



## *Export Diversification in Africa: The Importance of Good Trade Logistics*

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### *A. Introduction*

Economic activity in many African countries remains highly concentrated and exports are often dominated by mineral resources or a small number of primary products. Recent growth has not generated the new jobs required by the growing young working populations and has not been inclusive, with limited impact on poverty. Experience from other regions suggests that trade can be a key driver of more inclusive growth and the structural transformation necessary to deliver higher productivity jobs.

The opportunities that connectivity with international markets brings have evolved and expanded in the past two decades as technological change and falling transport costs have led to the splitting up of production activities on a global basis. We have seen the emergence and increasing importance of global and regional value chains with the activities and tasks that comprise a final product being provided by a range of suppliers across countries.<sup>2</sup> Thus, the traditional 20<sup>th</sup> century view of trade in which a country exports goods wholly produced within its territory and imports finished goods that it cannot produce as relatively efficiently as other countries has been revised. In the 21<sup>st</sup> century, successful countries import intermediate inputs of both goods *and* services to be able to produce for the domestic market and for export. In turn, countries may export these intermediate goods and services to international value chains as well as final goods and services to consumers in overseas markets. The costs of participating in these

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<sup>2</sup> A recent Asian Development Bank report highlights the importance of global value chains (GVCs) in international trade. Of 59 economies studied almost half of all manufacturing exports were linked to GVCs, up from about one-third in the mid-1990s. The share of Asia's GVC trade in worldwide manufacturing exports reached 16.2% in 2008, before the 2009 global trade slump, almost doubling from 8.6% in 1995. The report notes that 'while being part of a GVC exposes an economy to shocks that hit others in the chain, the benefits seem to outweigh the costs. Industries in which GVC trade doubled during 1995–2008 saw output grow 19% faster than other industries and employment rise by 10%. Economies in which GVC trade doubled in the same period enjoyed a 12% increase in real per capita income'.

value chains and especially the costs of importing and exporting intermediates has become a key determinant of competitiveness.

The World Bank's 2011 report on Light Manufacturing in Africa identified poor trade logistics performance as a constraint that especially penalized African exporters that relied on imported inputs very often making them uncompetitive. The report highlighted research that demonstrated how this added roughly a 10 percent production cost penalty in Ethiopia, Tanzania and Zambia across the five subsectors of light manufacturing where opportunities were identified as greatest in Africa. The report outlined how in Africa poor trade logistics increase production costs (often wiping out the labor cost advantage) and lead to long and unreliable delivery times, making local firms unattractive suppliers to lead firms in global value chains, particularly for light manufacturing.

This note seeks to contribute to a review of progress in achieving export diversification through greater exports of light manufacturing products. It starts by looking looks at recent trends in the exports of the 5 categories of light manufacturing identified as having strong potential in Africa. Performance differs across these categories and across countries. The note then proceeds to review progress in improving trade logistics in Sub-Saharan Africa with a focus on the three countries highlighted in the light manufacturing study; Ethiopia, Tanzania and Zambia.

There follows a discussion of why apparent improvements in areas such as time to export do not appear to have led to significant increases in capacity and exports of light manufacturing in these countries. This is pertinent in a situation in which many countries in sub-Saharan Africa are receiving trade preferences in the EU, US and other OECD countries for the products of light manufacturing, and especially apparel that should offset to a large extent the cost disadvantages from high logistics and input costs identified in the light manufacturing report.

The LMA report (2012) made 4 key recommendations to improve trade logistics for light manufacturing in Africa. These were

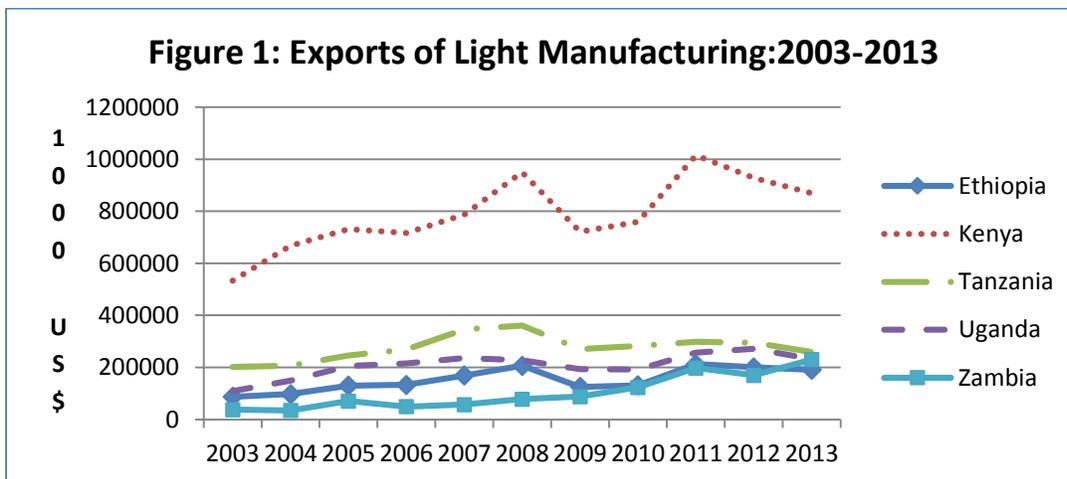
- First, African governments should harmonize and improve customs operations by simplifying procedures and leveraging information technology. Delays imply storage costs and uncertainty over shipment time which impacts the ability of African firms to trade and participate in just in time supply chains.
- Second, African countries should develop the hard infrastructure (across boundaries) to support multimodal systems combining trucking, railways, airways, and shipping to improve connectivity and increase competition.
- Third, African governments need to increase competition among freight forwarders, shipping companies, and trucking companies by removing price controls and restrictions on foreign direct investment and on cabotage.
- Fourth, African governments should develop strategic partnerships along key trade corridors. For example, the Ethiopian government should develop a strategic partnership with Djibouti to optimize port operations and minimize charges.

This policy note develops a number of qualifications and additions to these broad recommendations for African policymakers that are necessary for exports of light manufacturing to be a substantial driver of export diversification in Africa:

- Improving trade logistics needs to look at facilitating trade not only along corridors to the main ports but also across borders between African countries to allow the potential from regional integration and the regional sourcing of inputs in Africa to be realized;
- Improvements in physical infrastructure *must* be complemented by better policies and procedures applied to trade. Experience is increasingly showing that the biggest impact is often coming from the latter.
- Improving trade logistics is not just about goods in trucks and containers, although vitally important, it is also about facilitating the movement across borders of people and services.
- The political economy of reform is such that it is essential that the private sector is the main driver of change
- There is careful monitoring to ensure (i) reforms are actually being implemented and (ii) that the benefits of improved trade logistics are actually being passed on to producers and consumers in the form of a broader range of lower priced and more widely available goods and services.

### B. Performance in Exporting Light Manufacturing

This section briefly reviews trends in the export of the 5 light manufacturing sectors that are the focus of attention: food processing, apparel, leather products, wood products and fabricated metal products. It highlights some interesting differences in recent performance across sectors and across products.



Source: WITS, World Bank

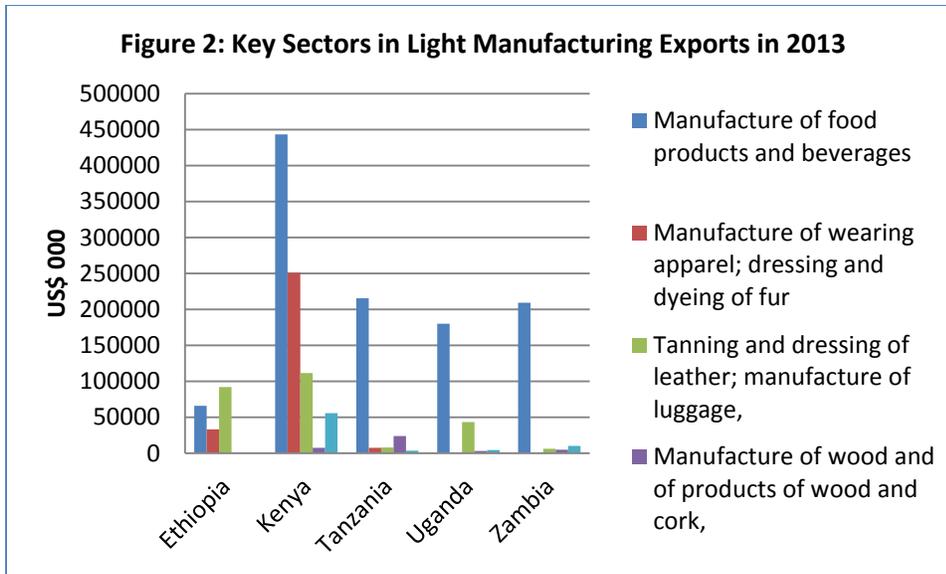
The figure above shows that all countries were exporting more light manufacturing products in 2013 than 10 years earlier.<sup>3</sup> The most substantial increase in absolute terms was for Kenya, the largest exporter of light manufactures by far among this group of countries. The largest proportional increase was for Zambia, which increased exports of these products 6 fold, albeit from a very low base. Exports of these manufactures from Ethiopia and Uganda more than doubled, while those from Kenya increased by almost two-thirds, those from Tanzania by over a quarter.

However, the growth of exports of light manufacturing as a group was not sufficient to reduce dependence on traditional export commodities and exports these products remain a relatively small share of total exports. In Ethiopia, for example, exports of primary agricultural products grew at a faster rate over 2003 to 2013, driven by favorable movements in commodity prices, and comprised over 80 per cent of total exports in 2013. Even among non-traditional exports, there is little evidence that light manufacturing exports have been growing faster than other exports. Information on job creation in light manufacturing in Africa is not readily available but the export data suggest that these sectors are not yet driving new jobs outside of traditional sectors.

