Border Posts Infrastructure Concessioning Regime and Trade Efficiency under the AfCFTA

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Adoption of the decision to establish the African Continental Free Trade Area (AfCFTA) by African Heads of States, with trading under the new Agreement commencing on 1 January 2021, demonstrates that trade is among the major drivers of integration in Africa. The main objective of the AfCFTA is to create a single continental market for goods and services. The AfCFTA protocol on trade in goods and its annexes aim to boost intra-African trade. However, border posts, as nodes along trade corridors across Africa has a deciding role in achieving high intra-Africa trade. Whilst the complexity of border crossing challenges is acknowledged, poor border/port physical infrastructure is often singled out as the most outstanding and easily noticeable barrier to seamless flow of trade across Africa. Thus, huge projects to provide border infrastructure are being undertaken at the expense of soft reforms.

Most African countries are financially constrained and rely on grants, private capital or public-private-partnerships financing models to provide border physical infrastructure. When private capital is used to finance construction of border infrastructure, the concessionaire recoups the capital outlay through levying the border infrastructure users. It is argued that the user charges are offset by the resultant improvement in trade efficiency, the reduction in time and costs to cross a border. However, savings in time and costs to cross a border do not arise from infrastructure improvements alone. Improvements in clearance procedures and deployment of ICT solutions at border posts, among other reforms, also have a considerable impact on trade efficiency. Thus, determining border infrastructure user charges on the basis of capital outlay and the concession period whilst ignoring the investment effect on trade efficiency leads to taxing efficiency induced by reforms outside the infrastructure concession, making the concessionaire reap where he/she did not sow. Thus, it is important to demonstrate that border infrastructure is not the sole source of trade efficiency and that it is prudent to determine its net effect on trade efficiency in determining user charges in infrastructure concessions.

Africa's trade performance

Whilst extra-African trade accounts for about 80% of Africa's total trade, the share of intra-African imports remained below 16% from 2013 to 2019 whilst that of intra-African exports remained below 24% during the same period. This can be compared to intra-regional trade of 68.1 percent in Europe, 59.4 percent in Asia and 55 percent in America. Poor trade efficiency is cited as among major reason for low intra-African trade.

Trade Efficiency in Africa

Trade efficiency concerns the costs and time to cross the border. In this piece trade efficiency focusses on the time spent to cross a border. Trade efficiency is relatively poor in Africa. Data from the World Bank's Doing Business Report of 2018 show that border compliances for exports in Sub-Saharan Africa take 60-80 percent more time than the regions of East Asia and Pacific, South Asia and Latin America and Caribbean. A comparison of border release times on 11 border posts in Africa shows that Kasumbalesa Border Post between Zambia and the Democratic Republic of Congo (DRC), which is under physical

infrastructure concession, has the longest average release times of 105 hours for exports and 58.2 hours for imports on the DRC side whilst the Zambian side had a combined average of 39.18 hours for both exports and imports. This can be compared to high efficiency at border posts which are not under any concession like Malaba (Uganda – Kenya), Busia (Uganda – Kenya) and Chirundu (Zambia – Zimbabwe).

In Southern Africa, Beitbridge (Zimbabwe – South Africa), Chirundu, Kasumbalesa (DRC – Zambia), Kazungula (Zambia, Botswana, Zimbabwe and Namibia) and Nakonde (Tanzania – Zambia) have been regarded as busiest borders with average release time ranging between 24 to 46 hrs. Kasumbalesa is already under infrastructure concession, an agreement to concession Nakonde and Kazungula infrastructure is said to have been signed, though no specific date is given in literature. Beitbridge Border infrastructure is being developed under a 17 year concession arrangement. Given the long release times and the proposed concessions, one could conclude that infrastructure is considered the major bottleneck for seamless trade flows in Southern Africa. In contrast, the case study of Malaba One Stop Border Posts (OSBP) between Kenya and Uganda demonstrates that procedural reforms resulted in greater reduction in border crossing times before even modernising infrastructure. Thus, the existence of multiple factors influencing trade efficiency at border posts dictates that the net trade efficiency effect of border infrastructure be accounted for when determining user charges in order to avoid taxing efficiency induced by reforms outside the infrastructure concession.

