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Discussion Paper for a Trade Intervention Agenda: Prioritizing Countries and Activities

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Discussion Paper for a Trade Intervention Agenda: Prioritizing Countries and Activities

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List of Acronyms

A4T	Aid for Trade Initiative
BLNS	Botswana, Lesotho, Namibia, Swaziland
CPI	Corruption Perceptions Index
DTIS	Diagnostic Trade Integration Studies
EAC	East African Community
EIF	Enhanced Integrated Fund
FDI	Foreign direct investment
GDP	Gross domestic product
HRV	Hausmann, Rodrik and Velasco
HS	Harmonized System
IFS	International Financial Statistics
IMF	International Monetary Fund
ITC	International Trade Center
JBC	Joint Border Committee
LPI	Logistics Performance Index
NTBs	Non-tariff barriers
NTMs	Non-tariff measures
NSW	National Single Window
OECD	Organization for Economic Cooperation and Development
OSBP	One Stop Border Posts
OTRI	Overall Trade Restrictiveness Index
RER	Real exchange rate
ROO	Rules of origin
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SEW	Single electronic window
SEZ	Special economic zone
SPS	Sanitary and phytosanitary
SSA	Sub-Saharan Africa
STRI	Services Trade Restrictions Index
TBT	Technical barriers to trade
TFA	Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WCO	World Customs Organization
WGI	Worldwide Governance Indicators
WTO	World Trade Organization

Executive Summary

1. **This paper seeks to identify the necessary and sufficient conditions required for maximizing the impact on growth from trade assistance**. All the Southern African countries consider increasing exports as a key growth driver. Despite this commitment, outside of resource based exports, the region continues to underperform in the global economy. Relative poor trade performance has been attributed to one or more of three constraints: the high cost of trading across borders; uncompetitive production costs; or uncertainties (economic, political or institutional) that inhibit firms from engaging in international trade.

Methodology

2. **We benchmark Southern African countries based on three sets of indicators: trade costs, production costs, and macroeconomic and political stability**. These criteria follow the growth constraints approach formulated by Hausmann, Rodrik and Velasco (2005) as adapted by Hallaert (2009) for focusing on the sources of weak trade performance. The focus on these three sets of indicators is also consistent with the three pillar approach outlined in the World Bank Trade Competitiveness Handbook (2012) which highlights the importance of aligning macro incentives, improving backbone services and reducing transactions costs, and overcoming government and market failures.

3. **Our approach includes identifying the binding constraints and ensuring efficient sequencing that is critical for delivering effective trade interventions**. With limited technical and financial resources and scarce political capital, it is essential that Government, international cooperating partners, and the private sector address the most critical constraints that will give the ''biggest bang for the buck.'' **We ranked each country according to six indicators for each of the three broad constraints; macroeconomic and political risk, production costs, and trade costs**. These indicators were drawn from: the World Bank, Doing Business, Worldwide Governance Indicators, Services Trade Restrictiveness Index, Logistics Performance Index, and Enterprise Surveys; the IMF Trade Restrictiveness Index; Transparency International's Corruption Perception Index; and the Heritage Foundation's Index of Economic Freedom.

4. **For each of the Southern African economies we compared the three broad constraints at the individual country level and also relative to two rapidly growing exporters (Vietnam and Cambodia).** Establishing a minimum threshold for macroeconomic and political stability is very challenging. This was rather simply set at 50 percent to indicate that for those countries falling below the investors perception of risk may be expected to limit the supply side response to reductions in production and/or trade costs.

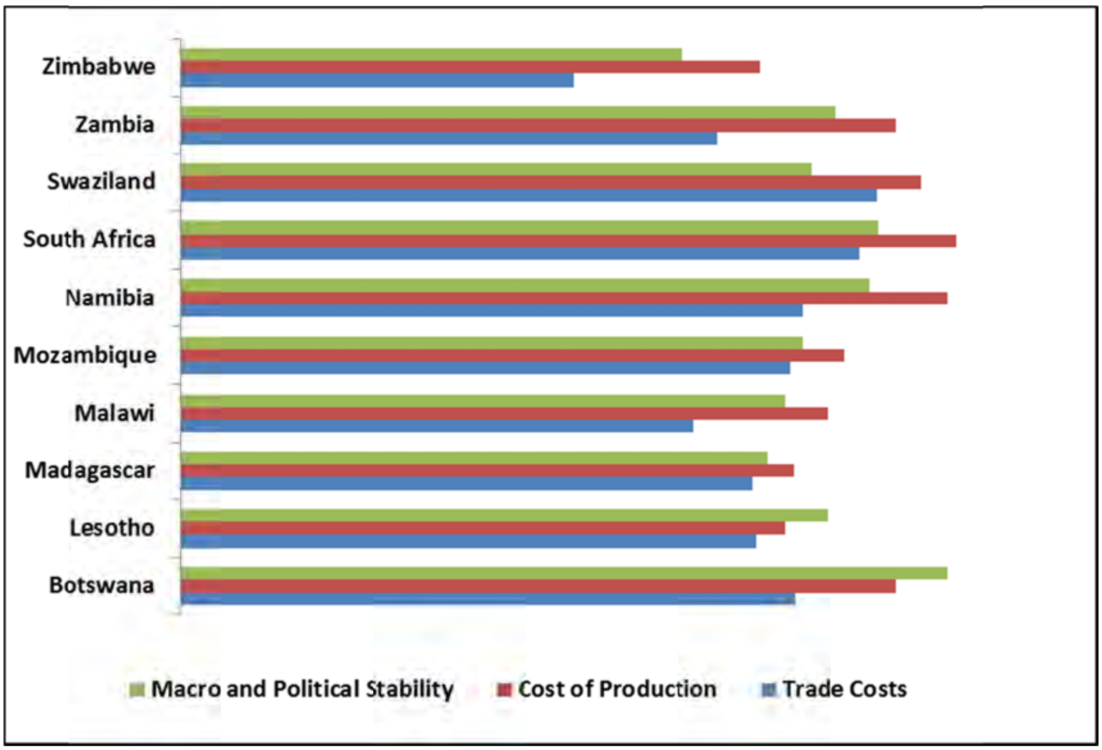
5. **For countries facing high trade costs we propose a heuristic guide for prioritizing competing trade-related interventions according to political economy and technical criteria**. Surmounting the political economy hurdle requires key stakeholders to recognize the activity as a priority *and* be committed to addressing the constraint through specific actions including allocating resources and monitoring implementation. When the key stakeholder commitment and priority is rated 50 percent or higher, the trade intervention is assumed to have passed the political economy hurdle. While this is inevitably subjective, analysts and project advocates are requested to submit evidence of

commitment and priority. The technical hurdle focuses on the degree of difficulty in implementation (in terms of institutional, human, and financial resources) and the expected benefits or pay-off.

