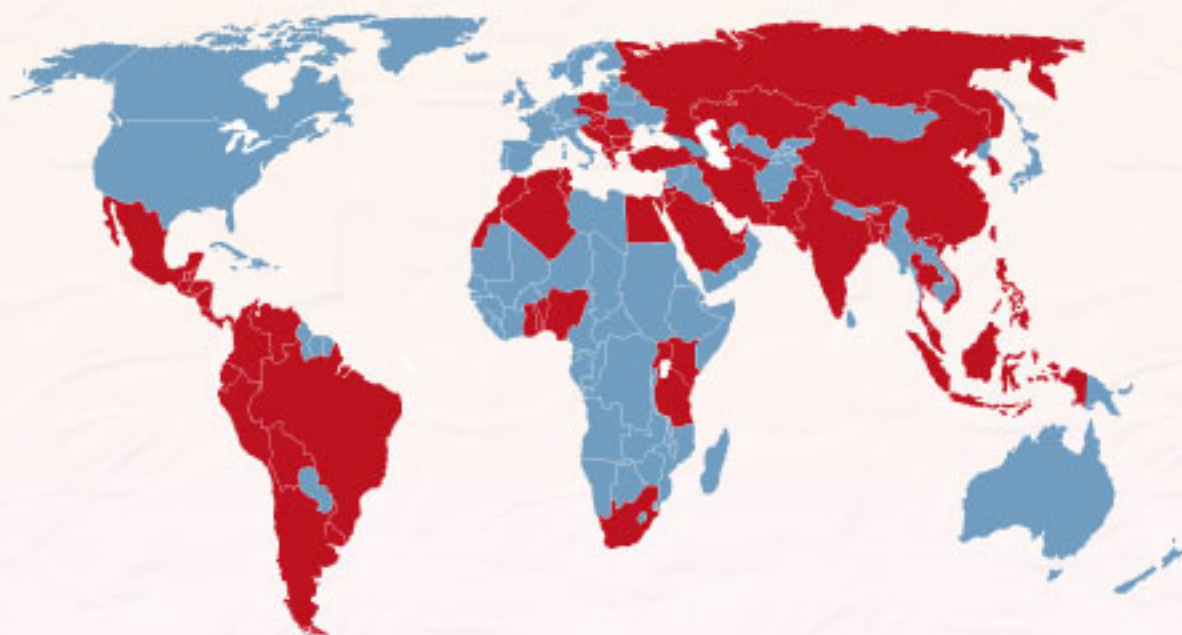


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Trade Facilitation and Public-Private Partnerships in Africa

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Discussion Draft

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Climate Change and Potential Business Opportunities for Africa

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1. Trade Facilitation as a Measure for Competitiveness

Trade facilitation is not an end in itself. It has become an essential element in achieving global competitiveness. To date no consensus has been reached on a standard definition. In a narrow sense, trade facilitation efforts address the logistics of moving goods through ports and the documentation associated with cross-border trade. More recent definitions have been broadened to include the environment in which trade transactions take place; that is, the transparency and professionalism of customs and regulatory agencies, as well as the effects of harmonization of standards and conformity with international or regional regulations. **For instance, the International Chamber of Commerce (ICC) defines trade facilitation as “the adoption of a comprehensive and integrated approach to simplifying and reducing the cost of international trade transactions, and ensuring that the relevant activities take place in an efficient, transparent and predictable manner based on internationally accepted norms and standards and best practices”.** The WTO Secretariat has circulated a “checklist of issues” that summarizes the central issues of trade facilitation. These include:

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

Trade facilitation policies and measures are often (rightly) presented as a win-win situation for compliant trade participants. Trade facilitation is in the interest of governments and the business community alike. Government benefits include (a) increased effectiveness of control methods to ensure trade compliance; (b) more effective and efficient deployment of resources; (c) correct revenue yields; (d) improved trade compliance; (e) accelerated economic development; and (f) encouragement of foreign investment. Benefits to traders include (a) reduced costs and delays; (b) faster custom clearance and release through predictable official intervention; (c) a simple commercial framework for doing both domestic and international trade; and **as a consequence enhanced competitiveness.** The case study of Ghana (below) will illustrate these benefits in detail.

This paper provides a short overview of developments and obstacles in trade facilitation, but focuses in particular from a practitioner’s viewpoint on the contribution that the private sector and PPP arrangements can make to effective implementation of trade facilitation in particular in the areas of customs including transit bringing benefits to Governments and private sector participants alike (traders, banks, freight forwarders, etc.).

2. The Cost of Lack of Trade Facilitation

UNCTAD estimates that the cost of trade related obstacles are equivalent to around 10% of the value of trade. It is assumed that up to 5%, that is about half of today's estimated cost of trade obstacles could be reduced through efficient trade facilitation measures (Kleitz, Cost and Benefits of Trade Facilitation; UNECE 2003).

Considering that global trade has multiplied by more than 50 times since 1960 and global exports stand at over USD 10'000 billion, 5% of potential savings would be huge. It can be fairly assumed that in Africa the potential savings could reach an even higher percentage in terms of value of trade; this is a continent which is plagued by particularly high transport cost, customs clearance inefficiencies, including corruption.

Typically, an average customs transaction in Africa involves 20-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60-70% of all data at least once.

Frequently, documentation requirements are ill-defined and traders are not adequately informed on how to comply with them, thus increasing the potential for errors. Customs departments and other government agencies involved in trade are often inefficiently structured internally. Common problems include inadequacies in physical infrastructure, training and education, insufficient emoluments of staff, and lack of coordination and co-operation between customs administrations and between customs and tax administration. Bureaucracy and wide spread pressure to make facilitation payments put a large burden on the trading and investor community.

