Why Trade Facilitation is Important for Africa

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Trade facilitation can provide important opportunities for Africa by increasing the benefits from open trade, and contributing to economic growth and poverty reduction. Removing trade barriers has contributed to the expansion of global trade in the decade after the conclusion of the trade negotiations of the Uruguay Round in 1994 and the subsequent establishment of the World Trade Organization (WTO). However, the quest for more open trade is not an end in of itself but driven by the experience that open trade provides more economic opportunities for people. Producers can offer their goods and services to more customers, and consumers have more choices, lower prices, and access to innovations. Open markets increase prospects of producing and selling new ideas and products locally, regionally and in global markets, which leads to more income opportunities and the improvement of living standards.

However, most African countries face considerable challenges to achieving more open trade. One reason is that the costs of trading remain stubbornly high, which prevents potential African exporters competing in global and even in regional markets. Realizing this trend, policy makers have started paying more attention to addressing trade-discouraging non-tariff barriers.

Trade facilitation measures have become a key instrument to create a better trading environment. The international community has acknowledged that for many lower income countries having better market access to industrial countries is insufficient unless the capabilities to trade are addressed as well. The resulting trade capacity building activities evolved into a broader and comprehensive Aid for Trade agenda, with trade facilitation playing a major role in these efforts.

This chapter argues for approaching trade facilitation in a comprehensive way by
addressing the new challenges to trade, which no longer arise predominantly from high tariffs but from barriers behind the border. This approach highlights the need for cross-sector analysis, for example along the value-chain of products, to address trade bottlenecks. However, the biggest obstacle to greater trade integration is the lack of accompanying policy and regulatory reforms. Trade facilitation can provide opportunities for African exporters if hard infrastructure and technical advice are backed by equally ambitious policy reforms.

The new approach to trade facilitation

“Classic view”
The term “trade facilitation” has different interpretations. Even among international organizations engaged in trade promotion, such as the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), and the World Bank slightly different approaches have emerged. However, the classic approach could be described as focused predominantly on the removal of barriers to the international movement of goods and, in particular, on the procedures at and around borders (e.g., simplification of customs procedures).

The trade facilitation part of the WTO negotiations, for example, focuses on transactions at the border, such as documentary requirements, transparency of customs clearance and transit procedures, and disciplines on fees and taxes. This traditional view of trade facilitation is motivated to improve border and transit management procedures and their implementation and thereby remove obstacles to trade in goods at the border; less attention is paid to “behind and between the border” issues.

Trade facilitation has grown beyond “fixing borders”
The reasoning behind the efforts to address the trade challenges beyond the traditional areas is the impact on trade costs of factors along the whole trading chain. The more comprehensive approach to trade facilitation examines the costs that traders and producers face from production until the delivery of their goods and services to the overseas buyer and thereby includes all the transaction costs both directly and indirectly associated with the trading process.

Trade facilitation measures must therefore be designed to assist countries to lower trade costs and become more competitive in regional and global markets. With the removal of most quotas and a general reduction of tariffs, the search for the causes of high trading costs is shifting towards:

- **Costs of transportation and logistics**: determined by components such as availability and quality of logistics services, market structures and the degree of competition that they allow, transportation fleets, and regulatory environments;
- **Physical infrastructure**: for example, hazardous roads, lack of capacity of ports and airports, and railways hampered by decaying networks;
- **Additional market entry barriers**: mandatory or voluntary quality and safety standards which can inhibit the access to regional and overseas markets (particularly prevalent in food trade but also exist in a range of technical products); limited information about overseas markets marketing and consumer demands reduce opportunities.
The extended spectrum of trade facilitation, see Figure 7.1, allows for identification of constraints along the whole of the trading chain, including the factors that can adversely impact a country’s overall trade performance. The challenge is to identify the most important constraints for trade in a specific country and region and to target and design trade facilitation interventions in a way most suitable to the situation. Focusing on constraints at the border may have little impact on trade and competitiveness if there are more important barriers to trade further back in the value and distribution chain.

