

1. Introduction

Linking African Markets: Removing Barriers to Intra-Africa Trade

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Introduction

Regional integration in Africa has long been recognized as essential to address the issues of the small economic size of many countries and the often arbitrarily drawn borders that pay little heed to the distribution of natural endowments. But, as is often noted, Africa trades little with itself, at least to the extent that is recorded in official customs statistics. For example, the share of intra-regional goods trade in total goods imports is only around five percent in COMESA, 10 percent in ECOWAS and eight percent in UEMOA. This compares with over 20 percent in ASEAN, around 35 percent in NAFTA and more than 60 percent in the EU. On the other hand, intra-regional trade in MERCOSUR is about 15 percent of total imports and less than eight percent in CACM (see Acharya et al. 2011).

Africa is not achieving its potential in regional trade. The contributions to this volume highlight the enormous scope for increased cross-border trade in Africa and the reasons why such opportunities are not being exploited. Regional trade can bring staple foods from areas of surplus production across borders to growing urban markets and food deficit rural areas. With rising incomes in Africa there are emerging opportunities for cross-border trade in basic manufactures such as metal and plastic products that are costly to import from the global market. The potential for regional production chains to drive global exports of manufactures, such as those in East Asia, has yet to be exploited, and cross-border trade in services offers untapped opportunities for exports and better access for consumers and firms to services that are cheaper and provide a wider variety than those currently available.

This unrealized potential is evidenced by the fact that a significant amount of cross-border trade does take place between African countries, but it is constricted to informal channels and is not measured in official statistics. Such trade is essential for welfare and poverty reduction, since poor people, and especially women, are intensively engaged in the informal production and trading of the goods and services that are actually crossing African borders. Allowing these traders to flourish and gradually integrate into the formal economy would boost trade and the private sector base for future growth and development.

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The main objective of this introductory chapter is to draw attention to the key reason why Africa's potential for regional trade remains unexploited: the high transaction costs that face those who trade across borders in Africa. The contributions to the volume discuss a wide range of policy related barriers that drive up costs and limit trade. The volume is organized around the following three related policy issues:

1. Facilitating cross-border trade, especially by small poor traders, many of whom are women, by simplifying border procedures, limiting the number of agencies at the border and increasing the professionalism of officials, supporting traders associations, improving the flow of information on market opportunities, and assisting in the spread of new technologies such as cross-border mobile banking that improve access to finance.
2. Removing a range of non-tariff barriers to trade, such as restrictive rules of origin, import and export bans, and onerous and costly import and export licensing procedures
3. Reforming regulations and immigration procedures that limit the substantial potential for cross-border trade and investment in services.

The main message of this work is that to deliver integrated regional markets that will attract investment in agro-processing, manufacturing and new services activities, policy makers have to move beyond simply signing agreements that reduce tariffs to drive a more holistic process to deeper regional integration. An approach is needed that: reforms policies that create non-tariff barriers; puts in place appropriate regulations that allow cross-border movement of services suppliers; delivers competitive regionally integrated services markets; and builds the institutions that are necessary to allow small producers and traders to access open regional markets. The appropriate metric for successful integration is not the extent of tariff preferences but rather reductions in the level of transaction costs that limit the capacity of Africans to move, invest in, and trade goods and services across their borders.

This is a different approach to one that proceeds within the straightjacket of specific sequential steps to integration: free trade area, customs union, common market, and economic and monetary union. For example, there are enormous opportunities from trade in services in Africa that are not dependent on a common external tariff being in place. Countries can work to improve trade facilitation at the border and to remove non-tariff barriers with neighbors while free trade agreements are being designed and implemented. Countries that are not members of the same free trade agreements can work to disseminate information on market prices to producers and traders.

The chapter starts with a review of recent export performance in Africa, noting the strong growth rates in many countries. However, the impact of such growth on employment and poverty has been very muted and important challenges remain, especially with regard to greater diversification of exports, and it is here that effective regional integration that reduces transaction costs can play a key role. The paper then discusses the key barriers that raise costs for traders and continue to fragment the African market. Finally, the paper ends with some specific recommendations for action that policy makers can take at the regional level to support integrated markets in Africa and discusses how the World Bank and other donors can support those wishing to implement the necessary reforms.

Regional Integration Can Play a Key Role in Export Diversification

Until the onset of the financial crisis, most sub-Saharan African (SSA) countries grew rapidly and often at much higher rates than the world average. Economic growth in these countries was robust and driven by the boom in commodity prices, which led to very high growth in export values, especially for minerals, to new fast-growing markets such as India and China. All SSA countries experienced steep export declines in 2009, but have since recovered sharply on the back of increased exports to China. SSA exports to the OECD markets fell in 2009 as a result of the financial crisis as did their exports to China, except for EAC, which grew in that year. Since then SSA exports to OECD markets have only shown slow growth from their 2009 trough. But exports to China have grown much more rapidly. For example, EAC exports to the OECD countries were over 20 times the value of those to China in the first half of 2008 (US\$1.9 billion versus US\$88 million) but two years later were only six times higher (US\$1.7 billion versus US\$259 million). However, most of this new trade with China is in primary commodities, particularly precious metals, which are low value-added and/or capital intensive.

While exports have grown strongly over the last decade, and the region's trade has recovered well from the global crisis, the impact on unemployment and poverty has been disappointing in many countries. Unemployment remains around 24 percent in South Africa. In Tanzania, extreme income-poverty appears to have remained broadly constant at around 55 percent of the population. In Burkina Faso, income-poverty has been stagnant since 1997. This reflects that export growth has typically been fueled by a small number of mineral and primary products with limited impacts on the wider economy and that formal sectors remain small in many countries.

Hence, key objectives in Africa remain to diversify the export base away from dependence on commodities and implement policies that allow more people to participate in trade. This requires measures that will improve the conditions of firms and individuals in informal sectors, increasing their opportunities to interact with formal sector firms and providing a coherent route towards formality. Informal sector actors must be seen as providing an enormous opportunity for growth and poverty reduction rather than simply as a source of revenue loss that must be removed. Growing and more youthful populations increase the need for more inclusive and employment intensive trade and growth and at the same time offer a real opportunity for Africa to harness an enormous potential advantage that can drive productivity and growth over a sustained period as happened in east Asia in the 1980s and 1990s and more recently in China.

Regional integration and the boosting of intra-regional trade can play a critical role in achieving these objectives in Africa. Deeper integration of regional markets can lower trade and operating costs and relax the constraints faced by many firms in accessing the essential services and skills that are needed to boost productivity and diversify into higher value-added production and trade. Goods traded across borders in Africa will tend to be more employment intensive than minerals and the facilitation of such trade is likely to have a more direct impact on poverty in terms of the poor who both produce and trade the basic foodstuffs that dominate such trade. (See, for example, Chapter 2 by Brenton et al., which draws attention to the participation of poor women in cross-border trade in the east of the Democratic Republic of the Congo (DRC) and the bad conditions they often face in crossing the border, which are briefly summarized in Box 1.1.)

One imperative is to address the long-standing problem of overlapping trade agreements that have different commitments. Many countries are party to multiple agreements. Since each regional community has tended to develop its own trade regime (for example SADC has a very different set of rules of origin governing the granting of trade preferences to that of COMESA), the membership in multiple agreements often entails applying differing trade rules to different regional partners. This hampers trade flows by raising the costs involved for traders in meeting multiple sets of trade rules and gives rise to inconsistencies in the rules and procedures applied by the different trade agreements, distorting regional markets and causing severe problems of effective implementation. Indeed, important steps are being made to rectify this problem such as in eastern and southern Africa where a new initiative is being pursued to bring together COMESA, EAC and SADC under a single tripartite arrangement.

