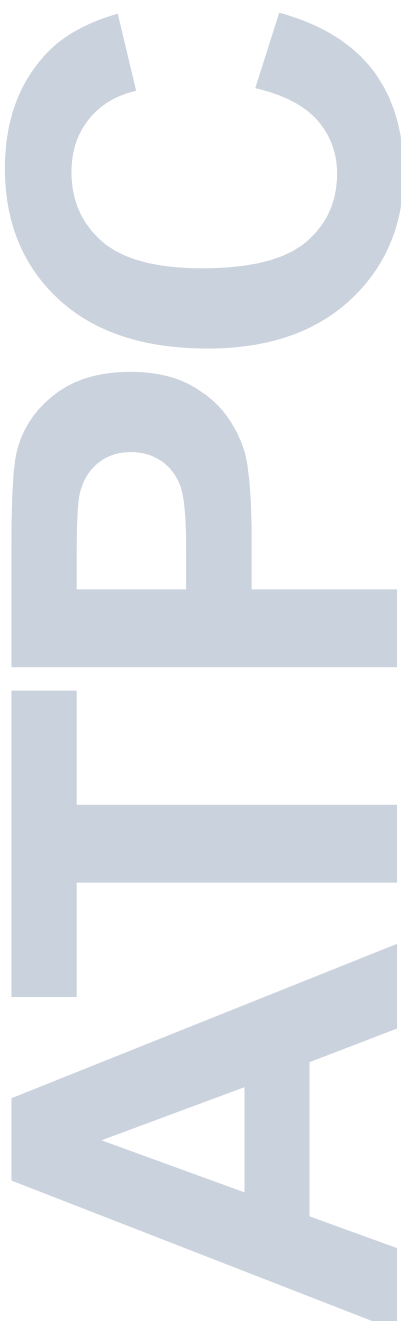




## Trade Facilitation



### Background

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

However, developing countries in general and African countries in particular have not yet benefited from the steady increase in international trade. In 1950, Africa delivered a tenth of world exports, but by the year 2000, this share had declined to only 2.7 %. The situation is even worse in sub-Saharan Africa whose share of the total world export of goods and services fell from 1.9% to 1.4% in the 1990s. This dismal performance of African countries is partly due to high transaction costs, which significantly increase the cost of tradable goods and consequently determine the degree of integration of a country into the world economy.

The overall dramatic increase in volume and complexity of world trade, both in terms the goods being traded and the terms and conditions of this trade makes it essential for administrations to provide simple, predictable and efficient customs procedures; while simultaneously tackling increasingly complicated national and international requirements to ensure compliance with national laws, international agreements and meeting security challenges. These considerations and the need to reduce transaction costs have pushed trade facilitation into the forefront of public policy discourse.

In a narrow sense, trade facilitation efforts simply address the logistics of moving goods through ports or more efficiently moving 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 environments, harmonization of standards and compliance with international regulations.

The central issues of trade facilitation include: physical movement of consignment (transport and transit); import and export procedures, including customs and border-crossing problems; information and communication technology; payments, insurance and other financial requirements; and international trade standards

Trade facilitation can lead to direct benefits to governments and the business community. 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 investments. Benefits to traders include: reduced costs and less delays; faster customs clearance and release through predictable official intervention; simple commercial framework for doing both domestic and international trade; and enhanced competition.

Trade facilitation is also of concern to developed countries and has been included in the World Trade Organization (WTO) agenda as one of the Singapore Issues, despite strong opposition from developing countries, including those from Africa. The opposition was not because of a lack of appreciation of the importance of trade facilitation, but due mainly to lack of adequate human, financial and technical capacity to deal with such issues in a multilateral environment.

## Trade Facilitation Challenges to African Countries

Although African countries have acknowledged the importance of trade facilitation as reflected by the numerous agreements signed at bilateral, sub-regional and regional levels as well as efforts made at country level, most of these initiatives have so far yielded very limited benefits. The poor results are attributed to several factors such as non-compliance to the agreements, poor programme implementation, lack of coordination among and between countries, lack of coordination among relevant agencies within countries, inadequate skilled manpower and most importantly, lack of a multi-sectoral approach to trade facilitation.

Consequently trade in Africa is characterized by high transaction costs, accounted for by high transport and communication costs; high charges and delays at numerous roadblocks; long customs and administrative delays at ports and border posts; inefficient international payment and insurance mechanisms; and stringent international trade standards.

The current road density in Africa is estimated at 6.84km/100sq.km, indicating the inadequacy of the region's network compared to Latin America (12km/100sq.km) and Asia (18km/100sq.km). Moreover, only 29.7 percent of the region's total 2,064,613km road network is paved. The fact that three railway gauges predominate in Africa, i.e. 1,067m,

1,000m, and 1,453m, causes severe limitations in the physical integration of the railway networks in various sub-regions. In addition, the quality of infrastructure is a major problem as most roads are dilapidated due to lack of proper maintenance. The problem is more pronounced in landlocked countries as these countries incur high transaction costs not only from their own poor infrastructure but also from that of their transit neighbours. As a result, keeping distance constant, transport costs for landlocked countries are on average \$2000 higher than for non-landlocked countries.

Numerous roadblocks, which result in excessive delays and substantial increase in transport costs, continue to pose a serious challenge to trade facilitation in Africa. In 1999, the overall lost revenue per year in eight ECOWAS member countries due to roadblocks some of which are even illegal was estimated at 2 billion FCFA.

