PART I

FACILITATING CROSS BORDER TRADE IN GOODS AND SERVICES

2. Risky Business

Poor Women Cross-border Traders in the Great Lakes Region of Africa

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Introduction

There is enormous potential for international trade to drive economic growth and poverty reduction in the Great Lakes region of Africa. Much of the attention on eastern DRC has been focused on the minerals sector, yet there is substantial scope to expand output of other sectors, especially agriculture,[10] but also services. While an improvement in the security situation is necessary for agricultural output to recover, greater economic opportunities and rising living standards will contribute to greater stability. For example, increasing returns to agricultural activities can provide a genuine alternative occupation and source of income to artisanal mining and thus facilitate the shift to a more organized and less disruptive mining sector.

Harnessing the opportunities of regional and international markets will play a key role in delivering higher returns to farmers and contributing to food security by making food products more widely available at lower prices to consumers throughout the region. Cross-border trade will become increasingly important in linking food surplus areas to food deficit areas, especially as development is accompanied and driven by the increasing concentration of people and activities in towns and cities. Rising incomes will lead to increasing demands for a wider range of goods and services and enhance the scope for mutually beneficial cross-border exchanges between the DRC and the other countries of the Great Lakes region in agriculture, manufactures and services.

Currently it is informal cross-border trade that plays the main role in linking producers to markets in the Great Lakes region of Africa.[11] Cross-border exchange provides the

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[10] It is estimated that current agricultural output in the DRC may be less than 50 percent of the level in 1997 (IPC2009). Thus there would be a large increase in output just in achieving previous levels of output in addition to the scope to increase productivity and output way beyond this level.

[11] A crude comparison of data on formal trade from COMESA's COMSTAT and estimates of informal trade by the Uganda Bureau of Statistics suggests that informal trade in agricultural products may be as much as five times higher than recorded trade for the DRCs trade with neighbors in the Great Lakes region. For Rwanda informal trade with the region is estimated to be in the region of 25 percent of formal trade while it is 55 percent for Uganda.

main source of income for a large number of informal traders who are predominantly poor women carrying agricultural products and as a result there is an important gender dimension to this issue. There is however, very little information on these traders and the conditions that they experience.[12] This note summarizes the results of a study that has looked at cross border trade between the DRC and Burundi, Rwanda, and Uganda. The conclusions are stark: high levels of harassment and physical violence at the border and the prevalence of unofficial payments and bribes are currently undermining the livelihoods and activities of these women traders. As such, cross-border trade is nothing more than a mode of survival for these women rather than an opportunity for growth and development.

Evidence from other regions suggests that informal cross-border trade is highly sensitive to the way that traders are treated and the conditions that they face in crossing the border (World Bank 2010). The success of such trade depends upon the ability of individuals to routinely cross the border without being subject to violence or harassment and without having to pay large unofficial payments or prohibitive tariffs or charges. Supporting these entrepreneurs in growing their business and moving to more organized and then formal modes of exchange will be crucial if the potential for cross-border trade in the region is to be realized. The first step must be to improve conditions at the border.

The Characteristics of Cross-border Traders in the Great Lakes Region

Cross-border traders in the Great Lakes region play a vital role in bringing goods to consumers that would otherwise be unavailable and providing them at lower prices. If these poor entrepreneurs were not to ply their trade prices would be higher. Their activities also mean that farmers receive higher returns for their products than they would otherwise. Nevertheless, substantial differences in the prices of basic food products remain between markets on opposite sides of borders, reflecting that there are significant impediments to the movements of goods and people across borders in the Great Lakes region. Removing these constraints and supporting cross-border traders will support poverty reduction and higher incomes for farmers.

To investigate the constraints and conditions that cross-borders traders face we implemented a survey in mid-2010 at four key border crossings in the Great Lakes region: at Uvira-Bujumbura (between DRC and Burundi); Bukavu-Cyangugu (between DRC and Rwanda); Goma-Gisenyi (DRC and Rwanda) and Kasindi-Mpondwe (DRC and Uganda), see Figure 2.1.

The survey obtained information from 181 traders through in depth interviews (100) and focus groups (81). This was supplemented by 58 interviews with stakeholders at the border. The key features of cross-border trade that emerge from this investigation are:

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[12] International Alert (2010) provides information on the border crossing between Goma and Gisenyi and is one of a few studies that have looked at cross-border trade with the DRC. The Government of Rwanda has recently supported a study of informal cross-border trade while the Uganda Bureau of Statistics has for a number of years been surveying informal cross-border exchange.

Figure 2.1 >

Key Border Crossings in the Great Lakes Region

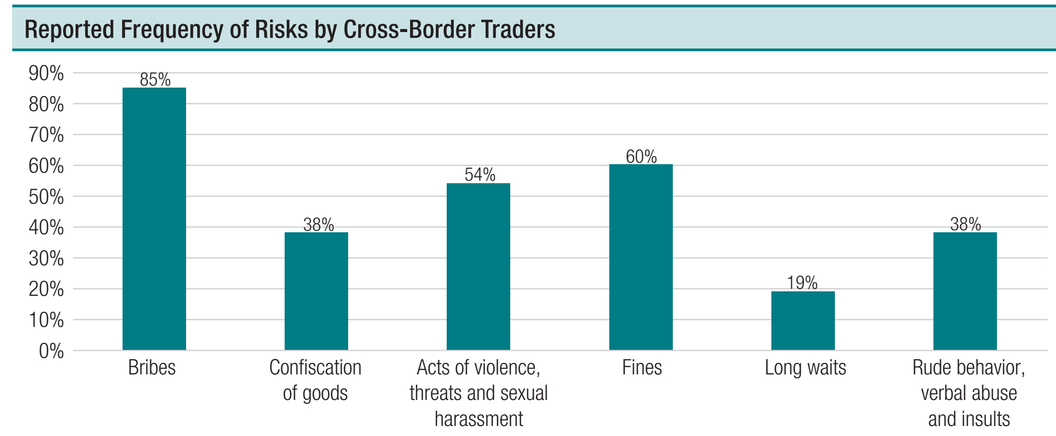
Source: World Bank Survey, 2011.

- The majority of traders are young women (85 percent of respondents were female and the average age of a trader is 32) and experienced traders, with 44 percent having been traders for more than five years.
- Most of the officials who regulate the border are men (82 percent).
- Most traders sell foodstuffs, particularly cereals, pulses, vegetables and fruits. The quantities involved are small and are typically carried by head.
- Start-up capital is very small (less than $50) and is typically obtained from within the family. Very few traders have received loans from a financial institution. The vast majority (95 percent) wishes to invest and grow their business but is constrained from doing so by the current environment at the border and lack of access to finance.
- 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.
- Few are members of a traders association.

A crucial fact is that these poor women cross-border traders are undertaking informal activities, in the sense of not being part of a formal organized economic activity, but *not* illegal activities. The majority of them cross at formal border crossing points and report that they are willing to pay appropriate duties and wish to be treated as business people. A range of officials is present, in principle, to regulate the borders that these traders cross. However, many officials hold very negative views of poor traders based on their social class and often see them as mere "smugglers."

Figure 2.2 >

Reported Frequency of Risks by Cross-Border Traders



Source: World Bank Survey, 2011.

Conditions at the Border

The responses from the detailed interviews and focus groups paint a dark picture of the conditions experienced by poor women cross-border traders in the Great Lakes region. They face serious risks and losses each time they cross the border. Figure 2.2 summarizes the main findings.

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). At the Goma-Gisenyi border 100 percent of respondents reported that they had to pay bribes to cross the border. A large number of traders also report having their goods confiscated and having to pay fines. 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; which exacerbates the problem of poor governance with negative consequences for cross-border traders. Not only are there officials from customs at the border but also immigration officials, the police, the army, and officials implementing health controls. 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!” Reducing the number of agencies and officials at the border and increasing the transparency and predictability of the policy regime is crucial to providing an environment in which traders flourish and expand their business.

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. While some borders are better organized, this gender-based violence, although more prevalent in the DRC, is being perpetrated on both sides of the border in Burundi, Rwanda, and Uganda. Not only do officials harass traders but young men, called “les viseurs” (watchers) are hired by state officials and given carte blanche to apply force as needed to extract money and goods from traders, particularly

those that move by foot with goods strapped on their backs or carried by head. A typical occurrence is that women traders are often encircled by a group of men after they cross the border. Vulnerability to theft and physical abuse is rampant in these borderlands.

Thus, 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. But it is clear that most traders perceive that there is no alternative—they are stuck in a survival economy. Addressing these issues by providing security at the border and implementing a transparent and predictable regime for those crossing the border would facilitate trade, improve incomes, contribute to regional food security and, in turn, provide for greater stability in the region.

Informal traders, especially poor women food traders, often lack representation and organization. As a result, they are vulnerable to powerful officials who control the borders. At each border crossing many officials appear to have entrenched negative perceptions of these traders. Rude and hostile behavior towards traders is justified and money extorted because the traders are not formalized. But the very poor quality of the infrastructure of the border crossing used by informal traders is also at the root of allowing some of the worst types of harassment and violence. Most of the attention of the government and donors has been on improving conditions for formal trade and better infrastructure for trucks at the main border crossings. Informal cross-border traders have not been high on the agenda. The border crossings in Goma are a good example. Two crossings are regulated by customs: the "petite barrier" for small informal traders, and the "grande barrière" for more formal traders. The differences between the two crossings are striking, as is the stark contrast between the DRC side and the well-organized Rwandan side of the border. At the "grande barrière" the road is paved and buildings are in reasonable state and cross-border movements appear orderly. At the "petite barrière" (Goma side) it is chaos. Roads are very poor, and congested with vendors, and a number of storefronts tumble onto the busy roadside.[15]

Steps to Facilitate Cross-border Trade in the Great Lakes Region

The immediate priority must be to improve the conditions at the border and the treatment of cross-borders traders. This will have a significant impact on the livelihoods of a substantial number of women and the households who depend on their income from trading. It will also lead to more cross-border trade and more widely available and cheaper food products. The second imperative is to provide and implement a policy framework by which these traders can become increasingly organized and backed up by support services that improve access to information, facilitate access to credit, and ensure better representation of traders' interests. This will provide a route by which these activities can gradually become more formalized and distribution channels become more efficient. This will require:

1. *Officials at all levels recognize the important role played by poor cross-border traders.* Policy makers currently view poor women cross-border traders negatively, reflecting

[15] The situation has been transformed on the Rwandan side of the border where significant construction has delivered new customs and immigration buildings, and improved roads and street lighting.

the misconception that they are an important source of revenue loss. This is turn means that there has been little effort to improve the condition of the infrastructure at the border crossings such traders use and a lack of effort to bring discipline and order to the officials who regulate these borders. The vast majority of these traders are entrepreneurs who would like to invest and grow their business and emerge from their current survival mode if stability and security could be provided and policies at the border were transparent and applied in a predictable and fair manner. These traders therefore offer an opportunity rather than a constraint for growth and poverty reduction.

2. *A reduction in the number of agencies at the border and an increase in transparency and predictability of the policy regime.* There is clearly a high degree of uncertainty and ambiguity about the legal rules that apply to cross-border trade and how they are applied in practice. Lack of transparency and consistency in the application of trade rules constrain trade across the borders. The application of simple and fair procedures and reasonable fees would support greater activity and a transition to more organized and formal modes of exchange. The results of the survey suggest a number of practical steps that could immediately be made: all payments made to an official should be recorded and an official receipt provided; payments should be made only at a single, clearly designated building; agencies at the border that can legally charge fees for services that they provide, (e,g,, the agencies responsible for quality and hygiene) should not be able to levy a charge unless a service is provided. In most cases the services of these agencies are not relevant for small-scale traders carrying fruits and vegetables. This should be supported by a dialogue at the provincial and national level on simplification of custom procedures between DRC and neighboring countries to facilitate trade. The benefits of joining the COMESA free trade agreement and enhancing cooperation through the CEPGL should be given careful consideration as a means of promoting further integration and simplifying the taxation of imports from neighboring countries.

   The government of the DRC has taken steps to address this situation, passing a law stating that only four agencies should be present at the border (customs, immigration, health and hygiene, quality control of goods). However, while there has been some success in implementation, at many borders more than 10 different agencies remain. The customs agency is also developing simplified procedures for the border but again implementation will need to be carefully monitored.

3. *Increased professionalism of officials and greater gender awareness.* Women are under-represented in official bodies at the border and so increasing the number of female border officials is an important step. Nevertheless, lessons show that what is needed are gender-aware officials who appreciate the issues confronting traders, poor women and men alike. More women at the borders may reduce sexual crimes, but that is not guaranteed if they do not have power. Lower-level female officials cannot stop higher placed males and their associates from carrying out gender-based violence. Obvious policies such as only female officers should be allowed to body search women traders should be made mandatory and widely publicized.

   There is therefore a need for enhanced training of officials, including workshops to raise awareness of gender issues, not only at the main formal border crossings but especially at the border crossings used by informal traders. This could provide a base for the introduction of performance assessments of officials in which treatment

of cross-border traders is a key indicator. It is important to educate and not to shame the officials to change behavior, to define a clear code of practice, and reward those officials who behave in manner consist with higher standards. Experience from elsewhere, such as customs reform in Senegal, suggests that non-financial rewards, such as widespread recognition within the institution and the wider community through employee of the month schemes, with such awards being kept on the employees file and being a factor in promotion decisions and eligibility for enhanced training, can be as effective as direct financial rewards. This would need to be supported but an independent office of complaints that can record and act upon complaints when violations occur.

More generally, as in all post-conflict countries there is a need to address the fundamental issues of governance in public administration and implement effective security sector reform (police, justice, and military). The conditions that traders face at the border are in part a consequence of poor wages—and often lack of payment—and a culture of impunity due to the lack of functioning legal and justice systems.