Box 1.1. Risky Business: Poor Women Cross-Border Traders in the East of the DRC

Cross-border trade between the DRC and neighbors in the Great Lakes region is dominated by women and provides an essential source of income to many households in the region. A recent survey of traders at four border posts in the region identified the following key features of cross-border trade: the majority of traders are women (85 percent of the respondents); most of the officials who regulate the border are men (82 percent); for almost two-thirds of the respondents, income from cross-border trade is the main source of income, and most (77 percent) report that household income is heavily dependent on their trading activity.

Cross-border traders regularly have to pay bribes and suffer harassment. The responses from the survey paint a dark picture of the conditions experienced by poor women cross border traders. It is striking that payments of bribes is a regular occurrence for the majority of traders. Respondents at all four border posts repeated a catch phrase used by officials: “sans argent, on ne passe pas” (no money, no passing). An important feature of border crossings between the DRC and neighboring countries in the Great Lakes region is the large number and range of officials at the border. This exacerbates the problem of poor governance with negative consequences for cross-border traders. A lack of transparency and awareness by both traders and officials of the rules and regulations that are supposed to govern cross-border movements of goods and people compound this situation. A typical account of every day conditions is provided by an egg and sugar trader from Goma: “I buy my eggs in Rwanda; as soon as I cross to Congo I give one egg to every official who asks me. Some days I give away more than 30 eggs!”

A large number of traders report being subject to acts of violence, threats, and sexual harassment. Traders are exposed to beatings, verbal insults, stripping, sexual harassment, and even rape. Much of this abuse is unreported.

Cross-border traders face regular losses in the form of the almost mandatory payment of bribes and are regularly subject to harassment and physical abuse. This lack of economic and physical security and safety undermines the livelihoods of these traders and compounds their lack of access to finance, information, and business knowledge.

Nevertheless, there are critical policy issues to be addressed beyond ensuring consistency between different regional communities. A key theme of this collection of papers on trade in Africa is that the recipe and toolkit for successful regional integration in the 21st century is quite different from that pursued in the 20th century. Old regionalism focused on the mutual exchange of tariff preferences and trade in goods. The new regionalism concerns a wide range of regulatory issues and is about the “trade-investment-services nexus” (Baldwin 2011). The exchange of tariff preferences has not stimulated regional trade and economic development and the potential for regional integration to drive diversification into a wider range of higher value added goods and services has not been exploited. Regional integration in Africa has not provided a springboard for new exports to the global economy, as happened in East Asia, and cross-border trade remains primarily informal because the costs of trading across borders in Africa remain very high.

There has been considerable success in removing tariffs on intra-regional trade, especially in Eastern and Southern Africa where, for example, the EAC has implemented a Customs Union and 85 percent of intra-regional trade in SADC is duty free, but less so in Central and Western Africa where only very

limited amounts of trade cross borders with a regional tariff preference. Nevertheless, the importance of tariff preferences has diminished. In the modern world economy the scope for tariff preferences to drive economic integration and economic development has been very much neutered. This reflects, first, that all countries in Africa reduced their external tariffs during the final 20 years of the last century. This has reduced the scope for significant trade preferences in all but a few sectors. Second, and more important, as tariffs have come down the need to address a range of non-tariff barriers that severely limit cross-border trade has become apparent. At the same time, the declines in communications costs and the splitting up of production chains to allow different tasks to be completed in different locations have transformed the nature of global trade. This has put a high premium of on low transaction costs for shifting goods, services, people, and capital across borders.

There is Substantial Scope for Trade Across Borders in Africa

It has been commonly argued that regional integration can only play a limited role in Africa because of the similarity of endowments between countries. However, this does not reflect the enormous opportunities for cross-border trade in agricultural products from areas with a food surplus to food deficit areas that result from differing seasons and production patterns. For example, Southern Malawi is not well endowed with agricultural potential and is a persistent food deficit area. Nearby Northern Mozambique is a productive area for growing maize, the main staple of the region, but it is distant from the main area of national consumption in the south of the country. Differences in weather patterns entail low correlations in production between countries and that regional production is less variable than production at the country level. Hence, regional trade integration can have a substantial impact by better linking farmers to consumers across borders and in ameliorating the effects of periodic national food shortages and increasing global food prices.

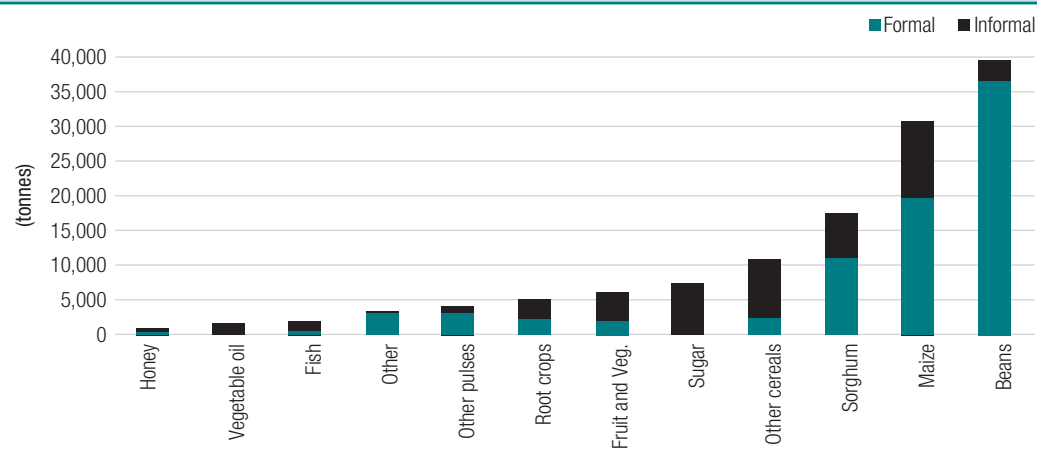
Indeed, the production of food staples for growing urban markets and food deficit rural areas represents the largest growth opportunity for Africa's farmers. The market value of Africa's food staple production is a least US\$50 billion per year, equivalent to three-quarters of all agricultural output (World Bank 2008). Given population growth and increased urbanization, Africa's demand for food staples will grow dramatically in the coming decade. Linking rural food surplus production zones in Africa to major deficit urban consumption centers requires a well-functioning regional market for these products. However, African small holder farmers who sell surplus harvest typically receive less than 20 percent of the market price of their products with the rest being eaten away by various transaction costs and post harvest losses (AGRA 2009). This clearly limits the incentive to produce for the market.

There is, however, a significant amount of cross-border trade that takes place between African countries that is not measured and therefore official statistics considerably understate the amount of intra-regional trade.² Due to the lack of consistent measurement

² In Chapter 4, Yoshino et al. explain that there can be complementarity between formal and informal trade, which underlines the similarity in products traded formally and informally. Informal trade activities can take place as stand-alone cross-border transactions such as crossing borders outside of the areas covered by border posts. But in many cases, informal trade takes place next to formal trade at border posts. The same goods can cross the border formally or informally—by foot, bicycle, motorbike, passenger car, bus, carried in small quantities. A number of the chapters in the volume demonstrate that informal trade is not characterized by avoidance of official border crossings but rather by the lack of organization of the traders undertaking the trade.

