and they sell to traders and middlemen who export for them (Marchat et al., 2002).

Establishing a reliable customs system with honest personnel needs to be closely coordinated with the rest of the trade liberalization process. The following actions can establish a foundation for a customs system characterized by integrity and competence (Lane, 1998):

- Pay a salary that is consistent with a professional position of honour and trust, which will attract high-quality personnel;
- Establish internal controls and audit systems, to prevent breaches of integrity and to leave trails that can identify and uncover violations;
- Publish standards for cargo clearance and all customs services, and provide appeals for customs decisions; and
- Develop a code of conduct and core values that address integrity at all levels of the organization.

Some countries have implemented successful reforms and reduced corruption by streamlining customs procedures and making them transparent. Peru is a successful example. With help from the Inter-American Development Bank, Peruvian customs fired corrupt employees, instituted a test for competence, provided training to remaining employees, hired new professionals, established standards for cargo clearance times, simplified tariffs and reduced duty rates. As a result, over a five-year period, imports doubled, revenue collections quadrupled, staffing was reduced by 30% and cargo clearance times were reduced from 15-30 days to 1 or 2 days (Lane, 1998). In Jamaica, corruption was fought by facilitating the customs-clearing mechanism and the introduction of a binding, comprehensive manual of procedures setting out all customs rights and responsibilities in export clearance. This manual was published, so that exporters and their agents know what the rules of the game are (Staples, 2002). In Mozambique, the Government selected Crown Agents, an international firm delivering capacity-building and institutional development services in public sector transformation to manage customs operations and to train customs staff. This measure has reduced corruption significantly (Nathan Associates, 2002).

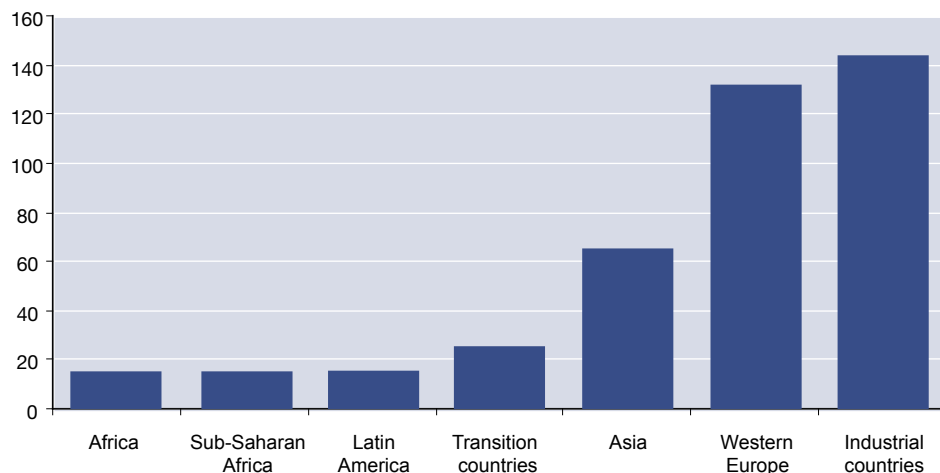
As a temporary measure, pre-shipment inspection can counter inefficiency or corruption in the customs administration. These types of services are provided by private companies in the exporting country for verification of unit prices and for examination and reporting of the quantity and quality of exports before they are shipped to the importing country. PSI has not reduced tariff evasion and corruption in all countries where it was introduced (Anson et al., 2003). Thus, its effectiveness depends on how well it is implemented. Essentially, it needs to be combined with a comprehensive programme of customs reform and modernization.

Information and communications technologies

Although there are encouraging developments in countries such as Botswana, Mauritius, Namibia and South Africa, the African region as a whole lags behind others in the use of modern information technology in domestic as well as international trade activities. Telecommunications services are inadequate, inefficient and very expensive, availability of mobile cellular phones is very limited, prohibitively expensive and non-existent in some rural areas. Africa also has the lowest Internet diffusion in the world (see figure 5.9).