4. *Improve infrastructure at the border crossings used by informal traders.* Both the transport infrastructure and the (lack of) buildings used by officials need to be rehabilitated, including the provision of basic facilities for officials such as electricity and water. Work is required to minimize the risks to safety and security that arise from the dilapidated infrastructure and to provide an open and transparent area for officials and traders.
5. *A strategy for integrating poor entrepreneurs into the formal economy.* First and foremost is the need to increase the representation of these traders through traders associations to ensure that their interests are properly represented in public policy. It is also necessary to address key concerns of these traders regarding their lack of access to finance, lack of information on prices, and business opportunities and training in basic business practices. It would also be interesting to further investigate the potential beneficial impact of providing warehousing facilities close to the border and the development of cross-border markets building on the knowledge of the success of bazaars, for example, in central Asia (World Bank 2010).

There would be very large economic pay-offs from interventions that facilitate freer movement of goods and people across the border. In the short-term this pay-off would be in the form of greater security and increased incomes for poor women traders whose trading activities are crucial to the welfare of their households and hence to poverty reduction in communities along the border. In addition, interventions to remove the major barriers to cross-border trade between the DRC and Burundi and Rwanda would allow for trade to play a greater role in integrating food markets in the region. This would increase the returns to farmers and provide genuine alternative sources of income to those currently linked to activities that destabilize the region.

There has been some recent progress on this issue at both the regional and the national level. Seminars have recently taken place in Goma and Bukavu that have brought together representatives of the regional government, officials from border agencies and traders. The Governor of South Kivu has visited the border at Bukavu. In recent interviews, traders at Bukavu attest that this heightened interest from policy makers has been reflected in less harassment. In Kinshasa, the issues of cross-border trade and the conditions facing poor women traders were discussed at a workshop in April 2011. At this meeting agencies agreed

a detailed and sequenced roadmap towards improving border procedures at two pilot crossings in the east (Goma and Bukuva). Implementation of the roadmap will streamline processes and achieve clear agreement between the different agencies as to who should do what, with the preparation of clear job descriptions.

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3. Economic Integration in the Lower Congo Region

Opening the Kinsahsa –Brazzaville Bottleneck

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Introduction

Kinshasa-Brazzaville, currently the third largest urban agglomeration in Africa, is predicted to become Africa's largest, and the world's 11th largest, city by 2025. With 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. Using satellite images of night lights, Figure 3.1 illustrates how, in spatial terms, the two capitals form a seamless urban unit, which has grown considerably over the last two decades. According to UN statistics, Kinshasa currently counts 8.8 million and Brazzaville 1.3 million inhabitants; up from 3.6 million and 0.7 million, respectively, in 1990. The United Nations (2010) expects the Kinshasa population to grow faster over the next 15 years than that of any other world metropolis, predicting a 2025 city size of 15.0 million. The population of Brazzaville is forecast to swell to 1.9 million.

Despite their size, proximity and status as regional trade hubs, formal bilateral trade between the two cities as well as between their two countries is derisorily small. The province of Kinshasa accounts for over 21 percent of the Democratic Republic of Congo's (DRC) GDP but for a mere 0.8 percent of its exports. Officially recorded imports from the Republic of Congo (RC) represent a fraction of a percent of Western DRC imports. Recorded volumes of transit trade are somewhat larger, but also account for well under one percent of Western DRC imports. Recorded RC imports from the DRC are only slightly more important, amounting to some 1.12 percent of total RC imports in value terms. There can be no doubt that these statistics largely understate the true volume of (formal and informal) trade, but they point toward considerable potential for an expansion of formal trade.

Officially recorded trade flows between the DRC and the RC are largely limited to transit trade flows, which seem to be increasing. Recorded transit imports from DRC were about three times larger in 2007 than in the two preceding years, and transit trade seems to have increased further since. Formal transit flows predominantly run from Kinshasa to

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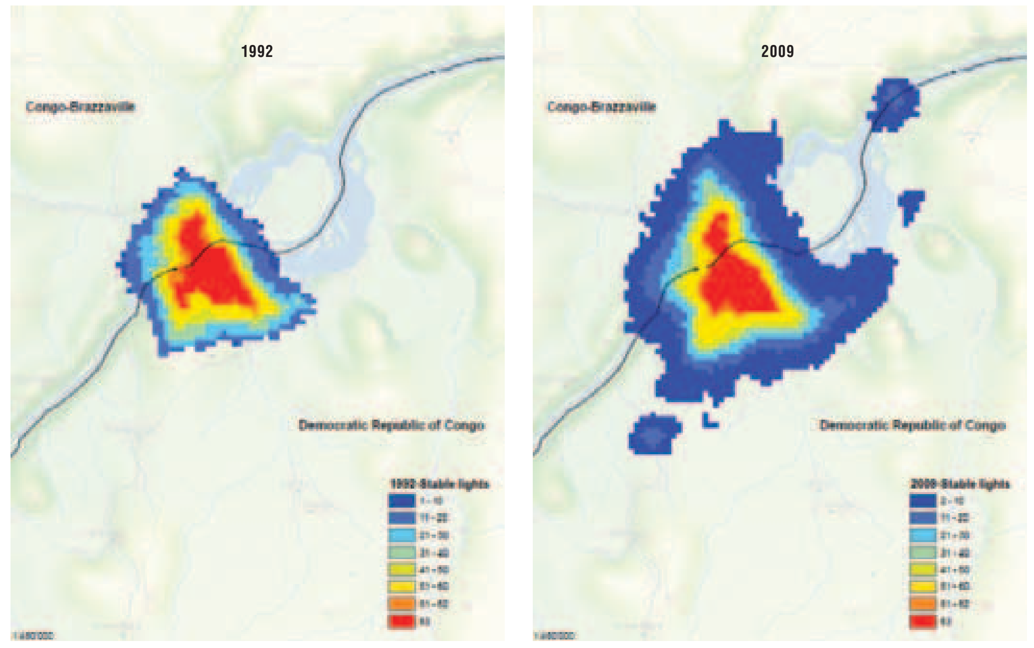
Figure 3.1 >

Night Lights in Kinshasa-Brazzaville, 1992 and 2009



Source: World Bank, 2011.

Brazzaville. Hence, Brazzaville is partially supplied through the DRC's ocean port of Matadi via Kinshasa, due to the poor condition of the transport corridor linking Brazzaville to the RC's ocean port at Pointe Noire. Official data also certainly under report the importance of transit trade. Large informal flows of clothing and textiles from Brazzaville to Kinshasa, for instance, mostly originate in West Africa and reach Brazzaville through Pointe Noire or Douala. These flows do not appear in any statistics.

Passenger traffic between Brazzaville and Kinshasa is smaller in relative terms than traffic between East and West Berlin in the times of the Berlin Wall. We estimate the overall number of passenger crossings at around 700,000 annually. This volume of traffic, scaled to city sizes, is some 175 times smaller than the river-crossing passenger traffic in Kisangani—another conurbation straddling the Congo River but one that is not crossed by a national border. It is also around five times smaller than the volume of passenger traffic between East and West Berlin in 1988—well before the dismantling of the Wall.[15]

Estimating the Effects of Removing the Bottleneck

The sheer demographic and economic size of the Kinshasa-Brazzaville agglomeration, as well as its role as a gateway for large economic hinterlands, should make economic

[15] In 1988, there were some 1.9 million passenger crossings between East and West Berlin—about one crossing per three inhabitants of the Berlin metropolitan area. The 700,000 estimated crossings between Kinshasa and Brazzaville represent about one crossing per 15 inhabitants of the two cities combined.

integration between the two capitals a matter of central policy interest in the region. Recent academic research in economic geography furthermore suggests that urbanization is a key engine of growth in developing countries, and that constraints on the formation of urban agglomerations can constitute a severe obstacle to economic development of the concerned countries as a whole.[16] Hence, easing the Kinshasa-Brazzaville bottleneck could yield medium-term growth effects that extend to the wider economies of both Congos. As our empirical analyses, which we discuss below, were restricted to potential short-run effects in the Kinshasa-Brazzaville region itself, our findings should be viewed as lower-bound estimates of the potential aggregate effects of trade facilitation across the Congo River.

Analysis of Price Differentials

We compared retail prices in both cities, as systematic price differences for identical goods in two markets represent the probably most reliable indicator of barriers to trade between those markets. Absent physical and regulatory barriers to trade, price differences will be arbitraged away. We therefore compared prices of 57 goods chosen so as to offer a representative sample of Congolese consumption baskets. Prices were collected using a consistent methodology in four large retail markets in each city, two in the respective city centers and two in the suburbs, between August 26 and September 3, 2010.

We find significant price differences, suggesting that trade facilitation between Kinshasa and Brazzaville would lead to lower prices in both cities. Using panel data regression methods, we find that imports from across Malebo Pool—the 3.5 kilometers-wide stretch of the river Congo that separates the two cities—are consistently more expensive than corresponding local products. Our best estimate of this price differential is 20 percent. Thus, shipping local goods across Malebo Pool is found to increase the retail price of these goods by one fifth. Our econometric analysis furthermore suggests that price differences cannot be attributed to differences in local producer and distribution costs, implying that the underlying economic structures in Kinshasa and Brazzaville are very similar. Considerable price differentials are also found for goods imported from overseas. Our observed price differentials imply significant trade barriers between the two cities but not within them. Given the proximity of the two markets, this implies considerable potential for intensified arbitrage through cross-border trade.

Structured Interviews

In order to estimate the potential for trade expansion, we conducted a series of structured interviews with firms in Kinshasa and Brazzaville in April-June 2010. The interviewed firms had to satisfy a sole criterion: that they were, or had been, engaged in cross-border economic activities, either by trading goods or by transporting passengers. Conditional on this criterion, we sought to cover as representative a sample of firms as possible. We obtained interview answers from 57 firms, 17 of which are manufacturers, 19 are based in Brazzaville, and 12 are informal. Sample firms were presented with an identical 72-item questionnaire, containing questions on the existing structure of the business as well as hypothetical assessments of the impact on their activities of trade liberalizing measures.

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[16] See, e.g., Deichmann *et al.* 2008, and Brülhart and Sbergami 2009.

Brazzaville is currently considered a negligible market for most firms in Kinshasa, but responses point towards large untapped trade potential. Of the 38 Kinshasa-based firms, only 17 declared significant sales in Brazzaville. The average share of such sales is estimated at around five percent. Given that the population of Brazzaville corresponds to some 15 percent of the population of Kinshasa, and that average income is higher in Brazzaville, this implies large unexploited trade potential between the two cities.

As a result of excessive administrative costs, most cross-river trade is partly or fully informal. Only two of the 17 Kinshasa firms who have significant client bases in Brazzaville export through official channels. The remaining 15 firms get their clients to ship the goods across Malebo Pool themselves. Six Kinshasa-based firms declared that they had either exported formally to Brazzaville in the past or seriously considered doing so, but abandoned all such activity, citing excessive administrative costs including duties, paperwork, and bribes. Informally traded goods are smuggled across the river via well-established systems involving under-the-counter payments to various customs and security officials.

Trade facilitation across Malebo Pool appears to hold particular promise for promoting local manufacturing and small-scale trading activity, much of which is currently informal. Regression analysis of the survey responses suggests that smaller firms and manufacturing firms anticipate expanding their activities proportionally more than larger firms and pure trading companies, perhaps because larger firms and pure traders are already better able to circumvent trade barriers.

The estimated trade-cost elasticity of trade between Kinshasa and Brazzaville is 0.8. Our sample firms predict that halving of the trade costs would trigger a 40-percent increase in the volume of trade. The corresponding estimated elasticity for total external trade by DRC and RC firms equals 0.5. Hence, a reduction in trade barriers between the two capital cities would trigger a considerably stronger relative increase in trade flows than trade liberalization measures aimed at other partner countries and trade routes. As our approach implies a certain status-quo bias and must therefore be considered as yielding lower-bound estimates, our estimated elasticities may well be compatible with true elasticities of one, meaning that any cut in trade costs might be offset by a fully equi-proportional increase in the volume of trade.

Barriers to Cross-border Integration

We estimate the average cost of a return trip across Malebo Pool at some US$40, equivalent to between 40 and 80 percent of the average monthly income earned by Kinshasa residents. All interviewed firms complained about excessive fares and taxes for crossing Malebo Pool. Accounting for the full range of fees, the cost of a return trip on an official ferry is estimated at US$68.80 (see Table 3.1). However, effective costs stated by interviewees vary widely, due largely to unpredictable and arbitrarily applied schedules, to a multitude of fee-charging “services” with inconsistent presence and enforcement, and to widespread evasion and corruption. 20,000 CFA francs (~US$40) is the standard all-inclusive price stated to us by several regular travelers. Crossing by pirogue represents a slower and more hazardous alternative, which, according to the costs summarized in Table 3.1, still costs about half of a ferry crossing, mainly because of payments claimed by police and military officers. To put these figures in perspective: San Francisco and Oakland are separated by a similar distance to that between Kinshasa and Brazzaville. If, relative to local average

Table 3.1 > **Estimated Cost of Passenger Crossing between Kinshasa and Brazzaville (in USD)**

	From Kinshasa to Brazzaville			From Brazzaville to Kinshasa		
	Ferry	Fast boat (“canot”)	Dugout canoe	Ferry	Fast boat (“canot”)	Dugout canoe
One-way fare	12.10	25.00	2.80	10.80	21.60	2.80
Travel document (“laissez-passer”) at origin	5.00	5.00		5.90	5.90	
Search (“jeton fouille”) at origin	2.00	2.00		2.00	4.70	
Port fee (“redevance portuaire”) at origin	2.70			2.40		
Vaccination card at origin	1.60					
Various fees and taxes at destination	12.50	15.00		11.80	16.00	
Police/military at origin (“droit de passage”, “commisse” etc.)			4.70			9.80
Police/military at destination (“droit de passage”, “commisse” etc.)			5.00			7.60
Total	**35.90**	**47.00**	**12.50**	**32.90**	**48.20**	**20.20**

Source: Confidential survey of 57 trading firms in Kinshasa and Brazzaville.
Note: Prices converted using exchange rates of 910 Congolese francs per USD and 510 CFA francs per USD.

income, the same costs applied to crossing the Bay Bridge as those that currently have to be paid to cross Malebo Pool, San Francisco residents would pay between 1,200 and 2,400 dollars for a return trip to Oakland.

