



TMEA's contribution to trade policy making and integration in the EAC: the Single Customs Territory

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This brief summarises and sets in context the results of the UK Foreign, Commonwealth and Development Office (formerly DFID)-commissioned independent evaluation of TradeMark East Africa (TMEA) programmes, which includes support to trade policy making and integration in the EAC. In particular, the Single Customs Territory (SCT) appears as a critical EAC programme aimed to enhance economic integration in the region. TMEA's programme aims to support poverty alleviation by enhancing trade, through a range of interventions implemented at the national and regional level.

Key messages

- The EAC SCT contributes significantly to the reduction in transport times and trade costs as well as risks associated with diversion of goods destined to landlocked countries. It is also a critical enabling factor contributing to the results generated by One Stop Border Posts (OSBPs)
- The independent evaluation indicates that the support to the EAC SCT is very relevant and effective in achieving TMEA objectives of growing prosperity through trade
- There has been a commitment to an open and participative process in the design and implementation of interventions and this has led to longer timeframes and some unavoidable delays
- There are significant gender dimensions in the design and implementation of interventions, in addition to the participation of women in meetings and trainings, that need to be assessed and addressed.

This brief is organised as follows. In the first part, we will discuss the importance of the SCT in the EAC integration process. Then, we will present some of the TMEAs programmes and initiatives aimed to support the establishment and operation of the SCT. Immediately, we will present some of the main findings of the independent evaluation of TMEA's activities. We finalise with some lessons learned.

1 The importance of East African integration and the SCT

There is a strong positive association between trade and productivity growth (Melitz, 2003). Increases in productivity can lead to increases in income and, consequently, poverty reduction. These combined effects also lead to increases in government income which can be spent on the provision of public goods and services. This applies to EAC countries where trade

(especially intra-regional) has observed sustained growth over almost all of the last two decades with significant, though still insufficient, improvements in their competitiveness of their products and services; and a sustained reduction of poverty.

Being the most integrated and successful Regional Economic Community (REC) in Africa (AU-AfDB-UNECA, 2019), the EAC has been a significant factor in the increase of trade within the region and with the rest of the world. Total EAC exports increased almost four times between 2000 and 2018 and intra-EAC by almost six times. good to insert the figure on the growth of intra-ref

The approach taken by the EAC to increase trade has been multifaceted, and which also serve the purpose of attainment of the ultimate goal of a fully- fledged Customs Union. These include elimination of internal tariffs for goods traded amongst Partner States (and qualify under Rules of Origin); implementation of a common external tariff (CET) and enactment and implementation of the Customs Management Act and supporting regulations. In addition, TMEA has supported the EAC in the reduction of non-tariff barriers (Calabrese, 2020). Although remaining a significant challenge, improvements in transport infrastructure in key economic corridors has also contributed to the reduction of trade costs.

The other significant component in the strategy to increase trade is the simplification and increase in transparency of the trade-related administrative procedures. The EAC has adopted several initiatives aimed at facilitating trade among its partners which helped to reduce trade costs and times. TMEA has continued to support these efforts to facilitate trade.

The trade facilitation strategy was based on physical / hard and soft interventions. Among the hard interventions, the One-Stop Border Posts (OSBPs) built across the region are among the most visible effort to simplify procedures and bring together different trade-related services at the border into a single place. This effort is sufficient enough to reduce border crossing times and reduce transport costs.

However, if a series of complementary interventions aimed at re-designing procedures and improving the communication and coordination between relevant agencies in the EAC countries were not put in place, the effectiveness of OSBPs and other hard infrastructure interventions would have been severely affected (Jouanjean et al, 2016). These soft interventions include a wide range of actions focused on harmonising and simplifying procedures in agencies aimed to oversee the implementation of national and regional policies and legislations such as, among others, securing the safety and quality of products and the compliance of regulations related to transport.

A significant component of the trade facilitation strategy is the simplification and streamlining of customs procedures. Although the establishment of an EAC Customs Union and the CET facilitate and reduce costs significantly by eliminating the need of certifying for the origin of goods in the intra-regional trade, significant procedures and paperwork is still required each time that goods cross the border. This is particularly the case of goods imported and in transit to other EAC countries.

With four of the EAC's six members being landlocked, the Single Customs Territory (SCT) aims to (i) harmonise and simplify customs procedures; and (ii) eliminate the duplication of procedures and requirements applied by all the Revenue and Customs Agencies of the EAC members. The harmonisation and simplification aims to secure that a good arriving to the EAC pays the same duty and is subject to the same customs procedures regardless of its port or border of entry. This has two significant effects. First, it increases transparency and certainty for traders. Second, it puts pressure on infrastructure operators, especially in ports, to improve

quality of services as they cannot benefit from rents associated with cumbersome processes in competing ports¹.