The realization of the close linkage of an enabling environment and a country’s trade performance has led to a broader agenda for research and cooperation on trade facilitation across sectors and technical fields. Most African countries face a multitude of challenges to integration into the international trading system and therefore value a more comprehensive approach to addressing these issues. Since several of the barriers are most efficiently addressed on a regional level, for example, trade infrastructure and standards, trade facilitation has become a major topic for regional economic communities and cooperation.

**Trade facilitation contributes to Africa’s growth**

Trade facilitation can help countries to reduce trade costs and increase competitiveness of the private sector. Despite the reduction in tariffs and improvement in market access many countries and regions in Africa are still lacking regional and global integration. This disconnection can have negative consequences for the economic opportunities of private sector businesses, employees, and consumers. Despite efforts, some countries have found it difficult to expand trade and take advantage of preferential market access programs, such as the Everything but Arms (EU) and the African Growth and Opportunity Act (U.S.). For example, the main exporters under AGOA still
remain those that trade in oil and other natural resources.

In addition, certain provisions in preferential trading schemes might discourage the creation of regional value chains. For example, if one country loses access to AGOA (eligibility is annually reviewed) producers along the regional value chain might suffer as well. In Madagascar in 2010, the loss of duty-free access for Madagascar’s apparel industry also had negative spillover effects on its suppliers in Zambia, Lesotho, Swaziland, Mauritius, and South Africa (Page and Moyo 2011).

Economic benefits also come from the contribution that trade facilitation can provide to regional integration in Africa. Official intra-African trade is still relatively low and African companies are struggling to participate in regional and global value chains. A recent World Bank report on harnessing regional integration as an opportunity to expand trade in the Southern African region underscores that point (World Bank 2011a). Despite the existing diversity and potential for production, regional value chain production is mostly absent in the region, and as result opportunities for job and income creation are lost.

The dilemma has been widely recognized and has led to the inception of trade capacity building programs, which have evolved into the current Aid for Trade agenda. For example the new World Bank Africa Strategy specifically highlights the issue of competitiveness as one of the three pillars of the new strategy. The new World Bank Trade Strategy also points out, after assessing the lessons from earlier engagement in trade supporting activities:

“Tackling trade costs, therefore, is a core element of the Trade Strategy because they have a direct bearing on poverty reduction.” (World Bank, 2011b).

**Trade facilitation can help reaching development goals**

The aim of facilitating trade is not simply to expand trade but also to focus on the broader goal of sustainable and broad-based economic growth. The expectation is that economic growth becomes a catalyst for poverty reduction by creating more and broad-based job and income opportunities. Quantifying precisely the contribution of trade and export expansion to poverty reduction might be difficult and has been the subject of academic and public debate; nevertheless numerous countries have demonstrated that a vibrant export sector and affordable access to imports can contribute to economic growth and poverty reduction.

Several African countries have been successful in expanding trade and exports, nevertheless countries lacking natural resources such as oil, natural gas, and minerals, have found it more difficult to expand exports. While the well-endowed countries have enjoyed success, partly due to high prices for many commodities, they also have struggled to diversify their export-base to avoid being too dependent on a few export products. The risk of drastic price declines might be limited, but the export earnings from the capital-intensive natural resources sector often benefit a small share of the population and do little to provide substantial new job opportunities.
Contrary to public perceptions, smaller and mid-size companies are a key part of international trade—for example in the U.S. almost 98 percent of exporters in 2009 were small and medium-sized enterprises (companies with fewer than 500 workers) representing 33 percent of exports by value, according to the U.S. Department of Commerce. This demonstrates the essential role of SMEs in connecting to the international trading system.

However, smaller companies might depend much more than multinational companies on reliable trade-enabling environments. Large companies, for example, might be able to create private solutions to a lack of infrastructure by investing in company roads and port facilities. Also, in the policy debate the voice of large companies are often better represented than those of SMEs, which tend to be less organized and not well connected to policy-makers.

Trade facilitation efforts should therefore focus on establishing a fostering environment for SMEs by addressing the whole trade value chain. A successful example of where trade facilitation measures have been pivotal in assisting a landlocked country in reaching international markets is the export of fresh mangoes from Mali to Europe. The export program, which was supported by international donors, was able to overcome several challenges including transport and logistics problems, lack of market information and investment on the production level, as well as a less than conducive regulatory environment for exporters. By designing interventions along the whole value chain, including harvest and transport, Malian exporters were able to access the market in Europe, benefiting small-scale growers in Mali (Sangho et al. 2010).