Findings

6. **Comparing the trade costs indicator to the production costs and macroeconomic and political stability indicators reveals the relatively weaker performance for trade costs**. This is illustrated in the figure below where the trade costs bar is shorter than the other indicators, with Swaziland as the sole exception. Benchmarking supply side constraints according to macroeconomic and political stability, costs of production and trade costs highlights trade costs as the weakest link except for Swaziland. The relatively low rankings for macroeconomic and political stability for Malawi, Madagascar and Zimbabwe highlight the importance of prioritizing macro and political risk issues.

Benchmarking Trade Constraints to Growth in Southern Africa



7. **On Trading across Borders all the Southern African economies are ranked in the bottom 50 percent, with Botswana, Lesotho Malawi, Zambia and Zimbabwe falling into the bottom quartile**. Even the relatively higher ranked countries, Mozambique, Namibia, and Swaziland fall between the 66 and 72 percentile. Further the regionally stronger performers of Madagascar and South Africa still face high import and export costs when compared with rapidly growing exporters in East Asia (for example, Cambodia and Vietnam). While this is a contemporary snapshot, it is apparent from earlier published reports (referenced in the recent Diagnostic Trade Integration Studies - DTIS - Updates) that high trade costs represent a long standing constraint throughout Southern Africa.

8. **On average Southern African economies pay a premium of between three and 12 times the costs defined by global best practice to export a container. This provides further evidence that trade costs increases the costs of existing exporters while discouraging potential new exporters.** Longer and more unpredictable delivery times compound the cost constraint through increasing firms' working capital requirements. Although generally high, within the region trade costs vary widely depending on whether the country is landlocked or a member of the Southern African Customs Union (SACU). **Exporters in the three landlocked economies of Malawi, Zambia, and Zimbabwe face significantly higher costs relative to South Africa, with both Zambia and Zimbabwe paying more the twice the cost**. Within SACU Botswana records significantly higher transport costs.

9. **High trade costs along the supply chain indicate the significant potential benefits from prioritizing effective trade interventions**.

10. **We find that virtually all the activities that pass the political economy hurdle focus on technical and procedural aspects of trade facilitation rather than on policy or regulatory reforms** (shown below). Technical and procedural trade aspects are important and when implemented will assist with reducing trade costs. However, to reduce trade costs to levels comparable with countries that are already participating in global value chains, Southern African countries need also to implement policy and regulatory measures, which can more significantly reduce anti-export bias in their economies. Major reductions in trade costs, as experienced in South East Asia, Europe, and the America's require an incentive framework that encourages exports. Realizing this in Southern Africa will require a range of policy and regulatory reforms. Southern Africa has the advantage of being able to learn from the comparator countries that have successfully expanded and diversified their exports.

Agreed Trade Interventions: Top Two Priorities by Country

Country	Proposed Trade Intervention #1	Proposed Trade Intervention #2
Botswana	Remove Core non-tariff barriers (NTBs)	National Single Window
Lesotho	Improve Border Efficiency	Implement National Trade Facilitation Committee
Namibia	National Trade Portal	Implement National Trade Facilitation Committee
Madagascar	Improve Border Management Processes and Cooperation	Implement National Trade Facilitation Committee
Malawi	Undertake an Inventory of NTBs	Implement National Trade Facilitation Committee
Mozambique	Simplify Import and Export Procedures	Implement National Trade Facilitation Committee
South Africa	SARS Modernization Continues	Implement OSBP
Swaziland	Implement National Trade Facilitation Committee	Streamline Border Procedures with South Africa (VAT)
Zambia	Develop a Logistics Strategy	Improve Border Coordination and Management

Recommendations

11. **We recommend stakeholders integrate political economy analysis into their assessment of proposed trade interventions.** Many of the interventions identified in studies and assessments, including the Enhanced Integrated Fund (EIF) DTIS Updates, require further work to build up the

necessary political economy and commitment for effective implementation. An indicative list of trade interventions identified by independent expert assessments and international cooperating partners is shown below. All of these activities are challenging politically, requiring new legislation or regulations, and in many cases, mitigating measures to redress potential short term adjustments. Building support through applied economic policy analysis promises to deliver a substantial pay off in future growth, through assisting countries to participate more effectively in the global economy.

12. **We support the development of a knowledge platform to show the benefits of continuing with policy and regulatory reforms that will reduce trade costs and encourage exports**. Showing the potential benefits and the large costs of maintaining trade restrictions played a key role in building support for policy and regulatory reforms that have successfully reduced trade costs in the East African Community (EAC).

Indicative Proposed Trade Interventions: Top Two Priorities Requiring Political Economy Commitment and Prioritization

Country	Proposed Trade Intervention #1	Proposed Trade Intervention #2
Botswana	Liberalize trade in priority services	Phase down infant industry protection
Lesotho	Liberalize trade in priority services	Phase out industrial site subsidies
Namibia	Phase down infant industry protection	Liberalize trade in priority service sectors
Madagascar	Simplify and publicize the criteria for receiving tariff and tax exemptions	
Malawi	Review tariff policy to reduce peaks, eliminate nuisance tariffs and adopt a transparent policy on exemptions	Liberalize the import of agricultural inputs
Mozambique	Undertake an inventory of all NTBs	Amend scanning fees and charges to reflect the service provided.
Swaziland	Undertake an inventory of all NTBs	Reduce seasonal restrictions on cross border trade in agricultural products
Zambia	Liberalize the import of agricultural inputs	Eliminate the use of export bans on agricultural products
Zimbabwe	Improve efficiency at Beit Bridge	Remove restrictions on trade in priority service sectors

I INTRODUCTION

1. **Expanding trade represents a widely accepted goal for most developing countries as they seek to raise their growth rates**. The members of the Southern African Development Community (SADC) are committed to expanding and diversifying trade, increasing linkages within economies, and strengthening economic resilience. Notwithstanding commitments to mainstream trade through the Aid for Trade Initiative (A4T), the renewed pursuit of regional integration, significant tariff reform, and increased macroeconomic stability, there has been a limited increase in trade outside of resource based activities. While exports as a share of total GDP have increased across Sub-Saharan Africa, they have lost market share in the world economy. In a review of SADC rules of origin in 2003 Flatters[1] highlighted the development challenge of increasing their performance in the global economy. This was reiterated by a World Bank report in 2010[2] and continues to be the case in 2015.