Figure 2 shows the relative importance of the 5 identified light manufacturing sectors for each country. For all countries, except Ethiopia, it is processed foods that dominate exports. With the exception of the leather sector in Ethiopia, Kenya and Uganda and apparel in Kenya there has been very limited diversification into the other sectors. Figure 3 looks at the trend in exports for the 5 specific light manufacturing sectors. This shows that exports of manufactured food products and beverages have been a key driver of light manufacturing exports for all countries. For Zambia, manufactured food products accounted for 90 percent of light manufacturing exports in 2013 and almost all of the increase noted above. For Tanzania, food products account for 82 percent of light manufacturing exports, while for Uganda it is 77 percent. About one half of Kenya's exports of light manufacturing in 2013 were of manufactured food and beverages, while for Ethiopia it was around one third.

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<sup>3</sup> These data are derived from mirror statistics that is the recorded imports of all countries in the world of these light manufacturing products from the five countries.



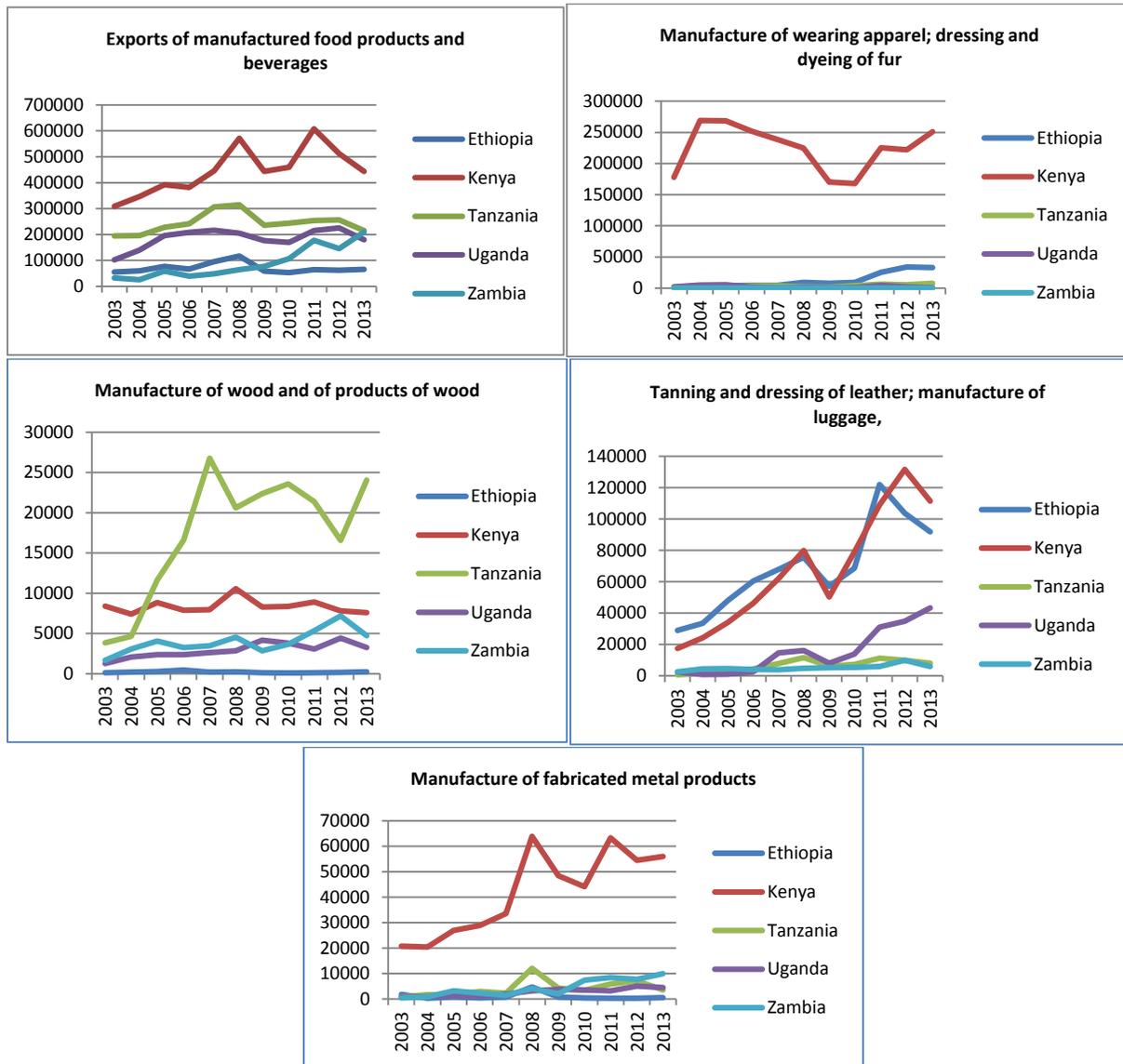
Source: WITS, World Bank

Within the food processing sector some interesting trends may be emerging. In the case of Zambia, for example, there has been a large increase in processed agricultural exports in recent years from around \$25m in 2005 to almost \$210m in 2013. Perhaps as expected, a significant part of this is due to increased exports of sugar to the global market (exports of around \$65m in 2013) but there are two categories where exports have grown strongly and have been driven by the regional market - manufacture of vegetable and animal oils and fats (exports of \$43m in 2013) and manufacture of prepared animal feeds (exports of \$67m in 2013). Both showed very large increases from 2012.

The Zambia Diagnostic Trade Integration Study (World Bank (2014)) discusses how the soy industry has driven exports of animal feeds. Strong growth in soybean production, has transformed the country into a recognized exporter of soy-based animal feeds and soy cake. This growth in production has been stimulated by the increasing demand for animal feeds from Zambia's own livestock sector as a result of the expanding economy and rising urban incomes. Most of Zambia's animal feed exports go to SADC countries. However, since much of Zambia's trade with the DRC is unrecorded, it is likely this market could be 2-3 times more important than shown by the trade data presented here. For example, large amounts of poultry feed are sold at Kasumbalesa to small traders from the DRC.

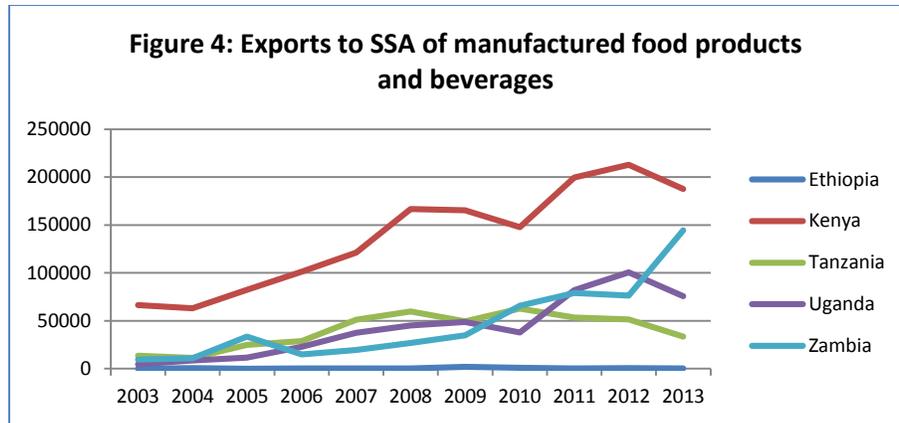
Of the other sectors, exports of apparel are very important for Kenya, amounting to around \$250 million in 2013. There has been a substantial increase in exports from Ethiopia from almost zero to around \$32 million in 2013. We shall discuss further below that these countries are not exploiting the significant tariff preferences that are available in the US and EU markets for apparel. Exports of manufactured wood products remain relatively small, while Kenya and Ethiopia have seen a substantial increase in exports of manufactured leather products. Kenya is the only country that has been able to export substantial amounts of fabricated metal products.

Figure 3: Exports of Light Manufacturing 2003-2013 – Sector breakdown



Source: WITS, World Bank

Finally, the figure below shows the importance of the regional African market to the exports of manufactured food products. Around 90 percent of the increase in Kenya’s and Uganda’s exports of processed food and drinks has been to the African market. For Zambia, three-quarters of the growth in these exports has been due to the regional market. Only for Ethiopia is the regional market insignificant, accounting for less than a half of one percent of total exports of manufactured food products, compared with over 40 percent for Kenya and almost 70 percent for Zambia.



Source: WITS, World Bank

The regional market is of little importance for apparel and leather products. For apparel, Kenya has integrated into global value chains and penetrated the US market on the basis of preferences under AGOA. More than 98 percent of Kenya's exports of apparel go the global market. The substantial increase in exports of leather products by Ethiopia and Kenya has been driven primarily by exports to the global market. Finally, the increase in exports of fabricated metal products from Kenya is the result of exports to the African market, which now accounts for over 90 percent of exports of these products.

This suggests that a strategy to boost exports of light manufacturing needs to look at both regional and global markets and that the various sectors are likely to have different sourcing patterns. Food processing will typically rely more extensively on local or regional sourcing. Access to competitively produced fabrics is essential for the apparel industry and this will often require sourcing from the global market, in many instances as part of a global value chain.

A number of studies find empirical evidence from analysis of firm level data of the importance of access to inputs for exporting firms, especially in non-traditional export sectors. Dihel et al (2014) conclude from a detailed analysis of firm level export patterns that one of the main policy levers for unleashing Zambia's full potential as an exporter is by facilitating access to imported inputs.