Bribes are a substantial cost factor to many producers and they, therefore, undermine competitiveness. However, as the marginal cost of customs delay is often higher than the bribe, importers or exporters are willing to pay to have their goods cleared without further inconvenience (Biggs et al, 1999). **More recently stringent security procedures, especially those introduced for trade with the US, poses a new and serious challenge to customs administrations and traders, further increasing transaction cost and imposing additional delays.**

As liberalization continues to reduce artificial trade barriers, transaction costs are becoming higher than the cost of tariffs. In many instances, the cost of compliance with custom formalities reportedly exceeds the cost of the custom tariffs. SME's, which are the dominant actors in developing countries, are the most affected by these high transaction costs. According to the World Bank (2005) **"it is increasingly being realized that tariffs, quotas and other trade policies are only one element of the overall cost of trade and that efforts to improve customs procedures minimize the trade distorting impact of**

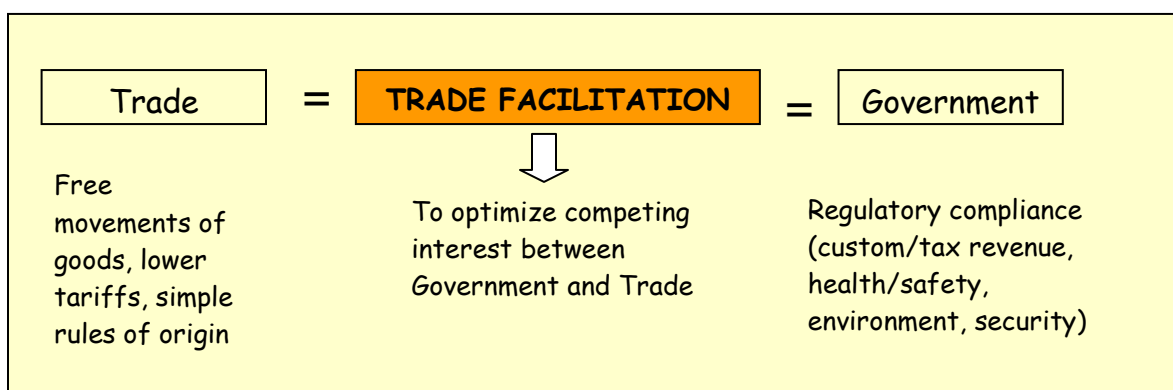
standards and reduce transport costs may have higher pay-off than reciprocal reductions in most trade policy barriers, because logistical, institutional and regulatory barriers are often more costly and generate no offsetting revenue".

3. Regulatory Requirements vs. Trade Facilitation

Not surprisingly, the traders community hopes for a world with lower or no tariffs, fewer and less complicated rules of origin and fewer obstacles in general. Yet, while trade liberalization takes place on a bilateral, regional and global level widening market access and lowering tariffs, the trading environment gains in complexity as regulatory requirements are mounting and not decreasing as traders would hope.

The challenges today faced by the trading community and Governments is, therefore, (a) to reduce obstacles unnecessary to the trade transaction and, (b) find optimal solutions to facilitate trade while meeting public regulatory requirements. As we will show, this requires new tools and methods, namely in the area of risk management.

Figure 1



Governments and international community through bilateral or multilateral obligations stipulate ever increasing - legitimate - new requirements with which trade must comply : (a) environmental and safety standards ; (b) health requirements and consumer protection ; (c) security requirements; and (d) the need to enforce compliance in revenue collection. On one side, the trade will need to cope with these formalities (documentation; certification, etc.) and the authorities will need to enforce compliance. Any attempt to enforce such controls on a full fledged basis at border crossing will impose cost and delays. Failure to exercise such control on the other hand will allow the state to be defrauded and its citizen threatened by health and environmental hazards. **Only selective documentary and physical control can provide an optimal solution to facilitate trade in such a strict regulatory environment. The selection of goods to be inspected (physically and/or documentary) has to be based on methodologies assessing risk of individual transactions and trading partners involved. (Risk data base). This will allow inspection of only a low percentage of goods and still ensure full compliance. Furthermore, pre-verification of trade transaction requirements (standards and norms, quality, value) by credible and authorized partners will further facilitate and accelerate the clearance process.**

4. New Trade Security Measures as an Obstacle to Trade

The unilateral introduction of trade security measures by the US after 11th September was a blow to trade facilitation efforts underway worldwide. Practically over night importers and exporters as well as Governments were burdened with new onerous and costly measures to be implemented at their own expense.

Ironically, from the point of view of emerging market countries and Africa in particular, trade compliance control concepts that were previously rejected by the US and other industrial countries, when LDCs compliance requirements were at stake, such as pre-shipment controls, pre-shipment information, and physical inspection, etc., became the fundamental principals of this new initiative.

US security initiatives focus on customs treatment for incoming cargo, particularly in containers and include: the Container Security Initiative (CSI) and the Customs-Trade Partnership against Terrorism (C-TPAT) which requires importers, carriers, brokers, warehouse operators and manufacturers together, to conduct trade in a secure environment. The International Maritime Organization (IMO) Maritime Safety Committee has also been involved in efforts to reduce the risk of terrorist attacks through maritime transport.

To this end, the IMO has developed an international Code for Security of Ships and Port Facilities, which provides a platform on which ship operators and port authorities can cooperate to detect and deter acts of maritime terrorism.