Figure 1.1 >

Formal and Informal Trade by Food Commodity in East Africa January–June 2011



Source: FEWS NET.

tools and reliable data, it is difficult to get an accurate overview of the actual scope of informal cross-border trade that takes place in sub-Saharan Africa, however, a number of studies and surveys reveal that unrecorded trade flows represent a significant share of cross-border trade in the region. Surveys indicate that in some African countries, informal regional trade flows represent up to 90 per cent of official flows. In Uganda, for instance, informal trade grew by 300 percent from 2007 to 2009, where informal exports to neighbors is estimated to account for around 86 percent of official export flows to these countries.⁵

The vast majority of informal cross-border trade in Africa involves staple food commodities, livestock, and low quality consumer goods, and often consists of small, irregular consignments in border areas. However, these small consignments, when added up, constitute significant aggregate volumes representing up to over half of official flows (Figure 1.1). In West Africa, informal cross-border trade has extended to the entire territory of countries. Cross-border flows of gasoline, grain and fertilizer from Nigeria have, for instance, moved beyond border areas in Niger and penetrated Mali, Burkina Faso, and Ghana (Lesser and Moisé-Leeman 2009).

In addition, as countries in Africa grow and develop, opportunities for cross-border trade are arising in basic manufactures such as plastics, simple chemicals, paints and cosmetics, construction materials, and pharmaceuticals.⁴ Significant amounts of plastic containers produced in Kampala are taken across borders and sold in South Sudan and the DRC. Basic manufactures are shipped from Nigeria across the border into Cameroon. Typically, these products are very expensive to transport long distances in finished forms and the processing of basic materials usually takes place closer to consumers.

There is also the potential for regional production chains. In Asia, advanced production networks have deepened regionally and underpinned its spectacular global export growth

⁵ Uganda Bureau of Statistics.

⁴ Panapress reports that the Cape Verdean pharmaceutical company, Inpharma, is exporting products to Guinea-Bissau as well as Sao Tome and Principe and is considering markets in other neighboring countries, such as Guinea Conakry. The pharmaceutical company produces 75 drugs in Cape Verde.

from a poor, underdeveloped agricultural backwater to becoming the global factory over a 50-year period. In the 1960s, developing Asian economies lacked natural resources and had high levels of poverty. There seemed to be little prospect of economic advancement. However, Asian economies had ample supplies of inexpensive, productive manpower, not unlike many African countries today. They were also close to an expanding high-income Japan, with firms seeking to expand to lower cost destinations. Subsequently, intra-regional trade in Asia increased significantly, particularly in the production of parts and components with each process relocating to the most cost-effective destination in the region.

This trade in parts, components, and accessories encouraged specialization of different economies, leading to “trade in tasks” that adds value along the production chain. Specialization is no longer based on the overall balance of comparative advantage of countries in producing a final good, but on the relative efficiencies in providing different “tasks” at specific steps along the global value chain (WTO 2011). This in turn implies concern that production similarities in Africa limit the scope for intra-regional trade is less pertinent, and that efforts to develop production capacities prior to removing barriers to trade may be fruitless and will likely deny opportunities to develop specialization in particular tasks and the emergence of cross-border production networks.

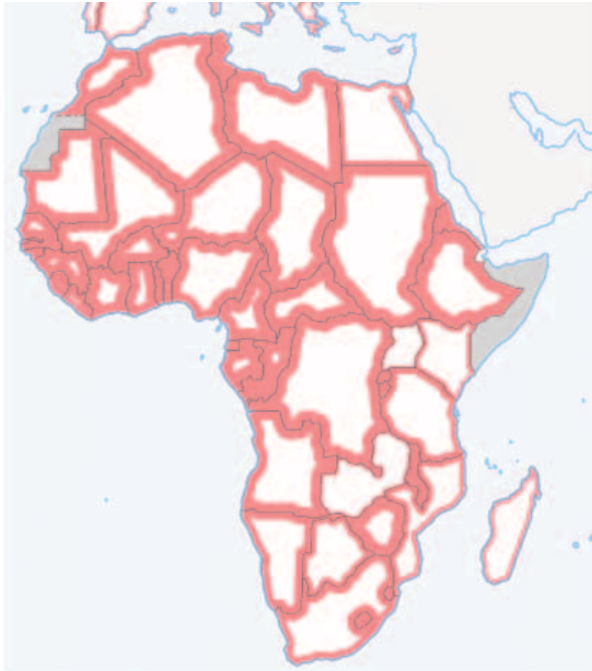
Factory Southern Africa has yet to materialize, despite the fact that South Africa has the logistics, expertise, and the capital to compete globally but these factors need to be combined with cost-effective endowments of labor and natural resources located in the smaller countries (World Bank 2011a). Production processes have not been broken down into smaller processes due to the persistence of trade barriers that raise trade costs and create uncertainty. And in those few cases where integrated production networks have appeared, they have been stifled by restrictive policies. If all countries were to open up to the region, exploiting these advantages collectively would encourage vertical specialization and the emergence of regional value chains thereby creating employment and promoting export diversification. Similar production chains could emerge around Nigeria and Kenya, the regional powerhouses of West and East Africa.

Finally, there is the potential for cross-border trade in services. Services trade between African countries is also poorly measured but examples of the opportunities that are available are becoming increasingly apparent. For example, Uganda has become a successful exporter of education services to countries in East Africa. In West Africa, Nigerian financial institutions have expanded branch networks throughout the region making available the benefits of scale to consumers in very small countries. African supermarket chains are spreading throughout the continent. Cross-border mobile banking can transform payment mechanisms for small informal traders and facilitate the spread of financial services in poor communities (see Chapter 6 by Maimbo and Saranga).

Cross-border Trade in Africa is Limited by Thick Borders

As indicated, there are numerous opportunities for firms and individual traders to increase trade across Africa’s borders and at the same time reduce dependence on a few resource based exports to the global market, contributing to food security, increasing employment, and reducing poverty. But what is preventing these opportunities from being exploited? In Asia, reductions in trade costs across the region drove increasing integration and cross-border trade and supported strong export growth to the global market. However, in Africa

Figure 1.2 >

Borders in Africa Remain Very Thick^a

Source: World Bank (2009).

^aThe wider the border, the more the country limits trade, travel and the flow of factors of production. The measure uses information on average tariffs, capital openness, proportion of countries that need a visa to visit that country, and a press freedom index that includes information such as internet filtering. For more details see World Bank 2009.

borders remain very thick relative to other parts of the world, fragmenting the African market see Figure 1.2.

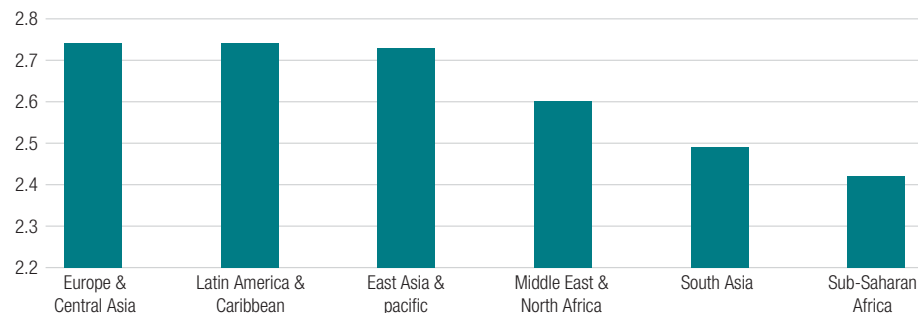
The World Bank's Logistics Performance Index, based on a worldwide survey of global freight forwarders and express carriers, demonstrates that African countries lag significantly behind other regions in key areas such as customs, infrastructure, competence in logistics, and timeliness of exports and imports (World Bank, 2010a). Figure 1.3 shows that sub-Saharan Africa performs relatively poorly relative to other regions in the quality and performance of trade related logistics.⁵

This is reinforced by the results of the latest Doing Business report. This shows that in sub-Saharan Africa it takes, on average, 38 days to import and 52 days to export goods across borders, whereas the number of days required is significantly lower in other regions. Similarly, the cost of trading across borders is the highest in the sub-Saharan Africa region, over twice as high compared to East Asia and OECD countries.