There is increasing evidence of the role that regional markets can play in allowing local firms to learn and achieve the scale necessary to compete on global markets. Those firms that go straight to the global market often have lower rates of survival than those that use the regional market as a stepping stone to worldwide markets.<sup>4</sup>

The cost of connecting to markets is a fundamental determinant of the opportunities available to producers, especially the poor, in countries in Africa. The next sections discuss the importance of good trade logistics and access to appropriate services inputs in supporting the development of light manufacturing exports in Africa and then recent progress and remaining challenges in modernizing trade logistics in Africa. The emergence of international value chains entails that a firms from different sectors benefit jointly from actions to reduce trade costs. A focus supply chains can offer valuable insights to policy-making as it offers a framework to identify key

<sup>4</sup> See, for example, Brenton et al (2010)

constraints to trade expansion that would benefit several stakeholders, including firms, farmers and workers in multiple sectors who are all providing inputs (adding value) to a given end product. Recent research has identified the growing importance of value chains organized at the regional, rather than global level in driving GVC participation and upgrading. This suggests that addressing integration at the regional level is critical.

### *C. Trade Logistics Performance in Africa*

Good Trade Logistics is an important determinant for exports generally, but absolutely crucial for manufacturing value chains where products at different stages are imported and re-exported with added value multiple times amplifying inefficiencies and costs and impacting competitiveness of industries and countries. As such, benchmarking and measuring trade logistics performance is a critical part of any strategy that seeks to improve the performance of the manufacturing sector particularly one focused on international trade. This section discusses the importance of costs including logistics costs and then focuses on the trade logistics performance of Sub Saharan Africa as measured through various global indicators.

There are numerous studies that measure the impact of trade logistics reform on trade, tariffs and prices, and income and almost all highlight the positive impact on countries (see Figure 5 below). Further, the impact of logistics cost as a driver affecting competitiveness has also been well established through numerous studies (Barbero 2010; Guerreroa, Lucenti and Galarza 2010). Logistics costs also have different impacts on industries (logistics intensity) and firms (size). They are higher for those that are logistics-intensive operations such as food, metal, chemical and paper manufacturing (Memedovic et al. 2008; Farahani, Asgari & Davarzani 2009, 59)<sup>5</sup> and higher for SMEs (Guasch 2011)<sup>6</sup>. Logistics cost as a percentage of GDP (where such data are available) enable an understanding of country performance and provide valuable guidance to policymakers on their country's competitiveness, to participants of GVCs about making sourcing decisions, and domestic manufacturing firms about potential to participate in these networks. While there are no estimates for sub-Saharan Africa (except for South Africa<sup>7</sup>), there is data available for some of Africa's trading partners<sup>8</sup> (see Figure 5).

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<sup>5</sup> Karri Rantasila & Lauri Ojala – Discussion Paper 2012-4 – © OECD/ITF 2012

<sup>6</sup> 42 percent for SMEs while 15- 18 percent for larger firms in Latin America.

<sup>7</sup> South Africa's logistics cost estimated by CSIR was 12.7 percent in 2010.

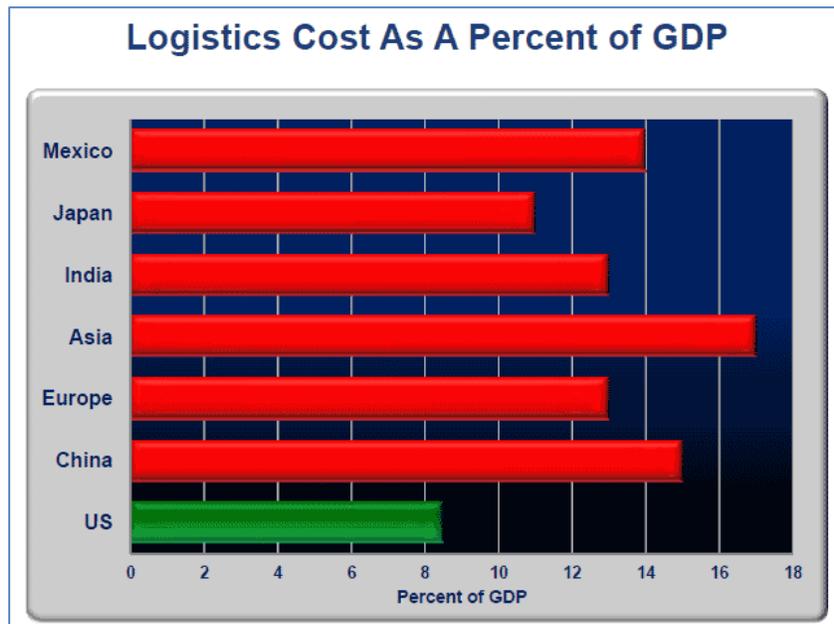
<sup>8</sup> Methodologies for estimating logistics cost as a percentage of GDP vary across studies and as such direct comparisons between the data do not necessarily provide an accurate comparison.

Figure 5: Effect of trade logistics reform on trade, tariffs and prices, and income

<b>Effect of trade logistics reform on trade, tariffs and prices, and income</b>		
<b>Study</b>	<b>Reform</b>	<b>Effect</b>
<b>Trade</b>		
Subramanian, Anderson, and Lee 2012	Reduction of 1% in time to export through targeted reforms	Potential increase in bilateral trade ranging from 0.64% for Sub-Saharan Africa to 0.18% for OECD countries, with increases for other regions falling in between
Djankov, Freund, and Pham 2010	Reduction in transit time resulting in reduction of 1% in overall time to export	Increase in exports of 0.4% on average
Hausman, Lee, and Subramanian 2012	Reduction of 1% in processing time for exports	Increase in exports of 0.37%
<b>Tariffs and prices</b>		
Hummels and Schaur 2012	Reduction of 1 day in shipping time	Equivalent to ad valorem tariff reduction of 0.6–2.3%
Hummels 2007	Increase of 1 day in delivery time	For time-sensitive products such as fruit and vegetables, equivalent to lowering price by 0.9%
Freund and Rocha 2011	Reduction of 1 day in inland transport time	Equivalent to a reduction of 1.5 percentage points in all importing-country tariffs
<b>Income</b>		
APEC 2002	Reduction of 5% in trade costs over 5 years	Increase in GDP of 0.98%
Walkenhorst and Yasui 2003	Reduction of 1% in trade costs	Increase in GDP of 0.27% for the Middle East and North Africa, 0.25% for non-OECD Asia Pacific, and 0.18% for Sub-Saharan Africa

Source: Viewpoint 335, World Bank Group

Figure 6: Logistics Cost As a Percent of GDP



Source: Council of Supply Chain Management

While there is lack of data on logistics costs for SSA, other international measures do capture trade performance trends. Sub Saharan Africa has made some of the biggest reductions in time to trade as measured by the World Bank’s Doing Business Trading Across Borders indicator between 2009-2013. The indicator measures the time and cost (and the number of documents required) to move a twenty foot container from a port of arrival to an inland city<sup>9</sup>. Nine of the top ten reformers globally in the trade indicator were from sub Saharan Africa [See Figure 7]. According to Doing Business, 46 of the 133 trade facilitation reforms implemented in this period were in sub Saharan Africa with 70 percent of the economies in Africa implementing at least one reform [See Figure 8].

However, Africa still has some catching up to do when compared with other regions on both the time and cost to trade indicators as measured by Doing Business. [See Figure 9]. The Logistics Performance Index (LPI)<sup>10</sup> another measure of performance by the World Bank which measures the logistics friendliness of countries also demonstrates a similar finding. [See Figure 10].

<sup>9</sup> <http://www.doingbusiness.org/data/exploretopics/trading-across-borders>

<sup>10</sup> For more on the LPI see <http://lpi.worldbank.org/>

Figure 7 – Reforming to move closer to the frontier



Note: The distance to frontier scores shown in the figure indicate how far each economy is from the best performance achieved by any economy on the trading across borders indicators since DB2006 (2005). The scores are normalized to range between 0 and 100, with 100 representing the frontier. The data refer to the 183 economies included in DB2010 (though for practical reasons the figure does not show all 183). Barbados, Libya, Malta, Myanmar, San Marino and South Sudan were added in subsequent years. The vertical bars show the improvement in the 20 economies advancing the most toward the frontier in trading across borders between 2009 and 2013. Source: Doing Business database.

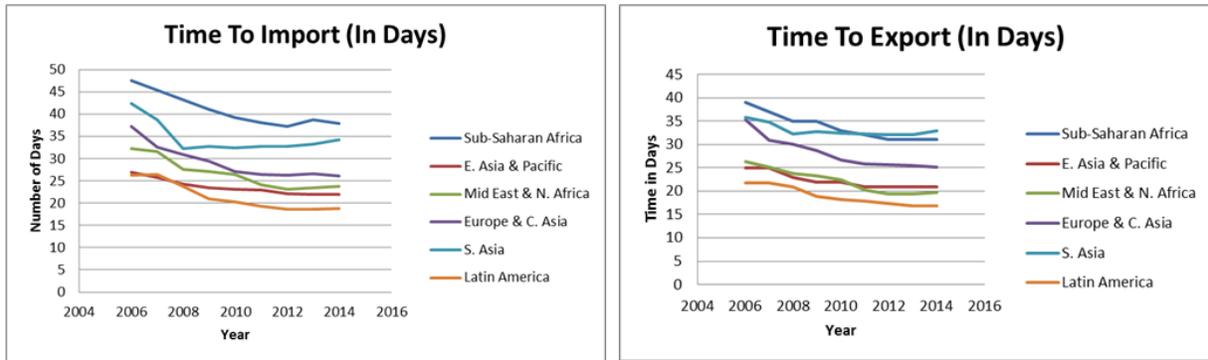
Source: World Bank Group, Doing Business Report

Figure 8 – Reformers in Africa (2008-2013)