2. **Relatively poor trade performance has been attributed to one or more of the following constraints: the high cost to trade, uncompetitive production costs, or uncertainties (economic, political or institutional) that inhibit firms from engaging in international trade**. There is growing evidence that despite substantial reductions in tariffs that took place in the 1980s and 1990s, considerable protection and barriers to trade continue to exist[3]. Developing countries that have registered strong growth which has been sustained over 30-40 years have used trade and the global economy as a key driver. Achieving and sustaining GDP growth rates of more than 5-6 percent per year (where incomes double every 12-15 years respectively) is generally linked with much higher rates of export growth. Few countries have managed to sustain rapid increases in exports without diversifying beyond natural resources or basic commodities. Most of the Southern African economies continue to depend on a relatively narrow range of exports.

3. **This paper seeks to identify the necessary and sufficient conditions required for maximizing the impact on growth from trade assistance.** These may be considered in two stages, firstly identifying the high level macroeconomic and political elements that are required for trade assistance to be effective and sustained. Secondly, when the necessary preconditions are present, how can governments, international cooperating partners, international investors and other stakeholders identify the trade measures that will have the biggest impact? Which tasks and activities will result in the largest reductions in trade costs?

4. The paper is organized in four sections. Section 2 identifies the consensus approach on the essential building blocks that will encourage potential investors – domestic and foreign – to take advantage of increased trade opportunities, starting with the growth constraints approach as developed by Hausmann, Rodrik and Velasco (2005) and modified to focus on trade constraints (Hallaert, 2009). Section 3 presents the country specific indicators for the three major categories of constraints – trade costs, production costs, and the macroeconomic and political environment. Potential supply side constraints may be divided into productive constraints such as the availability of reliable and efficient infrastructure – electricity, telecommunications, roads, ports – and trade related constraints such as trade policy and trade facilitation. Complementary policies relating to macroeconomic stability and a reasonable quality of governance with a particular focus on absence of civil instability,

[1] SADC Rules of Origin in Textiles and Garments: Barriers to Regional Trade and Global Integration (2003).
[2] World Bank (2010), Harnessing Regional Integration for Trade and Growth in Southern Africa, Washington DC.
[3] This is the theme of a recent article by Milner (2013), Declining Protection in Developing Countries, The World Economy, Vol. 36 (6) and has also been documented by Flatters (2010) and World Bank (2010).

the rule of law and protection of property rights, are essential requirements for countries seeking to benefit from adopting more open trade policies. Section 4 outlines a schema for prioritizing trade interventions, which is then used to identify priorities for trade interventions.

2 CONSTRAINTS TO GROWTH

5. **Expanding international trade has been a key source of growth over the past four decades.** Path-breaking work in the 1970s and 1980s (Little et al., 1970; Krueger, 1978; Bhagwati, 1978; and Michaely et al., 1991) all concluded that outward-oriented strategies were, in the long run, conducive to higher growth rates compared to import substitution. Alcala and Ciccone (2004) found that over time more open economies have higher rates of total factor productivity. In contrast, economies dominated by import substituting industries experience slower growth over time as they become progressively less competitive in international markets. Subsequent work[4] using cross-country regressions and more refined measures of openness, which included skill levels and proxies for technological sophistication, supported earlier findings that trade expansion contributes to economic growth. By 2001 the World Bank in the Annual Development Report on Poverty was able to conclude "all countries that have had major reductions in income poverty have made use of international trade". Recent work on trade costs by Arvis (2012) and the World Economic Forum Enabling Trade Reports highlight the continued high barriers to trade both at the border and behind the border. This is reinforced by the most recent 'Trading across Borders' indicators (Doing Business, 2015) with Sub-Saharan Africa as the most expensive region from which to export. Given the evidence on the central role of trade as a source of growth, policies and reforms that reduce trade costs have the potential to stimulate more rapid growth.

6. **Widely varying responses to trade opening indicates the existence of binding constraints restricting the supply side response**. While many countries were rapidly expanding trade and experiencing higher growth rates, other countries were failing to translate the trade expansion into a widespread increase in living standards[5]. The poor supply side response of many, primarily Sub-Saharan African, economies contrasted to the positive growth experience of many Asian economies.

7. **Trade liberalization does not automatically lead to growth**. In countries with ineffective regulatory environments, trade liberalization may not lead to growth. In general, complementary policies – including sound macroeconomic policies, respect for property rights, and social protection policies – are necessary to support trade reforms and produce inclusive growth. Aksoy and Salinas (2006) analyzed the growth response to trade reform of 39 countries during the period 1970-2004 where the changes in GDP per capita ranged from 7.5 to minus 4.0 percent even when they excluded reforms that were subsequently reversed, economies transitioning from socialism, economies in conflict and macroeconomic crisis years. Despite the considerable heterogeneity they concluded that on average trade reform is linked with increased economic growth. Subsequent work by Wacziarg and Welch (2003) using an updated dataset for a wide cross-section of countries through the 1990s found that liberalization had, on average, robust effects on growth and investment rates within countries.

8. **Opening an economy to trade can contribute to accelerating economic growth but only when the economy has sound macroeconomic policy and business enabling environment and physical infrastructure that enable firms to produce at internationally competitive prices**. While increased

[4] Wacziark and Welch (2003).

[5] For a summary of the countries that have experienced declining growth rates following trade liberalization refer to Greenaway D., et al. (1997).

policy openness, on average, has a positive effect on growth rates, there have been a wide range of experiences. Rodrik (1989) has referred to macroeconomic instability as the greatest enemy of trade reforms. Macroeconomic stabilization is frequently a prerequisite for trade reform. The macroeconomic environment must be considered when designing and sequencing trade reforms. Lessons from past experience include:

- Macroeconomic stability is crucial for ensuring sustainable trade reform;
- Efforts must be made to ensure the exchange rate is not over-valued; and
- Adjustment costs must be addressed (including sectors that will be dis-protected and also the impact of tariff revenue reductions on the government budget).