Figure 5.9

Internet diffusion worldwide, 2002/2003 (users per 1,000 population)



Source: *World Development Indicators, 2003*

While many African countries are not yet making full use of e-commerce systems, several are serviced by organizations that use e-commerce-oriented systems. The African Development Forum held at ECA in Addis Ababa in 1999 identified the following barriers to e-commerce in the continent:

- African infrastructure is not sufficiently e-commerce friendly: the physical infrastructure is inadequate; the electronic transaction infrastructure is deficient; and the legal and regulatory framework is undeveloped.
- The African e-commerce environment is not supportive: the level of awareness of e-commerce is not high enough; African entrepreneurs need training in using the Internet for business; and African Internet-support professionals need training.

As a result of poor quality but expensive telecommunications, businesses in Africa find themselves less competitive, especially as they lack up-to-date information on prices of goods, services and shipments; and they also incur all the costs of the unnecessary delays at ports and border posts.

Payment mechanisms

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Capital controls
limit business
opportunities
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Inefficient and cumbersome payment and credit arrangements, as well as costly insurance and customs security fees remain an obstacle to trade. First, different methods of payment are adopted in international sales transactions, depending mainly upon the relationship between seller and buyer. For example, if the seller and the buyer know each other and have a long-standing business relationship, they may transact business on trust and the seller may periodically send invoices to the buyer for settlement. Payment may also be made by other methods such as “cash with order”, when the buyer sends a cheque or a bank draft with the order, or by “documentary credit”, where payment is made against documents instead of against goods. The documents transfer title to the goods. The documentary credit is operated through banks: the seller sends the relevant documents to his bank for release of payments by the buyer’s bank on the buyer’s acceptance.

ECA studies in West, East and North Africa reveal that the documentary credit payment system is the most popular international payment system on the continent, but it is a practice characterized by cumbersome and complex procedures. The basis of the system is a series of checks, in which the progress of the goods towards the buyer is pinned to the progress of payment to the seller. The process is time consuming, requires physical movement of documents between different banking establishments in two different countries, is not well understood and is badly managed by many users. Indeed it has been reported that half of all requests for payment are rejected on grounds of documentary inconsistencies. In addition, the system is open to fraud.

Empirical evidence indicates that imposing restrictions on current payments and transfers (exchange controls) and on capital account transactions (capital controls) represent a notable non-tariff barrier to trade (Tamirisa, 1999). In particular, the effect of capital controls appears to be particularly strong for developing countries, tending to limit business opportunities for hedging foreign exchange risks, financing trade, and managing assets and liabilities. Exchange controls contribute to reducing trade by rationing the foreign exchange available for transactions.

Next, on average, insurance fees are around 2% of the value of trade and represent around 15% of total maritime charges. The conditions of many African countries, including socio-political instability and poor infrastructure, together with the long distances that separate such countries from international markets, imply high average insurance premiums, which have the effect of discouraging trade.

In most developing countries, international trade is performed on the basis of traditional commercial practice: exports are made on a “free on board” (f.o.b.) basis and imports on a “cost, insurance and freight” (c.i.f.) basis. Those who export tend to prefer selling their products on departure instead of taking an aggressive marketing position by selling on delivery terms. African businesses rarely get involved in negotiating insurance fees for maritime transport.

Finally, customs security is one of the major difficulties in freight transit between countries. There are financial guarantees and mechanisms designed to ensure that goods in transit do not enter the transit country market without the necessary taxes and customs duties being paid. Guarantee payments represent a high cost for transport operators. In Africa, however, no subregional organization has managed to put in place a satisfactory system. Texts have been adopted in subregions such as COMESA, but they have yet to be ratified. In the case of ECOWAS, texts are applied differently in different countries. Customs services in Côte d'Ivoire and Senegal, for example, require bank guarantees. Burkina Faso, Benin and Niger have all instituted guarantee funds, with the guarantee being cumulative (paid in each of the countries transited) and non-reimbursable. UEMOA and ECOWAS are exploring the possibility of regionalizing the guarantee fund but there are still diverging views on a number of points, including vehicle conformity, the guarantee fund subscription rate and the formalities required by the transit countries. The benefits of regional customs guarantees include: transport cost savings, a single customs bond that is accepted regionally, quicker clearance of vehicles at borders, and higher productivity of vehicles through quick transit and turnaround times.