DB2008	DB2009	DB2010	DB2011	DB2012	DB2013	DB2014
<ul style="list-style-type: none"> <li>•Gambia,</li> <li>The</li> <li>•Ghana</li> <li>•Madagascar</li> <li>•Mauritius</li> <li>•Rwanda</li> <li>•Uganda</li> </ul>	<ul style="list-style-type: none"> <li>•Benin</li> <li>•Botswana</li> <li>•Eritrea</li> <li>•Kenya</li> <li>•Liberia</li> <li>•Madagascar</li> <li>•Mali</li> <li>•Nigeria</li> <li>•Rwanda</li> <li>•Senegal</li> <li>•Sierra Leone</li> </ul>	<ul style="list-style-type: none"> <li>•Angola</li> <li>•Benin</li> <li>•Burkina Faso</li> <li>•Cameroon</li> <li>•Congo, Dem. Rep.</li> <li>•Liberia</li> <li>•Malawi</li> <li>•Mali</li> <li>•Mauritius</li> <li>•Mozambique</li> <li>•Rwanda</li> <li>•Senegal</li> <li>•Sudan</li> <li>•Uganda</li> </ul>	<ul style="list-style-type: none"> <li>•Angola</li> <li>•Burkina Faso</li> <li>•Ethiopia</li> <li>•Kenya</li> <li>•Madagascar</li> <li>•Mali</li> <li>•Rwanda</li> <li>•Swaziland</li> <li>•Zambia</li> </ul>	<ul style="list-style-type: none"> <li>•Gambia,</li> <li>The</li> <li>•Liberia</li> <li>•São Tomé and Príncipe</li> <li>•Senegal</li> <li>•Seychelles</li> <li>•Sierra Leone</li> <li>•Tanzania</li> </ul>	<ul style="list-style-type: none"> <li>•Benin</li> <li>•Botswana</li> <li>•Burundi</li> <li>•Malawi</li> <li>•Niger</li> <li>•South Africa</li> </ul>	<ul style="list-style-type: none"> <li>•Benin</li> <li>•Burundi</li> <li>•Central African Republic</li> <li>•Congo Rep.</li> <li>•Guinea</li> <li>•Madagascar</li> <li>•Mauritania</li> <li>•Mozambique</li> <li>•Rwanda</li> <li>•Swaziland</li> </ul>
Total: 6 Reforms	Total: 11 Reforms	Total: 14 Reforms	Total: 9 Reforms	Total: 7 Reforms	Total: 6 Reforms	Total: 10 Reforms

Source: World Bank Group, Doing Business Report

Figure 9: Performance of time to trade – a regional comparison



Source: Doing Business, World Bank Group

Figure 10: Logistics Performance Index – a regional comparison



Source: Logistics Performance Index, World Bank Group

In the two years since the publication of the Light manufacturing report, while there has been one recorded improvement that in the performance of Zambia (time to import), other indicators for Zambia, Ethiopia and Tanzania have either stayed the same or fallen as measured by Doing Business. While Doing Business has not recorded any reforms all three countries have begun a program of improvement that they hope will improve the trade logistics environment over the following years.

#### D. Key Trade Policy and Logistics Challenges to Support Development of Light Manufacturing Exports in Africa

##### 1. Recent Reforms in trade logistics

As discussed earlier, African economies have made substantial efforts to improve trade logistics performance. This paper does not seek to discuss the content and impact of the reforms but only

to highlight the focus areas policymakers have concentrated on in making improvements in the trade logistics space. Figure 6 highlighted the reformers over the past 5 years. Looking at the data on the areas of reforms brings out some interesting themes [See Figure 11]. Efficiency reforms are now being tackled seriously in many countries as governments realize the low cost – high impact relationship. These efficiency reforms are closely linked to automation, a popular reform area, as they allow countries to cement procedural and other changes and also enhance accountability and transparency of information.

Recognition of the importance of investments and streamlining in gateway ports along with transit corridors to allow for countries to create an efficient factory to port supply chain for manufacturing exports has resulted in continued improvements in this area. Reforms in risk management (an important component of efficiency) are now being implemented by many African countries. However, in most cases it is only Customs authorities that have begun employing modern methods to limit inspections to high risk goods. Valuation fraud particularly due to an abundance of fake invoices does make many administrations cautious, but applying risk management is a better solution as it allows for a carrot-stick approach and encourages compliance. Extending risk management to other border control agencies with SPS, Quarantine and food safety roles who play a crucial role in controlling the flow of goods in light manufacturing sectors like food processing, leather products and wood products will be vital, to prevent time delays at borders. Finally, transport and logistics services is also a focus area for many reformers as they seek to open the markets, promote competition and begin requiring professionalization of service providers.

The opportunities of integrating with regional neighbors to facilitate participation in global value chains are also becoming apparent. The importance of integration is highlighted by the fact that many countries face constraints of geography, size or resources when reforms are carried out across corridors. Rwanda is a good example where logistical challenges from its landlocked location, small domestic market, limited production scale with concomitant import dependence, and the cost and quality of logistics services impact the ability of its firms to compete in global markets. As such Rwanda has been a keen reformer of its trade logistics system and seems to have adopted a multi-dimensional approach to improve its competitive position. It focused on trade facilitation through both regulatory improvements and infrastructure investments, adopted a national strategy to improve the country's logistics and distributions services and infrastructure, began reforming the national quality infrastructure in relation to standards conformity assessment and inspections, and actively lobbying partner states of the EAC to not only remove non-tariff barriers but also make investments to upgrade infrastructure and services along the trade gateways and corridors.

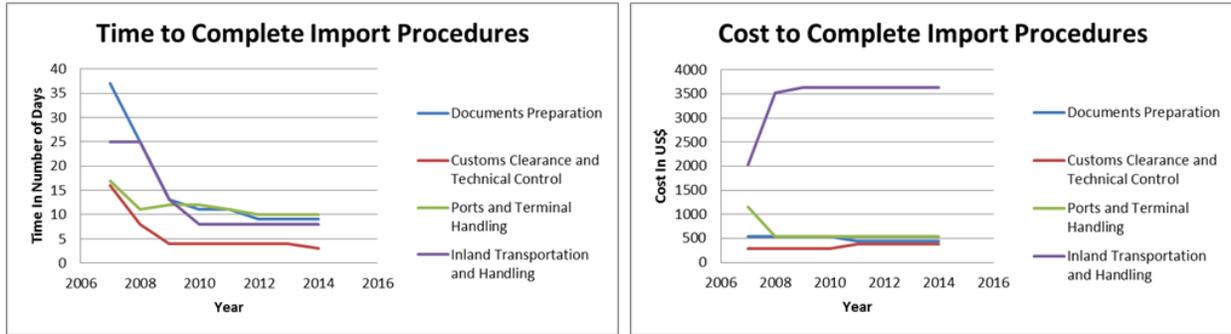
In recent years the Government of Rwanda has carried out an extensive reform program that includes simplifying trade transactions and automation to implement a national single window, introducing risk management for border control, and investing in one stop border posts that facilitate trade. While import and export times have dropped dramatically as measured by Doing Business, the cost of trading while falling still remains high [See Figure 12] despite recent improvements in the port of Mombasa, removal of NTBs (road blocks and multiple weigh stations), improved trade facilitation at borders, investments in trucking fleets and other related reforms.

Figure 11: Trade Logistics reform areas in Africa (2008-2013)

Reform Area	Countries
Efficiency Reforms: Streamlining procedures, reducing documents, increasing working hours and improving payment systems	Madagascar, Rwanda, Kenya, Senegal, Sierra Leone, Angola, Burkina Faso, Liberia, Mozambique, Uganda, Ethiopia, Mali, Malawi, South Africa, Burundi, Dem. Rep. Congo, and Swaziland
Automation Reforms: Customs processing, single window, port community and cargo tracking systems	Madagascar, Uganda, Kenya, Mali, Senegal, Benin, Cameroon, Mauritius, Sudan, Swaziland, Zambia, Gambia, Liberia, Seychelles, Sierra Leone, Botswana, Burundi, Niger, Mozambique, and Rwanda
Risk Management and border inspections	The Gambia, Mauritius, Madagascar, Rwanda, Senegal, Malawi, Liberia, and Mauritania
Gateways and Corridors: Ports, ICDs, transit corridors, checkpoints, and one stop border posts	Ghana, Madagascar, Uganda, Benin, Botswana, Eritrea, Liberia, Mali, Nigeria, Senegal, Cameroon, Angola, Zambia, Burundi, Malawi, Central African Rep., and Guinea
Transport and Logistics Services	Congo Dem Rep., Benin, Rwanda, São Tomé and Príncipe, and Tanzania

Source: Adapted from *Doing Business*, World Bank Group

Figure 12: Rwanda Time to Import and Cost to import



Source: World Bank group, *Doing Business Report*

More generally, even as the Government of Rwanda has focused on identifying strategies to transform Rwanda’s current logistics system from simply a supply route serving a landlocked location to a new enhanced role, it needs the EAC partner states to coordinate and cooperate extensively in making the improvements and investments along the gateways and corridors. The impact of these improvements would be magnified if accompanied by better infrastructure and procedures at the border crossings with the DRC. This would allow Rwanda to exploit its position as a land bridge to the large population across the border in the east of the DRC and allow local firms to add value to material and services inputs imported from the regional and global market that are processed for the regional market.

While progress has been made in some areas within the EAC, for instance, the partner states have begun operationalizing the single Customs territory (Rwandan staff are now deployed at Mombasa port to facilitate movement of cargo); the Mombasa Port Community has created a charter that seeks to encourage its stakeholders to work together to improve the performance of the port and reduce time to clear goods; and the EAC Secretariat has released a common market scorecard tracking progress of Partner States in fulfilling their commitments as provided in the Protocol (including for trade in goods) that will contribute to better compliance of commitments; a lot more still needs to be done.

While regional integration must be at the core of trade logistics reforms in Africa, the potential from participation in global value chains is still to be exploited. The significant tariff preferences that are available in the US and EU markets for some sectors for instance, apparel, can provide a step up to joining these value chains.