The resultant additional costs that tight security entails may reduce demand for lower-value goods moving in containers. It may even make some products uncompetitive and could harm the trade of developing countries.

UNCTAD has listed some likely outcomes of new security measures on developing countries, which include the following: (i) shipping companies operated by developing countries will see their costs and liabilities increase ; (ii) ports in developing countries will need to undertake a port security assessment and prepare a port security plan; failure to do so could lead to vessels calling at these ports being barred from US ports) ; (iii) ports will need to expand their container inspection areas ; and (iv) national customs may need to invest in costly container scanning systems.

5. The Role of the WTO and Doha Round for Trade Facilitation: Africa's Position

In Geneva, prior to the Cancun WTO Ministerial Conference in 2003, the Chairman of the WTO Council on Trade in Goods, admitted that while many countries had highlighted the benefits of trade facilitation, they also appreciated concerns that had been raised with the difficulties of developing binding rules on trade facilitation. Some delegations had suggested working on guidelines, which could serve as target for internal reform, and calls were made for the identification of technical assistance needs that could then be transformed into binding rules once developing countries had sufficiently developed their internal capacities.

Broadly, members were of the view that any evolution of trade facilitation had to reflect the needs and the specific situations of members and their ability to implement whatever may be

agreed upon in the future, to allow for the full enjoyment of the benefits accruing from trade facilitation.

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

Many African countries at the Seattle WTO Ministerial Conference in November 1999, while appreciating the importance of trade facilitation as an “economic phenomenon”, expressed reservations at that stage as to the need for a “multilateral framework” on trade facilitation. This was still the position of many of these countries at the Doha WTO Ministerial Conference in November 2001.

While acknowledging that African countries were coerced into accepting the wording of the Doha Declaration on “trade facilitation”, many would have preferred that this issue, like many of the other Singapore Issues, not be included on the Doha agenda. The Abuja Ministerial Declaration on the WTO’S 4th Ministerial Conference, adopted by African Ministers of Trade in Abuja, Nigeria, in September 2001, stated:

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

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

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

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

“Some aspects of trade facilitation are vital for LDCs. For instance, the question of understanding of international standards is vital for promotion of LDC exports. Our standards institutions should be strengthened immediately, so that they can properly advise our exporters. On the other hand, much current thinking on trade facilitation pre-supposes the establishment of common procedures, rules and regulations on the

movement of goods. To implement such laws and procedures will be very costly for LDCs, which they cannot afford at this stage. Hence, it is too early for the development of an agreement within the WTO in this area. Outside of the WTO framework, current efforts to assist the LDCs in this area may continue.”

What is really at stake is that African countries basically agree with the need for trade facilitation and its benefits, but yet are opposed to an agreement with the international community. The question arises as to why this is so.

First, it is the negative experience with the changes imposed in the former trade round in the field of trade facilitation, namely the introduction of ACV (Agreement on Customs Valuation). Under ACV rules it was basically decided that the transaction value of goods declared by exporters/importers were the leading principle and if customs authorities needed to question the value, they had to apply a complicated methodology to do so. It was only through a Ministerial Declaration that they could protect their right to question these values. For Africa, where over- and under-invoicing of goods was and still is widespread, it was a blow to many countries where customs revenues are still a significant percentage of total tax revenue. Significant changes had to be made within customs to adapt to these new methods and the technical assistance support promised to help to make these changes did not materialize sufficiently.

This experience to accept new rules and regulations without being assured of the necessary means to implement them has certainly played a major role in approaching new trade facilitation measures very reluctantly.

“Trade facilitation is a subject in which there is minimal disagreement as to the usefulness of reforms. Differences that have surfaced at the Doha negotiations are almost entirely about how to link obligations to the provision of assistance by developed Members, not about the substance of what constitutes good trade facilitation practice”. (Swiss Paper on Trade Facilitation, 2008).

The topics under discussion cover more elementary measures such as the establishment of enquiry points, **adoption of simplified documents, more accountable border agencies and more transparency** in the formulation of regulations and procedures.

Other measures would be farther reaching, **e.g. single windows, risk management, and post-clearance audit**. While many of the measures are within the technical capacities of the poorer countries, others might require more extensive telecommunications and financial architecture than exist in some. The case of Ghana, as presented in detail below will, however, show that this support could easily be provided by private investors and operators under PPP arrangements to the benefit of Governments and the trading community at large.

In essence to support a Trade Facilitation Agreement (TFA), THE Africa Group would expect that the following principles be included inter alia (ECIPE Working Paper No. 01/2008)

- Respect the circumstances of individual members;
- Obligations and assistance should be tailored to the circumstances of individual members, due allowance should be given for alternative approaches and for the level of

development of individual members. A positive list approach would allow members to take on different lists of obligations.

- Obligations and assistance should be linked and equally obligated. A developing member would enter into a commitment only after achieving a certain benchmark indicating a) his ability to implement that commitment and b) that the assistance obligations by developed members have been met.
- The Trade Facilitation Agreement would not be part of the Doha Work Programme single undertaking and would be outside the WTO dispute settlement process.

It can safely be assumed that a TFA will be achieved if the Doha round comes to a conclusion. It must further be assumed that certain of the African Group requirements will not be fulfilled.

Paradoxically, the European Union also wants to eliminate the “Pre-Shipment Inspection Agreement” in the WTO, which was established years ago to allow developing countries to protect their interest (particularly on customs revenues) by using private operators verifying quality and value of goods before they were shipped to the final destination. Paradoxically, because this request comes at the time when pre-shipment inspection programmes are introduced worldwide under the US security initiative which has meanwhile also been copied by the EU as a reciprocity measure.