Determinants of trade efficiency

Several determinants of trade efficiency are suggested in literature to include distance, quality of infrastructure, choice of firms to pay a premium, bureaucracy (policies, rules and regulations), use of information communication technology, being landlocked, corruption by border control officials (as propounded by the queueing theory of bribery), state of a country’s institutions and the reliance on Customs duty as source of revenue which increases the probability of physical examination of goods. Trade liberalisation policies undertaken before addressing border bottlenecks also lead to increased movement of cargo exceeding border capacities, which in turn increase border waiting time.

Speed matters in international trade. Longer times to cross borders increase the landing price of exports which results in loss of sales. The importance of time is not seen only in terms of longer compliance times but also the great uncertainty that is introduced in the supply chain. Thus, the ability to produce and ship cargo more quickly is commercially valuable to firms as they will be able to fully respond to demand shocks.

In summary, theoretical determinants of trade efficiency include quality of border physical infrastructure; ICT solutions at border posts; Customs procedures; corruption of border officials; and accountability of border officials. The implication is that infrastructure is not the only constraint for seamless flow of cargo at border posts. In East Africa, Malaba OSBP along Northern Corridor between Kenya and Uganda has remarkably managed to reduce time to cross the border from 48 hrs to less than 6 hours in 2012 generating an estimated value of US$70 million in savings. Interestingly, this reduction in time was achieved through employing soft reforms only, before the construction of OSBP infrastructure.

The West African case of Cinkansé OSBP between Burkina Faso and Togo which was constructed in 2011 under a concession model, indicated that though the infrastructural architecture was state of the art, functionality was poor as the facility was not compatible with clearance procedures. This suggests likelihood of complementarity between soft and hard infrastructure. Complementarity of procedures and infrastructure can also be practically shown at Beitbridge border post between Zimbabwe and South Africa along the North-South Corridor where Zimbabwean Customs automated risk management system separate cargo based on risk level into either red, yellow, blue or green lane. This separation of traffic remained virtual since the lanes are not supported by infrastructure as all commercial traffic use one lane, such that a green routed truck cannot secure free passage. Furthermore, the Zimbabwean and the Malaba cases could demonstrate that Customs, IT systems, procedures and infrastructure are complemented and should be harmoniously implemented. Whilst the importance of time as a barrier to trade performance has been subjected to a number of empirical work, there is still a paucity of work that interrogated factors determining trade efficiency as measured by border crossing time. This piece, employing the Poisson Pseudo Maximum Likelihood (PPML) estimator, investigated empirically the differential effects and

complementarity of determinants of trade efficiency.

Key findings are summarised as:

1. Deployment of ICT as electronic data interchange (EDI) systems at border posts reduces the time to cross a border;
2. Interaction of Customs procedures and the quality of border infrastructure have a statistically significant effect of reducing border crossing time;
3. Interaction of Customs procedures, quality of border infrastructure and electronic single window systems has a statistically significant effect of reducing time to cross a border;
4. Quality of border infrastructure has a statistically significant negatively effect on variability of border crossing time and
5. The interaction of quality of border infrastructure and Customs procedures has a statistically significant effect of reducing border crossing time uncertainty and the coefficient is larger to that of infrastructure alone.

These findings imply that optimal trade efficiency is obtained when border reforms are carried out as a bundle of solutions. Given the complementarity demonstrated, concessions that are limited to infrastructure alone are greatly expected to be taxing efficiency generated by other areas not covered by the concession. On that ground, this contribution proposes that African governments consider adopting border reform concessions that cover a range of solutions besides infrastructure. Should a concession be limited to infrastructure provision alone, the net effect of infrastructure on trade efficiency needs to be determined in an endeavour to arrive at fair user charges.

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