In addition, traders are frustrated by tight timetables and poor organization of the ferry ports. Officially, passenger traffic is allowed only between 8 AM and 4 PM on weekdays and Saturdays and between 8 AM and 12 noon on Sundays. Customs clearance of goods is done in open spaces and is badly organized. Traders and simple travelers are not systematically treated separately, which complicates customs procedures and increases opportunities for rent extraction by officials, who are often described not only as corrupt but as aggressive and downright violent. Discrimination by nationality and ethnicity is also reported. The intensity of official harassment (“tracasseries”) also seems to vary across different types of merchandise, with some goods, such as sugar, less subject to extortionary pressures than others.

Shipping goods across Malebo Pool in bulk is very costly as well. Costs reported by traders range from three to 30 percent of FOB values. Recent World Bank estimates are of US$15 per ton for barge transport and US$26 for border delay costs. While port infrastructure is in a general state of disrepair, administrative hurdles appear to represent the main cost factor. Transit procedures also generate considerable administrative costs, and the system allows substantial leakage.

Customs procedures at Kinshasa and Brazzaville border posts are reported to be cumbersome. There is no effective preferential trade agreement between the two Congos even though both are members of the Economic Community of Central African States (ECCAS). This means that in principle all goods transported across the river have to pay the full customs duties. While a simplified regime for small-scale traders existed in the past, this regime has been suspended, and treatment of petty traders remains arbitrary and often abusive. A DRC presidential decree of 2002 grants the right to operate at customs

posts to only four agencies. Yet, up to 17 agencies are reported to operate at the passenger port in Kinshasa, often raising fees from traders and travelers without offering any corresponding services.

The observed high prices and low capacity largely result from the duopoly granted to the two national operators, ONATRA (in the DRC) and CNTF (in the RC). A convention signed by the two governments in 2005 attributes exclusive rights over the Brazzaville-Kinshasa route for passenger traffic to the two state-owned transport companies. Yet, despite their officially sanctioned privileges, the two operators appear to be unable to finance maintenance and infrastructure investment out of their revenues from river-crossing traffic (see Box 3.1). The main reason behind high prices and inadequate infrastructure therefore appears to lie in uncompetitive market structure coupled with poor management by the dominant operators.

Box 3.1 ONATRA and CNTF

Despite its dominant position, ONATRA claims not to be able to finance any investment projects out of its river-crossing operations. It can be estimated that ONATRA's daily operating profit from the Malebo-Pool ferry service alone exceeds US$5,000, thus probably earning the firm some 2 million dollars annually. The port at Matadi, which is also run by ONATRA, is believed to generate even larger operating margins. The problem, according to the firm's management, is a top-heavy and bloated payroll of some 12,500 employees plus a similar number of pensioners for all of its operations. Some of this is undoubtedly a legacy of busier pre-war times, but it does not appear that the firm has proper control over its entire payroll. What is clear, however, is that this overblown personnel budget as well as various forms of government interference prevent ONATRA not only from offering the best customer service (an unlikely outcome anyway, given its monopoly status) but even from maximizing its own profits. It would appear very likely that investing some of its revenues in upgrading its transport and loading capacity would benefit its own profits in the medium term, as the firm seems to operate well below the capacity at which its marginal cost equals its marginal revenue.

The situation at ONATRA's Brazzaville-based equivalent CNTF seems to be very similar. Despite high operating margins, the firm's management claims that no re-investable profits can be generated. Discussions are said to be under way for the privatization of CNTF, but real progress does not look imminent.

Cross-river passenger traffic in Kisangani is 175 times larger in per capita terms than in Kinshasa-Brazzaville. Being located on either side of the Congo River but not divided by a national border, Kisangani offers a useful point of comparison to Malebo Pool. Kisangani has an estimated population of somewhat over 800,000, making it around a twelfth the size of Kinshasa-Brazzaville. In Kisangani, it is common for traders, school children, students, and workers to commute across the river on a daily basis—something that has been unheard of between Kinshasa and Brazzaville for decades. The estimated number of passenger river crossings for 2009 is 10.2 million, while our estimate of the number of trips across Malebo Pool is 0.7 million.

Crossing the river Congo in Kisangani is about 300 times less expensive than crossing it in Kinshasa-Brazzaville, and the river in Kisangani is open for legal crossing twice as long every day as on Malebo Pool. All official operators in Kisangani apply a flat fare of CDF 100 (US$0.1) per person and crossing. No additional charges apply, and bureaucratic obstacles seem to be minimal both at embarkation and at disembarkation. Yet, the river is only about six times wider in Kinshasa than in Kisangani. While disabled travelers, who generally pay no or reduced fares and duties between Kinshasa and Brazzaville, account for two-thirds of passengers in Kinshasa-Brazzaville according to some estimates, their share in Kisangani is estimated at just ten percent. This is an evident outcome of river crossings being significantly more affordable to the general population in Kisangani than on Malebo Pool. For details on the organization of river-crossing traffic in Kisangani, see Box 3.2.

Policy Recommendations

What can policy makers do? While large foreign-funded infrastructure projects exist on the drawing board, considerable uncertainty remains over their realization and future viability. Hence, we explore options for regulatory measures and small-scale donor interventions aimed at unleashing "bottom-up" local entrepreneurial activity.

First and foremost, our analysis points to the importance of customs reform. A central element of such a reform is the systematic implementation of single clearing and payment points for traders ("guichet unique"). A corollary of this is a significant reduction in the number of public or semi-public agencies (or even private agents) active at border posts and allowed (or at least tolerated) to collect fees from traders. Existing law in fact only allows four such agencies to operate at the border. An area for reform of particular interest to the Kinshasa-Brazzaville region, as well as to their hinterlands, is the organization of transit trade. Leakage and fraud in transit trade should be minimized. Transit could be further facilitated by more intensive collaboration between DRC and RC customs offices, and the modalities of charging (and reimbursing) indirect taxes should be improved.

In addition, travel and transport across Malebo Pool could be facilitated through a range of mainly regulatory measures, with immediate impact. Given the large cost and uncertain prospects associated with the long-standing project of building a bridge across Malebo Pool, less costly and more rapidly implementable solutions to unblocking the Kinshasa-Brazzaville bottleneck need to be identified. Such measures could prepare the ground for later infrastructure investment, by demonstrating the effects of lower trade costs. While dilapidated infrastructure may be the visible face of high trade costs in Africa, uncompetitive transport markets often pose even more severe obstacles to the free movement of goods and people.[17] High administrative costs and constraints

Box 3.2 Crossing the Congo at Kisangani

More than 96 percent of crossings are made by motorized dugout canoe, with less than four percent of passengers crossing by ferry. In November 2010, some 60 canoes were in operation on any single day. Dugouts depart on average every ten minutes, between 5.45 AM and 10 PM. Passengers pay CDF 100 for a crossing on the ferry as well, whereas vehicles are charged US$30 for a same-day return. Some 3,000 vehicle return trips are recorded per annum. The ferry operates from 7 AM until 6 PM.

Even though river-crossing traffic is significantly cheaper, more frequent, and less cumbersome in Kisangani than in Kinshasa-Brazzaville, the river-crossing transport market in Kisangani is not free either. Both prices and quantities are controlled. The mayor's office ("Hôtel de Ville") and the National Economics Ministry ("Ministère de l'Économie Nationale") set the fares. Entry is costly: every canoe operator has to be affiliated with ANAFLUKIS, the association of private operators. This costs a hefty US$500 to join, plus a daily fee of CDF 2,600. Furthermore, ANAFLUKIS restrains the number of operators at any given time, by forcing canoes to work only every second day. This arrangement is clearly lucrative for operators. It can be estimated that daily operating profits per canoe (after fuel costs and fees) are in excess of US$25. Furthermore, ANAFLUKIS evidently makes significant revenues, the destination of which we were not able to establish. Finally, the mayor's office forces ANAFLUKIS members to buy most of their fuel at above-market prices. This is another source of economic rents whose final beneficiaries are unknown to us.

The ferry operator seems to earn considerable profits but fails to invest in maintenance and repairs with likely very high return on investment. Our estimates suggest that the ferries generate an annual operating profit somewhere between US$120,000 and 390,000. Nonetheless, the operator "Office des Routes" claims to lack the means for financing maintenance, let alone investment. In fact, the car ferry, which was donated by the EU in 2008, has been broken since June 2009. Since then, it crosses the river towed to the passenger ferry, which significantly reduces carrying capacity. The cost of repairing the broken engine is estimated at less than US$20,000. Yet, based on reported revenues when the ferry was operational, we estimate that such an investment would allow the operator to more than double its revenues. We were unable to establish what happens with Office des Routes' profits from the ferry operation

[17] See Teravaninthorn and Raballand 2009.

on competition in transport services will have to be addressed to allow the full benefits of improved infrastructure to materialize. If implemented effectively, such measures by themselves could generate benefits similar to those of a bridge, at a fraction of the cost. In fact, facilitating the activities of local transport entrepreneurs across Malebo Pool could well pay higher economic rewards than the construction of a bridge, since most of the work on a bridge would likely have to be carried out by foreign contractors, whereas water-borne transport services can well be supplied by local operators. Part of such a reform could also be the reintroduction of a transparent system for clearing customs to small traders as outlined below.

To this end, the first-best policy option would be to abolish the convention restricting passenger traffic across Malebo Pool, thus ending the stranglehold of ONATRA and CNTF on Pool-crossing passenger transport. Ideally, market liberalization would be accompanied by more transparent and simpler procedures for immigration, customs, and related border controls. Transport of goods and passengers would be more clearly separated in order to reduce opportunities for rent extraction. Concessions for additional river ports to compete with the existing set of ports could be auctioned as a complement to these reforms. As a second-best solution, the establishment of a second pair of accessibly located "beaches" with independent transport operators could go a long way toward reducing transport prices and limiting opportunities for rent extraction by port agents and shipping operators.

If such solutions were not politically feasible, initial measures to facilitate trade and passenger traffic could focus on a range of relatively simple administrative measures:

- Enforcement of full transparency of fares for passengers and goods through publicly available fare schedules;
- Enforcement of full transparency of all border and harbor fees and duties through publicly available schedules of the full range of border taxes;
- Re-introduction of simplified customs duties for small transactions;
- Conducting a pilot trial of a single-fee model for passengers and/or goods (all border fees and duties consolidated into a single rate, collected at one counter, and then shared out among the relevant government agencies);
- A clearer separation of passenger and goods traffic at existing port facilities;
- A reduction in customs controls on pure passenger traffic to infrequent random checks (made possible by the separation of passengers from goods traffic);
- Enforcement of limitations to agencies allowed to operate at border points; and
- Extension of port opening hours and hours for river crossings.

The payoff for administrative and regulatory reforms could be leveraged through infrastructure investments. Private as well as social rates of return on transport investments are estimated to be particularly high between Kinshasa and Brazzaville, where population density is high and distances are comparatively short.[18] Access routes also offer significant potential. The Matadi-Kinshasa and Pointe Noire-Brazzaville corridors serve not only as the respective gateways to the world for the two capital cities but they should be seen as competing corridors that can ensure substantial reductions in trade costs. Lower access costs to world markets for local companies will increase their capacity to compete and create

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[18] See World Bank (2010).

additional employment. In addition, the two corridors could function as mutual "fall-back options" for the case of interruptions to one of those routes. Hence, each country's maintenance of its access route to the ocean generates external benefits to the other country.

Infrastructure investments will have to be combined with sustainable mechanisms for maintenance. The upkeep of new and existing physical capital will have to be locally funded to be sustainable in the long term. It is therefore important that projects to facilitate trade are made compatible with the incentives of local actors to serve the interests of the many rather than those of the few. As long as foreign-financed transport capital is captured for rent extraction by local elites while being left to degrade, such investments will not yield sustainable gains—and they may even add to local distributive tensions.

Unblocking the Malebo bottleneck through a combination of regulatory changes and some infrastructure investment could yield significant economic gains for both capital cities, have symbolic value as a gesture of political good will, and represent a test case for trade reform. Since many regional integration treaties have remained a dead letter and may be seen as political vanity projects by much of the population, some well-targeted interventions in Kinshasa and Brazzaville could offer visible advantages to a large number of citizens at relatively low cost. Implementation and enforcement may also be more effective right in the heart of the capital cities, where the central government has better control than in more remote border regions. Kinshasa and Brazzaville, therefore, are ideally placed to be taken as a test case for reform of cross-border transport and customs, which, if successful, could later be replicated elsewhere.

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4. Enhancing the Recent Growth of Cross-border Trade between South Sudan and Uganda

Yutaka Yoshino, Grace Ngungi, Ephrem Asebe[19]

Introduction

The restoration of peace has led to a significant growth in demand in South Sudan. The signing of the Comprehensive Peace Agreement (CPA) in 2005 between the Government of Sudan and Sudan People's Liberation Army (SPLA) brought to an end of the decades-long conflict in South Sudan. The oil windfall, which was driven by the new flow of oil revenue to the Government of South Sudan (GoSS) based on the wealth sharing agreement between the North and the South under the CPA, coupled with foreign aid, allowed a large increase in public expenditure in the South. Population growth from resettlement of returnees and former refugees as well as increased business presence by foreign investors in South Sudan also contributed to the demand growth.

The demand growth in South Sudan together with lack of local production capacity then led to a sharp increase in cross-border trade between Sudan and Uganda. The Uganda Bureau of Statistics and the Bank of Uganda have undertaken a series of surveys of informal cross-border trade between Uganda and its neighboring countries. Informal trade here means trade that is not recorded officially by customs at the border and does not necessarily mean illegal trade. Many informal trading activities are totally legal, going through customs but not officially recorded due to the small quantities traders carry. Combining their estimation results of informal trade, bilateral exports from Uganda to Sudan have experienced skyrocketing grown since 2005—from US$60 million in 2005 to US$635 million in 2008 (Figure 4.1). The consumption and the construction booms in the post-conflict Southern Sudan—a sharp increase in demand coupled with the lack of local production capacity—are the driving force behind this increase.