Figure 1: Three Pillars of Trade Competitiveness

Source: World Bank, Trade Competitiveness Handbook, 2012

9. **Aligning macro incentives, improving backbone services and reducing transaction costs, and enacting policies for overcoming government and market failures represent the three pillars for trade competitiveness in the World Bank schema**. This schema is built on the findings of a large corpus of applied economic research over the past three decades that has sought to identify the essential elements and complementary policies and institutions that enable countries to benefit from increased trade. The World Bank Trade Competitiveness Handbook sets out an analytical framework for a country level competitiveness diagnostic. The competitiveness approach seeks to address the supply side constraints that prevent countries from taking advantage of the improved market access. While the schema is comprehensive and provides guidance on identifying necessary and sufficient conditions, further country level analysis is required to identify the binding constraints and priorities. A recent paper by Delgado et al (2012) on competitiveness distinguished between the macroeconomic and microeconomic influences on firm level competitiveness. The macroeconomic factors set the general conditions under which all firms function but do not directly determine company (or firm) level productivity. The determinants of microeconomic competitiveness focus on the business environment. Delgado highlights the key role of competition and trade in determining performance. He argues that a high level of competition in local markets is critical for high performance as this influences the entry of new firms and the exit of

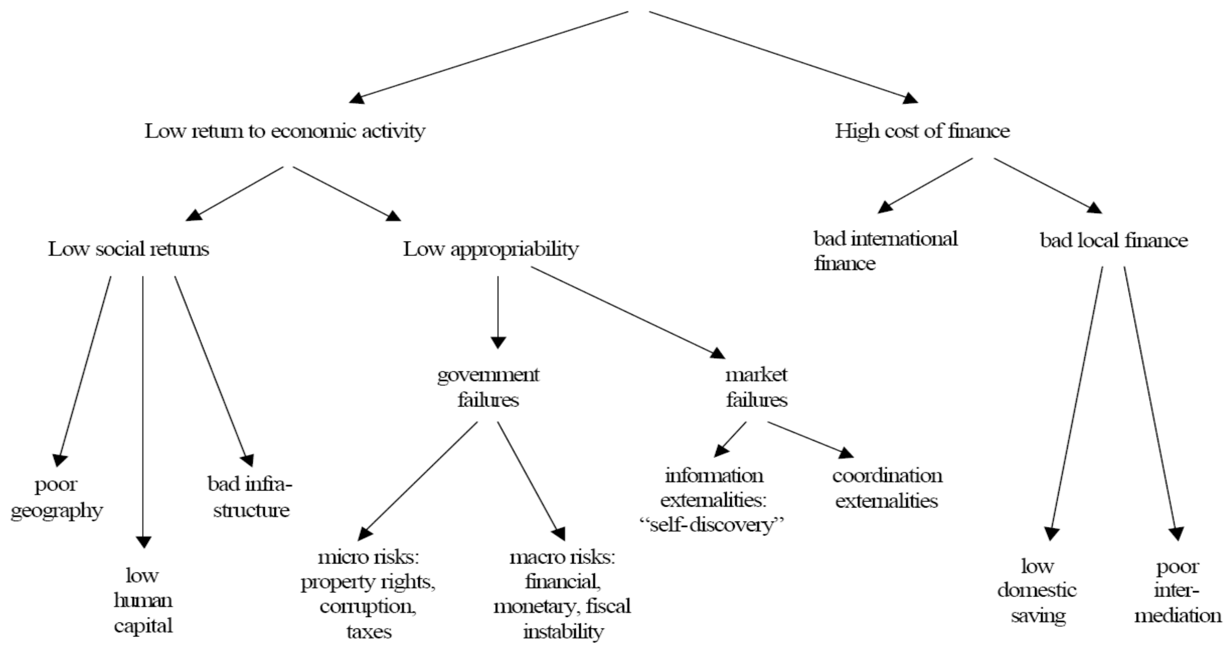
underperforming firms. Opening up to international competition through reducing trade barriers encourages local firms to access the most modern technology, and through competition from imports, improve productivity and expand production.

10. **The 'Growth Diagnostics' approach developed by Hausmann, Rodrik and Velasco (2005) sought to identify the critical constraints that if eased would allow for a higher rate of growth**. The wide range of growth experiences indicated that while there was no single solution, there were certain characteristics that were necessary but not sufficient. Equally, there were many constraints keeping down the growth rate but not all were of equal importance. The HRV paper set down a roadmap for identifying the critical constraints. The HRV approach is useful for both identifying the most binding constraints to growth and also for sequencing reforms to maximize the benefits from progressively reducing market distortions. The HRV approach is also useful for ensuring scarce financial resources and valuable political capital are targeted to specific issues where it is possible to achieve a positive outcome. Embarking on wholesale reform is rarely an option for a developing country that faces serious trade–offs with limited resources.

11. **The growth constraints approach seeks to identify the binding constraints to growth.** This represented a step forward from the idea of wholesale reform (do everything at once – which is politically unrealistic and practically impossible), and the more opportunistic, do-what-you can on the assumption that any reform is good. The opportunistic approach to reform is flawed because the principle of second-best cautions that any specific reform cannot be guaranteed to be welfare promoting when there are widespread distortions throughout the economy. Targeting the most critical distortions in the economy should in principle be welfare improving; however, it assumes the government (implementing agency) has a comprehensive list of distortions and is able to rank them accordingly. Further there is no guarantee that the reforms with the most impact will be implemented first because ranking by the size of the distortion is not necessarily correlated with the impact on growth. The HRV approach seeks to rank reform priorities by the size of the direct effect.

12. **HRV approach builds on the neoclassical growth model, the theory of second best, and endogenous growth.** Identifying binding constraints starts with examining the determinants of economic growth defined as returns to accumulation, returns to the private investor and the cost of financing. Starting with these three broad areas the analyst then moves down the decision tree identifying the causes of low accumulation, low returns to private investment and low investment. For example, low private returns might be due to poor property rights and contract enforcement, high taxation, political uncertainty over changes to the investment regime, etc. The decision tree is illustrated below.