“ Roadblocks represent a de facto tax on trade ”

International trade standards

In recent years, an increasing mass of standards and technical regulations governing the admissibility of imported goods into an economy has emerged. In principle, the purpose of such standards is to ensure that the products available on markets meet minimum requirements, whatever their origin is. Such requirements may refer to the safety of consumers (i.e. in the case of food products), or the protection of the environment (i.e. in the case of trade in manufactured goods), or other quality-related characteristics.

Standards and regulations impose higher production costs on firms seeking to export from developing countries. This follows from both technological and preference gaps *vis-à-vis* industrial economies. Demand for standards in advanced countries is highly elastic to income, meaning that standards are a luxury good whose demand rises with rising incomes. Associated with continued advances in scientific knowledge about health and environmental hazards, standards tend to change frequently and to become more and more stringent over time. In this respect, they obviously reduce the ability of developing countries to access international product markets. Empirical evidence suggests that stringent standards can have a negative effect on trade. For instance, a recent study reveals that African exports of cereals will decline by 4.3%, and that of nuts and dried fruits by 11% with a 10% tighter EU standard on contamination levels of aflatoxin (i.e. a dangerous mold that can be found in grains) in these products (Wilson et al., 2003). The EU has also estimated the costs of technical standards as being equivalent to the tax of 2% of the value of goods traded (Otsuki et al., 2001).

An issue of particular concern to African countries is the multiplicity of standards for agricultural products imposed by the EU, and its unilateral approach in developing these standards, which do not often conform to corresponding WTO standards. The high dependency of African exports on European markets makes them more susceptible to European regulatory reforms.

Facilitating trade for the future

Tackling the challenges of international trade in Africa requires a comprehensive and coordinated approach that entails improvements in infrastructure; provision of efficient and competitive services in the areas of roads, railways, ports, information and communications technology; the removal of illegal roadblocks that constitute a *de facto* tax on trade; the simplification and harmonization of customs and border procedures; and more stringent international trade standards. The gains and benefits of trade facilitation are related to the whole chain of processes.

One major new initiative that is helping African economies identify and deal with trade facilitation and related bottlenecks is the Integrated Framework initiative designed to tackle trade facilitation, which combines detailed diagnostic studies with follow-up implementation efforts, in order to alleviate the tremendous constraints facing many of these economies (see box 5.6).

Box 5.6

Integrated Framework Initiative to tackle trade facilitation and related bottlenecks

The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF) is a multi-agency, multi-donor programme that assists the least developed countries (LDCs) to expand their participation in the global economy, thereby enhancing their economic growth and poverty reduction strategies.

The IF was inaugurated in October 1997 in response to the complexity of LDC trade-related problems by six multilateral institutions (the International Monetary Fund, International Trade Centre (ITC), UNCTAD, UNDP, World Bank and WTO), which, with their distinct areas of competence, could complement each other to deliver greater development dividends to LDCs in the multilateral trading system.

The objectives of the IF are, to mainstream trade into the national development plans of LDCs, and to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDC.

The IF process comprises three broad stages: (a) preparatory activities, including an official request by a country to participate in the initiative and a technical review of the request, the establishment of a National IF Steering Committee, and, to the extent possible, the establishment of a lead donor; (b) a diagnostic phase during which the key constraints to a country's integration into the multilateral trade system and global economy are identified, based on which a rational programme for technical assistance consistent with needs could be prepared; and (c) follow-up activities that start with the translation of diagnostic phase findings into the elaboration and validation of an action plan, which serves as basis for trade-related technical assistance delivery.

Box 5.6 (continued)

Integrated Framework Initiative to tackle trade facilitation and related bottlenecks

Several African countries including Burundi, Djibouti, Eritrea, Ethiopia, Guinea, Lesotho, Madagascar, Malawi, Mali, Mauritania and Senegal are part of the IF initiative. Implementation of the IF remains a “work in progress” and as such the concerned agencies are still in a process of learning from the lessons of on-going implementation. However, the fact that the IF process helps to identify constraints to international trade should serve as incentive for those African countries that are not part of the initiative to get on board.