Pre-shipment agreements in their old traditional form inspecting 100% of goods exported to a specific destination are no longer the state of the art and have to be replaced by systems based on selectivity and risk management and be used as transitional support to customs authorities while putting an efficient domestic system in place (Ghana, Madagascar). Therefore, while an adjustment in its application is useful, and has been done already in several countries, a complete abolishment would be a further disrespect to the legitimate interests of LDCs, particularly in Africa. It might in fact be counterproductive. A well applied PSI system will in its initial stage add between 20-50% of duties and revenues collected. It would be necessary to have such safeguards in an environment when through trade liberalization tariff rates and thus revenues are reduced.

6. The Role of the Private Sector in Trade Facilitation as Service Providers and PPP investor

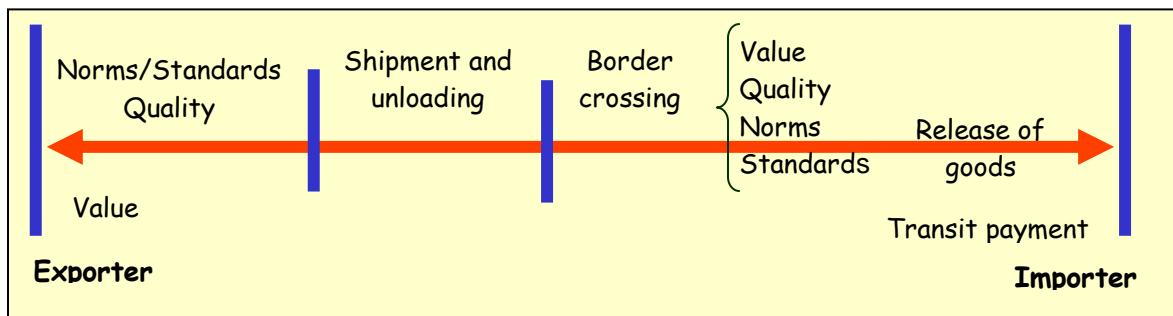
Effective trade facilitation measures require that the whole supply chain is part of the analytical process and every step in this chain analysed with a view to accelerate the flow of goods and/or reduce cost. Failure to do so will result in significant improvements to be made in one element of the chain, i.e. customs clearance, but will be lost in large parts as other elements of the chain will become the new overriding bottleneck, i.e. standard and norms control or port handling.

In this respect, the process flow of a good should be documented and analysed from the moment of leaving the factory in the exporting country up to the arrival of goods at the importers final premises. Clearly, this involves transport infrastructure as well as trade compliance requirements. However, in this paper we shall not focus on the transport infrastructure as this is treated separately in another discussion paper.

It must be clear, though, that the optimization of trade procedures and trade compliance requirements can only show its full effect if infrastructure issues are properly addressed. This is a major issue for Africa; even more so than for most countries on the other continents. **An UNCTAD study indicates that freight cost as a percentage of total import value was 13% for Africa in 2000 compared to 8.8% for developing countries and 5.2% for industrial countries.** For landlocked countries, transport cost, the final import bill can reach levels of 30-40% of import value (CIF) (Henderson et al, 2001). A study reported by the WTO indicates that for the majority of sub Saharan African countries, transport cost incidence for exports (the share of international shipping costs in the value of trade) is five times higher than tariff cost incidence (the trade weighted ad valorem duty actually paid) (WTO, 2004).

Some studies (Limao and Venables, 2000) using a sample of African countries and the rest of the world, indicate that **in general a 10% increase in transport cost will lead to a reduction in trade volumes by approximately 20%.** Some argue that high transport cost are the main reason why trade liberalization in Africa has not had the level of success experienced in Asia and Latin America (Booth et al). **As liberalization continues to reduce artificial trade barriers, the effective rate of protection provided by transport costs is now, in many cases, considerably higher than that provided by tariffs (Amjadi and Yeats).**

Figure 2
Process flow for trade compliance (import compliance)



Private sector operators can intervene at various stages of the supply chain to expedite and facilitate the flow of goods while helping to reduce cost for the importer and support customs and standard board authorities to meet their compliance objectives at minimal cost.

The following requirements, inter alia, will need to be met in the importation process:

- **Quality, volume and value of goods:**
This is primarily a commercial issue between the importer and exporter to satisfy the importer that the contractual obligations are met. Depending on the knowledge of each other, the trading partners will require more or less documentation/confirmation of the actual trade transaction.

The state, however, has also **trade compliance requirements** which it needs to assure that:

- (a) The goods imported are meeting the required norms and standards,
 - (b) Goods imported are not of substandard quality (i.e. fake medicine) that become a health hazard,
 - (c) Goods are declared under the proper tariff code to obtain the duty due,
 - (d) Goods are declared under the correct origin and not transshipped to avoid tariffs and
 - (e) Correct value of the goods subjected to tariffs and taxes is declared to avoid under- and overinvoicing.
- **Transit requirements:**
Transit issues are of high importance in Africa with many landlocked countries relying on ports in other countries before goods can be shipped onwards to neighbouring countries (i.e. Ivory Coast, Burkina Faso, Mali, Niger,...). Besides the need of an efficient system, there are risks to be managed, such as posting customs bonds with speedy repayment procedures once goods have to be released at their proper final destination; proper control of goods in transit to avoid use in the transit country instead of country of destination, etc.
 - **Transparency requirements:**
As mentioned elsewhere, the risk of improper behaviour along the supply chain is considerable. Importers, to a very large extent, will try to underinvoice their imports to pay lower customs import duties or VAT-taxes; declare imports as coming through FTA-origins, etc. Lost revenue of such practices can safely be estimated at 20-30% of collected revenue and can go as high as 50%.
 - **Security requirements:**
These issues as mentioned above are more related to exports and often require the use of scanning equipment and exporter diligence certification to prove the exporters capacity to meet the required security standards.