Customs administrations are characterized by excessive documentary requirements; outdated procedures; lack of automation and insignificant use of information technology; lack of transparency, predictability and consistency; as well as lack of cooperation with other government agencies. This results in the waste of enormous amount of time and money. Delays at the customs as long as 10-30 days and over are very common in the region. Waiting for up to 24 hours to pass through borders appears to be the norm rather than the exception in Southern Africa. Telecommunications services are inadequate, inefficient with frequent interruptions and very expensive in Africa compared to the rest of the world. Availability of mobile cellular phones is very limited, prohibitively expensive and non-existent in some countries and internet use per capita is lowest in Africa compared to the rest of the world.

The need for more stringent security procedures poses a new and serious challenge to customs administration. It remains unclear how new security initiatives will affect international trade, especially for developing countries in general and African countries in particular. The additional cost that tight security entails may reduce demand for lower-value goods moving in containers or even make some products uncompetitive. In a nutshell, the requirements of security initiatives could harm the trade of African countries.

These problems are compounded by inefficient payment and credit arrangements in the continent, and difficulties in meeting the multiplicity of international trade standards introduced by developed countries.

### National effort to speed up customs operations – The Tunisian experience

The Tunisia TradeNet (TTN) is an automated system that 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; 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, the TTN serves as a marketplace where offers and request are made and transactions processed.

Prior to the creation of TTN in February 2000, the complexity of trade documentation processing in Tunisia resulted in delays in clearance of goods for imports. For example, the vessel turn time in Tunis varied from 5 to 17 days, with an average of 8 days, and port facilities were often overloaded. This led to reduced competitiveness, spoilt resources and the prevalence of non-productive activities. 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 \$US 2 million and is jointly controlled by the state (85%) and the private sector (15%). Investment in the corporation that employs 40 personnel, including 20 engineers, is valued at \$US 3.5 million. The technical solution for the system was ready in April 2001, and in April 2002, the customs was ready for its use. Today, 100 subscribers use TTN. In the long run, 2000 companies are expected to use the system, with brokers being the main target.

The system, which covers the entire logistic chain, from transport services to the payment of customs duties could be accessed through a PC after subscribing with the service provider. Presently, access cost is \$US 3 per transaction. In order words, payment for the service rendered is not a function of access time.

The main challenge to the successful implementation of TTN is the inability of customs agents and other professionals within the trade community to fully exploit services offered by the system. To meet this challenge, a customs training centre has been created to deliver courses to the principal actors in international trade. This, without any doubt, is a step in the right direction as training is a fundamental part of any reform process.

*Source: Economic Commission for Africa, from official sources*

## Policy recommendations

Tackling the challenges of international trade in Africa requires a comprehensive and coordinated approach that entails improvements in infrastructure and provision of efficient and competitive services in the areas of roads, railways, ports, information and communications technology; the removal of illegal roadblocks; and the simplification and harmonisation of customs and border procedures.

### *Providing adequate and efficient transport infrastructure and services*

Specific actions required to improve transport infrastructure include: maintaining and rehabilitating existing roads, expanding the road network to isolated areas, widening roads with narrow lane and shoulder widths, and where necessary,

adjusting horizontal and vertical alignments taking into consideration the increased use of heavy vehicles; increasing the connectivity of railway sections with different track gauges; converting freight wagons to flat beds suitable for transportation of containers; replacing obsolete and inappropriate equipment at ports with modern container handling facilities, developing container terminals at ports to facilitate efficient handling and storage of containers; developing more dry ports to serve both landlocked countries as well as interior areas of coastal countries; and training of local staff to run containerized systems that are highly mechanized and computerized.

The ratification and accession to international treaties and conventions on multimodal transport in the continent should be encouraged as well as the establishment of indigenous Multimodal Transport Operators (MTOs). MTOs ensure the non-interrupted flow of goods from origin to destination;

a secure, personal and straightforward transportation of goods, and bridge the gaps created by differences in cultures, languages, and commercial practices.

### ***Removing illegal roadblocks and preventing diversion of goods on Africa's roads***

Without any doubt, the challenge of removing roadblocks and preventing the diversion of goods on Africa's roads is enormous. These problems are extensive, deep-rooted and inherently difficult to come to grips with. 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. The New Partnership for Africa's Development (NEPAD), through its Peer Review mechanism, could play a lead role in this regard.

#### *Exploring the potentials of air transport services*

There is a need for a thorough appraisal of the potentials of air transport to enhance both intra-Africa 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 in the continent. This is particularly relevant with regard to the enhancement of intra-Africa trade.

### ***Speeding up customs and border crossing procedures***

The problem of slow and cumbersome border procedures could be addressed by reducing the number of trade documents and copies required, and harmonizing the nature of the information needed in these documents. Such trade documents should also be designed and standardized in accordance with international accepted standards, practices and guidelines and should be adaptable for use in computer systems.

Efforts should be made to ensure that customs administrations

are technology based; greater reliance is placed on post-release audits; closer working relationship is established with the tax department; a service orientation and good relations with the trade community are adopted by introducing clear and transparent procedures; and customs administrations attain high levels of professionalism and integrity.

### ***Promoting the use of new technology***

Several African countries are using automated customs systems such as the Automated System for Customs Data (ASYCUDA) or in the case of Tunisia, Tunisia Trade, to simplify and speed up customs procedures (Box 1). More training centres are needed to enable the principal actors in international trade to use these systems effectively.

## **Conclusion**

Despite the seriousness of the issues addressed above, resource and capacity constraints faced by African countries in general and sub-Saharan African countries in particular, it may be extremely difficult to address all the problems simultaneously. Although a comprehensive approach is necessary in the long term, actions need to be prioritized in a rational way in the medium term. To this end, the use of investment climate surveys to identify country specific priorities could be useful.

Furthermore, the need for regional approaches and strategic partnerships to complement national measures must be stressed, since 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. A regional approach can be an efficient means of coordinating actions, setting priorities, reviewing progress, mobilizing resources, allocating funds, and monitoring contribution levels.