Source: *www.integratedframework.org, accessed 08/04/2004*

An important message emerging from this report is the need for subregional and regional approaches and strategic partnerships to complement national measures to facilitate trade. This is because international trade involves the use of infrastructure and services of at least two countries. This is especially true for landlocked countries with key transit facilities lying outside their territorial boundaries. For example, imported goods for Rwanda and Burundi have to pass through Kenya and Uganda or Tanzania and Uganda, depending on whether the goods arrive at the port of Mombasa or Dar es Salaam. A subregional approach can be an efficient means of coordinating actions, setting priorities, reviewing progress, mobilizing resources, allocating funds and monitoring contribution levels, with regard to solving common problems.

Infrastructure priorities

Specific actions required in the road, rail, and ports sub-sectors include the following:

Roads subsector

- Maintain and rehabilitate existing roads;
- Expand road network to isolated areas; and
- Widen roads with narrow lane and shoulder widths, and where necessary, adjust horizontal and vertical alignments taking into consideration the increased use of heavy vehicles.

Rail subsector

- Increase connectivity of railway sections with different track gauges by use of “rail to rail” transshipment facilities;
- To the extent possible, standardize the track gauge used on the continent;
- Use rolling stock equipped with changeable gauges; and
- Convert freight wagons to flat beds, suitable for transportation of containers.

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*Essential services
must support export
growth*
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Ports

- Replace obsolete and inappropriate equipment at ports with modern container-handling facilities;
- Develop container terminals at ports to facilitate efficient handling and storage of containers;
- Develop more inland terminals (“dry ports”) to serve both landlocked countries and the interior areas of coastal countries; and
- Train local staff to run containerized systems that are highly mechanized and computerized.

Transport efficiencies

Several actions need to be taken to improve the efficiency of Africa’s transport services. Particular care has to be taken to avoid inefficient monopolies and other rent-seeking behaviour so that essential services support rather than strangle export growth. In this regard, competition in freight forwarding and in the freight transport market should be encouraged. Increasing vehicle utilization through better competition will push older less efficient vehicles out of business.

Other measures to improve the efficiency of transport services include raising the skill level and access to machinery of vehicle mechanics working in the informal sector and placing emphasis on the repair and reconditioning of parts rather than replacements; giving more responsibility to drivers and encouraging them to take closer interest in vehicle mechanics and the business side of running a vehicle; and informing owners and drivers of the advantages of slow vehicle running speeds that include the reduction of fuel consumption, maintenance costs and accidents. Finally vehicle utilization and safety can be increased by the use of two drivers per vehicle.

International transport patterns and practices have been changing rapidly, with the introduction of improved systems for transferring cargo between different transport modes, the rapid development of technologies capable of tracking shipments from door to door, and the growth of containerized transportation. This has resulted in the growth of multi-modal transport operators (MTOs), responsible for the movement of goods through various channels from origin to final destination on one transport document. MTOs represent an integrating factor of international transportation and, thus, for the expansion of trade since they ensure the non-interrupted flow of goods from origin to destination. Apart from ensuring a secure, personal and straightforward transportation of goods, MTOs are a bridge over the gaps created by differences in cultures, languages, and commercial practices. However, the absence of a uniform international convention on multi-modal transport hinders the development of this form of transportation in Africa. The ratification and accession to international treaties and conventions to enhance the use of multi-modal transport on the continent should be encouraged, as well as the establishment of indigenous MTOs.

Removing roadblocks

The challenge of removing roadblocks and preventing the diversion of goods on Africa's roads is enormous, because the problems are extensive, deep-rooted and inherently difficult to come to grips with. Efforts made in some countries and subregions to alleviate these problems should be objectively assessed and good practices disseminated. Overall, improvements have to be based on political agreements and interventions from the highest government levels. This, in fact, is a prerequisite to sustainable solutions. NEPAD, through its Peer Review Mechanism, could play a lead role in this regard.