World Bank (2011b) compares the prices of agricultural products in a wide range of markets in Burundi, the DRC and Rwanda. The analysis finds that the effect of crossing

the Burundi-Rwanda border on relative prices is equivalent on average to pushing the two markets an additional 174 km or 4.6 hours further apart. However, crossing the

Figure 1.3 >

Logistics Performance Index 2010 – Regional Averages

Source: World Bank 2010

⁵ Higher numbers represent better performance.

Table 1.1 > Trading across Borders in SSA is Costly and Time Consuming

	Days to export	US\$ per container cost to export	Days to import	US\$ per container cost to import
EAP	22.7	890	24.1	935
ECA	26.7	1,652	28.1	1,845
LAC	18.0	1,228	20.1	1,488
MENA	20.4	1,049	24.2	1,229
OECD	10.9	1,059	11.4	1,106
SAR	32.3	1,512	32.5	1,744
SSA	32.3	1,960	38.2	2,492

Source: Doing Business (2011)

Burundi-DRC border is equivalent on average to pushing markets in each country 1824 km or 41 hours further apart whereas crossing the DRC-Rwanda border is equivalent to adding an extra 1549 km and an additional 35 hours. This reflects the very high financial and physical costs in crossing the DRC border that are summarized in Chapter 2 by Brenton et al. (also see Box 1.1).

Kinshasa-Brazzaville, currently the third largest urban agglomeration in Africa, and predicted to become Africa's largest city by 2025, has an international border running right through it. This regional hub of economic activity is the obvious focal point for cross-border exchanges between the two Congos. Chapter 3 by Brulhart and Hoppe "Economic Integration in the Lower Congo Region: Opening the Kinshasa-Brazzaville Bottleneck" shows that despite their size, proximity and status as regional trade hubs, both formal trade and passenger traffic between the two cities is pitifully small. Only 1.12 percent of all imports recorded by the Republic of Congo (RC) come from the Democratic Republic of Congo (DRC). Passenger traffic is around five times smaller than that between East and West Berlin in 1988—well before the dismantling of the Wall! The volume of passenger traffic, scaled to city sizes, is also just a half of one percent of the size of river-crossing passenger traffic in Kisangani, another conurbation straddling the Congo River, but not crossed by a national border.

The cost of crossing the Congo River at the Malebo Pool jumps out as the main culprit. The average cost of a return trip is estimated at US\$40, equivalent to between 40 and 80 percent of the average monthly income earned by Kinshasa residents. If residents travelling between San Francisco and Oakland (which are separated by a similar distance) had to pay pro rata the same level of fees as people crossing from Kinshasa to Brazzaville they would pay between \$1200 and \$2400 for a return trip! The costs of formally shipping goods across the pool are also exorbitant. These absurdly high prices largely result from lack of competition in river crossing services in the form of the duopoly granted to the two national operators, ONATRA (in the DRC) and CNTF (in the RC) and their lack of investment that has limited transport capacity. Cumbersome customs procedures are also costly and cause long delays for both passengers and the transportation of goods. For example, only four agencies are mandated to be present at the Kinshasa border crossing, yet up to 17 agencies operate there, raising fees from traders and travelers without offering any corresponding services.

Yoshino et al. in Chapter 4 also find high trading costs leading to large disparities in food prices between Juba in South Sudan and Ugandan cities. Maize in Juba is about three times more expensive than in Ugandan cities, while beans in Juba are about twice as expensive as in Uganda cities. With beans, for example, trading costs build up as a ton of beans is transported from a market in Kampala to a market in Juba. Transport and logistics costs (\$145 per ton; with \$93 inside Uganda and \$52 inside South Sudan) as well as duty and other official charges (\$218.33 per ton) are the categories in which a substantial portion of the total trading cost is accrued. For other products covered by the study, which are similarly regionally produced and traded, such as maize, water, beer, and cement, the size of trading costs is similarly significant.

These examples capture what is a common feature in Africa that the cost of moving goods between countries is high, transit times uncertain and delays exceptionally long. Unless all the factors leading to these symptoms are addressed, SSA's trade competitiveness will remain compromised. The costs are high partly due to the large infrastructure deficit on the continent. The Africa Infrastructure Country Diagnostic study (World Bank (2010b)) found there is a deficit across all the key core infrastructure, transport, telecommunications and energy. Clearly there is a need to scale up the levels of investment in trade related infrastructure. Though road infrastructure along the major international trade corridors is increasingly in fair to good condition, the same is not the case on the intra-regional links which require much greater attention in discussions about filling the infrastructure gap in Africa.

However, infrastructure improvements alone, though important, will neither significantly reduce trade transaction costs nor improve reliability. Empirical evidence suggests that only about a quarter of delays along major transport corridors are as a result of poor infrastructure, the rest being due to non-tariff barriers and poor trade facilitation. Improvements in infrastructure can help reduce travel time and vehicle operating costs while other measures are needed to reduce operational and bureaucratic delays and to reduce regulatory burdens. The benefits of shorter travel times will be diminished if long waiting times at the border and multiple roadblocks continue along the transport network.⁶

What is needed therefore is to ensure that upgrading of hard infrastructure is coordinated with improvements to the "soft" infrastructure, such as institutional and regulatory reforms that deliver the competitive provision of high quality transport and logistics services. Research clearly shows that regional corridors with limited competition in road transport services face higher prices (e.g., West Africa) than those where there is more competition (e.g., Southern Africa) (Teravaninthorn and Raballand 2009). It is therefore important to invest in regulatory reform in the logistics services sector including trucking, warehousing, customs clearing, and freight forwarding that ensures competitive and efficiently provided services along trade networks and lower trade costs.

It is important, therefore, to address policy constraints as an integral part of programs for improving infrastructure that link regional markets together. The appropriate metric for development then is not the length of roads built, for example, but the reduction in the cost of transport services and the improvement in the access to such services. Indeed, failure to coordinate investments with policy reform can increase the difficulties in implementing subsequent reforms. For example, road improvements in situations with regulatory

⁶ Cudmore and Whalley (2005) show that measures that increase trade (in their case trade liberalization but could equally be infrastructure improvements) can have negative impacts if inefficient customs or roadblocks cause resource-using queuing at the border or along the main networks.

restrictions on entry by providers of transport services will reduce the costs of incumbent producers and raise the rents they earn—increasing the political economy resistance to reforms that increase competition and reduce prices in the trucking sector.

For example, there is a major investment in road infrastructure to improve connectivity between Cameroon and Nigeria along the Bamenda to Enugu corridor. However, trade along this route is also constrained by numerous roadblocks,⁷ lack of investment in trade facilitation at the border, and a wide range of administrative barriers and cost raising behavior by officials. Removing these barriers should be an integral part of a policy approach to reduce transaction costs and improve trade between these two countries but little attention has been given to addressing these policy related constraints. Indeed, at present there are no mechanisms to support the coordination of transport infrastructure investments and the policy reform agenda that is essential to ensure that improvements in transportation deliver development benefits.

The cost of cross-border payments and money transfers is another important element of the total cost of trading across borders. Where financial instruments and institutions are absent poor traders have to incur the often-high costs of exchanging currencies at the border; carrying cash exposes traders to the risk of theft and predatory behavior by officials. For more formal traders reducing the cost and raising the quality and range of financial products can support larger and more diversified trade flows. Thus policies that encourage more efficient provision and greater access to formal financial services are an essential part of a program to facilitate cross-border trade in Africa. Integrating regional financial markets can be an important mechanism to allow greater scale in the provision of financial services (which is generally acknowledged as being important in promoting financial sector development), to lower the cost of financial services, increase competition and innovation, and increase access to finance.