Figure 2: HRV Growth Diagnostics Problem: Low Level of Private Investment



Source: HRV (2005), Growth Diagnostics

13. **Identifying the binding constraints requires a detailed knowledge of the country context.** The analyst looks for evidence of factor price distortions, strategies to get round the distortions and private sector responsiveness to price adjustments. The ''four criteria" or questions that are used for identifying the binding constraints are shown in the text box.

14. **Growth constraints analysis is country specific, enables prioritization, and targets reforms to maximize impact**. The growth constraints analysis recognizes that identification of key constraints will be contingent on country specifics and that it is not possible to address all of the needs and constraints at the same time – the country must prioritize. Further, it recognizes that all policy/regulatory/administrative changes require political capital which highlights the importance of focusing on implementing reforms that bring the largest returns.

15. **Adapting the growth constraints analysis to account for low trade performance is useful for identifying the most binding constraints to trade expansion and allows for reforms to be prioritized**. Ensuring the correct sequencing of reforms strengthens the effectiveness of A4T and has been the defining feature of many of the updated Diagnostic Trade Integration Studies (DTIS). The DTIS are managed by the Enhanced Integrated Fund (EIF), with a Geneva based Secretariat working with six multilateral partners including the WTO, World Bank, IMF, UNDP, UNCTAD, and ITC. The DTIS identifies the trade related constraints holding back increased participation in regional and international markets and prepares an Action Matrix for consideration at a stakeholder meeting. The stakeholder meeting includes participation from Government, the private sector, civil society, and international donors, and endorses the priority action items.

Box 1: HRV Criteria for Identifying Binding Constraints

High economic price – If a constraint is binding, the factor will experience excess demand which will result in the shadow or true economic price being high. For example, high market wages may reflect the scarcity of skilled labor, or distortions caused by government regulations setting minimum wages. High levels of protection will increase the price of non-tradables (for example many services) relative to importables and exportables.

Impulse-response – If a constraint is binding, measures to reduce the burden of the constraint should stimulate additional investment and growth. For example, a reduction in trade costs should encourage new investment as more opportunities become profitable-in this case even a modest reduction in trade costs should result in observable new investment.

Circumvention – When a constraint is binding, investors/businesses should try and bypass the constraint. For example, if tariffs on inputs are high, businesses will lobby for tariff exemptions or subsidies or increased tariffs on their output, or switch to cheaper substitute inputs.

Constraint-intensive actors (businesses) are weak or not present – Investors or businesses that depend heavily on the constraint will be small in size or absent while those that are not impacted by the constraint will prosper. Many economic activities requiring imported inputs for processing will not be present (because they are not profitable given the prevailing relative prices) or if present will produce for the domestic or protected regional market and be uncompetitive in international markets.

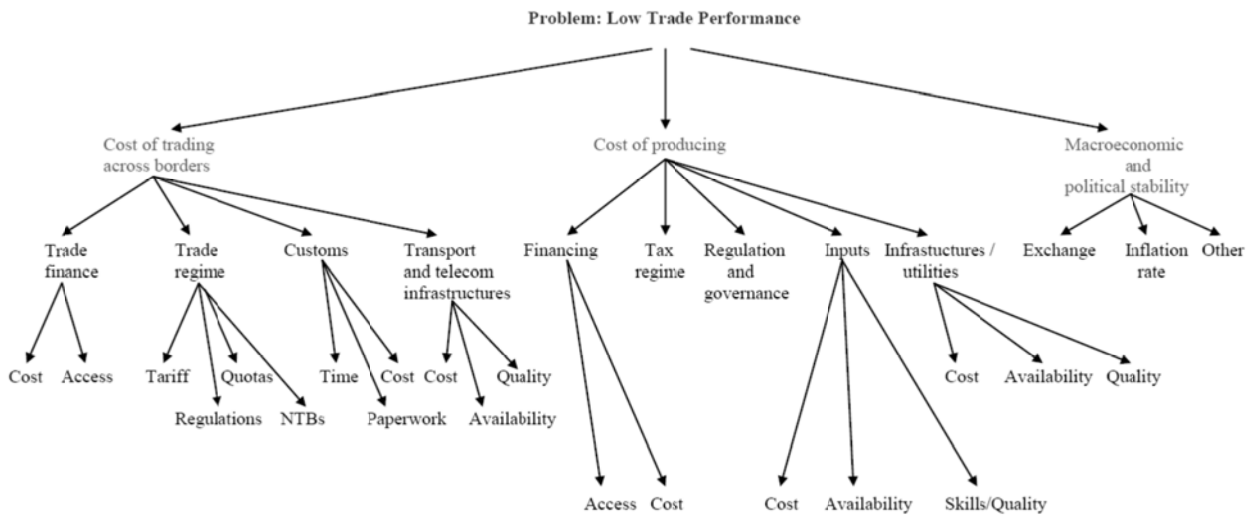
16. **Defining the high level problem as low trade performance (see Figure 2) permits the root causes to be allocated to three main broad categories: the cost to trade; the cost of producing; and macroeconomic and political stability.** This follows the approach of Hallaert (2009) and is also consistent with the World Bank's three pillars of trade competitiveness. Focusing on the three categories of trade costs, production costs, and macroeconomic and political stability has the advantage of being able to use readily available indicators. This paper uses published benchmark indicators to rank countries by the probability that the key constraints to growth and increasing investment stem from, respectively high trade costs, high costs of production (as a consequence of domestic policies, factor markets and infrastructure), and macroeconomic and political stability (inflation, public debt, rule of law)[6].