The stability of Northern Uganda in recent years is an additional factor that has contributed to the growth of cross-border trade between Sudan and Uganda. The Juba Peace Talks between the Lord's Resistance Army (LRA) and the Ugandan government through mediation by GoSS has resulted in a cease-fire in 2006, putting an end to the two-decade-long internal

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conflict that seriously affected the economy of the Northern Uganda. While the peace and stability of South Sudan and Northern Uganda has led to the skyrocketing growth of trade between the two, South Sudan's trade with other neighbors is relatively small, largely due to lack of security in the areas on the border with those countries. Direct cross-border transactions with Northeastern Democratic Republic of Congo (DRC) and Kenya are limited at the moment due to the deteriorating security condition in Northeastern DRC due to LRA activities.

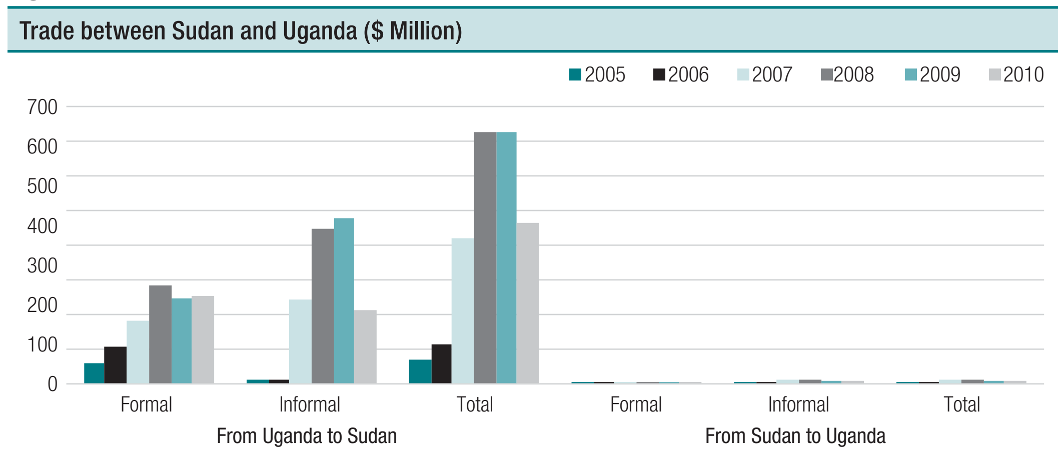
The rapid growth in Ugandan trade with South Sudan stalled after 2008 and even declined in 2010 due to increased insecurity in South Sudan faced by Ugandan traders. Uganda's exports to Sudan declined in 2009 due to several reasons, including import controls imposed by the Central Bank of Sudan to lessen foreign exchange pressures and safeguard the foreign exchange reserve position of the Republic of Sudan as a whole, which led to a decline of Sudan's overall formal imports by 20 percent in 2009. Slight recovery in formal imports is recorded in 2010 in light of a normalized level of oil revenue. However, informal exports from Uganda to Sudan dropped substantially from 2009 to 2010 (Figure 4.1). A substantial number of Ugandan traders withdrew from South Sudan as they found their business environment in South Sudan at the border as well as in Juba deteriorating through increasing harassment and acts of violence against them. There were also fears of potential insecurity from the Sudanese general election in April 2010 as well as the run-up to the referendum in early 2011. While there have been signs of return of Uganda traders to South Sudan since the peaceful conclusion of the referendum in early 2011 and the drop in 2010 may be a one-year phenomenon, the magnitude of decline is nonetheless significant, implying how informal trade is sensitive to changes in local security conditions.

Even with the recent decline in informal exports from Uganda to Sudan, Sudan remains Uganda's largest trading partner, dominated by South Sudan. For both formal and informal trade combined, Sudan has been the single largest destination of Uganda's exports since 2007, larger than any other destination in the world (Figure 4.2).

The bilateral trade between Uganda and South Sudan is highly asymmetric with the volume of exports from Uganda being disproportionately larger than the volume of exports from Sudan to Uganda and largely informal. As shown in Figure 4.1, Sudanese exports to Uganda are negligible compared to Ugandan exports to Sudan. While formal imports from

Figure 4.1 >

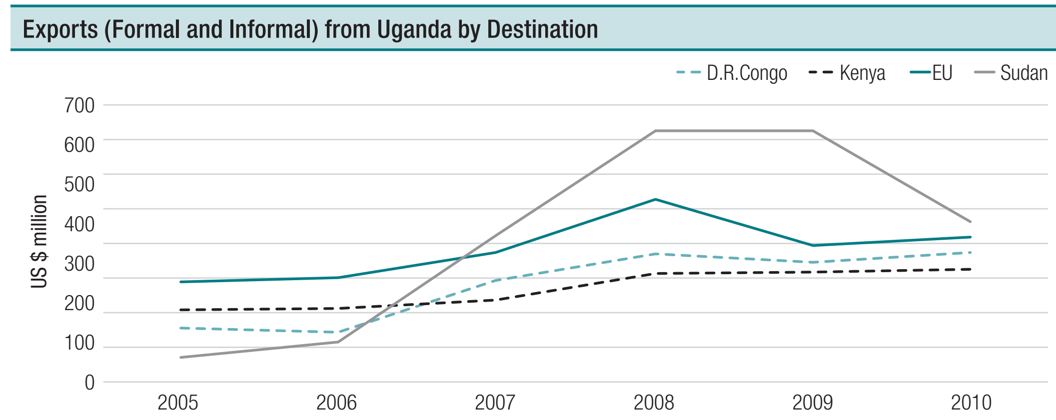
Trade between Sudan and Uganda ($ Million)



Source: IMF, Uganda Bureau of Statistics and Bank of Uganda.

Figure 4.2 >

Exports (Formal and Informal) from Uganda by Destination



Source: Uganda Bureau of Statistics.

Uganda were US$246 million in 2008, informal imports were estimated to be as much as US$389 million in the same year.

A range of products are exported from Uganda to Sudan with food (e.g., beer, water, food products, sugar, cooking oil) and construction materials (e.g., cement, iron sheets) being the leading exports. While South Sudan used to export a range of products such as hides and skin, honey, coffee beans, ground nuts, sesame, beans, horn and hoofs, and gum arabic, the only product currently exported is timber. Based on the survey data, the major informal unrecorded exports from Uganda to South Sudan are similar to those in recorded formal exports. For both the Oraba-Kaya and Bibia-Nimule border posts, two principal posts along the Sudan-Uganda border, agricultural crops and industrial products have significant shares in the total of informally exported products from Uganda to South Sudan.

There is some complementarity between formal trade 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 and in many ways, informal trade activities are linked with formal trade activities. The same goods can cross the border formally or informally—by foot, bicycle, motorbike, passenger car, bus, carried in small quantities and thus exempted from the normal customs procedures. In some ways, informal trade is *connected with formal trade*. Trucks unload some of their consignments between Ugandan and Sudanese check points on the border and sell them to foot, bicycle, or motorbike transporters, presumably in order to reduce customs duties and tax payments when they enter Sudan.

Monitoring regional trade—trade in regionally produced and regionally consumed products—including informal trade, has become more relevant than ever as each economy in the sub-region has become more integrated. The boom in informal exports from Uganda, primarily to South Sudan, partially offset the negative impact of the global financial crisis on the Ugandan economy, acting as a crucial contribution to the current account of the balance of payments at a time when most other sources of foreign exchange earnings were under pressure. Economic interdependence through regional trade also affects food security at the regional level. Given the short-term supply capacity constraint in Uganda, the export boom to South Sudan has raised domestic prices in Uganda. The high demand for

agricultural food products in South Sudan has created supply shortages in some districts in Uganda and a rise in food prices. It has induced an expansion of agricultural production in Uganda but also attracted more imports of agricultural products from DRC.

At the same time, informal trade remains sensitive to changes in local security conditions. Even relatively small-scale security incidents, if targeted at specific groups such as Ugandan traders, could generate a substantial withdrawal of trading activities given little fixed investments associated with informal trading.

Costs and Constraints at the Border and Behind the Border

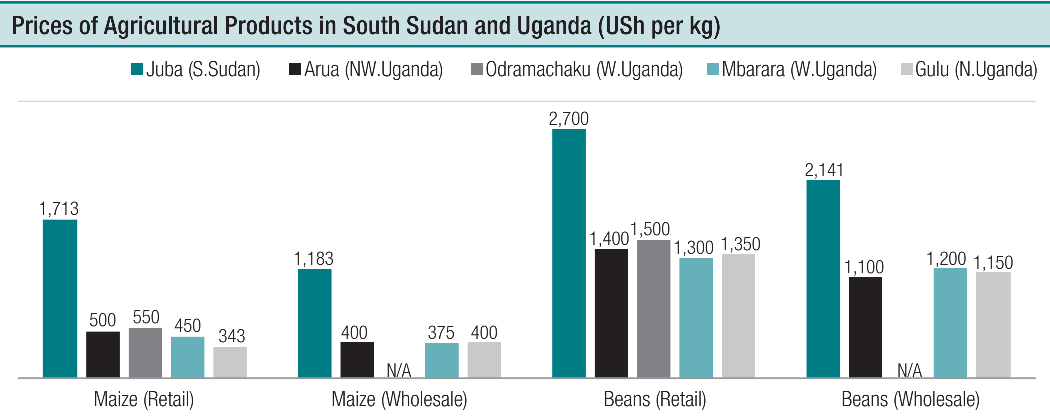
There are significant gaps in the food prices between Juba and Ugandan cities. Figure 4.3 presents the price levels of the same agricultural products (maize and beans) both at the retail level as well as wholesale level in Juba as well as four transport hub cities in Uganda—Arua (Northwestern Uganda), Odramachaku (Western Uganda), Mbarara (Western Uganda), and Gulu (Northern Uganda). Maize in Juba is about three times more expensive than in Ugandan cities both at the retail and wholesale levels, while the cost of beans in Juba is about two times more expensive than in Uganda cities for both retail and wholesale levels.

One factor behind the large gap in prices is the high total trading cost between Uganda and South Sudan. Figure 4.4 illustrates how 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 that are both regionally produced and traded, such as maize, water, beer, and cement, , the size of trading costs is similarly significant.

While behind-the-border trading costs are higher inside Uganda in absolute terms, the unit cost of behind-the-border trading cost inside Sudan is much higher than in Uganda. As shown in Figure 4.5, the unit cost of the behind-the-border cost—the aggregate of various costs incurred after good pass the border post up to the final market—is roughly 40 percent

Figure 4.3 >

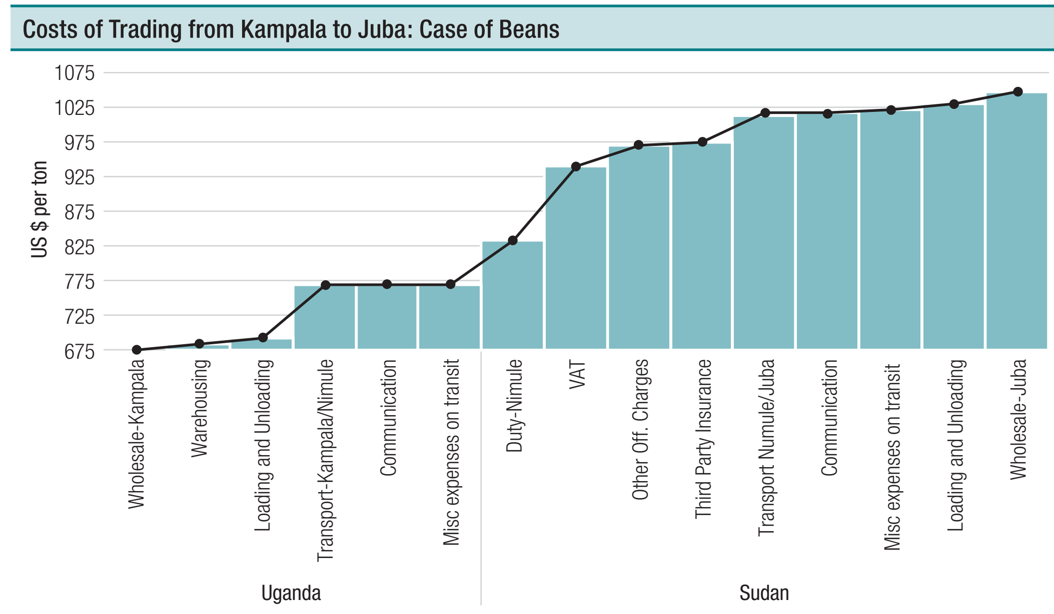
Prices of Agricultural Products in South Sudan and Uganda (USh per kg)



Source: Original data collection as in Asebe (2010).

Figure 4.4 >

Costs of Trading from Kampala to Juba: Case of Beans



Source: Original data collection as in Asebe (2010).

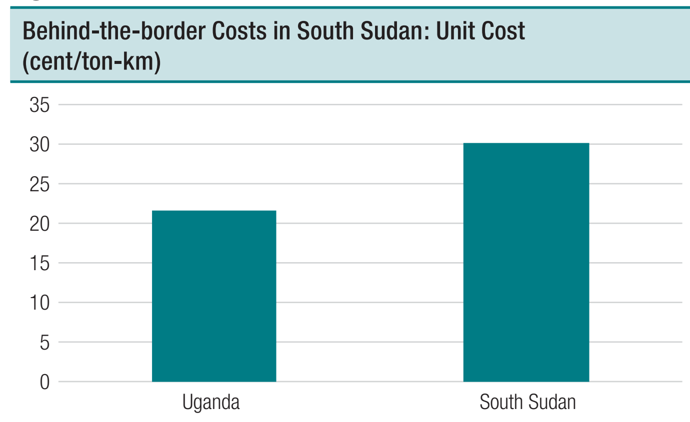
higher in South Sudan than in Uganda. This is largely due to the poor condition of transport infrastructure in South Sudan such as poor road quality and limited transport routes.