Air transport

In 2001, Africa accounted for approximately 3.5% of the world's air cargo traffic in terms of tonnage. The total international flows moving into, and out of Africa totalled approximately 961,000 tons, and Europe accounted for 65% of all African foreign air trade. There is a need for a thorough appraisal of the potentials of air transport to enhance both intra-African trade and the continent's trade with other regions of the world. The inadequacy of land transport infrastructure and services in Africa provides an added incentive to improve the efficiency of air transport. This is particularly relevant with regard to the enhancement of intra-African trade. The Yamoussoukro Decision adopted in 1999 was a major breakthrough in the sector, resulting in a speeding up of the liberalization of access to the air transport market in Africa, and the introduction of airport space management reforms. However, efforts still need to be made to ensure that the Decision is fully implemented.

Speeding up customs procedures

The problem of slow and cumbersome border procedures needs to be addressed by reducing to the minimum the number of trade documents and copies required and by harmonizing the nature of the information to be contained in these documents. Such documents should be produced in accordance with international accepted standards, practices and guidelines, and they should be adaptable for use in computer systems. In addition, the introduction of one stop-border post operations should be encouraged.

Overall, customs administrations in most African countries require a fundamental shake-up if these countries are to fully benefit from the liberalization process. Customs administrations need to attain high levels of professionalism and integrity and should be technology-based, with the goal of providing a paperless processing system. Closer working relationships need to be established with tax departments. There is a need for clear, transparent procedures and regular joint meetings between customs, importers, brokers, freight forwarders and port authorities.

In policy terms, the following actions are urgently required:

- Redefine comprehensively the customs' operational role and procedures, with new control strategies that allow for minimum interference with trade, yet ensure proper enforcement of fiscal and trade laws;

“Improving the efficiency of air transport would enhance intra-African Trade”

- Adopt innovative and flexible management systems, with decentralization of responsibilities and decision-taking, and with greater autonomy and accountability for the administrators in the field;
- Privatize functions that can be effectively performed at a lower cost by the private sector, for example, the operation of warehouses;
- Invest in human resources, technology and audit-based systems; and
- Establish firm management control, particularly in connection to integrity, with a clear, well-articulated code of conduct, willingness to take disciplinary action and effective internal control systems.

Customs reforms in recent years have sometimes been undermined by lack of government commitment and poor use of information technology. However, Morocco is one African country that has managed to overcome these obstacles, thanks to the collaboration of public and private actors, who are committed to tackling corruption and to improving customs procedures. The Moroccan experience in customs reforms is therefore a good example for other African countries to study (see box 5.7).

Box 5.7

Best practice in customs reform: lessons from Morocco

The Moroccan reforms have, since their inception in the mid-1990s, offset the decline in revenue from customs duties, increased revenue from value-added tax and boosted imports. Customs services still continue to generate important shares of budget resources. These reforms have addressed four essential areas.

First, customs procedures have been simplified and computerized. Selective customs controls have been introduced for passengers and freight in the form of green (clearance without inspection) and red (inspection required) channels in international airports. Secondly, all routine functions are now performed by the Customs Administration computer system. The system allows information to be exchanged with users so that traders can obtain free estimates of duties and taxes payable when goods are imported.

Thirdly, the management of special customs procedures, particularly for goods admitted temporarily, have been improved thanks to a computer-assisted facility. Finally, the Customs Administration has become more transparent and more responsive to the needs of the private sector, as indicated by the availability of a wide range of information, a website, a newly-created consultative committee and streamlined customs procedures.

Periodic surveys indicate that the outcomes of the reforms are greatly appreciated and that they should continue if Morocco is to eliminate, by 2010, customs duties on imports from the EU, which is Morocco's main trading partner.

Source: *World Bank, 2002*

New Technology

If properly utilized, recent advances in science and technology, especially in information technology are capable of reducing transport costs and customs delays, thus enhancing trade volumes in Africa. ASYCUDA or systems such as the Tunisia TradeNet can both simplify and speed up customs procedures (as explained in boxes 5.3 and 5.4). There is, however, a need to create training centres that can deliver courses to the principal actors in international trade.