17. **Hallaert identified the most binding constraints to trade as trade policy, infrastructure problems, including the quality and reliability of transport and electricity supply, and access to credit**. From a database of 65 developing countries (which included seven countries from Sub Saharan Africa from which five were from Southern Africa) covering the period 1981-2009, Hallaert quantified the magnitude and direction of the direct effect of the binding constraints on trade indicators (exports,

[6] The drawback with indices and rankings is that they are composite with arbitrary weightings and ad hoc aggregations. This means it is difficult to draw strong conclusions from changes in the scores to specific interventions and also relate policy changes to specific underlying components. However, for the purposes of this paper the indices are used as a snap shot of a country of its current status on each of the indicators as a guide to the likely efficacy of addressing trade related constraints between a set of countries in Southern Africa.

imports and openness)[7]. The results identified both governance (legal and regulatory environment and enforcement) and the policies influencing labor productivity as important complementary policies determining trade performance. Other constraints included the availability of roads, reliability of electricity, fiscal policy, and import tariffs. The binding constraints rankings differed depending on whether the focus is on openness, exports, or imports. Expanding trade and promoting growth has frequently focused more on increasing and diversifying exports; however, increasing and diversifying imports is also essential for promoting growth. Indeed, the ability to obtain imported inputs and intermediates at internationally competitive prices is a necessary requirement for export competitiveness.

Figure 3: Growth Diagnostics Adjusted for Trade



Source: Hallaert, Cavazoz, and Kang, Estimating the Constraints to Developing Countries Trade, OECD, 2011.

18. The recent joint OECD/WTO (2013) evaluation of aid for trade stressed the strong link between export performance and complementary policies noting:
The absence of peace and security has a large dampening effect on export performance, with the power to wipe out any benefits from investment in aid for trade. Similarly the negative effects of high and unstable inflation, corruption, lack of well-defined property rights, and erratic macroeconomic policies, which undermine the effectiveness of all aid, apply to aid for trade[8]. The report also highlighted the importance of government management systems, and ensuring that the trade related activity was clearly identified as a priority in the country's national development strategies.

19. The next section of the report presents the performance of the Southern African economies on the three broad indicators shown in Figure 3 as explaining low trade performance, namely the cost of trade, the cost of production, and macroeconomic and political stability.

[7] Hallaert used a Two Stage Least Squares estimator which seeks to identify the supply side determinants of trade in the first stage and then in the second stage the impact of trade on growth. It is assumed that the binding constraint variables affect a country's share of trade which in turn then affects GDP growth.
[8] Page 176 Aid for Trade at a Glance 2013: Connecting to Value Chains, OECD/WTO (2013).

3 Benchmarking Southern Africa Country Performance: Trade Costs, Production Costs and Macroeconomic and Political Stability

20. **Identifying binding constraints and ensuring efficient sequencing is critical for delivering effective trade interventions**. Numerous diagnostic studies have resulted in a long list of constraints that require redress in order for developing countries to benefit from more effective participation in the global economy. As noted in the previous section, it is unrealistic to seek to address all the areas requiring reform simultaneously owing to political and financial constraints. Policy, regulatory and administrative reform, requires political capital as well as financial resources and should therefore be invested in activities that will bring the greatest return. This requires the government, international cooperating partners, and the private sector to focus on identifying and addressing the critical (binding) constraints that will give the ''biggest bang for the buck." Correctly identifying the binding constraints and ensuring efficient sequencing are vital for maximizing returns from trade reforms.

Identifying trade as a binding constraint to growth: benchmarking indicators

21. **Use benchmarking indicators to identify countries where trade is a binding constraint on growth**. There is no one 'gold standard' approach to selecting the indicators. We propose an approach using a series of six indicators in each of the three broad constraint categories of trade costs, production costs, and macroeconomic and political constraints. These three categories of indicators follow the decision tree for identifying the causes of low trade as outlined in Hallaert (2009) and are shown in Figure 3. Each of the indicators attempts to capture different dimensions of the cost of trading, production costs, and macroeconomic and political risk. Hallaert uses a gravity model to measure the impact of the three broad factors determining trade. The remainder of this section discusses the findings of the benchmarking exercise with the objective of identifying economies most likely to benefit from trade interventions. Section four considers specific trade interventions and draws on the field level interviews with government, private sector stakeholders, and international cooperating partners in Southern Africa as well as published trade related reports such as the DTIS Updates, Economic Diversification Studies, and Trade and Transport Facilitation Assessments.

Box 2: Cost to Trade Indicators

Constraints	Indicators
Uncertainty of Border Delays	Frequency with which shipment reaches within scheduled time (Logistics Performance Index - LPI)
Cumbersome Border Procedures	Efficiency of Customs and Border Management Clearance (LPI)
Anti-Export Bias	Average Tariffs and Non-Tariff Barriers (IMF Trade Restrictiveness Index)
Restrictive Services	Services Trade Restrictiveness Index (World Bank)
High Transport Costs	Quality of Trade and Transport Infrastructure (LPI)
High Trade Costs	Trading Across Border DTF (Doing Business)

Constraints	Indicators
Relative to International Competitors	

Interpretation – the high trade costs show there is considerable potential to make improvements.

Box 3: Cost of Production Indicators

Constraints	Indicators
Access to Finance	Getting Credit, Doing Business (World Bank)
Tax Regime	Paying Taxes, Doing Business (World Bank)
Regulation and Governance	Worldwide Governance Indicators
Availability of Factor Inputs – Labor	Percentage of Firms Identifying Uneducated Workers as a Major Constraint-Enterprise Surveys
Obtaining Industrial/Commercial Sites	Construction Permit, Doing Business (World Bank)
Infrastructure Quality/Reliability	Percentage of Firms Identifying Electricity Supply as a Major Constraint - Enterprise Surveys

Interpretation – if these indicators indicate a very challenging business environment, it reduces the likelihood that specific action(s) lowering trade costs will bring forth a large supply side response, since to compete in a global value chain you need to be globally competitive (obtaining inputs at world prices); however, any reduction in trade costs will be positive.

Box 4: Macroeconomic and Political Stability Indicators

Constraints	Indicators
Government Effectiveness and Rule of Law	Worldwide Governance Indicators (WGI), World Bank
Political Stability and Absence of Violence	WGI, World Bank
Corruption and Transparency	Corruption Perception Index (Transparency International)
Macro-Stability (Price Stability)	Index of Economic Freedom: Limited Government and Regulatory Efficiency (Heritage Foundation)
Financial Stability	Financial Freedom (Heritage Foundation)
Business Enabling Environment	Overall Distance to the Frontier (Doing Business)

Interpretation – if these indicators are poor, this reduces the likelihood that a specific action reducing trade costs will stimulate a large supply side response.