Costs and Constraints at the Border

Lack of consistent implementation of trade policies by the Sudanese customs raises the cost of trading. In Sudan, there is significant confusion and lack of clarity and consistency in implementing trade policies including the tariff rates to be applied. The background to this situation is the gradual enforcement of the CPA which gives the Khartoum-based Government of National Unity (GoNU) the mandate over border controls for the entire Republic of Sudan—transition from SPLA-administered customs operation during the Civil War—as well as the existing lack of clarity in the division of labor between GoNU and GoSS in formulating the tariff policies and enforcing them. Under the current regime, GoSS has the power to intervene in the tariff rates at South Sudanese customs, reflecting the continued sense of autonomy from the SPLA time. Currently, agriculture faces zero tariffs at the South Sudanese border customs points, based on the GoSS inter-ministerial meeting's decision in

Figure 4.5 >

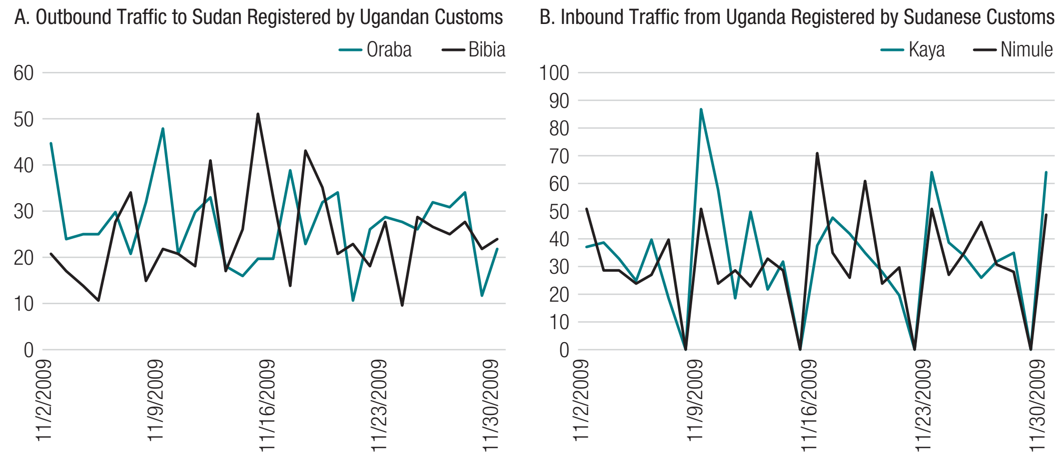
Behind-the-border Costs in South Sudan: Unit Cost (cent/ton-km)



Source: Original data collection as in Asebe (2010).

Figure 4.6 >

Number of Vehicles Registered at Sudanese and Ugandan Customs Per Day: November 2009



Source: Customs records at Kaya, Nimule, Oraba, and Bibia customs as in Asebe (2010)
Note: The two Sudanese customs points, Kaya and Nimule, are located on the other side of the border from the two Ugandan customs points, Oraba and Bibia respectively.

September 2010. Overall, the tariff applied in the South is only about 30–40 percent of the rates set by GoNU due to the GoSS intervention based on the rationale of protecting Southern Sudanese consumers from high prices. Some anecdotal evidence leads one to suspect that actual rates applied may vary among the border points.

The limited hours of operation of Sudanese customs causes significant fluctuations in the daily volume of traffic passing through customs, and therefore in the volume of customs work, with high concentrations on Mondays. Despite manual processing, average customs clearance time at the Sudanese customs appears to be relatively short when there is no documentation problem. In reality, there are many cases with problems with documentation, which can take up to one week to clear if the problems are serious. A few trucks encounter problems with their cargo seals broken when they enter Sudan. The South Sudanese customs are closed during the weekend. The customs closure during weekends on the Sudanese side makes trade flows more volatile as goods cross the border from Uganda to Sudan (Figure 4.6). The large fluctuations of traffic recorded by the Sudanese customs imply large fluctuations in the workload on the side of customs officials, putting pressure on the staff capacity of customs. This also creates congestion at the South Sudanese customs.

Poor customs infrastructure and staff capacity are serious binding constraints at South Sudanese customs. There is a system is in place for administering customs procedures within each customs point. However, the lack of modern data management and communication systems makes customs administration inefficient, particularly in terms of interoffice data verification and communication among different customs offices.[20] Also the lack of sheltered areas for inspections (open-air inspections) makes customs more exposed to

[20] For example, the customs office in Yei in South Sudan, located at a middle point between Kaya and Juba, verifies customs declaration forms with Kaya for inbound consignments from Uganda to Juba, which is now done only by telephone calls.

weather-related liability risks from rain damages to consignments during their inspections. Also, customs staff, the majority of whom were former SPLA soldiers, are poorly trained.

Security is still weak at the border area for traders particularly those from Uganda, inhibiting their business incentives in South Sudan. Harassment by the Sudanese customs officials against traders, in particular those from Uganda, is a growing concern among the private sector in Uganda. Small-scale incidents such as robbery and confiscation of goods repeatedly occur. Kampala City Traders Association (KACITA) and Joint Action Redemption of Uganda Traders in Southern Sudan report that there were approximately 320 official complaints between 2007 and 2010 including murder, rape, confiscation, and underpayment.

Costs and Constraints Behind the Border

In addition to constraints at the border, high transport costs for regional trade arise due to poor road conditions, multiple checkpoints and roadblocks, multiple taxes (state tax, VAT, county fees), as well as non-tariff barriers such as product standards and import licenses. The major impetus for high trading cost comes from high transport cost due to poor road conditions, particularly in South Sudan. The road condition between Yei and Kaya is particularly bad. The majority of vehicles that are released at Kaya Customs, for example, do not arrive at Yei Customs, which is just 90 km away from Kaya, on the same day but arrive the next day or later.

Also, the low load factor contributes to the high transport cost in South Sudan. As discussed earlier, the trade patterns between South Sudan and Uganda are highly asymmetric in the sense that the amount of goods exported from South Sudan to Uganda (or through Uganda to elsewhere) is significantly less than goods exported from Uganda to South Sudan. The implication is clear: many trucks transport goods from Uganda to South Sudan must return to Uganda empty, meaning that the cost of shipping goods from Uganda to South Sudan becomes much more expensive because it is one-way. Bringing back empty trucks back from Sudan to Uganda is associated with high opportunity cost for transport service providers. Per km cost from Mombasa to Juba and from Kampala to Juba, are more than twice as expensive as from Mombasa to Kampala. Also, limited competition in transport services in South Sudan and high risk factors also contribute to the high unit cost of transport in South Sudan.

Numerous nuisance fee payments faced by traders exacerbate behind-the-border trade costs in South Sudan on top of the already high transport cost. Among several cases collected for the study, trucks transporting goods from the two border posts, Kaya and Nimule, to Juba were stopped topay nuisance fees every seven to 15 kilometer, five to ten times, as presented in Table 4.1. The average total amount is SDG 200, which is not very high if it is paid all at once. However, when the fee is broken down to small amounts to be paid five to ten times along the route, the time cost of the payments is substantial. Specifically, some of these include amounts to the traffic police, the army for public security, roadblocks, and waraga (travel permit) payments. Most of the payments are of an informal nature and also small in amount (e.g., SDG 10).

Additional taxes imposed by the States within South Sudan raise not only the monetary cost of trading but also the time cost from congestion at interstate borders. For example, on the Nimule-Juba route, Central Equatoria State (CES) imposes state taxes at Juba Bridge when goods cross the border between Eastern Equatoria State and CES. The analysis of data collected at Juba Bridge reveals that roughly two-fifths of tariff and VAT payments

Table 4.1> **Miscellaneous Formal and Informal Payments during Transit between Border and Juba**

Case	Route	Distance (km)	Total Amount (SDG)	No. of Payments	Amount per payment
1	Kaya-Juba	233	285	11	25.91
2	Kaya-Juba	233	205	8	25.63
3	Kaya-Juba	233	165	9	18.33
4	Kaya-Juba	233	200	7	28.57
5	Nimule-Juba	193	145	8	18.13
6	Nimule-Juba	193	205	6	34.17
7	Nimule-Juba	193	135	5	27.00
8	Nimule-Juba	193	285	10	28.50

Source: Original data collection as in Asebe (2010).

paid at Nimule is being charged at Juba Bridge by CES (Atil 2010).[21] With the imposition of multiple taxes and charges, Juba Bridge becomes a major bottleneck in transporting goods from Nimule to Juba, which therefore creates congestion at the Bridge. The import cargo spends, on average, an extra two days at the Juba Bridge (World Bank and International Finance Corporation 2011).

For formal trade, the cumbersome documentation process for importation multiplies the constraints that lie behind the border in South Sudan. The recent Doing Business report for South Sudan (World Bank and International Finance Corporation 2011) found that an entrepreneur in Juba must submit 11 documents, wait 60 days, and spend US$9,420 to import a standardized container of cargo through the port of Mombasa. A similar story applies for regionally produced regionally traded products, which are the focus of this chapter. Better coordination of processes among Customs, Ministry of Commerce and Industry (MCI), and Sudan Standard and the Metrological Organization as well as state governments would facilitate the importation process by cutting down the time cost of importation.

Costly Trade Financing

Formal trade financing services are costly in South Sudan. Formal letters of credit (L/Cs) are available from banks located in South Sudan and Uganda, mostly branches of foreign banks, including regional banks from Kenya and Ethiopia. Kenyan Commercial Bank and Equity Bank are the two largest banks issuing L/Cs in South Sudan. However, the number of clients is very limited. L/Cs are mainly issued to clients known to the bank and backed by 100 percent cash collateral in U.S. dollars; the bulk of these are issued to traders that supply government, with the government acting as guarantor (Atil 2010). Businesses also face difficulty in terms of the high rates of daily charges associated with L/Cs.

On the other hand, many services are provided informally. Due to the high cost of L/Cs, businesses often resort to other informal ways to finance their imports. Informal trade financing is accessed through friends and personal contacts where buyers can provide

[21] This consists of one-fifth for CES tax and another one-fifth for additional charges including cargo verification, standards verification, driver and vehicle registry, commerce check, Sudan customs policy, and parking fee.

upfront payments to traders for purchases, and/or where suppliers are willing to wait for the payments or accept partial payments. More often than not, businesses send their employees to Uganda and elsewhere to make purchases directly, thus minimizing the risk. In such a case, cash in dollars is kept outside of South Sudan for purchases abroad (Atil 2010). Other sources of trade finance include loans from family, friends, or informal moneylenders. The cash-based cross-border settlements of informal trade have attracted a significant number of informal currency exchange service providers at the border areas as well.

Women's Participation in Informal Border Trade

Women's participation in border trade is largely informal. As in most developing countries, women are prominent players in informal trading activities in South Sudan and Uganda. Trading activities play a crucial role in improving their household incomes. Among those who were interviewed by the original data collection for the study (Ngungi 2010), 77 percent of traders were from female-headed households as widows or breadwinners, depending solely on cross-border trade as a source of income. Typical age was between 35–45 years, ages that allow women to be away from family responsibilities such as childcare. Instead, they face increased needs for cash, for example, for school fees and other household needs, which drive their participation in cross-border trade.

There are largely two types of women traders engaged in informal border trade between South Sudan and Uganda: local Sudanese at the border areas and Ugandan and Kenyan traders. The first type is local Sudanese women at border towns, mostly in Kaya, where they walk to cross the border from South Sudan to Uganda (Oraba) to purchase commodities to sell during the market days in South Sudan. Most women participating in cross-border trade in this way are illiterate and lack basic education. Another type is women traders who purchase commodities in Ugandan and Kenyan markets and use regular bus services which connect Juba in South Sudan and cities in Uganda and Kenya to transport the commodities to Juba and sell them there.[22] The study found that 70 to 80 percent of the bus passengers are Kenyan and Ugandan women who engage in cross-border trade (Ngungi 2010). Most of traders of this type are literate.

The vast majority of the local women participating in border trade use agents for clearing the customs. The agents do not necessarily have professional permits or licenses but are simply well known and recognized by customs officials. Agents are those who have experience of doing the work at the border posts and know how to maneuver within the system. Use of agents is not officially required; however, customs officials prefer to deal with clearing agents who understand the procedures better than the women in business. The negative perception was that the customs officers looked down on the women because they were poor and they perceived informal businesses as illegal smugglers.

Access to credit is a significant constraint for informal women traders. There seems to be a vision for carrier development among women traders engaged in cross-border trade to improve their economic livelihood by stepping up their business from retailers to wholesalers (Ngungi 2010). However, they are constrained in terms of obtaining sufficient capital to start

[22] There are total of nine passenger busesthat pass through the Nimule border (eight from Kampala and one from Kenya).

buying commodities in bulk and sell them to retailers at competitive prices. They have only limited access to microfinance institutions (MFIs). Among the respondents, only 10 percent have obtained services from financial institutions including MFIs to finance their start-up costs, while 90 percent have financed either from their own savings or from family members.

Lack of security at the border areas affects women more than men. A number of incidents of rape and other violence against women were reported at the border area of Bibia-Nimule. There is an ongoing effort to establish markets at the border, which will likely help reduce occurrence of those incidents.

Independent South Sudan and an Agenda for Regional Trade

South Sudan became an independent state on July 9, 2011. The independence of South Sudan will bring both opportunities and challenges. Uncertainty exists over how the border management of South Sudan, including customs, will be handled. The overwhelming majority of South Sudanese voted in favour for independence in the referendum that took place in January 2011. The immediate agenda for the independent South Sudan is to quickly set up an initial independent border management arrangement including customs. After independence, it appears that South Sudan does not even have a simple law granting the right to collect customs duties. The two countries have recently agreed on establishment of ten check points at the border between them which extends to around 2200 km as well as formation of control teams composed of Sudan Armed Forces and the Army of the State of South Sudan to investigate any violation on the ground. The two countries also agreed on establishment of customs offices and implementation of immigration procedures.