A further example of an important technical aid to trade is provided by the newest shipment tracking systems, which are designed to keep track of vehicles so that customers can find out exactly where a shipment is located at any given time. The Advanced Cargo Information System (ACIS), designed by UNCTAD and currently used in a number of African countries, can track cargoes in port, as well as on roads, railways and inland waterways. Most East African countries already use both port trackers and rail trackers. Other African countries should be encouraged to use such systems.

Trade standards

To reduce the negative impacts of the multiplicity of standards on Africa's trade, the following actions are paramount:

- Establish regional certification centres for diagnosis and analysis, in conjunction with the EU;
- Introduce joint investigations of perceived health hazards; and
- Simplify the multiplicity of standards and ensuring that these standards conform to WTO levels.

Subregional initiatives

For many years, African countries have recognized the importance of a subregional approach to facilitating trade on the continent, but most trade facilitation initiatives have so far had very limited success because of non-compliance and incomplete or poor implementation. One exception is the Northern Corridor from Mombasa, Kenya, to Bujumbura, Burundi, where transport facilitation measures have already halved average transit times. In West Africa, ECOWAS Heads of State have called for member States to monitor the implementation of decisions and protocols on free movement, but the national monitoring committees are not yet reporting regularly to the ECOWAS Secretariat; this is an illustration of the still low political priority being accorded to trade facilitation by Africa's subregional economic communities.

Trade facilitation in the multilateral framework— Africa’s position

In Geneva, prior to the Cancun WTO Ministerial Conference in 2003, the Chairman of the WTO Council on Trade in Goods, in which the issues of trade facilitation are discussed, admitted that while many countries had highlighted the benefits of trade facilitation, at the same time, they also appreciated concerns that had been raised with the difficulties of developing binding rules on trade facilitation. Some delegations had suggested working on guidelines, which could serve as target for internal reform and for the identification of technical assistance needs that could then be transformed into binding rules once developing countries had sufficiently developed their internal capacities. Broadly, members were of the view that any evolution of trade facilitation had to reflect the needs and the specific situations of members, and their ability to implement whatever may be agreed upon in the future, to allow for the full enjoyment of the benefits accruing from trade facilitation.

The discussions at Cancun revealed further polarization and divergence of views between advocates (the demanders) on the “Singapore Issues” (including trade facilitation) on one hand and those opposed to their inclusion in the WTO work programme on the other. As is now evident, no agreement was reached at Cancun on any of the Singapore Issues (which also include trade and investment, trade and competition policy, and transparency in government procurement). Negotiations at the WTO have, however, continued after Cancun about a multilateral framework for trade facilitation that should be developed in the framework of the Doha work programme.

Many African countries at the Seattle WTO Ministerial Conference in November 1999, while appreciating the importance of trade facilitation as an “economic phenomenon”, expressed reservations at that stage as to the need for a “multilateral framework” on trade facilitation. This was still the position of many of these countries at the Doha WTO Ministerial Conference in November 2001. While acknowledging that African countries were coerced into accepting the wording of the Doha Declaration on “trade facilitation”, many would have preferred that this issue, like many of the other Singapore Issues, not be included on the Doha agenda. The Abuja Ministerial Declaration on the WTO’s 4th Ministerial Conference, adopted by African Ministers of Trade in Abuja, Nigeria, in September 2001, stated:

“We recognize that issues such as trade and investment, competition, transparency in government procurement, trade facilitation, trade and environment and e-commerce are important. However, we agree that these issues are not a priority at this stage and on-going processes should continue in order to prepare for possible future work in this area”.

Furthermore, in “Africa’s Negotiating Objectives for the 4th Ministerial Conference” the Ministers stated that:

“The general assessment is that trade facilitation measures are necessary and beneficial to all countries. In this context, on-going work within and outside the WTO (e.g. rules of origin, customs valuation) should continue. Improved facilitation will require increased technical and financial assistance to narrow the technology and human resources gaps that exist between developed and developing countries”.