A poor trade logistics environment leads to high cost supply chains and is one of the multiple challenges that African economies face in being part of GVCs. Poor trade logistics includes poor connectivity, non-tariff barriers, inadequate transport and logistics infrastructure, and burdensome trade regulations that make them less attractive for GVC investment in light manufacturing. These make GVC participation a high cost affair. The ADB study shows simulations of simple two-stage chains in Southeast Asia where GVCs magnify trade costs by as much as 80%, due to a compounding of costs such as tariffs on goods traded across borders. As such, savings from small reductions in supply chain costs are similarly amplified and offer outsized benefits for production network growth.

## 2. Opportunities for further reform in trade logistics

*i. Modernizing Africa's Gateways and corridors and cross border trade*

As African economies trade and integrate more into the world economy they link their prosperity to international commerce. For this to happen successfully, Africa must invest in its trade gateways (and transport networks<sup>11</sup>) economic enablers whose rapid scaling up is essential if cargo is to be moved quickly and cheaply. This modernization includes (i) investments in infrastructure after carefully assessing demand-supply (and capacity) and improving operational efficiency, (ii) improving connectivity, (iii) improving competition and the associated regulatory framework; and (iv) creation of a collaborative port community focused on improving efficiency and competitiveness.

Investment in gateways (ports and airports) is vital as infrastructure constraints impact trade growth and operators choose not to service those gateways or charge higher prices for doing so. Trade partners (and competitors) are already planning massive investments. India plans to invest \$60 billion, including both public and private funds, in creating seven new major ports by 2020; Brazil expects tonnage at its coastal ports to more than double and has committed \$17 billion, including \$14 billion from the private sector, for port improvements. In the UK, the world's fourth largest marine terminals operator, DP World, plans to spend \$2.5 billion on London's Deep-Water Gateway, the country's first such development in the last 20 years<sup>12</sup>.

Some investments have been made in existing ports around Africa in recent years to alleviate the challenges posed by high capacity utilization. These include Monrovia (Liberia); Djibouti; Abidjan (Ivory Coast); and Tema (Ghana) to name a few. In East Africa, Kenya and Tanzania too are making improvements to existing ports and investments in new ones in Lomu in Kenya and Tanga and Bagamoyo in Tanzania. It must be emphasized that de facto capacity increases can also often be done by simplifying processes and procedures and reducing cargo dwell time at the port (see recommendation ii for a discussion on the importance of these reforms). The 2012 World Bank study of port waiting times (Raballand, Gaël et al. (2012) *Why Does Cargo Spend Weeks in Sub-Saharan African Ports?*), demonstrated this identifying numerous factors that can improve port efficiency. The port of Durban, South Africa reduced its dwell time from seven to four days as a result of implementing a wide range of measures, including a major customs reform; changes in port storage tariffs coupled with strict enforcement; massive investments in infrastructure and equipment; and changing customer behavior through contracting between the port operator and shipping lines or between customs, importers, and brokers.

Port Investors in Africa come from a variety of countries including from China<sup>13</sup> for whom in particular, good port infrastructure allows for an increase in trade with Africa and potentially more Chinese investment in other sectors including light manufacturing. The benefits for African manufacturing firms seeking to exploit foreign markets will also be a natural consequence of

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<sup>11</sup> Transport networks were covered in the LMA report

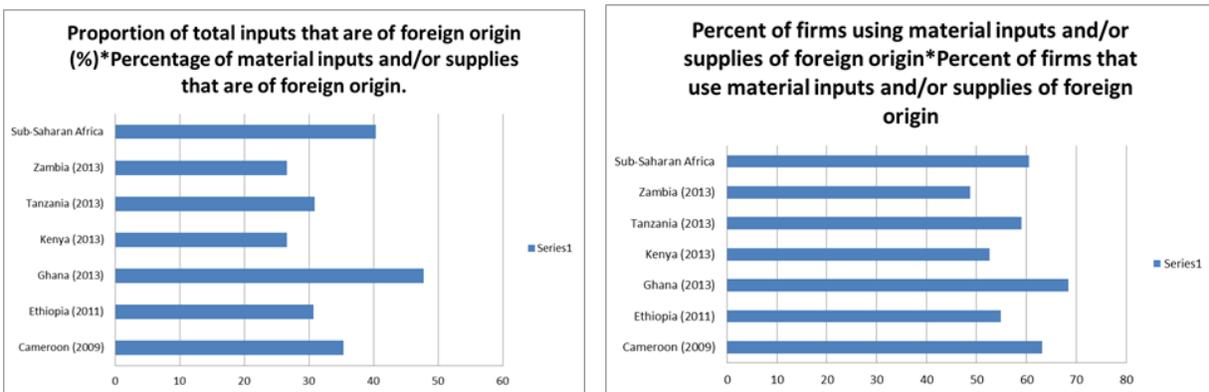
<sup>12</sup> US Port-related infrastructure investments reap dividends (Available at [US Port Related Investments](#) and accessed on September 25, 2014)

<sup>13</sup> The China Africa Forum on cooperation under Article 4.8.1 states that 'The two sides will continue to encourage and support more flights and shipping links to be set up by their airlines and shipping companies, and capable Chinese companies will be encouraged to invest in ports, airports and airlines in Africa'. See [China Africa Forum](#) accessed on September 25, 2014.

these investments. Enterprise survey data from the World Bank highlight how manufacturing firms are highly dependent on foreign inputs and therefore need efficient gateways for entry of those inputs [See Figure 13].

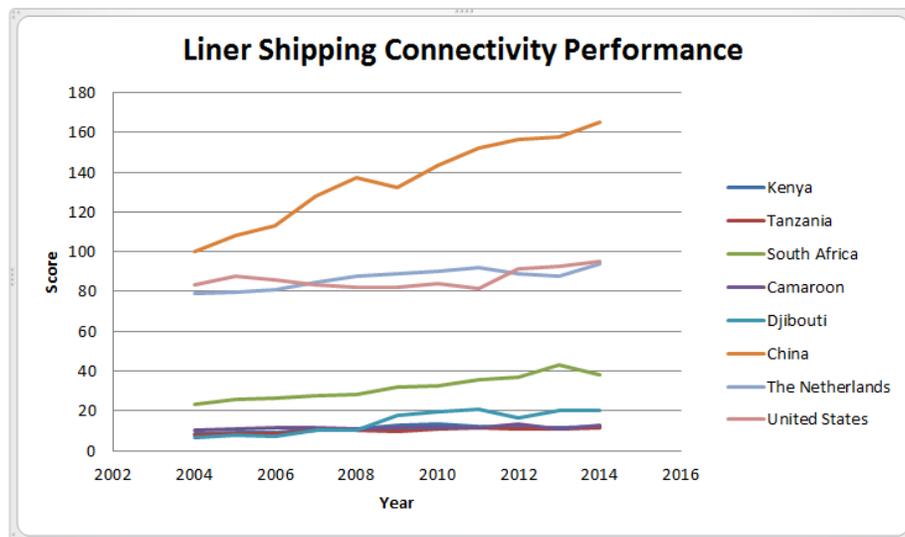
UNCTAD's Liner Shipping Connectivity Index (LSCI) tries to capture how well countries are connected to global shipping networks based on five components (number of ships and their container carrying capacity, maximum vessel size, number of services and the number of companies that deploy container ships in a country's port). As such the index can be considered both as a measure of connectivity and trade facilitation. Better connectivity entails more choice for the user (importers and exporters) and lower costs. As can be seen from Figure 14 below, African ports score quite poorly when compared to some of the world's best practice ports.

Figure 13 – Inputs of foreign origin



Source: Enterprise Surveys, World Bank

Figure 14 – Liner Shipping Connectivity Index



Source: Liner Shipping Connectivity, UNCTAD

The air transport sector is typically oriented towards high value or time sensitive products. While not all industries in the light manufacturing sector are likely to use air cargo the ancillary benefits from its development can still be positive. A mode of transport that provides a competitive option for some industries does impact the offer in the competing mode for all sectors as capacity, utilization and potentially rates and level of service are affected. Moreover an improvement in the air cargo sector is likely to have impacts on trade, investment and productivity which may have spillovers for light manufacturing.

But improving port gateways is more than about making hard infrastructure investments and improving connectivity.<sup>14</sup> It also includes simplifying regulations and procedures and creating a cooperative framework that allows for a smoother functioning by reducing complexity and bureaucracy. For instance in Kenya, the Mombasa Port Community Charter (initiative) brings together ten key stakeholders from the trade logistics chain with an objective to establish a permanent framework of collaboration that binds the Port Community to specific actions, collective obligations, targets and time lines; among others. Challenges identified by the stakeholders included 'poor coordination among members, poor ship to shore interface, low yard productivity and limitations in cargo off take capacity, slow Customs and technical control clearance, corruption and lack of enabling legislation. These challenges implied that while in the most efficient trade corridors, transport costs make up only 4% of the cost of goods, constraints at the Port of Mombasa and along the Northern Corridor and drive transport costs to an estimated 30% of the cost of goods in east Africa'<sup>15</sup>.

Considerable reforms have been implemented in many of Africa's key corridors to improve transit and transport infrastructure. This modernization has included upgrading of road infrastructure, establishment of one stop border posts (OSBPs), reduction of checkpoints and weighbridges, initiatives to harmonize axle loads, introduction of cargo tracking systems, and generally an appetite to tackle non-tariff barriers. Creating a one stop for border clearance aims at reducing duplication of procedures and enabling faster movement of trade. Since the establishment of the first one at Chirundu (Zambia-Zimbabwe), many countries in SSA have adopted the idea. The EAC partner states for instance, are committed to creating up to 15 OSBPs and the East African Community Legislative Assembly passed the One-Stop Border Posts Bill in April 2013.