The drive for integration with East African Community (EAC) further complicates the process of creating a new customs regime in South Sudan. Prior to independence, GoSS already announced its intention to seek membership of the EAC. As South Sudan aspires to join the regional body, there will be an obvious question of how the harmonization with EAC countries in terms of trade policies and other trade-related domestic regulations will be handled in conjunction with the possibility of establishing a new regime of border control and customs. During the five years of the post-CPA customs regime, dialogue was limited between South Sudanese and Ugandan (and Kenyan) authorities, given that GoNU had been formally representing South Sudan customs. More intensified interactions between GoSS and regional counterparts (e.g., Uganda Revenue Authority) needs to take place quickly.[25]

Maintaining security in the business environment is a critical step to sustain growth in cross-border trade. Some dialogue between GoSS and the Government of Uganda has started since the series of violent acts against Ugandan traders in South Sudan, which has led to the idea to establishment of border markets as well countering the existing antagonistic sentiment against foreign traders in South Sudan. A stepped-up effort on

[25] For instance, a growing issue for Uganda Revenue Authority (URA) is the loss in tax revenues for local governments by informal, unrecorded purchases and cross-border trade. Southern Sudanese traders come to buy agricultural products directly from farms, where local authority cannot capture revenues. URA held three meeting with GoSS in December 2009 and April and June 2010 to prepare common custom documents to smooth cross-border trade. Progress is slow because under current trade policy regime GoSS does not have a mandate in trade policy-making.

both sides may be helpful to sensitize their populations on the merit of trading to build stability in the region.

Improving the quantity and quality of services provided at customs through building staff capacity and extending hours of operation is of utmost importance for increasing efficiency at the border. The study found that the manual nature of the procedures at customs itself is not necessarily the most binding constraint. Weakness exists rather in the inconsistent application of policies by customs staff. The weak staff capacity is the most binding constraint against efficient customs operations, reducing staff morale and their efficiency, and lowering the transparency in their routine handlings thereby increasing risks of informal payments. Even when under the control of GoNU before the independence, customs in South Sudan were staffed by South Sudanese, mostly former SPLA soldiers. The majority of them require proper training. Also, simply providing sufficient opening hours during the weekend for customs services would help to alleviate the delay at the border crossing. Staff capacity building and ensuring sufficient amount of hours for customs operations should have a higher priority than investments in hardware infrastructure and upgraded systems (e.g., ASYCUDA) and would be simpler first steps that the new independent government can take. Regional training opportunities—cross-country learning from other Eastern African countries—may be an effective way to build staff capacity in South Sudan this regard.

Improved clarity and coordination of various taxes and charges, both at the central as well as state levels, are needed to reduce trade-related transaction costs at the border as well as behind the border. The lack of clarity in administrating duties and taxes charged by different government offices (including the state government) at the border has led to cases of multiple taxes. There is a need for more harmonization in the revenue regime of Southern Sudan. Uncoordinated issuing of exemptions from duties and taxes was also mentioned as a growing concern.

Efforts should be made to remove roadblocks and, at the same time, make investments to improve road quality. Poor infrastructure makes small loads more economical. Roads are still too bumpy for large trucks as in the case of extremely poor road condition between Kaya and Yei and the limited capacity of Juba Bridge, which can accommodate trucks only up to 5 tons. But small loads make trading more costly due to transit bottlenecks since various payments—official, unofficial or both—are made per truck not by weight. Time costs are also high. While improving road quality in South Sudan is a critical investment that must be made to reduce the costs of trading, the government needs to step up its efforts to reduce the number of roadblocks along major corridors for miscellaneous expenses during transit. If payments are collected for legitimate reasons, it is better that those are collected all together at in one place to save time.

Since alternative corridors may be developed in the medium- to long-term, improving competitiveness along the Juba-Kampala corridor is important for Uganda to keep its position as a transit hub. Once the security condition in East Equatoria improves, investments will likely be made to develop a corridor directly to Kenya to get access to Mombassa rather than going through Uganda. There is already a plan to establish a road connection from Malakal in Upper Nile State to Gambera in Western Ethiopia to develop a corridor to Djibouti. For Uganda to maintain its position as a transit hub for South Sudan, and other landlocked economies such as DRC, Rwanda, and Burundi for that matter, maintaining its cost competitiveness and efficiency of trade-related services are critical.

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5. Lowering the Cost of Payments and Money Transfers in UEMOA

Thilasoni Benjamin Musuku, Maria Chiara Malaguti, Andrew McEwen Mason, and Ceu Pereira[24]

Introduction

Lowering cross-border transaction costs in any monetary block or trade corridor is an important step in encouraging greater trade and enhanced use of formal financial services. The eight UEMOA countries use a common currency, the CFA Franc (FCFA). The currency is controlled and issued by the region's central bank, BCEAO. Additionally, UEMOA has a common modern payments infrastructure, which ought to facilitate widespread access to basic transactional payment instruments and transmission circuits.

Achieving scale in financial services is generally acknowledged as being important to promoting financial sector development in Africa, to lower the cost of financial services, increase competition and innovation, and increase access. According to information provided by BCEAO, despite the region's high-quality electronic payment system infrastructure that can facilitate access to basic services less than 10 percent of the UEMOA population has a bank account.

There are new players seeking to enter the payment services market in UEMOA. This is considered a healthy indicator of the opportunities that exist for competitive (and competing) transactional products and services to overcome some of the inefficiencies and product gaps that still exist. However, given the new players, underlying money transfer costs for final users have not decreased to the extent expected.

Recent technological developments such as mobile payments provide the context for the analysis provided in this chapter. Technology opens up opportunities to increase the reach of financial services, expand the scale of operations, and reduce costs, thereby enabling usage of existing infrastructure to greater potential.

This chapter has two principal objectives: the first is to identify opportunities for and barriers to reducing the cost of money transfers between and within UEMOA member countries. The second objective is to identify means of further extending the reach of

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modern payment services and promoting access to basic transactional services to a much broader cross section of the population than the current user base.

The Current Payments Landscape

The BCEAO Regional Payment system Project produced high-quality basic infrastructure to deal with both wholesale and retail payments. With the Système de Transfert Automatisé et de Réglement[25] (STAR), Système Interbancaire de Compensation Automatisé[26] (SICA) and Groupement Interbancaire Monétique[27] (GIM), UEMOA countries have a world-class clearing and settlement infrastructure. However, the infrastructure remains markedly underused and usage costs, although lower than before, remain very high. As a result, there is room for concerted efforts by all market players to focus on both reducing costs and improving access and usage.

Overall, the payments landscape of UEMOA exhibits several distinct characteristics and trends as follows:

Shallow Penetration of Formal Channels and Services

There is a well-established formal banking sector, but it serves a very small percentage of the population. Most of the population remains "unbanked" and reliant on cash. This is well recognized by BCEAO and measures are being taken to address this issue. For example, in August 2007, BCEAO hosted a seminar to consider how to promote "bancarisation" and the use of non-cash payment instruments. The seminar was attended by a cross section of financial sector stakeholders and produced a set of action plans for BCEAO, banks, the bankers' association, the banking commission, and the UEMOA governments.

As a result, the government of Senegal, in partnership with Ecobank, has launched a program to encourage university students to open bank accounts with associated bankcards. The government then pays student allowances into these accounts, and students can use their cards to make payments and cash withdrawals at Ecobank branches and ATMs on university campuses. Also, GIM-UEMOA, the interbank card switching and clearing service, is actively working to widen its membership to include the broadest possible range of operators, including mobile telephone payment operators.

It is unclear to what extent these actions have resulted in measurable increases in "bancarisation." This problem is complex and may well need to be addressed through a more holistic approach.

Cash is by Far the Dominant Payment Instrument Used in UEMOA

As previously noted, only some 10 percent of the population has bank accounts, which means that 90 percent or more of the population have no access to basic transactional instruments such as electronic credits and debits, EFTPOS or even checks. Remedies for this situation are rapidly emerging as a result of innovative electronic payment instruments and circuits that

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[25] Automated Transfer and Settlement System.
[26] Automated Interbank Clearing System.
[27] Interbank Payment Card Group.

do not require users to have a bank account. However, these new services are still at an early stage of introduction and have as yet not achieved a critical mass. Cash therefore remains king.

Checks account for the great majority of all non-cash payments. According to data provided by BCEAO, in 2008 interbank checks accounted for 86 percent of SICA-UEMOA transactions by volume and 87 percent by value.

New Players and Services Hold Great Promise

The established "duopoly" of commercial banks and international money transfer operators (MTOs) is being increasingly challenged by a range of new entrants into the payment services market, most of them indigenous. These new entrants are seeking to exploit a variety of opportunities to offer payments and money transfer services, generally using modern technologies such as mobile phones and cards.

A common thread among these services is the goal of operators to reduce the cost of transferring money and thus enhance inclusion to those who cannot afford bank accounts. For example, although all of these service providers have contractual arrangements with licensed banks where they hold funds, as required under BCEAO regulations, they do not require the customer to have a bank account. Although there is still considerable scope for further cost reductions, their services are predicated on low fees as well as speed and convenience. Nonetheless, there is little interoperability between these newer payment systems and services, and few currently use existing BCEAO infrastructure.

While most of the new market players that participated in this study spoke enthusiastically about the number of new customers they had attracted, in terms of absolute numbers, they are barely scratching the surface. There is a lack of vision on the part both established and new service providers. They appear to see the market only in terms of their own small customer base, rather than considering the potential for growing the overall user base to encompass the entire population of UEMOA. There is an opening here for greater collaboration when it comes to provision of basic payment system services.

Important Role of Remittances

Traditionally, there have been strong inward remittance flows from diaspora communities in European countries such as France and Italy and from the United States. These have been serviced primarily by well-established international (foreign-owned) MTOs, which often have exclusive agency relationships with banks in recipient countries. The flows have therefore traditionally been from developed economies to less-developed UEMOA economies (from north to south).

In the last few years, these payment flows have been supplemented by increasing flows within the region (between east and west). These flows are driven by labor migration between UEMOA countries. To a large extent, they rely on people physically carrying cash between countries, but new entrants to the payments scene are offering intra-regional money transfer services with some success. For example, the indigenous MTO Money Express is seeing increasing volumes of transfers between UEMOA countries.[28] Some commercial banks are also starting to focus on intra-regional transfers.[29]

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[28] Source: discussion with Poste Finances, Togo, June 2010.

[29] Source: discussion with Financial Bank, Togo, June 2010.

Within UEMOA, all MTOs are required to operate through agency agreements with other financial institutions such as banks or Poste Finances. Most banks and other financial institutions offer money transfer services from only a few MTOs. This may be convenient for the banks, and is claimed by some banks as being less confusing for customers, but also probably has the effect of keeping the cost of transfers higher than it would be if there were more rigorous competition.

Many Different Institutions Issue Payment Cards

GIM-UEMOA members also have the option of installing and operating their own card terminal networks or participating in GIM-UEMOA's own network. Members of GIM-UEMOA issue their own debit cards, but have the option of co-branding them with the GIM-UEMOA logo. According to data provided by GIM-UEMOA, approximately one million GIM-UEMOA branded debit cards have been issued to date.

In addition to GIM-UEMOA–branded cards, many banks also issue their own cards, which can typically only be used at their own outlets. These include both debit and prepaid cards. Other non-bank financial institutions (NBFIs) are also starting to issue their own cards, based on funds held in a bank with which the NBFI in question has an agreement.

Several factors limit the growth in usage of these cards. For instance, having a GIM bank card presupposes that the cardholder has a bank account. Accordingly, the low level of "bancarisation" in UEMOA member countries is a key factor limiting the use of card products. With fewer than 1,000 ATMs and 2,000 EFTPOS terminals, there is little incentive for consumers to acquire a card. The cost of acquiring and using a GIM card is high relative to most consumers' financial resources. Not all bank-issued cards carry the GIM-UEMOA logo, so they can only be used at the issuing institution's outlets. This appears to reflect the desire of some financial institutions to carve out market share at the expense of interoperability and growing the overall market. This is a major impediment to the development of the overall UEMOA payments system.

In order to encourage as many operators as possible to join GIM-UEMOA, it may be useful to examine the procedures and costs of becoming a member, to ensure that these factors do not act as a deterrent to smaller operators. A tiered membership structure could help improve the situation, with smaller card operators connecting to GIM-UEMOA via the networks of full GIM-UEMOA members.

Mobile Payments are Becoming Popular

A recent trend in UEMOA is the emergence of non-bank players in the market that have identified a variety of opportunities to offer payments and money transfer services, typically using modern technologies such as mobile phones or cards to access services. Although those providing such services have contractual arrangements with licensed banks for holding funds (as required under BCEAO Regulations) they do not require the customer to have a bank account.

Most of the new mobile telephone-based services appear to be single country-based, at least initially. This may be due to the fact that each country has its own telecommunications licensing and regulatory regime, and also the fact that any financial service is required to be separately licensed by BCEAO for each country in which it is offered. Nevertheless, MTOs are planning to offer mobile payment services progressively across the UEMOA

region. While these will be stand-alone operations at first, in the longer term they may be interconnected.

Given the great variety, innovation, and energy of the newer entrants into the payments market, there may appear to be little need for BCEAO to take specific measures to encourage new players or services. However, most of the players are motivated to expand market share for themselves, rather than growing the overall market. Thus there is a public policy agenda here that BCEAO needs to address as part of its payment systems oversight function.

The Legal Framework Applicable to Payment Services

In recent years, new technologies have changed the landscape in the payments industry. Technology has fostered new entrants into the payments market, allowing non-financial institutions to offer new services that in some circumstances do not require opening a bank account. This in turn has highlighted the need for legal reforms designed to ensure a level playing field between established operators and new entrants.

The legal and regulatory framework applicable to payment systems and services should contribute to bringing the highest level of safety, efficiency, cost effectiveness, fairness, and convenience to the maximum number of businesses and individuals. Although new pieces of legislation, such as the e-money instruction, have been introduced in UEMOA in recent years, most provisions in the existing framework relate to the banking sector and paper-based instruments.

Directive 08/CM/2002/UEMOA introduced a number of provisions to discourage the use of cash and to promote the use of bank-based payment channels. Although these instruments also include electronic transfers and direct debits, they are not given specific preference compared to checks, the use of which far outweighs that of all other payment instruments. Indeed, the Directive does not make reference to more innovative channels or electronic instruments based on mobile telephones or prepaid cards offered by non-bank financial institutions.