Figure 7.2: How trade facilitation can contribute to reaching development goals
Trade facilitation measures to reduce trade costs

The trade facilitation measures can reduce the costs of trading in Africa in a variety of ways. A number of reforms can help to reduce the time needed for travel, border-crossings and administrative procedures: better border management, such as the introduction of automated customs systems and streamlining of border procedures. For example, the modernization of border-crossing facilities and streamlining procedures (see the example of the Chirundu border post between Zambia-Zimbabwe in Box 7.1) have reduced waiting times and resulted in lower costs for traders.

Box 7.1: One stop border post: Chirundu between Zambia and Zimbabwe

The Chirundu one-stop border post between Zambia and Zimbabwe was officially inaugurated in December 2009. It was hailed as the first African one-stop border post.

The goal is to address the challenges of one of the busiest border crossings in the region where transporters experienced significant delays due to clearance of consolidated loads and procedures by the revenue authorities at the border (Curtis 2009).

The establishment of the one-stop border post has provided some significant improvements, for example, passengers and commercial traffic stop only once to complete border formalities for both countries, and waiting times for commercial traffic have been reduced from about four to five days to a maximum of two days and often to a few hours.

However, the process of transforming the border-crossing and complete integration of all procedures is a long-term project that has shown that trade facilitation is not only about bricks-and-mortar investment but requires commitment, negotiations, and harmonization of procedures and policies. The initial results also indicate that it is very important to start the discussion on reforms of rules and procedures early in the process.

Source: TradeMark Southern Africa 2011

Reduced travel times but also less wear-and-tear and lower fuel consumption for transport fleets can increase trading opportunities. The rehabilitation and modernization of trade infrastructure can spur investment in modern fleets with more loading capacities leading to greater efficiencies.

Other areas for reducing trade costs are harmonized technical, product, and safety standards. Producers and traders can lower their costs if products and services can be delivered to a larger number of consumers in different markets. However, adjusting to the cornucopia of official and informal technical, product and safety requirements in different local and regional markets in Africa, often adds to the costs for producers and consumers. The lack of information about requirements and different enforcement procedures reduce the reliability of delivering products and services.

Better roads, especially along the main transport corridors improving the North-South connections, and more investment in railroads and ports have contributed to costs savings.
Trade facilitation measures improve competitiveness

Trade facilitation measures contribute to improved competitiveness of private sector companies. To achieve deeper regional trade and greater integration into the global trading system, private companies have to be able to compete in price and quality. Yet their chances of success increase considerably if companies can operate in a trade-enabling environment. Competitiveness of companies is closely related to the ability to transport and provide products and services at competitive rates but also to be able to develop and produce new products and services. Local capacities and regulatory environments to create new products and produce according to consumers’ demands with limited administrative burdens are key factors to success. Hence, trade facilitation interventions are an important feature of comprehensive efforts for developing the competitiveness of the private sector in Africa. However, the critical piece of policy and regulatory reforms, which contributes to reduce overall trade costs and enhance competitiveness, has not received the necessary attention.

Setting priorities for trade facilitation

Essential: Need for policy reforms

Countries have often invested significant amounts of money, sometimes with the help of international donors, in trade facilitation projects, but have often neglected to implement the necessary policy reforms to fully utilize these investments.

For example road improvements, especially along the main transport corridors, provide many benefits for transporters and traders, less damage to trucks, and reduced travel times; however, too often the impacts are less than they should be. Consumers and producers frequently do not benefit from the fall in costs due to uncompetitive market structures and obsolete regulatory environments. It is therefore essential that infrastructure investment is accompanied by typically less costly (in financial but not political terms), but often more intricate, policy and regulatory reforms. Successful reforms require a long and intensive commitment by countries and potential supporters, because the changes to institutions, laws, and regulations demand intensive dialogue to find compromises and the best solutions for the country or countries involved. For example, it is important to consider how negative unintended consequences, especially for vulnerable groups can be avoided or mitigated. Since this work is generally less glamorous because it lacks visibility to the public and donors, policymakers often shy away from this inherently difficult but essential part of trade facilitation. Nevertheless there is good news about such reforms: they are a cost-effective way to encourage trade.