In all these four areas, private sector operators can provide useful services and act as service providers and/or investors.

There are a number of competing elements that will decide whether traders and, in particular, Governments will choose to use private operators.

On the one side, Trade Facilitation measures lend themselves exceptionally well to such private sector intervention as they are **as a rule self-financing and do not result in additional Government net expenditures**. Fees required to finance such transactions can be externalized to the trading community, which as a consequence of such a private sector intervention can reduce its overall transaction cost and, therefore, also achieve a net gain. If this pre-condition is not fulfilled, the private sector business model should not be applied unless the Government benefits in themselves are substantial. In that case, the Government would have to assume the cost of the private sector intervention as it is exclusively in its interest.

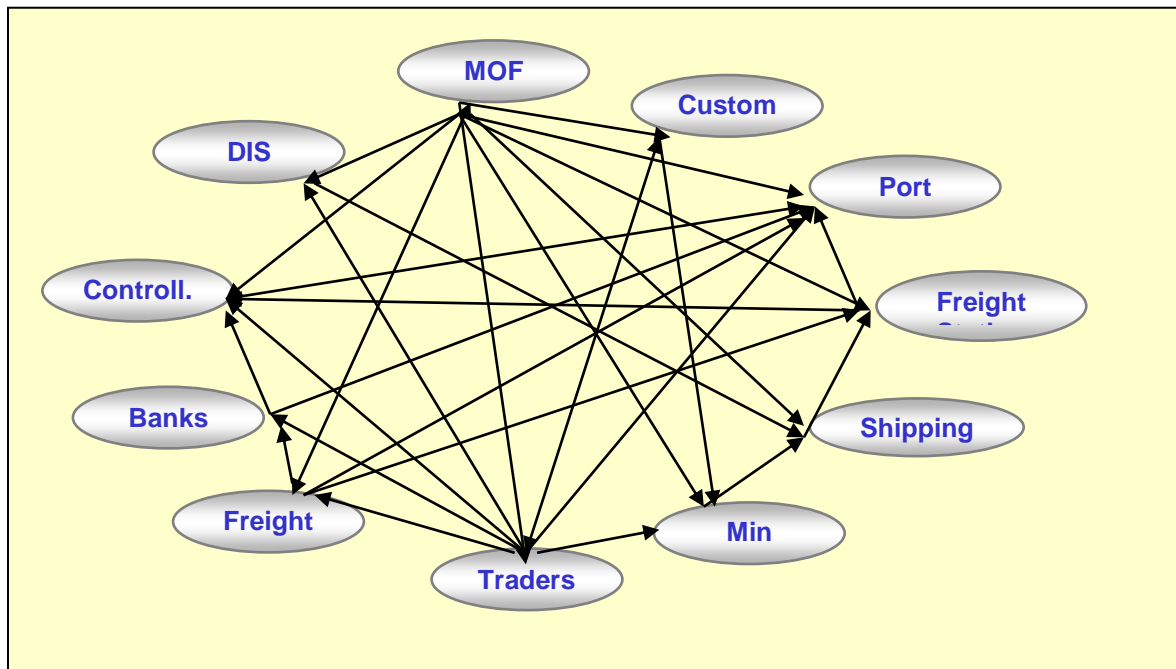
Despite this strong value added private operators can contribute, Governments remain often reluctant to enter into such partnerships. This mainly for two reasons, which are partly linked. First, any activity related to tax, tariffs, norms and standards are often considered sovereign issues of a State where responsibilities (and benefits) cannot be shared. Secondly, transparency is not always wanted as there are usually significant vested interests involved which prefer to keep the status-quo.

7. The Trade Facilitation and Customs Management PPP Project in Ghana

Ghana's customs and trade system suffered from the "traditional" systemic Trade Facilitation and customs problems prevalent in most African countries: inefficient procedures between parties relevant to the cargo clearance process (customs, banks, shipping lines, freight forwarders, etc.) and long and intransparent clearance process at customs entry. Various pre-shipment and destination inspection programmes supported by outside operators did not change this situation fundamentally.

The importer was faced with a multitude of partners in the whole process, all of which he had to deal with individually and separately as the graph below points out:

Figure 3
The manual cargo clearance process



In those circumstances, Ghana, with the support of the World Bank, launched a Trade Facilitation Initiative to improve the situation for Ghana’s trading and manufacturing community and, at the same time, made Ghana the principal gateway to West Africa’s for imports and exports.

It is as part of this initiative that “The Ghana Community Network” was designed as a single window concept and put in place as a Private Public Partnership (PPP).

A complete analysis was made with a view (a) to rationalize procedures ; (b) to simplify controls ; (c) to harmonize rules to achieve clarity, consistency and certainly for traders and last, but not least, (d) to automate by using modern technology to expedite transactions and establish the necessary technology.