The elimination of duplication of procedures avoids a situation in which products that cleared customs in one of the EAC members have to repeat further customs procedures when crossing a border with another EAC member. In this way, goods bound to Rwanda arriving at the port of Dar Es Salaam, for example, will clear customs and need to comply with customs procedures once in the first point of arrival to the EAC. Once the goods comply with customs and other procedures and pay the corresponding duties, they will receive the same treatment as goods originated in other EAC members.

The SCT contributes to the reduction of transport costs and times, which in turn helps reduce final prices for goods. This benefits consumers directly and contributes to poverty reduction. Lower prices for inputs also contributes to increased productivity and competitiveness of products

However, to be successful and beyond the political agreement of all EAC member states, the implementation needs to address several technical and institutional issues. To secure the communication and coordination of all Revenue and Customs agencies in each of the EAC member states, it is necessary that they operate under the same principles and platforms. This requires significant capacity building efforts as well as creating the necessary information technology instruments to facilitate the exchange of information. It is also necessary to address the varying institutional capabilities and level of development in the member states of the region, as well as creating the necessary agreements and legal instruments for the implementation. For example, officials from the Ugandan Revenue Authority have to be allowed to clear goods bound to Uganda at Mombasa port in Kenya.

An issue of significant importance for the Revenue and Customs agencies is to secure the tariff revenue of the goods destined to their respective countries. Whilst most importers typically pay import duties to the corresponding agencies through electronic transfers before the goods are cleared, many payments are still being made when the cargo arrives to the border post. Therefore, an effective operation of the SCT requires that the revenue paid in Gisenyi in Rwanda at the border with the DRC, for example, on goods bound to Kenya is effectively transferred to the Kenya Revenue Authority.

2 TMEA interventions to support the EAC integration

Given the costs of NTBs on EAC economies and their populations, TMEA designed a body of work to support the EAC integration with a wide range of interventions for trade facilitation. In addition of the establishment of the OSBPs and efforts to reduce NTBs, TMEA has supported the EAC and its member states on different aspects associated with trade policy and integration, particularly the establishment of a SCT.

Establishment of the EAC Single Customs Territory. The SCT aims to improve EAC integration and the trade environment and enhance competitiveness of goods traded in the EAC by removing internal border controls and documentation. This minimises the cost of customs procedures and reduces the chances of delays in the movement of goods. The SCT is an essential instrument to secure the success of the Customs Union. As envisaged by the Partner States, its broad objectives are: seamless flow of goods to enhance intra-EAC trade; lower clearance costs of goods within EAC region; enhance use of information, communication technology (ICT) in clearance of goods; enhance coordination between agencies responsible

¹ Competition between the port of Mombasa and Dar Es Salaam to attract cargo has increased recently (<https://www.harbourmaster.org/News/competition-between-east-africas-two-main-ports-heats>)

for clearance of goods; enhance compliance to trade regulations through a region-wide mechanism.

Initially, TMEA supported the operationalisation of the technical working groups which developed key instruments relevant for the operationalisation of the SCT . In addition, TMEA has supported initiatives that supplement and contribute to the effectiveness of the SCT and the EAC Customs Union, such as: OSBP development, enhancement of Partner States customs management systems, national electronic single windows, Authorised Economic Operator schemes, NTB monitoring and regional electronic cargo tracking (Amoako-Tuffour et al, 2016).

These interventions have jointly with the SCT, delivered significant reductions on the transport and trade times and costs. On average, the time to import and to export have fallen in the EAC by 54% and 92% (TMEA, 2018) between 2010 and 2016. The turnaround truck time between Mombasa and Kampala has fallen from 18 days to 4 days. The costs to import and export have fallen, in the same period, by 45% and 66% respectively.

The effects on the fall in transport times and costs in the EAC have been documented in Gasiosek et al (2017) and in Bottini et al (2017). It has shown that they can reduce consumer prices for unskilled workers by up to 0.6%.

Implementation of WTO Trade Agreements. Working together with the United Nations Conference on Trade and Development (UNCTAD), TMEA supported the implementation of the WTO Trade Facilitation Agreement (TFA). The interventions aimed to support the ratification of the TFA by the EAC member States and the establishment of national trade information portals with the aim of promoting transparency of trade procedures and build the capacity of stakeholders and institutions. The increase in transparency and simplification of procedures is likely to have significantly higher impact on small traders and women given the availability of less resources to overcome the information costs and asymmetries.