“Soft trade facilitation” is an effective way to assist low-income countries

Hard infrastructure projects are visible signs of assistance and economic cooperation; however the less visible support of reforming the regulatory and business environment in a country is often at least as important as the roads and bridges. The so-called “soft trade facilitation” is often the hardest to implement; such work frequently faces strong vested interest in the countries and takes place without the ribbon-cutting ceremonies and
other public events that make it more attractive for politicians and the donor community.

However, in times of tight budgets this should be of great interest: research by Helble, Mann, and Wilson (2009) indicates that aid for trade money spent on policy and regulatory reform might be a particular prudent investment. The research focused on the question of how aid spent on trade facilitation relates to trade flows (export and imports). Based on calculations about effectiveness of aid for trade facilitation, the trade initiating effect of one dollar spent on measures directed towards trade policy and regulation reform were estimated to be dramatically higher than the trade creation from investments in the other areas of trade support (economic infrastructure and trade development).

The main benefit according to this study comes from providing “soft” trade facilitation support. The introduction of policy reforms and improving the regulatory environment is less costly and provides significant impacts. Of course the costs for infrastructure projects are high compared to advisory services, for example, but the important result is that relatively small amounts of money invested in the areas of regulatory and policy reform can have a large impact on trade expansion. Measuring the exact benefit of such trade assistance is difficult, but the basic message stays the same: policy and procedural reforms are very effective ways to foster an environment where traders and producers can take advantage of market opportunities.

Nevertheless policy and regulatory reforms are difficult to implement because of several complicating factors. The status quo has winners and losers. In most cases trade restrictions benefit a small group while those who bear the costs of the trade barriers are numerous. For example, outdated transport regulation in large parts of the trucking sector in West Africa is beneficial for some transporters but has prevented lower prices for consumers. However, consumers lack sufficient information on what drives the prices for everyday products and rarely organize themselves against trade restrictions. Specifically, if the additional costs are small per purchase,(for example, agricultural trade barriers might cost consumers in the U.S. and the EU a few cents every time they shop) the willingness of consumers to organize political pressure to remove such barriers is limited. The dynamics of the political economy of reform has occupied economists and political scientists for a longtime. For example Mancur Olson in 1965 “The Logic of Collective Action: Public Goods and the Theory of Groups,” addressed the issue of how groups can form around the benefits they can protect. Protecting these benefits can be a motivating factor in defending the status quo. If trade barriers protect certain jobs it is easy to see why the potential losers might evidence strong resistance to change if such change would mean a loss of income.

**Trade facilitation is a multi-sectoral approach**

Trade facilitation covers activities across a wide range of sectors along the value chains important for production and trading. Any comprehensive approach to trade facilitation includes complimentary activities so that investment and progress in one area, (e.g., infrastructure investment in roads) is not stifled by the absence of reforms in another (e.g., the transportation sector) so that the investment benefits a broad range of society and encourages economic growth. To be successful,
trade facilitation must address this cross-sector character at the planning phase of the measures taken to support trade.

Among the sectors profiting from trade facilitation measures are the transport and logistics sectors. Transport costs in sub-Saharan Africa have remained high despite investment in the transport infrastructure in recent years. However, transport costs depend on a range of factors, such as capital, labor, and fuel costs in addition to service costs for maintenance. The costs for transporting goods in Africa differ considerably between regions. Central and West Africa generally facing higher prices for road transport than Southern Africa, for example, due to formal or informal queuing systems in the trucking sector, which has led to uncompetitive market structures. As a result traders and consumers lose out on the potential benefits from improved transport infrastructure (Teravaninthorn and Raballand 2009).

Services are another important sector that can benefit from trade facilitation but have often been neglected in public debate about the benefits of trade. While trade in services is less visible the greater integration of regional markets in services has important economic potential. For example the closer integration of professional services in the Southern Africa region could provide job opportunities, address skill shortages and lower input prices for businesses (World Bank 2011a).