Lower use of cash as a consequence of Directive 08/2002/CM/UEMOA, would actually result in a move from one inefficient and costly paper-based instrument to another. Using checks is slightly more efficient but does not signify a major adoption of "modern payment instruments and procedures" (see BEACO 2007).

Moreover, the coverage provided by the legal framework as regard new players, such as non-bank payment service providers, is still unclear. Despite the existence of the e-money instruction, most players still cannot provide services without bank intermediation. This is the result of potential inconsistencies between (i) the Banking Law, which builds regulation of payment services and systems around banking activities; (ii) Regulation No. 15, which leaves open the possibility for other entities to issue and manage payment instruments but links payment services to a bank account; and (iii) BCEAO Instruction No. 1, which regulates e-money but is meant to implement Regulation No. 15 and cannot exceed its scope of mandating only bank-based models.

One typical concern about extending operation of payment services to non-financial institutions is the risk that anti-money laundering and anti-terrorism measures would become more difficult to apply. In the case of UEMOA, Directive 07/2002/CM/UEMOA of September 19, 2002 on money laundering has been adopted and there is a harmonization

law to cover anti-money laundering. A consistent policy covering all payment service providers can be calibrated on a risk-based basis to the needs of a given type of service.

What Factors are Limiting UEMOA Money Transfers?

The payments infrastructure in UEMOA is world-class in terms of functionality and capability. It should be facilitating broad-based access to basic transactional services, whether by individuals or businesses at low cost. Below are some of the challenges to be overcome to increase usage of the system beyond a very small fraction of potential users:

Cost

The implementation and deployment of electronic services requires providers to make significant investments in networks and access points, and over the life of the system providers must be able to recoup this investment. As a result, 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 (such as those provided via GIM-UEMOA).

Service providers may need to consider how best they can attract a much larger user base, perhaps by forgoing a higher level of profitability in the short term in the interests of building the market overall. If non-cash payment services are to achieve critical mass, costs must come down. But to a certain degree this is a chicken-and-egg situation: fees can only come down with very high transaction volumes that can only be attained when the fees are low.

Availability of Electronic Terminals

The deployment of ATMs and EFTPOS terminals is seriously inadequate whether measured in relation to the size of the population, geographical extent of the UEMOA countries, or even the number of bank accounts. This severely limits take-up of card-based payments.

There is also no fundamental reason why the use of ATMs and EFTPOS terminals should be confined to holders of bank-issued cards. Institutions other than banks could be encouraged to issue cards usable in ATMs and EFTPOS terminals, without being tied to specific banks. This could provide an expanded role for GIM-UEOMA, particularly if it develops into the switch for all payment services, not just bank-operated systems.

Interoperability

Another key factor for rapid and widespread uptake of electronic payment circuits is interoperability. If electronic payment services are to be adopted more broadly, cards or mobile phones must be usable not only with their own systems or mobile networks but also with other systems not covered by the "parent" system.

Card-based payment services in UEMOA do exhibit a great degree of interoperability due to the existence of the GIM-UEMOA card switching and clearing system. The picture is less encouraging for emerging mobile phone-based payment services, which in general are not interoperable. Some mobile operators claim that interoperability of "mobile money" is

prohibited under the rules of the telecommunications regulators, although interoperability is clearly encouraged for voice and SMS services.[30] Mobile payment operators may be reluctant to contemplate interoperability for a variety of reasons including the need to protect their market share. The complexity of devising appropriate agreements and commercial arrangements, for example for charging and/or revenue-sharing, may also hinder the development of suitable arrangements among mobile operators and inter-bank switching services.[31]

The overall lack of interoperability is a significant brake on the development of emergent electronic payment services, particularly cross-border mobile payment services where UEMOA has potential given a common currency and single overseer for payment systems.

Legal and Regulatory Barriers

The assumption that the provision of payment services requires some form of intermediation by banks entails that the current legal framework does not fully foster innovation or promote a level playing field. This not only makes it difficult for new players to compete with banks, but also lessens pressures to reduce costs. With regard to MTOs, although exclusivity agreements are prohibited by BCEAO, requiring bank intermediation results in payment of commissions that are inevitably passed on to users.

It is also difficult for a payment service provider based in one UEMOA country to expand into other countries, because it must comply with local regulations and be licensed separately in each country. This represents a significant administrative burden that can make it unattractive to offer a service across the entire UEMOA sub-region. There is clearly a need—and opportunity—for the introduction of a system of mutual recognition whereby a service sanctioned by one country can be "cross-licensed" in other countries, similar to the EU passport system model for service providers.

Policy Suggestions for the Way Forward

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. To make progress on these issues the next critical step is:

Develop a UEMOA Payments System Strategy

National payments systems in UEOMA are developing rapidly and they are much more complex today than just a few years ago. Addressing payments system complexity and

[30] Source: discussion with Sonatel 13 April 2010.
[31] Source: ibid.

issues associated with terminal availability and interoperability requires a much greater degree of oversight of the payment system by the central bank than is currently exercised. At present, there are only three professional staff in the oversight unit at BCEAO.

BCEAO should take the lead in developing a comprehensive UEMOA-wide payment system strategy, building on the clear success of the 2000–2007 BCEAO Payment System Project. There is growing fragmentation, high cost, low usage of existing infrastructure, and foundations of the legal and regulatory framework require updating.

As the central bank of UEMOA, BCEAO is ideally placed to bring together all stakeholders throughout the Union to develop a holistic strategic plan focusing on improving financial access and ensuring broad acceptance of electronic payment products.

The successful articulation and execution of a holistic payments strategy would provide governments of UEMOA member countries, international development agencies and other partners with a strong strategic platform on which to provide further support for improving the payments landscape.

Within this strategy it will be necessary to address the following:

Develop BCEAO Oversight of Payment Systems

The UEMOA payments system is developing rapidly in a number of areas. While this is a sign of a healthy market, it reinforces the need for BCEAO to strengthen its oversight capability. This will lessen barriers to market developments and ensure that developments benefit the entire community and economy at the highest levels of safety, risk mitigation, and consumer protection. In particular, the exercise of effective oversight should:

- Encourage all players to work together towards achieving the greatest possible level of systems interoperability in the interest both of their customers and in the interest of the overall market.
- Encourage (or require) all card payment (monétique) service providers to join GIM-UEMOA.
- Ensure there are pressures on payment service providers to reduce fees on an ongoing basis.
- Make it easier for financial and payment services to be cross-licensed or recognized in multiple member states, and thereby stimulate cross-border payments.
- Encourage rapid and broad-based deployment of interoperable "end-point" merchant devices where electronic payments can be accepted. These devices should include mobile phones in addition to EFTPOS terminals.
- Ensure that services are introduced in an orderly and safe manner, observing strong consumer protection.

Interoperability of Payment Systems and Services

The interoperability between payment systems in UEMOA needs to be accompanied by agreements by private sector participants on keeping fees among networks to a minimum, otherwise the increase in volumes may not materialize. There are several measures that can be taken:

- Ensure that legal and regulatory barriers to interoperability are removed.
- Work closely with telecommunications regulators in all UEMOA countries to ensure that regulations are consistent and do not inhibit interoperability.
- Develop and implement ways of massively increasing transaction volumes through GIM-UEMOA. GIM-UEMOA is a woefully underused system, which leads to inefficiencies and high cost structures.
- Using the payments system strategy, BCEAO should engage all market players in meaningful and ongoing consultation to encourage interoperability, including taking advice on limiting factors and ways to overcome them.

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6. Facilitating Cross-border Mobile Banking in Southern Africa

Samuel Maimbo and Tania Saranga[32]

Introduction

The use of mobile banking in Southern Africa is widely recognized as an increasingly important component of national and regional economic development. Mobile banking can benefit countries in two key ways. First, mobile banking can allow faster and more efficient financial transfers, increasing the volume of trade and subsequent payments to workers and their families. This dynamic is especially important with regards to informal trade, which is practiced primarily by low-income, unbanked international, regional, and domestic migrants. Second, mobile banking greatly increases access to finance for a large segment of the unbanked in developing countries. In Africa, where borders were often arbitrarily drawn, cross-border trade is an important business activity for a large subset of its population. Developing mobile banking capacity offers great potential for facilitating trade in both goods and financial services.

This note provides a description of the demand side factors influencing the development of mobile banking services—remittances and informal trade—and the financial and telecommunications landscape. On the basis of this description, it highlights the key regulatory issues facing Southern African countries, and concludes with recommendations for overcoming the constraints to the development of accessible mobile banking in Africa.

Understanding the Demand for Mobile Banking in Southern Africa

Mobile banking in this chapter refers to a range of mobile-phone-based financial transactions including payments—actual payments that are made with a mobile phone—as well as using a mobile phone to access banking services. The two key areas of migrant

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remittances and cross-border payments occasion the demand for mobile banking services for trade-related transactions.

The first, migrant remittances, is driven by the strong migration patterns that exist in Southern Africa, and migration patterns, in turn, are important for increasing the demand for mobile banking services. Although determining the exact number of migrants is difficult—available data only captures the flow of registered migrants—estimates suggest that the number is high. Significantly, the available data also indicates that a notable portion of migration flows are South-South, or between developing countries. Research has shown that, since income differentials between these countries are small, geographical proximity and networks have a greater influence on migration patterns than income levels. Other determinants of migration patterns include civil conflict, ecological disasters, and seasonal dynamics, which are factors that often affect many African countries.

A common characteristic of migrants is that they are generally of low income and unskilled or of limited formal education, which is indeed one of the causes of migration: workers tend to migrate to where there is work. For example, a recent study on migrants leaving Mozambique showed that eight percent have no education, 15 percent have secondary education, and 70 percent have basic primary education. On the other hand, there is also evidence that a significant number of migrants from other African countries are highly skilled. In these cases, political upheaval or political violence is likely the primary cause of the migration. As one scholar notes, "The pressure of uncertain economic conditions in several countries has acted as a push factor sending skilled professionals to the booming economies of Botswana, Namibia, and South Africa" (Waller 2006). In all cases, a lack of education and job prospects or political unrest and economic uncertainty help to explain why migrants are often the most financially excluded in a community. These migrants, therefore, are people that would benefit the most from the opportunities presented by mobile banking.

It is crucial that policy makers realize that migration flows will continue or even intensify in the future. Instead of a futile attempt to control these flows, policy makers are better off seeking to regulate these flows more effectively by selectively easing barriers to migration, including barriers to cross-border mobility. One key way in which cross-border mobility can be facilitated and regulated is through more effective regional integration. Although some efforts at regional integration are underway in Southern African, the closer integration of labor markets through increased cross-border mobility could bring significant efficiency gains to the region.

Remittances

In the formal financial sector, migrants generally send remittances through banks, post offices, or money transfer operators, and by carrying cash personally or through a friend or relative. As with the size of migration flows, gauging the true magnitude of remittance flows is difficult. What is certain, though, is that the true size of remittance flows is larger than the officially recorded numbers, as these figures do not take into account the unrecorded flows through both formal and informal channels. Indeed, a large proportion of remittances are believed to flow through the informal financial sector.

From a policy perspective, it will be important to know the size of migration and remittance flows, since inaccurate information or estimates could lead to policy initiatives that do not help in raising the level of formal financial sector participation. Similarly, from an efficiency perspective, large remittance flows suggest that policies should attempt to bolster competition among formal financial services providers such as banks and money transfer operators. In this case, engaging with the formal financial system could provide positive externalities due to efficiency gains from transferring money, increasing access to credit, and raising the level of savings. These gains will especially benefit those migrants that do not currently have access to the formal financial sector. For example, engagement with the formal financial sector would provide greater physical security for many workers, in that a worker would not have to always carry cash in hand.

Economically, there is limited participation in the formal financial sector simply because of the high cost compared to informal transfer methods. This is a primary reason why the informal financial sector is more popular among migrants. Indeed, a study of remittances in South Africa conducted in 2006 showed that seven percent of migrants used a post office to send money, one percent used a bank in South Africa, and six percent used a bank in the migrant's home country. The rest (86 percent) used informal means for remitting money. While other studies have shown a higher percentage of migrants using banks, a significant number still used informal methods for transferring remittances. So while current estimates of informal sector participation are imprecise —the differences between studies may be due to differences in the sampling method and survey timing—economists are in broad agreement that migrants who are engaged with the formal financial sector are a small minority.

There are several reasons why many migrants choose to use informal channels rather that the formal financial sector to remit payments:

- *Ease of use*: Migrants prefer methods with less paperwork
- *Familiarity*: Informal channels have also been used, or have been recommended, by family and friends
- *Cost*: Higher costs in the formal financial sector drive away migrants. Fees in informal networks tend to be lower than at banks or with money transfer operators. Studies have shown that the cost of formal transfers can be up to six times as great as informal transfers, with fees that can represent over 50 percent of the remittance value.
- *Risk tolerance*: There is a perception among migrants that banks are untrustworthy and can lose (or steal) migrants' money
- *Access*: It can be difficult for migrants to reach the point of delivery

Another reason why a large proportion of most migrants stay away from formal channels is that a significant number of migrants are working in South Africa without formal employment. Thus, the remittances are, by definition, the result of illegal employment. Given this context it is unsurprising that banks are generally unable to provide services to unbanked migrants.

Finally, in some countries there are regulatory restrictions that prevent the entry of financial institutions—even those that may have a greater geographical reach or are closer to migrants—into the remittance market. All of these reasons explain the disincentive facing migrants for engaging with the formal financial sector.

Trade Patterns in Southern Africa – Implications for Cross-border Payments

Besides migrants, the other key source of demand for mobile banking is informal cross-border trade, which is generally defined as an economic activity that is legal but unregulated. The unregulated nature of this cross-border trade means that most informal trade is undocumented, unregistered, and unaccounted for in countries' national accounts and official trade statistics. Still, many cross-border traders pay duties and taxes, and studies have estimated the value of informal trade within Southern Africa at $17.6 billion per year. The payments system that typically supports these various monetary exchanges is characterized as unrecorded cash-to-cash transactions.