OSBPs in SSA had until recently been seen as a panacea for solving cross border trade issues though their poor performance has led some policymakers to begin reevaluating them. Conceived to reduce the number of border stoppages as goods move from ports to landlocked countries and when facilitated by interconnected automation systems they can reduce the time and cost penalty faced by exporting and importing firms in these countries. So far infrastructure investments for OSBPs along with broad legal agreements between participating countries have been made without consideration about the operating policies and procedures. This has led to misaligned outcomes, reduced the opportunity of reaping full benefits of the investment and created a poor public perception of the concept. In reality, unless the regulations and procedures are drafted together with the construction of hard infrastructure, the return on investment is

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<sup>14</sup> For example, one of the reasons for port inefficiency (and high dwell times) is that in many ports in Africa there are strong incentives to use the port as a storage area. This was highlighted by Raballand and Refas who suggest that 'policy makers conduct a careful assessment of the way the private sector operates before investing in port infrastructure and understand demand before changing supply'.

<sup>15</sup> Mombasa Port Community Charter

unlikely to be as high as anticipated. Moreover, the process design must influence the layout of the OSBP so as to create a truly collaborative environment for clearance between agencies together including for instance with a dedicated a fast track facility for purely transit consignments and this has not really been the case. OSBP investments can encourage neighbors and their border administrations to not only facilitate trade when done right but to build a culture of trust and cooperation essential building blocks for further regional integration.

Improving cross border trade also requires effective coordination at borders through, for example, joint border committees of officials from both countries and the private sector as well as transparency of rules and regulations. It is to these issues that we now turn.

*ii. Simplifying trade related regulations and procedures*

Policy reforms that lead to the streamlining of rules and regulations ('soft infrastructure') are particularly important for light manufacturing and other sectors that need just in time supply chains or are key contributors to GVCs. For Governments that are keen on attracting investors in light manufacturing, simplified trade regulations and procedures should be high on their agenda.

*(a) Tackling hotspots in the trade supply chain*

The streamlining agenda is not just relevant for trade gateways and corridors but the entire trade logistics chain. The average trade transaction involves 20 – 30 different parties, 40 separate documents, around 200 data elements (30 of which are repeated many times)<sup>16</sup>. Stakeholders have different objectives, incentives, competencies and constituencies and this leads to multiple hotspots in the supply chain that impact the flow of goods. [See figure 15]. These hotspots could occur at various points in the chain and include -

- Poor trader preparation leading to inefficient in-house processing and weak interconnectivity. This could be due to multiple reasons including poor trading skills, inadequate financial resources, preference for low cost/low skill service, weak understanding of import requirements, hiring low cost/low skill agents, lack of working capital, and use of cheap gateway port storage. These factors in particular make realization of 'just in time' supply chains difficult.
- Weak interconnectivity of regulatory agencies. For instance, upon the arrival of a vessel at port it is subject to certain formalities which often involve a plethora of actors including the Coast Guard, port authority, Customs, Immigration, Ministry of Agriculture, and Ministry of Health which require specific information pertaining to time of arrival, vessel, crew and cargo onboard. Coordination issues in Africa often begin at this point and continue with transactions throughout the clearance process, through corridors, borders and clearance points. Manufactured goods trade requires a seamless flow of information across actors who make sequenced decisions to ensure the smooth flow of cargo.
- Burdensome border clearance. Traders require a high number of supporting documents, need to fill out forms multiple times and submit them manually often to numerous agencies. A lack of simplified procedures or where they exist deficient AEO

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<sup>16</sup> WTO

type of schemes imply that manufacturing firms don't have the option of taking advantage of the option of an efficient process. Agencies have high inspection rates with little use of risk management. Automation where available often reduces time and cost to trade but its benefits are hindered by poor internet connectivity, power outages and inadequate hardware.

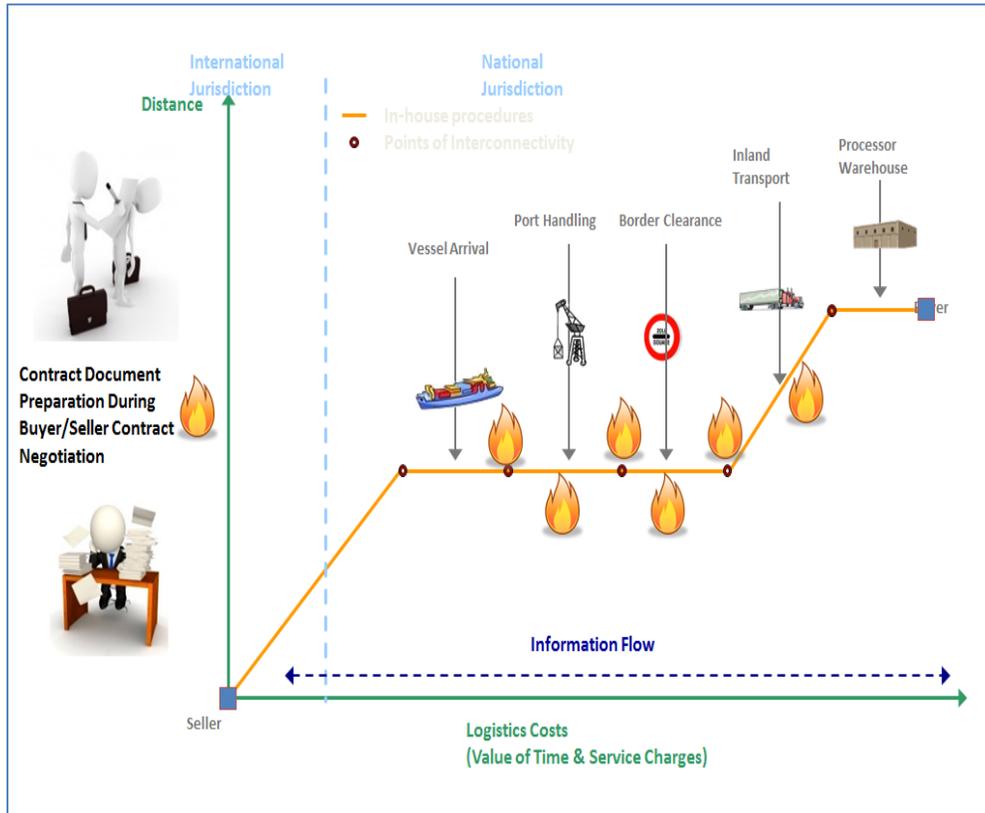
The recently concluded Bali Agreement on Trade Facilitation (WTO-TFA) 'contains provisions for faster and more efficient customs procedures through effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues' [WTO]. As Africa's economies align their laws & regulations and policies and procedures in line with international practice and to meet the articles of the TFA, they will become more attractive for investment in a wider range of activities beyond minerals and other commodities. Articles 6-12 of the agreement cover -

- Disciplines on fees and charges imposed on or in connection with importation or exportation
- Release and clearance of goods
- Border agency cooperation
- Movement of goods under customs control intended for import
- Formalities connected with importation and exportation and transit
- Freedom of transit
- Customs cooperation

All the articles stress the need for simplifying, harmonizing, streamlining and automating. Article 10.4.1 on Single windows states

*'Members shall endeavor to establish or maintain a single window, enabling traders to submit documentation and/or data requirements for importation, exportation, or transit of goods through a single entry point to the participating authorities or agencies. After the examination by the participating authorities or agencies of the documentation and/or data, the results shall be notified to the applicants through the single window in a timely manner' [WTO-TFA].*

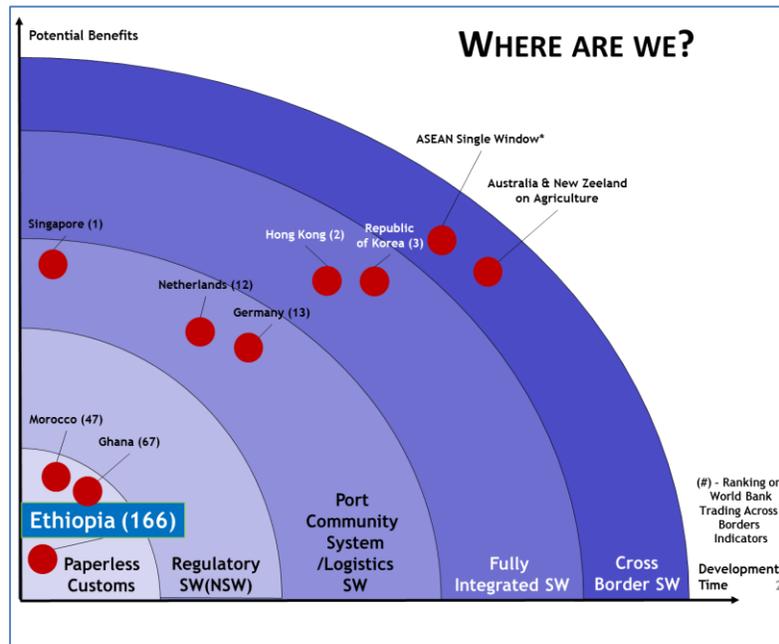
Figure 15 – Hotspots in the Trade Supply Chain



Source: World Bank Group

Many countries in Africa have been automating trade procedures including upgrading customs processing systems, implementing port community or single windows systems and cargo tracking systems over the past decade even before the Bali agreement. The Doing Business report recorded reforms in this area for Madagascar, Uganda, Kenya, Mali, Senegal, Benin, Cameroon, Mauritius, Sudan, Swaziland, Zambia, Gambia, Liberia, Seychelles, Sierra Leone, Botswana, Burundi, Niger, Mozambique, and Rwanda in the period 2008-2013 [World Bank]. However as Figure 16 below shows automation levels in Africa are still some way behind its trading partners.