Business services have become an important factor for success for exporting companies. Companies trying to establish themselves in regional and global market often rely on the business service providers for essential inputs. Access to technical advice, marketing expertise, and legal and accounting services is important to be able to compete in international markets.

Services can also help to develop new export products, as well as being a major export sector themselves. These exports can include a wide range of services, for example education, legal services, and accounting and technical advice. Trade facilitation measures can address the regulatory environment in which these exports can take place, for example improving mutual recognition of educational and technical certificates.

**Trade facilitation to improve private sector capacity**

Trade facilitation contributes to the expansion of private sector capacity to participate in international trade. Private sector actors, especially small and medium-sized businesses, often lack the know-how and capacity to meet the requirements of formal trading across borders. Smaller traders might be active in informal cross-border trading but find it difficult to expand due to limited financial resources and lack of information about requirements and procedures in markets abroad. Many small enterprises, which provide a large number of jobs and incomes in Africa, find it difficult to meet the prerequisites for formalization because of limited information and capacity or high costs relative to limited benefits. However, the purpose of trade facilitation is to expand trade beyond large companies and already successful trading networks. Even mid-sized

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1 In these queuing systems large and small firms “queue up” and loads are distributed according to next turn. The goal of these systems has been to ensure the survival of small companies but has led to less competition, higher prices, and low-quality service.
companies often find access to information and financial resources difficult, which are necessary to adjust to price, quality, and safety standards in new markets. Trade facilitation measures can assist with access to information and support transparent procedures of formalization, such as licenses and standards.

**How to integrate trade facilitation across sectors**

The challenge for countries is to incorporate trade facilitation in overall development and poverty reduction strategies. Trade capacity building, which focused on specific technical assistance, has become broad-based Aid for Trade to address obstacles in whole value chains and sectors. Only integrated analysis of all factors can reveal major constraints to trade and economic growth. This essential analytical step needs to be conducted with substantial input from local and regional actors to obtain a realistic picture of the barriers with the biggest impact not simply those most visible. Trade facilitation support often encourages multi-sector concepts, and countries should therefore consider the benefits of integrated reform concepts. In addition, regional solutions are often feasible and can help to reduce costs, improve efficiency, and the exchange of best practices.

Assume, for example, a country with natural resources or agricultural potential wants to improve the use of those resources. One obstacle for expansion of production and trade might be a lack of infrastructure and production capacity. Even when private investors (local or outside) are found to invest in production expansion the infrastructure needs require additional financial sources. International development banks have been active in supporting transport corridors in Africa, Central Asia and other regions. Countries benefiting for this enhanced connectivity can then use trade facilitation measures to address regulatory barriers in transport and logistics, for example, or remove persistent roadblocks along trade corridors. Cross-sector integration can be achieved through reforms of the business environment for small and medium-size enterprises along the trade corridors or as suppliers for the expanded production area. Simultaneously the removal of transit restrictions and open trade policies with neighboring countries ensures the goods can be sold across the border or easily trans-shipped to markets outside of the region.

Creating transparent mandates, along with identifying and assigning specific tasks to the cooperating agencies and donors can achieve a coordinated approach among government agencies, the private sector, and donors. Some countries have opted for creating committees or other coordinating mechanisms to promote and monitor progress. While this requires close cooperation among all actors plenty of success stories show that cooperation across sectors is an essential ingredient for encouraging trade and economic opportunities.

**Trade facilitation and the informal sector**

Trade facilitation can play a pivotal role in supporting small-scale informal traders. This support may, in the long run also bring more participants from the informal sector into the official economy. The informal sector often faces an even more onerous trading environment. For example, in the Great Lakes region in Central Africa the majority of traders between the Democratic Republic of Congo...
(DRC), Uganda, Burundi and Rwanda are small-scale traders, predominantly women.

These traders face a wide range of obstacles to their daily cross-border transports of small amounts of goods. According to research and surveys the traders have to pay unofficial fees and bribes and often experience physical harassment at the border. Despite these challenges the traders and their families depend on the trade for their income but with little influence over policy-makers power to improve trading conditions (see Chapter 2).