In Chapter 5, Musuku et al describe the current landscape of payments systems in UEMOA and discuss ways to lower the cost of payments and money transfers. They find that the cost of using electronic payment services is still very high and thus out of reach of the majority of the population, even though some of the new services (such as mobile payment services) are available at appreciably lower cost than the more well-established services.

A number of private sector players have introduced or are in the process of introducing new products and services based on innovative uses of modern technology. This demonstrates significant dynamism in the market. However, the introduction of new products and services is having a limited impact in driving overall transaction costs lower or encouraging greater financial access. One important reason for this is the lack of interoperability of new products and services leading to market fragmentation. Combined with the difficulty of establishing cross-border extension of payment services, this reduces the scope for reaping economies of scale and thereby the growth of the overall payments market. Steps that need to be taken to reduce cost of payments include developing a UEMOA payments system strategy, strengthening oversight capability, and removing legal and regulatory barriers to interoperability.

Chapter 6 by Maimbo and Saranga shows the great potential of cross-border mobile banking for facilitating trade in both goods and services in Africa. The chapter stresses

⁷ For instance, there are around 15 road blocks along the 60km linking Mamfé in Cameroon with the Nigerian border.

the need for regulatory reform to put in place robust and efficient regulatory frameworks that are necessary to allow branchless and mobile to flourish. Of particular importance are clear guidelines to encourage expansion of branchless banking to informal traders and migrant workers. There are important lessons from other parts of the world, such as the Philippines and Brazil, which regulators in Africa could learn from and build upon in designing and implementing appropriate regulatory frameworks. Regional institutions can play an important role by providing a forum for cross-country discussion and sharing of experiences, by defining regulatory best practices and guiding future policy action. Regionally accepted regulatory frameworks would greatly help to facilitate cross-border mobile banking.

Chapter 7 by Rippel provides an overview of the modern trade facilitation agenda and provides a link between the first and the subsequent sections of the volume. The chapter discusses how the classical trade facilitation agenda that focuses on border management—which as we have seen remains a critical agenda at many of the borders between African countries and is especially important for small, poor and often informal traders—needs to be complemented by an approach that looks at constraints to trade along the value chain of exports and imports. Trade facilitation thus is more than “fixing borders” and requires a focus on reducing trade costs wherever they arise along the value chain of traded goods, including critical services inputs and behind the border barriers to trade.

Removing Non-tariffs Barriers is Essential to Free-up Regional Trade in Goods

While there is still much to be done to put in place effective free trade agreements, especially in Western and Central Africa, attention is turning to two issues that policy makers are increasingly recognizing as being critical to successful regional and global integration: competitive services markets and removing non-tariff barriers. Both of these issues revolve around the nature and quality of regulation, its impact on trade, and the need for improved regulatory practices in integrated markets to ensure effective regulation with minimal disruption to trade.

Non-tariff barriers are pervasive throughout all African regional groupings. Box 1.2 summarizes the information in Chapter 8 on “Deepening Regional Integration to Eliminate the Fragmented Goods Market in Southern Africa” by Gillson regarding examples of NTBs from Southern Africa and indications of the costs they give rise to. These are likely to be representative of the barriers that firms and individuals face in crossing borders throughout the continent. These NTBs impose unnecessary costs on producers that limit trade and raise prices for consumers, undermine the predictability of the trade regime, and reduce investment in the region. Finally, the heavy bureaucratic burden imposed on all regional trade flows ties up regulatory and customs resources, limiting their attention on achieving the most pressing public policy objectives such as effective border management to ensure security. For example, instead of scrutinizing all consignments, border checks should be focused on those for which the risks are greatest.

There has been progress in establishing reporting mechanisms and monitoring committees for non-tariff barriers. Raising awareness and improving transparency are necessary steps but it is becoming increasingly apparent that they are not sufficient due to the lack of progress in removing these barriers. For example, Chapter 9 on “Addressing

Trade Restrictive Non-Tariff Measures on Goods Trade in the East African Community” by Kirk shows that most of the 25 barriers identified by the EAC for immediate removal in 2008 remain in place.

It is important that there are procedures to ensure that regulations are designed and implemented to support trade by limiting their burden on producers, but without compromising legitimate public policy objectives. The answer, therefore, is not simply a matter

Box 1.2. Examples of Non-tariff Barriers in Southern Africa and their Costs.

Delays at the border raise trade costs: in order for RTAs to be effective, it is critical that intra-regional trade be able to move without hindrance. However, high transactions costs are incurred from slow and costly customs procedures and delays caused by other agencies, such as standards, operating at the border. For example, Shoprite reports that each day one of its trucks is delayed at a border costs US\$500.

Restrictive rules of origin limit preferential trade: Onerous local content requirements in rules of origin (ROOs) reduce the incentive to trade regionally. For products where ROOs have been so contentious (e.g., wheat flour) or simply not agreed upon (e.g. certain electrical products for which rules were only finalized in April 2010), preferential trade within the region has been effectively prohibited. Further costs arise from the administrative requirements for certificates of origin, which can account for nearly half the value of the duty preference. Woolworths does not use SADC preferences at all in sending regionally produced consignments of food and clothing to its franchise stores in SADC markets. Instead it simply pays full tariffs because the process of administering ROO documentation is too costly.

Poorly designed technical regulations and standards limit consumer choice and hamper trade: Standards regimes in Southern Africa are often characterized by an over-reliance on mandatory inspections and certifications, unique national (rather than regional or international) standards and testing, overlapping responsibilities for regulation, and occasional heavy government involvement in all dimensions of the standards system. These factors create unnecessary barriers to trade, especially when technical regulations and standards are applied in a discriminatory fashion against imports. One example is shoes in Mauritius: the Chamber of Commerce has proposed the development of a regulation to govern their quality to prevent the entry of low-cost Chinese sandals that are perceived to have a tendency to wear more quickly than domestically produced ones. However, these are often the only shoes that the poorest people in Mauritius can afford to buy.

Other non-tariff barriers restrict opportunities for regional sourcing: Other barriers such as trade permits, export taxes, import licenses, and bans also persist. Shoprite, for example, spends US\$20,000 per week on securing import permits to distribute meat, milk, and plant-based goods to its stores in Zambia alone. For all countries it operates in, approximately 100 (single entry) import permits are applied for every week; this can rise up to 300 per week in peak periods. As a result of these and other documentary requirements (e.g. ROOs) there can be up to 1,600 documents accompanying each truck Shoprite sends with a load that crosses a SADC border. Lack of coordination across government ministries and regulatory authorities also causes significant delays, particularly in authorizing trade for new products. Another South African retailer took three years to get permission to export processed beef and pork from South Africa to Zambia.

In SACU, national protection for infant industries has often been used to justify import bans. Namibia has used the provision to protect a pasta manufacturer and broilers, and maintains protection on UHT milk even though its eight-year limit to do this recently expired. Botswana has recently limited imports of specific varieties of tomatoes and UHT milk. Seasonal import restrictions on maize, wheat, and flour also ensure that domestic production is consumed first. For example, Swaziland’s imports of wheat flour were effectively prohibited for half of 2009 since no import permits were issued since June of that year.