Figure 16 – Automation systems



Source: World Bank Group

(b) Promoting Predictability and Transparency

Today’s increasingly sophisticated manufacturing supply chains (often part of global value chains) demand predictability, reliability, flexibility, and accountability. Information and goods flows need to be seamless, fast, and transparent to all stakeholders. As such investors will often consider the political economy, legal framework, government agency support services, quality of infrastructure, and other factors. In this context, easy access to trade related regulations, practices and policies is essential. The WTO-TFA recognizes the importance of this and Articles 1-5 of the agreement, which focus on transparency, accountability, predictability and include -

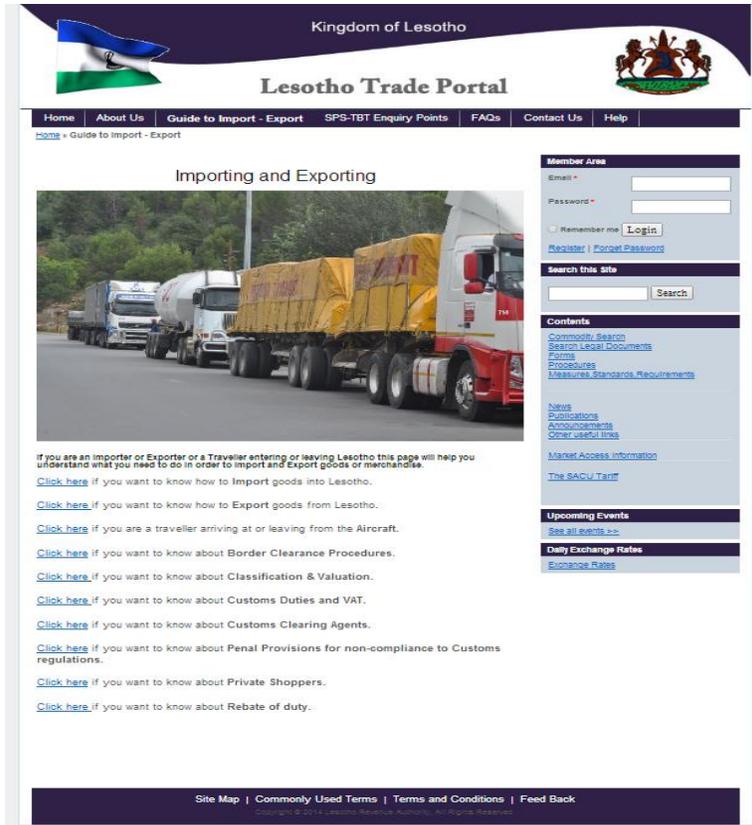
- Publication and availability of information;
- Opportunity to comment, information before entry into force and consultation;
- Advance rulings;
- Appeal or review procedures; and
- Other measures to enhance impartiality, non-discrimination and transparency

Some countries have already begun responding to this gap. Lesotho recently implemented a national trade portal<sup>17</sup> that provides information for importers and exporters to find all the information they require to import goods into Lesotho and export goods from Lesotho [See Figure 17]. Reforms that lead to more accountability and transparency are especially beneficial for SMEs

<sup>17</sup> [Lesotho Trade Portal](#) accessed on September 29, 2014

in manufacturing as they lack the ability of large firms to manage logistics and as a result face a disproportionate cost burden in participating in GVCs.

Figure 17 – Lesotho Trade Portal



Source: Lesotho Trade Portal Website

### iii. Improving national quality infrastructure

As African economies increasingly trade and integrate with the world and each other, the importance of upgrading National Quality infrastructure (standards, accreditation, metrology, and conformity assessment) has become increasingly recognized. As consumers in Africa's export markets demand product traceability, conformity to international standards helps reassure them that products are efficient and safe.

The light manufacturing sector for the most part consists of products that are often labor intensive, require a low level of skills among the workforce and low technology intensity. As African firms seek to enter global value chains, supplier networks or just simply enter new export markets the importance and use of standards and certification becomes crucial. Ability to satisfy international standards can thus be important for participating in Global Value Chains. However, it is essential that the adoption of standards is undertaken in a transparent manner and with the participation of all stakeholders. Of particular importance is that harmonization with international standards does not become an objective in itself.<sup>18</sup> The risk is that imposing

<sup>18</sup> Indeed, some Regional Communities have adopted the number of harmonized standards as a monitoring indicator.

international standards becomes a constraint on the development of nascent regional value chains.<sup>19</sup>

While some progress has been made, multiple challenges still remain and hinder the ability of products to move across borders in Africa. First, many countries have introduced a large number of compulsory standards. While many of these are justified on the basis of protecting health and safety an increasing number deal with quality issues, for which voluntary standards are typically more appropriate. One reason for this has been the need to generate autonomous revenue for the standards institution which originates primarily due to a lack of the separation of the regulatory function from the rest of the NQI activities. Another is that standards setting bodies are often government agencies with little industry sponsorship or participation and ownership, particularly from the manufacturing sector which is most impacted. Internationally, best practice offers a different approach to NQI. WTO guidelines are that *standards* developed by national standards bodies should always be voluntary, while *technical regulations* developed by the state should be limited to concerns of safety, health and the environment. For instance, in the EU all standards developed by national standards bodies and by the EU's regional standards bodies are voluntary. These bodies have a high degree of institutional autonomy, and standards development is an open consensus-based process that includes producers, consumers, academics and the public sector.

Second, is the area of accreditation. There are only three countries in Africa that have national accreditation bodies (Egypt, Tunisia and South Africa). International accreditation bodies can replace the role of a national body where it does not exist and some countries in Africa tend to do so i.e. Tanzania's laboratories and certification bodies, apply to the South African National Accreditation Service (SANAS)<sup>20</sup>. However, in many SSA economies there is no government policy in place that requires all laboratories, inspection organizations or certification bodies that provide conformity assessment services for the implementation of technical regulations or SPS measures to demonstrate their technical competency, i.e. be accredited. This is a major gap in the implementation of an effective technical regulation regime, and a major impediment for exporters of products that would fall within the scope of technical regulations in target markets<sup>21</sup>. Many governments also have regulations that restrict testing to domestic public (normally non-accredited) laboratories and do not accept certificates of conformity from laboratories that are internationally accredited that reduce the incentive for the private sector to invest in laboratory and testing facilities.

Third, regardless of how currently technical regulations and legislation are defined; enforcement at the border often becomes a further barrier to trade. Hence, in reality, mandatory standards together with weak conformity assessment and restrictive procedures at the border result in non-tariff barriers that limit competition for domestic manufacturing firms. Finally, government

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<sup>19</sup> See Keyser and Jensen (2011) for example.

<sup>20</sup> Recently, the SADC region established a regional accreditation body, the SADC Accreditation Service (SADCAS) to provide accreditation services to SADC member states that do not have a national accreditation service or are unlikely to establish one. SANAS and SADCAS have recently signed an agreement whereby SANAS is withdrawing from all SADC member states, even transferring their accredited facilities to SADCAS (NQI, Tanzania; Dall'olio and Kellerman)

<sup>21</sup> Report on the evaluation of national quality infrastructure and technical regulation regime of Tanzania, World Bank, forthcoming (Andrea Mario Dall'Olio & Martin Kellermann).

agencies charged with community protection often face funding shortages and lack qualified personnel and equipment that make it difficult for them to carry out their mandate and instead merely become another hotspot in the trade supply chain.

The ADB report sums it up well ‘process and product standards are necessary for GVC operations and to safeguard public health, social well-being and the environment, but they must not be hijacked as barriers to trade. As with tariffs, GVCs magnify costs from nontariff measures such as product standards. As production lines span more jurisdictions, harmonized standards gain importance. Regulations and conformity assessments should not discriminate or unduly add costs, but ensuring compliance does require investment in laboratories and other facilities for calibration, accreditation, certification, and conformity assessment’ [Asian development Bank]. In addition, applying them uniformly and consistently in accordance with the principles of risk management at the border would greatly enhance the flow of trade.

#### *E. Facilitating the movement across borders of people and services*

It is becoming increasingly recognized that access to competitively produced services is crucial to the development of manufacturing exports.<sup>22</sup> Recent work has shown that poor business services for trade are a barrier to enhanced integration of both goods and services.<sup>23</sup> The recently released EAC Common Market Scorecard 2014, for example, identified more than 500 key sectoral laws and regulations of the EAC Partner States identified at least 63 measures inconsistent to commitments to liberalize services trade within the EAC.

Improvements in a wide range of business services such as banking, insurance, communication and professional services such as legal, auditing, engineering and computer services would lower trade costs<sup>24</sup>. Firms that have access to professional services, such as accountancy, engineering, and legal services, tend to have higher productivity, but many governments in Africa limit the pool of such services that are available to their firms through restrictions on the movement of professionals across borders and regulations that constrain the conduct of service providers<sup>25</sup>. As such, the growth of the light manufacturing sector will be facilitated by deeper integration of services markets in Africa that allows cross border movement of suppliers. Analysis also suggests that ‘the returns to a regulatory reform agenda for trade will be substantial while the direct financial costs are small relative to other aid for trade interventions and investments in infrastructure<sup>26</sup>.

The movement of manufacturing cargo is in particular impacted by the quality of professional services particularly in the logistics industry. Generally, in most parts of SSA, there are a host of 3PL (third-party logistics) players providing an array of services. However, for the most part the quality of the services is poor. This is both a government and commercial performance problem.