Cross-border traders between DRC and the Republic of Congo confront prohibitive prices for official river crossings between Kinshasa and Brazzaville, according to research and surveys. Because of high administrative costs most companies have abandoned shipping across the river or use informal methods to get their goods to the other side. The average cost of a return trip for official crossings are estimated to be about US$40, or the equivalent of between 40 and 80 percent of the average monthly income earned by Kinshasa residents (see Chapter 3).

Trade facilitation can contribute to reducing the costs of trading for those vulnerable groups that work on small margins and have a limited, if at all, financial safety net. Even low-cost trade facilitation measures, such as training of border guards or installing proper illumination at border crossings, can have almost instant impact for traders and the informal sector. In addition, improving hard and soft trade infrastructure important for small and rural traders and producers, such as feeder roads to regional markets, and establishing market price information systems, policy and regulatory reforms often benefit the informal sector. Laborious paperwork requirements with little transparency and high fees can be an insurmountable barrier for informal traders to join the formal sector. This often deprives the trader of rights and security during their transactions and the state receives less revenue that could be used in providing government services.

**Regional integration**

Trade facilitation and regional integration are joint enterprises. Trade facilitation is a key instrument in advancing regional integration by fostering intra-African trade that enhances economic opportunities and competitiveness. In addition, closer political and economic cooperation on the regional level, for example through the regional economic communities, contributes to the creation of the necessary environment for the private sector development essential for intra-regional trade.

Regional integration is necessary for African companies to be able to grow and ultimately become part of regional and global value chains. Other emerging economies, for instance in East Asia, are already further integrated with clear economic benefits. Despite existing agreements on closer integration, most regions in Africa are still trying to implement many of the basic provisions of these agreements. Nevertheless, this is an essential step if African countries are to become and stay competitive in the more closely integrated global economy. In contrast developing countries in Asia such as Vietnam have become an integral part of regional and global production chains. Asia has become the second biggest trader, behind Europe, of intermediate goods an indicator of greater regional integration, with Vietnam being among the most active importers in the last 15 years (WTO-IDE 2011).
Trade facilitation measures support closer regional integration through regional trade infrastructure, such as trade corridors, but also by supporting bilateral cooperation at the border. For example, the goal of one-stop border posts is to reduce paperwork and waiting times; this requires not only physical infrastructure but also detailed agreement on mutual recognition of process and procedures.

Regional agreements often include additional trade facilitation measures, such as harmonization of safety and quality standards for regional products. Mutual recognition of services such as truckers insurance and educational degrees are important for developing integrated economic areas that benefit from synergies and reduced transaction costs.

An important factor for trade and economic development in general is the availability of cross-border financial services. Trade facilitation and regional integration agreements assist with creating regional financial transfer systems that reduce transaction costs and can help to make financial services more accessible. Particularly, small and medium-sized enterprises and traders, often working in the informal sector, have limited access to credit, banking, and other financial services. Those services might encourage trade expansion for those producers and traders not already well connected to cross-border trading networks.

**Future opportunities for Africa**

Trade facilitation is an integrated part of development strategies in most African countries because it is a catalyst for further progress in areas beyond trade and export expansion. Trade facilitation can provide these important opportunities:

- More open trade connections, in food staples for example, can encourage regional trade and reduce vulnerability from food insecurity;
- Regional cooperation on trade facilitation can contribute to closer integration beyond trade. For example, addressing regional standards on products, services and procedures encourages trade but also intellectual exchange and collaboration on safety and social concerns affecting often a whole region beyond national boundaries;
- Closer regional integration will provide opportunities for developing regional value chains that increase competitiveness and provide access to the increasingly globalized value chain production;
- Finding common positions on trade-related issues and so enhancing the ability to represent these interests in the international arena.
- Since the main goal of trade facilitation is to reduce trade costs the following (measurable) objectives for trade facilitation could be used to set benchmarks to assess progress. However, this will require coordinated efforts in the areas of data collection and defining benchmarks, and will require consistent monitoring by all partners. Objectives could include:
  - Trade costs
  - Export expansion (amounts, value and diversification of exports)
  - Cross-border trade with neighboring countries
Transport delays are reduced (focus on the relevant bottlenecks in each country)

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