A 2008 study on the topic (Pailles 2008) described informal cross-border traders as including the following:

- Traders or merchants who under-declare their imported goods or wares
- Traders or merchants who do not declare anything at all (smugglers)
- Traders or merchants who do not declare through clearing agents
- Traders or merchants who sell directly to the final customer
- Agents of established wholesalers and retailers

The study also noted, interestingly, that informal traders crossing the borders tend to be predominantly female (70 percent). Informal cross-border trade is, therefore, closely linked to the feminization of migration, an emerging trend in Africa. This makes sense, as low-income women may be more likely to be unemployed, and women who are unemployed seek other opportunities for generating income such as by engaging in informal trade activities. And indeed, cross-border traders can generate relatively large amounts of revenue by African standards; estimates put the average monthly value of goods traded at US$2,506 per trader (although profit margins may be substantially lower).

Despite the magnitude and importance of informal cross-border trade, especially with regards to income generation among the poor, governmental policies have tended to focus on formal trade activities. More recently, though, this trend has begun to change. For example, Zimbabwe signed a memorandum of understanding (MOU) with the government of Malawi to facilitate informal trade, specifically between small and medium-sized enterprises. In Southern Africa, similar negotiations are underway for the signing of similar MOUs with Zambia, South Africa, and Namibia.

The Financial and Telecommunications Landscape

In an environment characterized by international, regional and national migration, as well as significant levels of cross-border trade, the financial and telecommunications sectors play an important role in the development of the mobile banking services in the region.

Financial Sectors

Despite some recent developments in increasing competitiveness in financial markets, the number of financial operators and financial instruments remains thin in many countries. In

general, financial sectors in migrant-sending countries are characterized by: weak competitive environments (especially in the remittance market); lack of access to technology-supported payment and settlement systems; and burdensome regulatory and compliance requirements for banks. The development of a strong financial sector and efficient payment systems are essential for development and support of increased cross-border financial flows. This includes, among other factors, developing the commercial banking sector and other financial institutions, strengthening the domestic payments system, developing foreign trade financing instruments, and establishing correspondent banking relationships between countries in the region.[33]

Countries face a number of challenges in the reform of domestic financial sectors and the creation of regional financial markets. In some countries, such as Angola, conflict has left weak institutions and governance, degraded infrastructure and public service systems, high inflation and unemployment, and a shortage of human and technical capacity. All of these factors make more difficult the already complex process of establishing a sound an efficient financial system that can support economic growth and job creation for the population. Mobile banking provides an efficient mode of financial access while the components of more traditional financial systems are built. In several countries with incomplete financial markets, several innovative initiatives for expanding access to mobile banking have been implemented, but remain nascent.

Telecommunication Sectors

As with financial sectors, the telecommunications sectors of Southern Africa are also at different levels of development. While countries such as South Africa and Namibia have relatively more developed telecommunications sectors, in countries such as Zambia, Angola, and Malawi the telecommunications sector is still characterized by the monopoly of state-owned operators and service providers. Furthermore, few countries in the region have extensive telecommunications infrastructure in place. Although Namibia and South Africa have achieved relatively significant fiber-optic deployment, in general the international bandwidth available to Southern African countries is extremely poor in comparison to Europe, North America, or Asia.

Regionally, there are several key issues facing Southern Africa. Some of the countries (Zambia and Malawi) are landlocked, meaning that they do not have the option of connecting directly to a submarine fiber-optic cable. These countries will have to rely on expensive satellite links for their international traffic and may be unable to afford or access high bandwidth links. Although there are plans to link Southern Africa with a submarine cable, progress has been slow but could be expedited if a regional solution can be found.

Policy Recommendations

Faced with migrant populations, informal markets and underdeveloped financial and telecommunications networks, policy makers must take on a broad reform agenda if they are to strengthen their mobile banking development agenda.

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[33] Correspondent banking refers to banks that agree to perform reciprocal financial services for each other, for example, accepting deposits from or transferring funds for each other's customers.Correspondent banking allows a bank's clients to be served without having to set up a branch in another country.

The first, and perhaps most important, factor is that African countries must continue to improve the regulatory framework for domestic branchless banking. Regulation is essential for both national and international financial transactions, and a robust and efficient regulatory framework must be in place to allow branchless and mobile banking to flourish. For all Southern African countries, it is important to develop clear guidelines for implementing branchless banking that can be easily followed. Since the overarching goal is to expand financial services to the currently unbanked population, specific policies include expanding permitted points of service for low-value cross-border transactions, eliminating the requirement to prove legal residence in order to set up a bank account, and expanding the scope of Exemption 17 to cover intra-SADC money transfers.[54]

Developing such regulatory frameworks, however, can be a difficult and time-consuming task. It would therefore be useful to implement "pilot programs" to test various regulations. This has been done in countries such as Kenya and the Philippines and is generally regarded as a positive step in crafting strong and efficient regulation. These pilot programs have several benefits, such as encouraging innovative regulatory solutions to difficult problems, and demonstrating for governments how regulation can yield tangible benefits for economic development. Similarly, the pilot projects can help to identify and overcome problems with proposed regulation. The final result is that regulation will be more effective at expanding access to banking services, while at the same time limiting negative externalities.

In terms of specific regulatory prescriptions, policy makers should consider permitting the use of retail agents for cash-in/cash-out, perhaps first developed through a pilot program. They should also consider developing a risk-based customer due diligence (CDD) approach with flexibility to incorporate low-value accounts and transactions. Good regulation also includes a legal basis, and policy makers should develop directives to provide legal clarity on outsourcing, branchless banking, and electronic transactions. Finally, as previously mentioned policy makers should ensure that the financial system expands permitted points of service and reduces reporting requirements for low-value cross-border transactions. Taken together, these regulations can help to expand access to financial services while creating an environment in which banks and other stakeholders can also benefit.

Recommendations for the Proposed Follow-up Action Plan

Following the policy recommendations described above, there are four key elements of a strategy for a follow-up action plan. This plan is designed to ensure that the initiatives and pilot projects outlined above are given the greatest chance to succeed.

First, provide policy support for branchless banking initiatives that target the unbanked. This chapter has discussed the variety of constraints that prevent many poor

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[54] Exemption 17 allows banks and money remitters to open accounts or conduct transactions without obtaining or verifying the client's income tax registration number or residential address. In its current form, however, Exemption 17 is of little value to low-income clients looking to transfer funds across borders. First, Exemption 17 is inapplicable for cross-border transfers from South Africa to Angola, Malawi, Mozambique, and Zambia; it is intended to be used for domestic transactions only. In addition, Exemption 17 only applies to South African citizens and residents. Therefore, banks and money remitters are expressly prohibited from using the Exemption with non- resident foreign nationals (even those who are in South Africa legally) and undocumented migrants.

and migrant workers from using formal financial services, and overcoming these constraints will require direct support for branchless banking by stakeholders. For example, providing matching grants or other financial assistance to financial service providers who would like to offer services to the unbanked but are wary of taking on excess risk could help to expand the market. In addition, the World Bank and other donors could assist pro-poor branchless banking initiatives by providing technical assistance and sharing start-up costs.

Second, African countries can learn from branchless banking leaders around the world. Although branchless banking is still a relatively new phenomenon, some countries have developed regulatory frameworks that provide space for innovation while at the same time minimizing risks. In the Philippines, for example, the Central Bank has worked with mobile operators to permit branchless banking to flourish, and Brazil has nearly a decade of experience in the branchless banking space. In Africa, regulators and financial service providers could benefit from gaining an understanding of how branchless banking operates and how it is regulated in other countries. The World Bank, in association with the Alliance for Financial Inclusion, could take a lead role in organizing and funding study tours, regional conferences, and workshops to disseminate this information.

Third, the World Bank could play an important role in facilitating and supporting opportunities for extensive stakeholder collaboration. By providing training, capacity building, and other assistance at the regional level, donors can help to create a cadre of expert stakeholders that can ultimately support the growth of the entire sector. Similarly, the World Bank could support training and the creation of formal mechanisms for collaboration among branchless banking stakeholders, including policy makers, regulators, banks, mobile network operators, payment service providers, and other interested parties. For example, regional institutions such as SADC or COMESA could provide a forum for cross-country discussion and sharing of experiences. Such a forum could also define best practice regarding regulatory frameworks and future policy action. Regionally accepted regulatory frameworks would greatly help to facilitate cross-border mobile banking.

Fourth, as previously discussed, a pilot project specifically aimed at bringing "taxi money" into the formal financial sector should be launched. This refers to funds that are transferred across borders via taxi drivers and similar informal mechanisms, and most small-value remittances from South Africa are transferred in this manner. The goal of the pilot project would be to identify the sources of the high costs of cross-border remittances from South Africa. The initial pilot project could start with a country that is an important recipient of low-value remittances from South Africa; Mozambique and Malawi would be logical choices. Mozambique, in particular, has extremely high volumes of low-value remittances from South Africa.

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7. Why Trade Facilitation is Important for Africa

Barbara Rippel[35]

Introduction

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

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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"

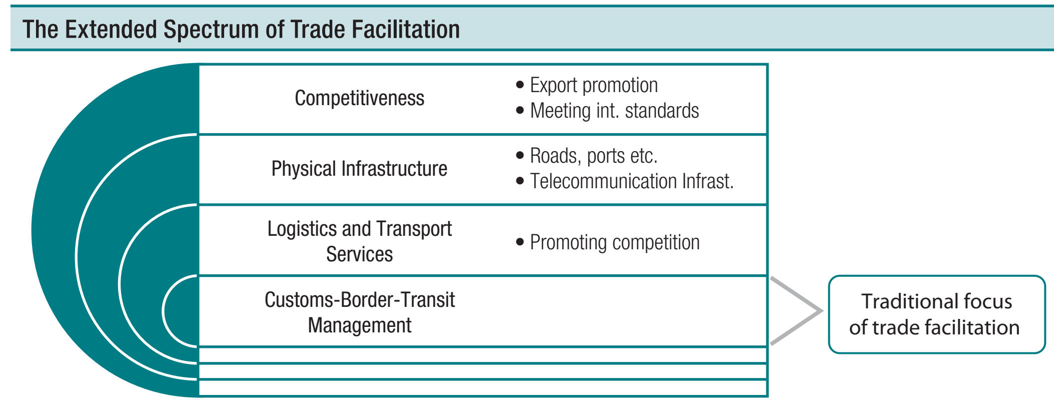
The reasoning behind the efforts to address the trade challenges beyond the traditional areas is the impact on trade costs of factors along the whole trading chain. The more comprehensive approach to trade facilitation examines the costs that traders and producers face from production until the delivery 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.

Figure 7.1 >

The Extended Spectrum of Trade Facilitation



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.

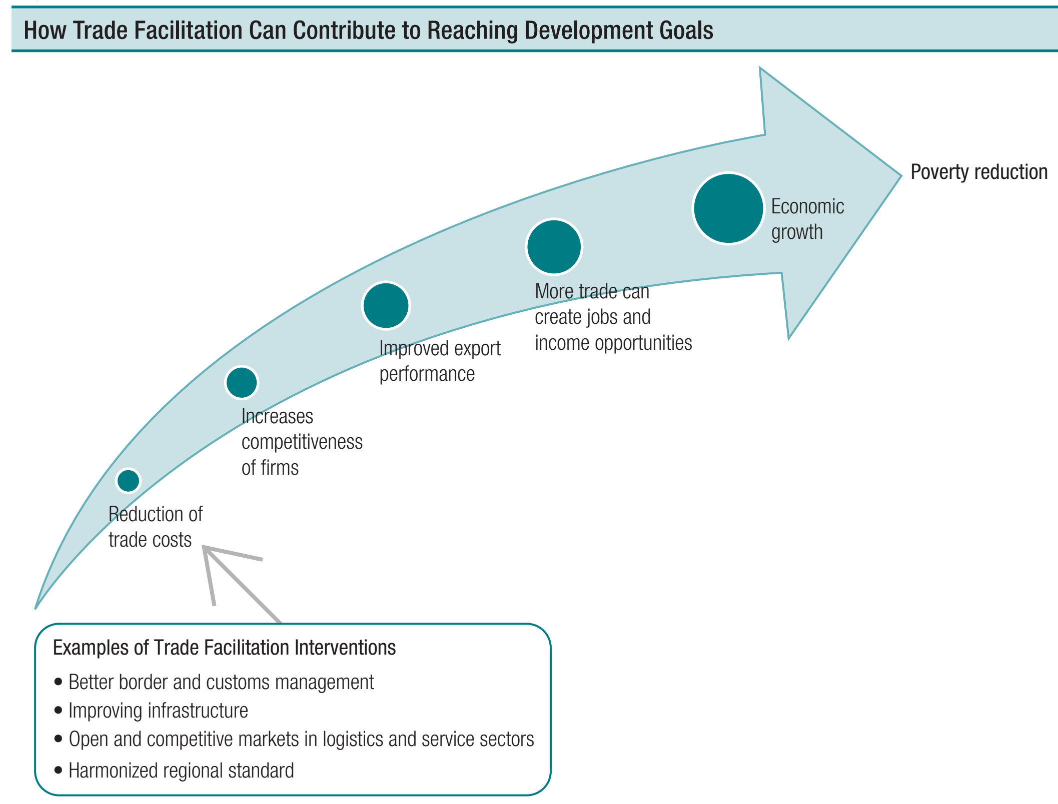
However, smaller companies might depend much more than multinational companies on reliable trade-enabling environments. Large companies, for example, might be able to create private solutions to a lack of infrastructure by investing in company roads and port facilities. Also, in the policy debate the 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).

The process of economic interaction, shown in Figure 7.2, indicates how trade facilitation interventions can contribute to the overall policy goals. Nevertheless, these results are far from inevitable after trade facilitation interventions. But, the interventions can be the impetus to start the process that otherwise might never materialize. Also trade facilitation reforms, especially soft, policy-related, trade facilitation measures, may provide added benefits. For example transparency of government procedures in one sector of the economy can provide incentives for broader reform; revenue increases for the government can provide resources to facilitate civil service reforms and performance-based remuneration; and higher safety standards might reduce accidents and causes of illness with significant social benefits.

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.

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. 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.

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

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.[36] As a result traders and consumers

[36] 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.

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 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 himportant 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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