Export taxes also impose costs and inhibit the development of regional supply chains. A case in point is small stock exports from Namibia. Since 2004 the Namibian Government has limited exports to encourage local slaughtering. Quantity restrictions were originally used but have recently been replaced by a flexible levy of between 15–30 percent, effectively closing the border for the export of live sheep to South Africa. The impact of this restriction is affecting the small stock industry in both Namibia and South Africa. In the former, farmers have switched to alternative activities like cattle and game farming. For those sheep farmers that remain, they have become almost entirely dependent on the four Namibian export abattoirs while they were previously able to sell more sheep to the South African market where they received higher prices. In South Africa, jobs are at risk because of the scheme, especially in the bigger abattoirs in the Northern and Western Cape that focus on slaughtering Namibian sheep during the low season to better utilize their capacity.

Source: World Bank 2011a.

of liberalization and deregulation but rather one of better regulation and more effective regulatory agencies that, while not compromising health and safety objectives defined by national legislation, leads to specification and implementation of regulations in a way that promotes regional competitiveness and growth.

This requires an inclusive and transparent approach to the design and implementation of regulations, consulting with the private sector and other stakeholders regularly and systematically as well as developing a framework for providing information to them. There should also be channels to allow firms and individuals to dispute the decisions made by officials in implementing regulations, especially for small producers who do not have access to the mechanisms that are available to large firms to influence decisions.

Building on the experiences of other countries will be important but, as is clearly shown in Chapter 10 on “Non-Tariff Barriers and Regional Standards in the EAC Dairy Sector” by Jensen and Keyser, regulations must be tailored to local demand and supply conditions in Africa: simply importing harmonized regulations from developed countries will often not be appropriate. This requires an inclusive process for defining standards that includes all major stakeholders, not just the big firms in the industry. In the case of dairy, international standards are based on the nature of consumption in Western European and North American markets where most demand is for fresh cold pasteurized milk. This requires very specific procedures, processes, and equipment to limit the growth of bacteria that could cause harm to humans. In East Africa and throughout Africa, the majority of people consume raw milk but boil it before consumption, which kills the bacteria. Requiring that all producers in East Africa satisfy the international standards would compromise the supply of milk from a vast number of small producers.

Countries in Africa could usefully review current regulations impacting on trade and assess their usefulness and viability. A useful first step would be to review regulations to ensure that they are consistent with their policy objectives, such as public health and with market realities, especially with regards to the economic viability of small-scale producers. Regulations that are not viable for economic or technological reasons, and that cannot be addressed by government or donor group assistance, should be jettisoned. As part of this review, countries could look for opportunities to explore regulatory cooperation with regional partners and to design and implement measures such as mutual recognition of quality marks and testing and conformity results.

Further, in many countries the policy process that defines and implements regulations needs to be improved to more carefully identify the costs and benefits of regulation supported through the increasing use of Regulatory Impact Analysis (RIA). RIA considers economic and social factors that need to be explicitly considered when designing policy initiatives. While RIA is a relatively new concept in developing countries, donors and international organizations with analytical expertise, like the World Bank, can support the development of a type of RIA suitable for African countries.⁸

There have been recent successes in Southern Africa where RIA has prevented some technical regulations considered unnecessarily burdensome to trade from being introduced. One example of a proposal that was blocked is one that would have mandated the use of (more costly) DOT 4 brake fluids in vehicles in South Africa instead of DOT 3, which is

⁸ For example, the World Bank is implementing a donor-funded project for the EAC to implement good regulatory practices.

used in most cars in other countries, including the U.S., without any problems. This compulsory specification for brake fluid was to apply at the point of sale (i.e. not of use) and to have enforced it would not have had any effect on the existing brake fluid used in South African cars. However it would have unfairly discriminated against a major manufacturer and exporter of brake fluid in Durban, which at the time was producing and exporting DOT 5 fluid, mainly to India. Since exports are deemed as sales under South African law, this specification would have unfairly affected the business; the withdrawal of the compulsory specification prevented this discrimination.

Regional integration can play an important role in providing a framework in which countries can take actions to remove the negative impact on trade of differing regulations and multiple requirements to test products for conformity with national regulations. In principle, it should be possible for African countries to agree to common standards regarding issues such as health, safety and the environment since countries are at similar levels of income and face similar risks and hence are likely to have similar demands regarding protection of health and safety. Most regional communities do have programs for harmonizing standards at the regional level (often around international standards) but application is often lacking. Where agreement on harmonized standards cannot be reached, mutual recognition can be explored so that member states accept as equivalent the technical regulations of others, even if they differ, provided that they adequately fulfill the same policy objectives. However mutual recognition is not accepted in many regional communities.

Kirk in Chapter 9 concludes that further progress will require effective commitments among countries to transparency and non-discrimination in designing and implementing regulations that affect trade as well as ensuring that regulations are not more trade and investment restrictive than is necessary to fulfill legitimate objectives. Beyond that countries must agree upon mechanisms that will enforce compliance with commitments to remove trade-restricting barriers.

In Chapter 11, the final chapter in this section, Mengistae draws attention to the need to diversify exports into labor-intensive manufactures and services to address the high unemployment and widespread poverty that characterizes most countries in Southern Africa. But trade in manufactures and services are more sensitive to trade barriers and trade transaction costs than trade in the resource products that currently dominate exports. The study finds that the more successful exporting countries in the region are those that have gone furthest in reforming their business climate and removing barriers to trade. Indicators suggest that the reforming countries are much better in allocating resources to more productive sectors and the more productive firms within sectors. Greater financial integration, reform of regulations to encourage more competitive labor and product markets, and measures to reduce trade costs and remove non-tariff barriers are key elements of the policy agenda necessary to improve the business environment and support effective export diversification.

Coordinated regulatory and trade reforms are needed to integrate regional markets in services.

Regional trade can play a crucial role in the development of services sectors in Africa. Services offer new dynamic opportunities for exports while opening up to imports of services and foreign direct investment is a key mechanism to increase competition and drive greater efficiency in the provision of services in the domestic economy. Lower prices, higher

quality, and wider access to services raises productivity improves competitiveness and is critical for poverty reduction (see Box 1.5 for the example of professional services in East Africa based on Chapter 12 by Dihel et al. on Reform and Regional Integration of Professional Services in Eastern and Southern Africa). Services reform is critical for improved competitiveness across all sectors in Africa, including agriculture and manufacturing.

Too often services are overlooked as a source of export diversification and discussions and trade policies are inappropriately focused on manufactures. Exports of services appear to be of particular importance for land-locked countries for whom opportunities to diversify into the export of manufactures are more limited by the high costs of transporting goods. Indeed, over the past 10 years exports of services from non-oil exporting land-locked countries in Africa have increased at a rate more than three times faster than their exports of goods.

Opening to trade can be an effective mechanism for increasing competition in services sectors. Competition is essential in order to increase efficiency in services sectors and lead to the achievement of lower priced and better quality services. Competition pushes service suppliers to reduce waste, improve management, and reduce operating costs. Competition then forces suppliers to pass on these cost savings to consumers in the form of lower prices. Competition also forces firms to innovate and to look for new and better products that are more closely aligned with the needs and demands of their consumers. Thus competition increases the range, variety, and quality of services in the market. Finally, competition undermines costly rent-seeking activities whereby incumbent firms spend resources on lobbying officials for policies that will protect them rather than concentrating on increasing efficiency and quality.

While the benefits of liberalizing trade in services are compelling, it can bring risks and potential costs that may require appropriate government intervention. This arises because of the need to regulate many services sectors to overcome market failures giving rise to concerns about both efficiency and equity. For example, when imports of services through commercial presence are liberalized, it is important that foreign entry leads to more competition and improved service, not merely to a transfer of ownership from a state monopoly to a private one or from a national monopoly to a foreign one. Reforms to establish an appropriate regulatory framework may need to precede the opening up of a particular sector so as to set the rules of the game for new investors by establishing appropriate competition and pricing rules for foreign investors in services, service and access requirements when relevant, and adequate oversight and conflict resolution mechanisms. Hence trade opening may need to be carefully coordinated with regulatory reform.