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<sup>22</sup> Interestingly, the Chief Executive of the Kenyan Association of Manufacturers has recently demanded progress on integrating the markets for services in East African Community, <http://www.businessdailyafrica.com/Opinion-and-Analysis/EAC-journey-raises-hope-for-industry/-/539548/2540278/-/tm1hp6z/-/index.html>

<sup>23</sup> See, for example, Defragmenting Africa, World Bank

<sup>24</sup> Reducing Trade Costs in East Africa - Deep Regional Integration and Multilateral Action; Edward J. Balistreri & David G. Tarr

<sup>25</sup> A survey of more than 500 firms found that East African firms that use professional services are 10 to 45 percent more productive than firms that do not use these services (De-fragmenting Africa, World Bank)

<sup>26</sup> De-fragmenting Africa, World Bank

Regulatory issues are often related to market entry and qualification requirements, licensing, competition, restrictions on foreign ownership and regulations for foreign suppliers, and taxation. Commercial concerns relate to quality of services, lack of voluntary regulation, a skills gap and a lack of training opportunities for key activities along the logistical process. Professionalization of service providers (freight forwarders, logistics providers, customs brokers, shipping agents and others) needs to be encouraged. For instance, the Federation of East African Freight Forwarders Associations (FEAFFA) members undergo a mandatory certification program for all Customs agents jointly implemented by the East Africa Revenue Authorities (EARAs) and the national freight forwarding associations affiliated to the Federation of East African Freight Forwarders Associations (FEAFFA) that has been developed to improve the quality of services. Policymakers in some parts of SSA, like East Africa have recognized that weaknesses in their professional services sectors impede growth and are beginning to prioritize reform of these services, including by creating more integrated regional markets. In parallel with domestic reforms in these sectors, the five East African countries are beginning to implement the commitments on professional services included in the Common Market Protocol. Also, the development of mutual recognition agreements (MRAs) of professional qualifications to facilitate the movement of professionals supplying services in Sub Saharan Africa features high on the agenda of the East African Community (EAC). In fact, the EAC countries have already signed agreements on the mutual recognition of professional qualifications and licensing requirements in accounting, engineering and architectural services<sup>27</sup>.

However, there are numerous challenges related to the implementation of commitments in the EAC Common Market Protocol regarding freedom of movement and the MRAs. For example, a key stumbling block is the link that has been made between commitments on the temporary movement of service suppliers who are nationals of Partner States (“natural persons”) with the provisions on the free movement of workers. Furthermore, a full-fledged MRA would have to cover education, examinations, experience, conduct and ethics, professional development and re-certification, range of practice, and local knowledge. This requires sectoral benchmarking of current regulatory frameworks. The benchmarking of qualifications and licensing across countries poses significant problems in the EAC. Some countries may need to raise their standards beyond their current level to reach a jointly agreed minimum standard. All relevant governmental and professional organizations would need to take part in defining such requirements. It seems that the MRAs were negotiated without undertaking such benchmarking exercises complicating their effective implementation.

While professional associations have been mandated to draft the MRAs, it seems that the services negotiators and the EAC Secretariat have not been involved in the MRAs discussion. The lack of stakeholder consultations and the absence of a clear mechanism at the EAC regarding procedures for reviewing and adopting MRAs has generated delays with their implementation.

An important lesson learned from the various regulatory experiences is that while most dialogues start with a process of confidence building and information sharing on domestic regulation, the contacts established through these dialogues usually provide the opportunity to flag upcoming changes in domestic regulation and exchange information on positions to be taken by the

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<sup>27</sup> The MRA for accounting services was signed in September 2011, the MRA on architectural services in July 2011 while the MRA in engineering services in December 2012.

participating countries in multilateral fora. But another important lesson emerging from these regulatory initiatives is that there is hardly ever a “quick fix solution” to regulatory problems. The sometimes slow and modest results of regulatory cooperation reflect the complex political economy process that needs to be addressed when implementing regulatory reforms. It is therefore crucial to ensure that networking and information exchanges are put in place and maintained to advance the regulatory reform in professional services.

Dissemination programs and Knowledge Platforms<sup>28</sup> that fill information gaps, address knowledge gaps: and provide technical assistance activities to address the political economy constraints that slow liberalization in professional services are useful tools to advance services reform on the continent.

### *F. Political economy of Reform*

Experience across Africa and elsewhere suggests that trade reform including improvement to trade logistics is most likely to be successful if the users (the private sector) are consistently involved in the process –helping identify bottlenecks and issues as they emerge, advocacy to champion policy reform, providing solutions or feedback on solutions proposed, and monitoring the reforms as they implemented to ensure benefits are passed on to producers and consumers. This requires consistent engagement and dialogue with the public sector and the policy makers. The growing importance of regional and global value chains creates opportunities for farmers, firms and individual services suppliers from different sectors to benefit jointly from actions to reduce trade costs. This suggests that discussion around trade reform should engage a wider group of stakeholders than are traditionally involved in discussion of trade reform. For example, given the importance of services in value chains, leveraging services sectors firms to help drive goods trade reform may help overcome some of the political economy resistance to removing barriers to goods trade. Similarly, farmers who provide inputs into processed food value chains may have an interest in services sector reforms which make critical services available and so enable such chains to grow and flourish.

The mechanism may vary based on the country, culture, nature of the business sector and other factors. In Ethiopia, a National Export Committee meets with the Prime Minister on a regular basis to identify problems and discuss solutions to tackle issues related to exports, a priority area of the government while a Public Private Dialogue Consultative Forum covers federal, state and local issues. The Forum organizes an annual national business forum chaired by the Prime Minister and has discussed the multimodal regulation when it was initially issued. In Zambia, there are a plethora of committees at the high level and of technical nature in the trade facilitation area which involve the private sector – sector working groups, the Trading Across Borders Technical Committee, project governance committee for single window implementation, Customs to Business Working Group, NTB Monitoring Committee, and joint border committees. In Rwanda, while there is an ongoing process to create a national trade facilitation committee as per the WTO-TFA requirement, currently firms including manufacturers have considerably more direct access to senior policymakers and choose to use that route due to its effectiveness and short time advantage.

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<sup>28</sup> For example, the Knowledge Platform for Professional Services developed jointly with the COMESA Secretariat or the EAC Professional Services Knowledge Platform developed by EABC and TMEA and focuses on advocacy.

The merits of a systematic organized accountable mechanism cannot be discounted- the involvement of a wide range of stakeholders in the committee allows for a broad range of issues to be raised and solutions applied in a manner that can be monitored and are cost effective for all parties. In other countries, where the culture does not promote feedback to government because of the fear of retaliation, national committees can often be used to communicate issues and positions under the umbrella of an association. The monitoring mechanism that a committee enables further creates pressure on governments to continue reforming and to not 'drop the ball'. The clearer understanding of compliance issues and business needs by all concerned in the committee, together with the formal and informal opportunities, it provides for communications between business and government, generally makes National Committees on Trade Facilitation of significant, long term benefit to many countries.

Regional monitoring like the online NTB reporting, monitoring and eliminating mechanism created by the three regional economic committees (EAC, SADC and COMESA) promote accountability and transparency and allow for a 'supply chain' approach and are also crucial to improving trade logistics for light manufacturing. NTBs in the SADC region for instance reported on through the Monitoring Mechanism affect products that jointly account for \$3.3 billion, or one-fifth, of regional trade<sup>29</sup>. Resolving such NTBs would provide additional impetus to regional and international trade.

Other lessons related to the political economy of regional reform<sup>30</sup> suggest the need to prioritize flexibility over rigidity. For the reform of logistics and services along connective infrastructure it may be tempting to want to work through existing regional economic organizations, such as COMESA, ECA, and SADC, to pursue integration efforts. However, most of Africa's RECs have states with highly divergent integration priorities. Working through formal RECs therefore can often be more of an impediment to integration than a benefit. Instead, in many instances, it makes sense for a subset of countries to move forward in one area and use these gains to work on a broader set of issues and/or countries.

In addition, governments should pursue simplicity over complexity. Many integration efforts stall because they pursue complex negotiations across a range of government agencies. This approach gives groups opposed to integration leverage to block progress towards it. In addition, it also strains the capacity of many governments. One way to minimize these impediments to integration in some areas is to encourage mutual recognition of standards rather than policy harmonization.

## *G. Conclusions*

Diversification into light manufacturing has the potential to drive significant job creation in Africa. However, this transition will have to take place in a competitive global environment increasingly dominated by regional and global value chains. This note discusses how Africa's

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<sup>29</sup> Gillson I & N Charalambides, Addressing Non-Tariff Barriers on Regional Trade in Southern Africa, World Bank, 2011, [http://siteresources.worldbank.org/INTAFRREGTOPTRADE/Resources/Addressing\\_NTBs\\_Southern\\_Africa.pdf](http://siteresources.worldbank.org/INTAFRREGTOPTRADE/Resources/Addressing_NTBs_Southern_Africa.pdf)

<sup>30</sup> Brenton and Hoffman (2015)

current competitive advantages, in terms of relatively low labor costs, abundant agricultural land and preferential trade access to key overseas markets, need to be supported by efficient trade related services, especially trade logistics, for this potential to be realized. This requires an active agenda that addresses not only infrastructure weaknesses, but especially focuses on policy related constraints to trade that limit access to material and services inputs and raise the cost of getting final products to overseas markets.

A review of recent trends in exports for a group of countries in East Africa suggests some progress in diversification into light manufacturing. In the main this has been driven by the food processing sector. Kenya has had some success in exploiting preferential access to the US market in apparel. Currently, the growth of processed food exports is being driven by the regional market, but this may just be a stepping stone to future growth driven by global markets. Infrastructure and policy-related trade constraints are of particular importance for the food processing sector. Delays at borders can have very high costs for perishable and refrigerated goods. Efficient trade logistics become paramount and well-designed standards that are clearly and predictably implemented are a key element of trade facilitation. In addition to creating jobs, food processing can play a key role in poverty reduction linking poor farmers to overseas markets and a better return for their produce. This puts further emphasis on the need to address inefficiencies at borders between African countries and not just at the main gateway ports.