Single Window Information for Trade (SWIFT) . In line with trade facilitation, the SWIFT involves a wide range of actions aimed to simplify the procedures (licences, clearance certificates, etc) that traders have to go through in order to export and import. SWIFT actions allow traders to access, apply for and submit regulatory documents at a single electronic location. SWIFT actions are expected to reduce trade times and costs as well as contribute to the effectiveness of the SCT. TMEA contribution is based on the provision of financial and technical assistance to conduct the mapping exercise and build the necessary IT infrastructure to host the portals.

The EAC Customs Bond: The East African Community Secretariat (EAC) is developing a regional Customs Bond to support Single Customs Territory (SCT) operations. This product will ensure that a Customs guarantee to secure duties and taxes for goods in transit across EAC is executed only once at the point of entry and hence reduce the costs of using multiple bonds in each Partner States of transit. Other benefits include 1) the earnings/income from the EAC Bonds will be retained in the region 2) increased competition to other customs guarantees will lead to lower costs and improved service 3) an EAC-owned product is more likely to be more proactive to EAC trader' needs and 4) the ICT-driven solution will leverage other tools like the RECTS, SCT centralized platform and Smart gates to further reduce risks. TMEA contribution is towards a Study to conceptualize how the regional customs bond will work.

3 Key conclusions from the independent evaluation

Smith et al (2019) evaluated TMEA's performance focusing on its key strategic objectives. Projects were evaluated based on their relevance, effectiveness, efficiency, gender impact and their sustainability.

The Independent evaluation confirmed a reduction in the clearance and transit times though the SCT (Smith et al, 2019). Transport times fell from 21 to 5 days in the Northern Corridor and from 25 to 6 days in the Central Corridor. These reductions of times were achieved despite some delays attributed to external constraints (e.g. fragility and weakness of state institutions in some EAC countries) and internal constraints (e.g. overestimation of the institutional capabilities of relevant actors). Therefore, the evaluation argues that most of the projects aimed at contributing to the SCT have been effective in delivering the expected results.

Private sector stakeholders were, in general, positive about the approach adopted to deliver the projects. This involves outsourcing the delivery of the project to external consultants. Nevertheless, stakeholders highlighted positively their involvement in the procurement process, opening the opportunity to provide input, which did, however, slow the process somewhat. Stakeholders also commented on the need to allocate more time for the delivery of certain outcomes to avoid the need of costly extensions.

Given the nature of the interventions associated with the SCT, the gender impact tends to be complicated to assess. Moreover, TMEA has begun to address gender dimensions in its interventions, beginning with measuring and ensuring an equal gender balance in meetings and trainings. This has been quite successful as the majority of the beneficiaries of training across the different country programmes have been women. There are still significant opportunities to improve the way that gender is integrated in project design and monitoring documents².

4. The lessons learned

The evaluation showed that the support for the creation and operation of the SCT is aligned with the achievement TMEA's objectives and the support has been effective in doing so. Working together with the OSBPs and other initiatives, the SCT has managed to reduce transport and truck turnaround times and trade costs in the intra and extra EAC trade. This has led to lower consumer prices and costs of inputs which in turn benefits competitiveness of East African firms and improve household real income.

It is difficult to identify other interventions that could have delivered more effective results. Therefore, much of the observations regarding efficiency are related to details associated with the way in which projects are delivered rather than on the adequacy of the instruments chosen. In this regard, it is clear that positive aspects related to the wider consultation of stakeholders are offset by a longer timeline and, in some cases, delays. Without changing the participative and consultative approach, TMEA should aim to streamline procurement and delivery systems.

TMEA designed its first Gender Strategy back in 2015. Even when the programme can show some promising outcomes with respect to the participation of women in certain capacity building activities, there are some opportunities to streamline gender concerns deeper in its interventions from their conception and through their implementation. In this sense, it is important to work on two significant dimensions. First, TMEA must continue to secure a high

² TMEA's second Gender Strategy was approved by its Board and Council in July 2020, and incorporates significant learning from the Strategy 1 Independent Evaluation in order to advance gender integration in its programming

involvement and engagement of women in the delivery of interventions. Second, TMEA must do more analysis to assess the gender implications of its projects and dedicate more efforts to address issues and/or enhance the positive gender impacts.

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General comments: This brief should clearly provide a detailed background of EAC single customs territory- its merits and demerits . Pick-up a successful story for example Rwanda where it has been implemented effectively. Draw some key lessons learned. Provide an insight on how it would be implemented effectively. Perhaps, it may be vital to look at the underlying principles governing SCT in a deeper and more focussed lens of implementing EAC customs Union. I advise that we shouldn't mingle this brief with other interventions implemented in S1 rather cite them as complementary strategies to enhance its effectiveness.