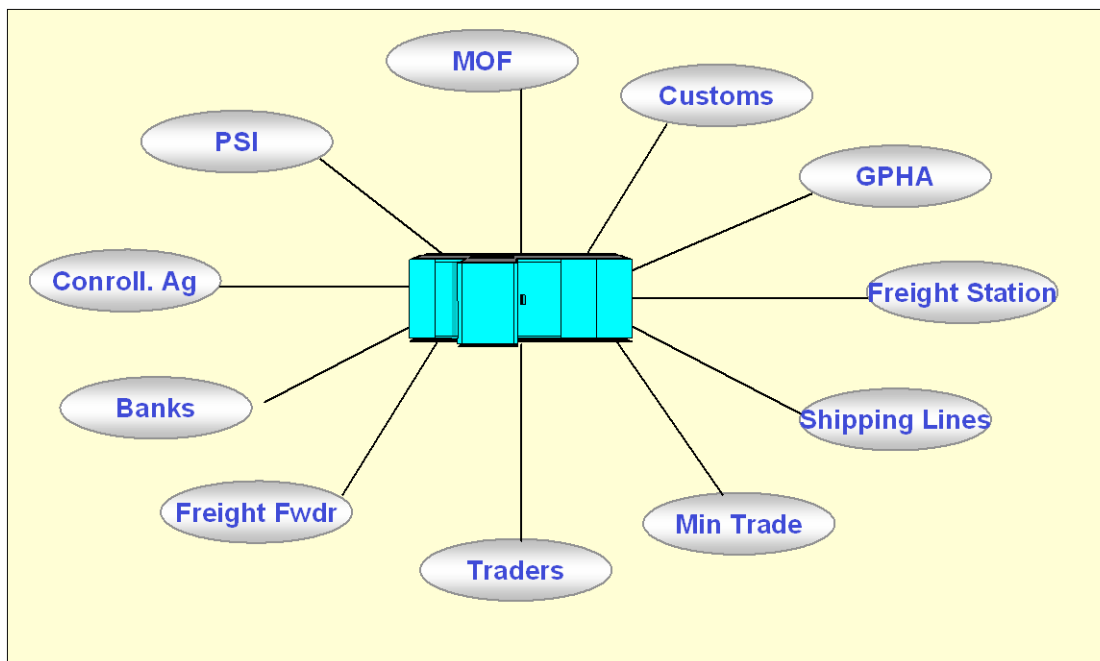
The difficulties associated with the manual process, and which had to be tackled under (a) to (b) above were, inter alia:

- Duplication of tasks
- Difficulty in revenue reconciliation between banks and customs
- Audits virtually impossible
- Manual manifest striking
- Ineffective monitoring of transit goods

- No transparency in the clearance process
- Inconsistencies in the clearance process
- Clearance process too long, tedious with redundant procedures
- Customs considered the root cause for delays in clearance.

The new system reduced the clearance process from 13 to 3 steps and interconnected all stakeholders and trade participants onto one platform (TradeNet Concept).

Figure 4
The TradeNet Concept



Networking all parties for a common platform.

The benefits arising from this concept are the following:

- Reduction in number of steps in the customs clearance process
- Introduces risk assessment to maximize number of clearances without physical examination
- Removes data-entry duplication
- Minimizes document duplication
- Eliminates all stamps and seals
- Enables declaration validation 24h/day 7 days/week
- Starts the clearance process before arrival of the vessel
- Provides advance notice to Freight Stations of forthcoming physical examinations
- Provides means of performance feedback for continuous improvement.

TradeNet provides customs with a highly effective IT system within which a continuous process of capacity building is achieved. Indeed, with the introduction of the system, an important

capacity building component was included. 1300 customs officers were trained over an extended period.

TradeNet also provides a flexible, effective Management Information System to ensure efficiency but also transparency:

- Real Time Monitoring
- Performance Monitoring
- Resource Management
- Audit Trails

And, it continuously enhances through a powerful integrated risk engine that compliant users benefit from faster clearance times.

TradeNet provides the objective basis for the development of post-event monitoring as every transaction is documented and its trail, including people involved, remain visible. With this, TradeNet becomes a typical instrument for improving transparency by electronic means (IT for Transparency).

The results of its introduction were overwhelming:

- Average clearance times has been reduced from weeks to days or hours
 - 16% clearance in less than : 2 hours
 - 75% clearance on the : same day
 - 15% clearance between : 1 and 2 days
 - 10% clearance in more than : 2 days.
- For compliant importers clearance time has been reduced by a factor of 5.
- Bank payments take an average of 10 minutes compared previously with several hours.
- 1400 individuals (including customs officers, employees from clearing companies, shipping agents and freight stations companies), were trained in computer skills over one year, making “The Ghana Community Network” (with about 70 permanent staff) a center of IT-excellence in Ghana.
- Refurbishments of custom offices country wide.
- TradeNet has become platform to extend efficiency and transparency in other Government services:
 - Vehicle registration
 - Inland Revenue Service
 - VAT
 - Standard Board
 - Transit Control

And, most surprisingly:

- Customs revenues from imports increased by 35%.

These revenue enhancement benefits were most surprising as the project had simply been devised with the objective of facilitating trade and did not include any inspection/valuation support element. These effects were even more surprising as Ghana at this time had a **costly (1% ad valorem fee paid by importers) destination inspection scheme** in place with the stated objective to protect and enhance the revenue. The TradeNet concept in fact proved the ineffectiveness of this programme.

How can these unexpected results be explained?

- The full transparency and post-event monitoring capacity act as a preventive mechanism to fraudulent behavior by all parties involved and
- The reduced transaction cost involved in this process for traders are a strong incentive for improved compliance.

In its further development and in order to preserve its benefits, the GCNet Concept will need to be strengthened by introducing external audits and valuation support measures. This will also render the present destination arrival scheme obsolete. Traders could economize another 1% of the ad valorem import cost.

The PPP approach guaranteed that the whole GCNet investment (including network infrastructure) could be introduced at no cost to the Government; neither for the investment nor for the maintenance and extension of the system.