Interpreting the Indicators: Prioritizing Trade Constraints

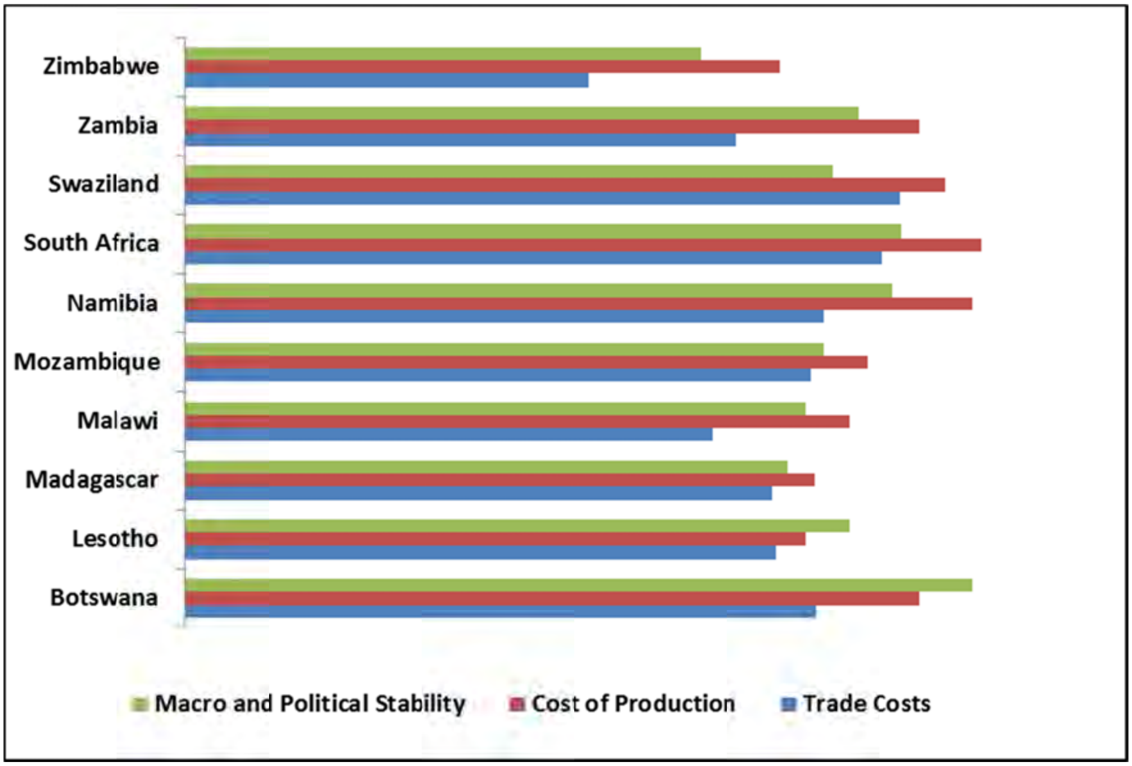
22. **Benchmarking is used as the basis for identifying countries where targeting trade costs may be expected to have a large supply side response.** The three categories identified by Hallaert and shown in Figure 3, namely trade costs, production costs, and macroeconomic and political factors influence the conditions under which an individual firm is able to compete in domestic and international markets. Weak or poor macroeconomic policies have historically been linked to policy reversals and may be expected to result in a weaker supply side response from reducing production

costs and/or lowering trade costs. Equally, when investors perceive a high probability of significant policy changes that will increase costs or reduce the rate of return, the supply side response to policy announcement will be severely constrained.

23. **Ensuring macroeconomic stability and maintaining the rule of law must be present for economies to experience sustainable benefits from trade interventions and improvements to the business enabling environment**. The macroeconomic and political indicators for the Southern African countries show that except for Zimbabwe, Madagascar, and Malawi, all the economies are ranked higher than the Sub Saharan Africa average. Botswana is ranked more than 10 percent above the SSA average, while Namibia and South Africa are between 5 and 10 percent above, and Swaziland, Zambia and Lesotho are also above the SSA average. Based on the macroeconomic and political indicators, Zimbabwe is significantly below Malawi and Madagascar. Further, recent positive developments in both Malawi and Madagascar may be expected to improve these indicators. Although there is a considerable range for the macroeconomic and political indicator, except for Zimbabwe which is 20 percent below the SSA average, the results do not indicate it to be the sole binding constraint.

24. **For the majority of Southern African countries, the most binding constraints to trade performance come from the cost to trade, while the least binding constraints relate to the cost of production.** Production and trade costs jointly influence the ability of firms to compete in international markets as they directly impact on relative prices. Botswana, Lesotho, Madagascar, Malawi, Mozambique, Namibia, South Africa, Swaziland, and Zambia were all ranked above the SSA average on both costs of production and trade costs. This may be contrasted with the relative ranking between production costs and trade costs for comparator countries that have managed to engage more within the global economy. For example, for the comparator countries Chile and Mauritius, trading across borders is ranked more efficient relative to the costs of production. Thus, even in economies with relatively difficult production costs (infrastructure challenges), the ability to obtain imported inputs at more competitive prices is critical for expanding export opportunities. This underscores the relative importance of trade facilitation as a potential tool for addressing the most binding constraints to trade performance within Southern Africa. Table 1 below shows the relative performance of all the Southern African countries for the three broad categories of trade constraints identified earlier: cost of trading across borders, cost of production, and macroeconomic and political stability. The indicator values have been rebased to provide a score between zero and 100 with 100 representing the highest level of macroeconomic and political stability, the lowest production costs and the closest to the world best practice trade cost frontier.

Figure 4: Benchmarking Trade Constraints to Growth in Southern Africa



Source: See Annex 1.

Table 1: Trade Constraints to Growth Category Rankings and Comparison with Cambodia and Vietnam

Country	Macroeconomic and Political Stability (0-100)	Production Costs (0-100)	Trade Costs (0-100)
Botswana	75.3	70.7	60.3
Lesotho	64.0	59.7	56.7
Madagascar	58.0	60.7	56.7
Malawi	50.3	63.7	50.3
Mozambique	61.3	65.7	60.0
Namibia	68.0	75.3	61.3
South Africa	68.7	76.0	66.7
Swaziland	62.3	73.3	68.7
Zambia	64.3	70.7	52.7
Zimbabwe	49.3	57.0	39.0
Cambodia	57.8	65.3	54.6
Vietnam	58.3	70.0	60.1

Notes: 100 = Most Efficient

Source: See Annex 1.