While in principle the scope for gains is greatest when opening up to all suppliers, regional approaches to services reform can bring particular benefits from exploitation of economies of scale, appropriate management of cross-border public goods, cooperation and coordination that leads to better regulations and pooling of technical skills to overcome capacity constraints that afflict regulation at the national level. Regional agreements can provide for deeper integration than agreements with rich countries or at the WTO through regulatory cooperation with neighbors who have markets with comparable demand and supply conditions and similar regulatory preferences and capacities. For example, in professional services, the mutual recognition of qualifications that is often necessary to make effective openness to temporary movement of workers can be more easily pursued with neighboring countries than with countries at higher levels of income. Harmonizing standards with neighbors for such services will tend to be more appropriate than harmonizing with the standards of rich countries.

Box 1.3. Regional Integration and Services: The Example of Professional Services in East Africa

Professional services matter for development. Business services are key inputs for other sectors, and greater use of professional services is associated with higher labor productivity. Business skills and services, such as accounting and legal services, play a critical role in reducing transaction costs, which are a significant impediment to economic growth in Africa. Professional services could also become an important avenue for export diversification by some African countries. But there is a large gap between the potential contribution these services could make and the meager contribution they make today. National markets for professionals and professional services in many African countries remain underdeveloped, while regional markets are fragmented by restrictive policies and regulations.

A detailed analysis of the situation in East Africa for three professional services—accounting, engineering and legal—shows that the heterogeneity of endowments of professionals and the earnings differentials across countries for each profession provide substantial scope for trade in professional services. Foreign professionals and foreign professional firms could help address the underdevelopment of the sectors and the unmet demands in East Africa.* However, very few foreign professionals are present in Kenya, Tanzania, and Uganda, although in Rwanda, in contrast, foreign professionals account for more than 60 percent of the total number of professionals. Similarly, in terms of commercial presence, there is only a limited presence of foreign engineering firms and there is an almost complete absence of foreign legal services firms. Evidence from World Bank-supported civil works procurement contracts since 1994 reflects the lack of integration of the East African market for engineering services. Domestic companies generally win most of the contracts, except in energy and mining and transportation where non-African companies have the lion's share. There is virtually no intra-East African foreign firm participation in these contracts.

Domestic regulation on the entry and on the operations of professional services firms often undermines competition and constrains the growth of strong professional services sectors in East Africa. Each country grants exclusive rights to certain professions over certain activities. Licensing and educational requirements and quantitative constraints also inhibit competition. Regulation affecting operations of legal and engineering providers (conduct regulation) include restrictions on prices and fees, advertising, form of business, and inter-professional cooperation, are particularly heavy when compared to those in emerging economies and in OECD countries. Firm-level surveys of private providers of professional services in East Africa reveal that restrictions on multidisciplinary activities are an important constraint in the accounting sector, while regulations on fees and prices are the major constraints in the engineering and legal sectors. Non-transparent procurement procedures also hurt accounting and engineering services providers while inappropriate standards hurt accounting services providers.

Trade in professional services through the movement of natural persons (mode 4 in GATS) across national borders is restricted in East Africa by explicit trade barriers, regulatory requirements, and immigration policies. Chief among them are discretionary limits through labor market tests on the entry of any type of foreign professionals in Kenya, Tanzania, and Uganda, de jure or de facto nationality requirements to practice domestic law in Kenya and Tanzania, limited recognition of foreign-licensed professionals, and work permit issues in most East African countries.

Different types of restrictions across countries in East Africa also limit trade in professional services through the establishment of foreign commercial presence (mode 3 in GATS). The entry of foreign law firms is not permitted in Kenya or Tanzania. Local members of international law networks face restrictions in Kenya, Tanzania, and Uganda on using the network's brand name. The restrictions imposed on accounting firms are even more stringent, with branches of foreign firms being prohibited in Kenya, Uganda, and even the more liberal Rwanda. Kenya and Tanzania also prohibit ownership or control of foreign accounting and auditing firms by non-locally licensed professionals. Foreign firms providing engineering services face fewer restrictions in East Africa. All East African countries restrict cross-border trade (mode 1 in GATS) in certain types of professional services, such as advice on matters relating to domestic law, audits, as well as tax representation and tax advice.

Source: World Bank (2010).

* Another example is that in Tanzania there is a shortage of teachers while in Kenya a substantial number of qualified teachers are unemployed.

Policymakers in Africa, especially in Eastern and Southern African countries, are recognizing that weaknesses in their services sectors impede growth and also that without addressing the liberalization of services deeper regional integration cannot be achieved. All three regional groups in Eastern and Southern Africa have committed themselves to pursue integrated regional markets for services. The EAC Common Market Protocol has initiated the integration process in services in Eastern Africa and all five

members have scheduled commitments in several services sectors, and have adopted the annexes on removing restrictions on the free movement of workers and on the right of establishment, and the annex on mutual recognition of academic and professional qualifications. Both COMESA and SADC are defining and seeking to implement services liberalization programs.

As with integrating goods markets where health and safety issues are important, the process by which regional integration is achieved can be just as important as the outcome, requiring an inclusive and informed process involving all key stakeholders. The work on professional services in east and southern Africa summarized in Chapter 12 by Dihel et al. provides a good indication of the challenges faced by the African countries with services liberalization and reform: (1) lack of communication and cooperation between sectoral specialists/regulators and negotiators; (2) lack of coordination between regulatory reform and services liberalization (for example, the accounting associations in East Africa developed a draft Mutual Recognition Agreement (MRA) of Professional Qualifications without any coordination with the governments and without taking into account the commitments negotiated in the context of the EAC Common Market Protocol); (3) the need to achieve some degree of regulatory harmonization in order to integrate different markets through credible MRAs and allow professionals to move freely and; (4) the need for technical assistance to diffuse knowledge on good regulatory practices in the specific sector to all stakeholders, and analysis of potential impacts of proposed reforms including experiences of reform from elsewhere.

In this regard, the COMESA secretariat and the World Bank are implementing together a knowledge platform to support integrated markets for professional services in Eastern and Southern Africa which will provide:

- Information and analysis of the current situation regarding the performance of the particular sector and its impact on other sectors and the wider economy. This may require surveys of both users and providers of the service.
- An assessment of barriers to trade and foreign investment and current regulatory policies in the form of a trade and regulatory audit together with an assessment of their impact on entry and conduct in the market.
- A review of the necessary steps to remove explicit barriers to trade and the regulatory options for an integrated services market, including measures that can be pursued at the national level and those that are likely to be more effective in collaboration with partner countries at the regional level. This will be informed by a careful analysis of the experience of other countries that have implemented reform programs in the specific sector, drawing on inputs and interactions with officials and experts from these countries.
- An assessment of capacity building that will be necessary for effective implementation and monitoring of outcomes in the sector and the impact of current regulation.

In pursuing these outputs the platform aims to support a process that ensures regular consultation between private and public stakeholders; effective communication between the regulator, sector specialists, and the relevant government ministries; extensive dissemination of information and analysis at the national and then regional levels for increased awareness and deeper understanding of the policy issues affecting each sector.

Regional integration in financial services in sub-Saharan Africa has taken two different, though not mutually exclusive, paths. In West and Central Africa, institutional initiatives

including, a common currency, an overarching regulatory authority, and supranational financial markets, are the building blocks of regionalization in financial markets. In East and Southern Africa, integration is a more market driven process, following the movement of people, businesses, and goods across fluid borders. South African and Kenyan banks have led this model of integration in the southern and eastern parts of SSA.