The Ghana Community Network was financed by a cash-out investment of roughly 10 million US Dollars, financed to 60% by the Foreign Investor and 40% by local stakeholders (Banks) and the Ministry of Finance and Customs. The only contribution by Government was an in-kind contribution of computers financed under the World Bank Gateway Programme.

The operation and return on the investment is financed by a 0.4% ad valorem fee to be paid by importers, while exports - to provide a special incentive - are exempt from paying fees.

The further benefits to the Government (in addition to higher revenues) arise (a) additional revenues from corporate tax (30%), making GCNet one of the major tax payers in the country, and (b) dividends, as well from the creation of high skilled jobs within the locally incorporated GCNet structure.

Madagascar has recently opted for the same system and approach as the final step in a multi-year customs reform process. **Madagascar has gone a step further by including also scanner and valuation services into the process, a step still to be finalized by Ghana.** The investment insurance from MIGA that supported the Madagascar project can generally greatly facilitate the establishment of PPPs in countries considered as higher investment risks.

This business model is modular. Its components can be added according to need. This also goes for the distribution of capital participation and duration of the PPP arrangement.

The technological system applied is essential and must be adapted to local circumstances but it is not the critical element for success. Many other systems are in place or being further developed (i.e. Asycuda...) that can be used to put in place a single window concept with direct links into

the trading community, **but the success hinges on the operational capacity and skills from introduction, operation, and maintenance of the system. These unconditional requirements for process can best be provided under a PPP system organisation with state of the art experience and arm length operational independence. Of course, and this needs strong emphasis, setting policies and exercising final control remains under state/customs sovereign authority.**

As the independent operational management component is absent in the overwhelming cases where such Customs Management Systems have been put in place, results are well below expectation. Their efficiency and return to the trading community at large and the Government could greatly be enhanced by introducing PPP components.

8. Transit Support by Private Sector Services or PPE Investments

Transit is defined as a certain concession system aimed at facilitating trade within a given customs territory or between separate customs territories. It essentially allows the temporary suspension of customs duties or other taxes payable on goods originating from a country and/or destined for a third country while under transport across the territory of a defined customs area. This suspension of duties and taxes remain in place until the goods either exit the customs territory concerned or are transferred to a subsequent customs regime or the duties and taxes are paid and the goods enter free circulation (EU: Inquiry into the Common Transit System, 1997).

Transit in Africa is a major trade obstacle and adds significant delays and cost, particularly for traders in landlocked countries. Efforts have been made, particularly at regional level in the Common Market for Eastern and Southern Africa (COMESA), the West African Economic and Monetary Union (WEAMU), Economic Community of West African States (ECOWAS) and Maritime Organisation of West and Central Africa (MOWCA) regulated inter alia in the Convention of Inter-State Road Transport (TIE).

The judgment given by different specialists about the results achieved are rather negative. "Cooperation in the sphere of transit transport is based on subregional integration mechanisms; the programmes, initiatives and instruments implemented under their auspices have not been successful" (N'Guessan N'Guessan). The Committee on Regional Cooperation and Integration of ECA concludes similarly: "In Africa, however, no subregional organization has managed to put in place a satisfactory system". Some progress is noted with rail transit traffic, particularly in the Southern African Development Community (SADC). It would also appear that COMESA has evolved quite far on a regional customs transit guarantee scheme (RCTG - System). The UNCTAD Trade and Development Board states that the situation is undergoing change as progress towards market oriented reforms and the involvement of the private sector is having a positive impact on the development and modernization of the transit transport sector ... and competition between the suppliers of such services is being encouraged.

Transit systems are designed to facilitate to the maximum the movements of goods under customs seal in international transport, and to ensure that transit countries are provided with security and the required customs safeguards. Naturally, a prerequisite to the sound functioning of such a system is that the procedures involved are neither too onerous for the customs authorities nor too complex for carriers and their agents. This is why it is important to strike a balance between the requirements of both sides.

The Customs convention of the international transport of goods under cover of carnets, also called the TIR Convention, is based on five fundamental requirements that constitute the main pillars of the transit system.

1. Goods should travel in Customs Secure vehicles or containers;
2. Throughout the journey, duties and taxes at risk should be covered by an internationally valid guarantee;
3. Goods should be accompanied by an internationally accepted customs document opened in the country of departure and serving as a customs control document in the countries of departure transit and destination ;
4. Customs control measures taken in the country of departure should be accepted by all countries of transit and destination;
5. Access to the TIR procedure for
 - National associations to issue TIR Carnets
 - Natural and legal persons to utilize TIR Carnets shall be authorized by competent national authorities.

The International Road Union (IRU) has introduced this system with great success in Europe to facilitate border-crossing activities and provide guarantees to traders at reasonable prices. **As time went on, the organisation did not adjust to new trade requirements : over 50 years and still today it is a paper based system and the release of guarantees takes several months at best.**

This also seems to be the flow of the COMESA initiative on RCTG. The RCTG System is consistent with relevant international conventions such as the UN Convention on International Multi-modal Transport of Goods and the TIR Convention.

The RCTG has the objective to provide a uniform basis for transit movement throughout the region. Movement of transit goods under custom seal will, in most cases, preclude the need for intermediate inspections. Only one guarantee will be required for the transit of goods through multiple countries. Losses and diversions will be greatly reduced because of the RCTG system's design and safeguards. Fees will be reduced and collateral requirements reduced or eliminated because the risk of loss will be distributed through the entire system.