Certain positions on the issue of a multilateral framework on trade facilitation emerged in the run-up to the Cancun WTO Ministerial Conference. The position among LDCs may be stated as follows:

“Some aspects of trade facilitation are vital for LDCs. For instance, the question of understanding of international standards is vital for the promotion of LDC exports. Our standards institutions should be strengthened immediately, so that they can properly advise our exporters. On the other hand, much current thinking on trade facilitation pre-supposes the establishment of common procedures, rules and regulations on the movement of goods. To implement such laws and procedures will be very costly for LDCs, which they cannot afford at this stage. Hence, it is too early for the development of an agreement within the WTO in this area. Outside of the WTO framework, current efforts to assist the LDCs in this area may continue”.

African countries will require extensive technical assistance to master the art of doing business in a competitive and highly sophisticated trading environment, with or without a multilateral framework on trade facilitation. There is clearly a need to build on the current efforts by African countries individually and collectively through subregional economic communities to reduce transaction costs, for both domestic and international trade.

After a Trade Facilitation Forum held in 2002, the UN Regional Economic Commissions proceeded to develop a project on trade facilitation. The objective of the joint project of the five Regional Commissions is to strengthen both the international competitiveness as well as the negotiating capacity of developing countries by sharing knowledge on problems and best practices in the various countries and regions on: (a) trade promotion and diversification; (b) greater participation by SMEs in global supply networks; (c) designing and implementing trade facilitation policies at national and regional levels, and (d) greater use of knowledge management and information and communication technologies in supply chain management. Such measures would help to focus and enhance trade facilitation capacities for in Africa.

Conclusions

Much needs to be done, as a matter of priority, to equip African countries with the infrastructure and skills needed for its effective participation in global trade.

Trade facilitation needs to be looked at in the broadest possible context. All sectors that have significant impact on trade facilitation should be tackled in a comprehensive manner. Policy coherency, strategies, finance and institutions should be aligned in order to bring the desired results. Improvements in port facilities should be aligned with customs rules and regulations, transport infrastructure as well as services. Further efforts should be made in the dissemination of information technology especially in countries where telephone and Internet services are inadequate. Most importantly, Africa needs to develop the personnel to cope with the accelerating changes that are taking place in information technology, not only as users but also as contributors.

Given the seriousness of the various problems discussed in this chapter and the resource and capacity constraints faced by African countries in general, and SSA countries in particular, it will be extremely difficult to address all problems simultaneously. While a comprehensive approach is necessary in the long term, actions need to be prioritized in a rational way in the medium term.

A5.1: Trade Facilitation Measured Worldwide

Transport cost rates				Delays at the customs (days)			
Five lowest rates				Five best-performing countries			
Africa		Rest of the World		Rest of the world		Africa	
Lesotho	0.000443	Mexico	0.0002	Estonia	1	Botswana	4
Gambia	0.024187	Slovenia	0.018976	Bulgaria	2	Namibia	4
Rwanda	0.038694	Poland	0.029204	Georgia	2	Ghana	5
Ghana	0.040125	Turkey	0.030721	Croatia	2	South Africa	5
Nigeria	0.043194	Hong Kong	0.031297	Czech Rep.	2	Egypt	5.5
Five highest rates				Five worst-performing countries			
Africa		Rest of the World		Rest of the world		Africa	
Guinea-Bissau	0.232934	Moldova	0.173938	Kyrgyzstan	10	Uganda	14
Eq. Guinea	0.243227	Hungary	0.174879	Lithuania	10	Malawi	17
Burundi	0.280751	Estonia	0.179005	Ukraine	10	Nigeria	18
Uganda	0.322751	Vietnam	0.183058	Venezuela	11	Cameroon	20
Mali	0.392903	Peru	0.213639	Ecuador	15	Ethiopia	30
Average cost rates in regions of the world				Average delay in regions of the world			
Latin America		0.0743		Africa		11.35294	
Western Europe		0.0418		Sub-Saharan Africa		12.13333	
Transition countries		0.1088		Latin America		7.184211	
Asia		0.0881		Western Europe		3.888889	
Industrial countries		0.0472		Transition countries		4.368421	
Africa		0.1316		Asia		5.5	
Sub-Saharan Africa		0.1364		Industrial countries		3.888889	

Note: The transport cost rate is the ratio of transport costs as a percentage of the value of imports.

Source: ECA, from official sources

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