In Chapter 13, Wagh et al. explain the steps taken to deepen regional financial integration in the EAC and what remains to be done. The signing of the Common Market Protocol and the initiatives of the private sector banks together create a favorable climate for further integration, especially between the three original members of the EAC. However, several factors still constrain the growth and integration of the regional market. Further work needs to be done to align regulatory and supervisory frameworks and reporting requirements to address this issue. Other steps include: adopting a single licensing regime, mutual recognition among regulators, building-up a regionally compatible financial infrastructure, strengthening cross-border supervisory practices, and strengthening data gathering. Finally, a strategy needs to be developed for integrating Rwanda and Burundi into the EAC financial system.

In the West African Monetary Zone, as discussed in Chapter 14 by Musuku et al., the regional financial market remains fragmented by the lack of an official cross-border payments system, by differences in the regulatory framework for financial institutions between countries in the region and the absence of sharing of credit information across borders. For both banking and insurance, regulations and supervisory practices are far from uniform across the region which increases the costs of operating regionally and undermines the ability of the supervisory bodies to assess the risks posed by the cross-border activities of the institutions that they supervise. There is a need to focus on reducing the cost of cross-border payments through the banking system and developing mechanisms that cater for the needs of small cross-border traders.

In Chapter 15 Nora Dihel discusses the distribution services sector, which plays a critical role both in linking producers to consumers and reducing poverty. Modern distribution systems can increase the access of small farmers to high value markets and accelerate the transition from subsistence farming to market participation, while for consumers organized markets can attract better quality products at affordable prices. Many consumers and producers in Africa, however, have yet to see the benefits of a modern distribution sector. Small-scale farmers have found themselves marginalized by the distribution sector and its new practices, and very poor households (e.g., slum dwellers) are often paying more per unit for basic products than wealthier households. The chapter argues that opening up to trade in the sector and to inward investment needs to be complemented by regulatory reform that supports a modern and competitive distribution sector while addressing the interests of the poorest consumers and smallholder farmers.

Finally, in Chapter 16 on “Africa’s Trade in Services and the Opportunities and Risks from Economic Partnership Agreements”, Brenton et al. discuss how negotiations on a trade agreement in services with a third party, in this case the EU, can be designed to reinforce regional efforts towards creating integrated services markets. Negotiations at the WTO level using the GATS framework have given insufficient attention and resources to essential regulatory issues. This has also been a feature of the negotiations with the EU on Economic Partnership Agreements. Involving regulators, sector specialists and other stakeholders in the negotiations is crucial but for the most part they have been absent from the negotiating table.

The chapter recommends that countries in Africa, should draw upon available sources of financial support and technical assistance to define a strategy for trade in services that

is integrated into the national development plan. This should be based upon a dialogue among various stakeholders about the potential impact of services trade liberalization and regulatory reform and which identifies priority sectors where greater competition, foreign investment, and new technology can drive efficiency and growth. Then in the priority domestic services sectors, implement a trade and regulatory audit to identify the main constraints to competition and investment and assess the need for improvements in the regulatory regime to support competitiveness. Finally, identify how trade agreements at the regional, EPA, and multilateral level can be used to alleviate the constraints that are identified for the priority sectors and support the process of trade and regulatory reform.

This then requires that the EU and African countries consider a more flexible approach to the EPAs that reflects the diversity of capacities and priorities across African countries. African countries and the EU adopt a sector-by-sector approach to coordinated trade and regulatory reform rather than a broad but shallow GATS type agreement. The EU then works with other donors and international institutions to make adequate technical assistance available to all reforming countries in Africa from a fund that is independently managed and delink the provision of such funding from negotiations and agreement on an EPA. Such a fund could organize financial resources and expertise around key services sectors for Africa. Suggestions would include telecommunications, tourism, transport, finance, and business services.

Conclusions

The papers in this volume show that current thinking on regional integration in Africa has moved beyond removing tariffs to regulatory issues that raise trade costs and prevent goods, services, people, and capital from moving freely across borders within Africa and undermine competitiveness in the global market. Key issues include:

- Improving the quality of regulation to remove non-tariff barriers to goods trade and deliver competitive markets while achieving essential public policy objectives relating to issues such as health and safety, protection of agriculture from pests and disease, and effective control of borders.
- Coordinating infrastructure improvements more systematically with the policy and regulatory reforms that are required to deliver competitively provided services along infrastructure networks, and therefore lower prices and make services more widely available.
- Opening up to trade in services as well as goods to enable new opportunities for export diversification to be exploited and to ensure the efficient provision of essential services inputs that are necessary for increased trade and especially to allow cross-border production networks to flourish. This agenda is of particular importance to small and landlocked countries and is essential to bring more balanced gains in regional agreements containing large coastal countries that have a significant potential to increase production and trade in manufactures.

This is a much more complex agenda than reducing tariffs. It requires regulatory reform and building the capacity of the institutions that design and implement regulations. A successful regulatory reform program will include effectively dialogue among

government officials, regulators, academics and researchers and private sector stakeholders. Increasing the use of regulatory impact analysis and stipulating adherence to basic principles of good regulatory practice, such as transparency, non-discrimination and proportionality, should be at the forefront of the reform program. The challenge is one of integrating markets and expanding trade while achieving regulatory objectives efficiently. Given that knowledge on regulation is sector specific and that countries in Africa have limited capacity and resources, this will entail focusing on priority issues and sectors.

Analysis suggests that the returns to a regulatory reform agenda for trade will be substantial while the direct financial costs are small relative to other aid for trade interventions and investments in infrastructure. In an era that will require greater budget austerity, reforms to the regulations governing trade appear to be good investment. However, there is a large information gathering and knowledge building agenda to support regulatory reform. Better information on non-tariff barriers and their impact is required in many countries to identify priorities for reform. Effective regulation typically requires sector specific knowledge. The knowledge required to regulate open markets for accountancy services is quite different from that to define standards for milk. This knowledge agenda can be enhanced by learning from other countries and regions of what has and has not worked elsewhere. Nevertheless, in addition to being sector specific, regulation must also take into account local demand and supply conditions and simply importing standards from outside may not be appropriate. Finally, the regulatory reform process must be open and inclusive to ensure that all stakeholders are involved and that the regulatory outcomes are not unduly influenced by particular stakeholders, such as incumbent firms.

A successful program of policy reform that seeks to address these constraints to intra-regional trade in Africa will likely have to confront powerful interests that may be adversely affected. While measures to open up African markets to regional trade will increase the opportunities for businessmen and women and especially poor traders to earn higher returns from their activities and at the same time reduce prices for consumers, some often politically well-connected individuals will lose the high profits they are currently able to earn from the relative lack of competition. In some cases there may be important distributional impacts that will need to be addressed if poor people are employed in the activities that were previously protected. At present there are very limited mechanisms to address these political economy issues and few provisions in existing agreements for supportive policies, such as retraining schemes for affected workers.

Finally, the process of reform would be aided by setting context specific and measurable objectives. Setting priorities for reform needs to be supported by defining outcomes that can be regularly monitored to ensure progress. Establishing scoreboards in regional secretariats, in a manner similar to that in the EU that is used to monitor implementation of the Single Market, could be a useful way to allow a broader audience to assess implementation of regional commitments to remove barriers to trade. Examples of measurable objectives could include removing all road blocks, implementing harmonised vehicle axle weights requirements, providing trade partners with, say 2 months, advance notice before new policies affecting regional trade are introduced or existing policies are changed, recognition of certificates relating to conformity with standards where mutual recognition has been agreed, recognizing partners quality stamps, real-time sharing of customs information and so on.

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