The COMESA RCTG system is based on five basic principles basically reflecting the TIR principles:

- Goods should travel in Customs secure vehicles and/or containers, wherever possible. Therefore, licensing of carriers, vehicles and containers is required.
- Throughout transit, duties and taxes at risk must be covered by an internationally valid guarantee. The guarantee fee must be affordable and collateral requirements must be minimized or eliminated.
- Goods must be accompanied by recognized COMESA documents, the COMESA CD and the Carnet.
- All transit countries customs authorities should accept the customs control measures (inspection of vehicle, application custom seals, etc.) taken in the country of commencement.

- Customs and participating sureties (insurance) control access to the RCTG programme. These authorities are responsible for authorizing the issuance of CTG and administering the operation of the RCTG system.

While the system largely follows best practice, it continues to be paper-based and is said to lack in operational efficiency and still results in substantial delays.

The same can be said for the TRIE Convention applied in ECOWAS. It contains all relevant aspects in the convention, but the implementing regulations are largely missing (Annovazi, Landlocked countries: opportunities and challenges, UNECE, 2003).

The transit issue also has to be analyzed throughout the full cycle. An issue that is often overlooked is the International Transport permits and visas for drivers. Without international transport permits, transporters of a certain country cannot cross the border with their vehicles and unload and reload to other vehicles. Similarly, visas for drivers throughout the transit route are essential. In fact, changing vehicles and drivers along the transit route does not only impose delays but opens the door to fraudulent behaviour.

In a somewhat restricted way, Ghana could resolve the transit issue problem (diversion of transit goods) on its territory by using GCNet. Taking advantage of the GCNet network infrastructure, a camera system was set up on transit routes and points of exits, which enable Customs to physically see that shipments have arrived and left the country. Every truck is fitted with a magnetic tracking device. Within the GC Network, the closure of the insurance bond is linked to the treatment of the whole transaction and it makes it less susceptible to misdeclaration as each transaction is accounted for. From the declarants point of view, insurance bonds are bought in exactly the same ways as before, but the big change is that the bonds are regularly being seized while before they were not (ITC, 2008). The system became financially only feasible as it could be added on to GCNet structure. A stand alone system would have been uneconomical.

Private operator systems have evolved (TransitNet) and have shown that the release of guarantees can be done within a few days because it is no longer paper based but has direct electronic links to relevant customs stations. Moreover, the operator acts as principal and submits a global guarantee to customs, thus liberating the individual trader from having to put up its own guarantees on one hand and assuring customs of a highly credit worthy partner on the other hand. Moreover, the electronic system allows customs to receive the Declaration well in advance, enabling a proper risk analysis.

All investments are being made by the private operator who in turn charges a transaction fee. Road Transport Unions, Governments or Regional Organisations could be PPP partners in such a system. Depending on the choice of partners, the services could be provided on a competitive or exclusive basis.

Transit systems can be completed with modern goods tracking system such as ACIS or others being available plentiful in the market. It makes look the system attractive but is of limited use. In a paper bases system which might take months to close the transit transaction, it may help customs to detect something goes wrong at the time it happens. Under the much faster electronic system, such as TransitNet, there is hardly any additional value to justify the additional cost.

Such systems are successfully operating or are in its initial stage in Europe, across the EU-external border, providing in particular facilitated access for transit into the European Community under the New Common Transit System (NCTS). **Release of guarantees, which can take three to nine months under the IRU paper based system, are reduced to the three days or less under such Transit Net arrangements.**

Such system could easily and beneficially be applied, in particular by the North African region for exports into the EU.

As in the case shown of GCNet regarding customs reform, the main element of success or failure in transit arrangements would be the operational capacity and transparency with which such a system would be managed. It would furthermore only be successful if a high level commitment is assured.

Africa should try to put a system in place upgrading regional systems and providing a common platform like the EU has done with their New Common Transit System (NCTS) and allow private operators to offer services to traders. Guarantees could be provided centrally to customs by private operators backed by regional or central organisations thus relieving small traders from having to put up their own guarantees.

9. Conclusion and Recommendations

- Trade Facilitation measures have a high potential for win-win situations. With continued liberalization transaction cost become higher than the cost of tariffs and assume prime importance for competitiveness. Trade Facilitation needs to move to the forefront of policy markers.
- Trade Facilitation and Transport Infrastructure Improvements have to go hand in hand to improve overall competitiveness as the whole cycle from the exporters to the importers premises needs to be taken into account.
- While many Trade Facilitation measures can be unilaterally achieved, other issues such as transit, visa, road permits and road infrastructure have a regional component which must be addressed.
- Progress of rule making in the context of the WTO is important but not critical to further progress for Trade Facilitation improvements in Africa. PPP arrangements can greatly help to bring finance and expertise as well as enhanced transparency.
- Trade Facilitation and road/port infrastructure improvements lend itself to PPP Business Models as they can be financed entirely or partially by user fees without negating Government authority and sovereignty of action and decision-making.
- Regional organizations should use private operators on a PPP basis to improve transit flows including the creation of guarantee funds, etc.

- Multilateral organizations should avoid competing or crowding out the private sector in areas where the private sector and PPP's could make a contribution. Thus international financial organisations should for instance not provide finance for scanner purchases that could be financed commercially with adequate returns and might also interest private operators under PPP arrangements. Moreover, IFI's should apply proper procurement rules in the selection of Customs Management Systems support and not support the UN-system ASYCUDA on a privileged basis.
- Last but most importantly, issues of Trade Facilitation improvements are often linked to strong vested-interests. A breakthrough is only achievable if a strong political will exist and high-level commitment is assumed.

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