25. **Comparing the ratings between the macroeconomic and political indicators, production costs, and trade costs may provide a measure of their relative importance and serve as a guide for prioritizing and sequencing targeted reforms**. For ease of analysis, we assume an equal weighting between the three broad categories, namely between macroeconomic and political, production costs, and trade costs. This is a strong assumption as economies experiencing serious macroeconomic imbalances and governance issues will dampen any supply side response from reforming the business environment and liberalizing trade. Notwithstanding this caveat, comparing the relative ratings may provide a measure of their relative importance and serve as a useful guide in prioritizing and sequencing targeted reforms. When interpreting the macroeconomic and political stability indicator we made the strong assumption that a score of 50 or below may signal this as a binding constraint. We are cognizant that in reality there is not one specific threshold; however, when the countries in the region are compared with Cambodia and Vietnam[9] only Malawi and Zimbabwe fall below this threshold. In such cases restoring macroeconomic stability and reducing the perception of political risk will always be the overriding priority.

26. **Comparing the cost of trade constraints to the production costs and macroeconomic and political stability constraints highlights trade costs as a key constraint throughout the region**. This may be observed from Table 2 which shows positive values when the value of the trade costs indicator is subtracted from the value of the other indicators. This reflects the fact that throughout Southern Africa economies are performing better on indicators measuring macroeconomic stability and production costs than indicators measuring trade costs[10]. In economies with a sound macroeconomic policy such as Botswana, there is a large disparity between their macro ranking and their rating for trade costs. In economies with more challenging macroeconomic frameworks, including Zimbabwe, the large positive difference with the trade costs indicator draws attention to the very high trade costs facing Zimbabwean importers and exporters.

Table 2: Macroeconomic and Political and Production Costs indicators relative to Trade Costs

Country	Macroeconomic and Political rating Relative to Trade Costs Rating	Production Costs rating Relative to the Trade Costs Rating
Botswana	15.0	10.3
Lesotho	7.3	3.0
Madagascar	1.3	4.0
Malawi	0.0	13.3
Mozambique	1.3	5.7
Namibia	6.7	14.0
South Africa	2.0	9.3
Swaziland	-6.4	4.6
Zambia	11.7	18.0
Zimbabwe	10.3	18.0

Source: See Annex 1.

[9] Selected for illustrative purposes as economies that have managed to reduce trade and production costs while maintaining a reasonable level of macroeconomic and political stability, and experienced rapid export growth.

[10] Swaziland is the only exception and this may relate to the non-availability of three of the sub-indicators for the trade costs. The indicators for South Africa were substituted. It is also partially a reflection of the relatively low score for Swaziland on the macroeconomic and political indicators.

27. **The magnitude of the high trade costs may be observed by their distance from the world best practice**[11]. This is shown in Table 3. The strongest performers in the region include the countries with access to the sea: South Africa, Namibia, Mozambique, and the island of Madagascar. The weaker performers are all landlocked economies with the weakest being the landlocked economies outside SACU (Malawi, Zambia, and Zimbabwe).

Table 3: Trade Costs Distance from World Best Practice and Relative Ranking (Percentile): 2015

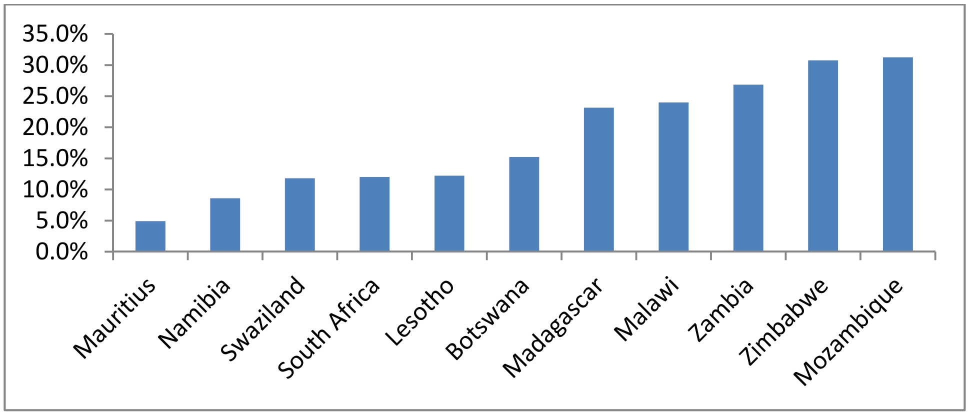
Country	Distance from the Frontier Trade Costs (0-100)	Percentile Ranking in Trading Across Borders
Botswana	52.02	83.1
Lesotho	57.86	77.8
Madagascar	68.98	57.7
Malawi	37.40	90.0
Mozambique	64.76	68.3
Namibia	63.17	72.0
South Africa	71.05	53.0
Swaziland	71.05	67.2
Zambia	20.92	93.7
Zimbabwe	19.40	95.2

Note: Distance from the frontier measures the gap between the trade costs in the country and the best performing country on the same indicator with lower numbers indicating a greater distance to the frontier.
Source: Derived from World Bank 2015, Doing Business

28. **When trade costs are separated according to imports and exports, it is apparent that import costs are much higher than the cost of exporting.** Despite Southern African economies facing lower trade costs relative to the SSA average, they remain higher than any other region. Furthermore, delivery times are longer, and the number of required documents is higher compared to other regions. The table below shows the magnitude of trade costs based on the 2015 'Trading across Borders' data. The table below shows the percentage increase in importing a standard container relative to the transport costs connecting with exporting to the nearest port. The countries with the highest difference in costs between import and exports are either landlocked or not part of the SACU. When the cost of exporting from a country is compared with the cost of exporting from the largest economy in the region (South Africa), both Zambia and Zimbabwe exporters pay more than double their South African counterparts, while the island economies of Mauritius and Madagascar pay 63 and 35 percent less respectively. Mozambique and Namibia, with their own ports, pay 40 and 9 percent less respectively for their imports relative to South Africa.

[11] The recent Doing Business (2015) develops the Distance from the Frontier indicator which measures the gap between the trade costs facing the country and the trade costs of the best practice country in the world. This provides a more accurate measure of the economic distance separating countries.

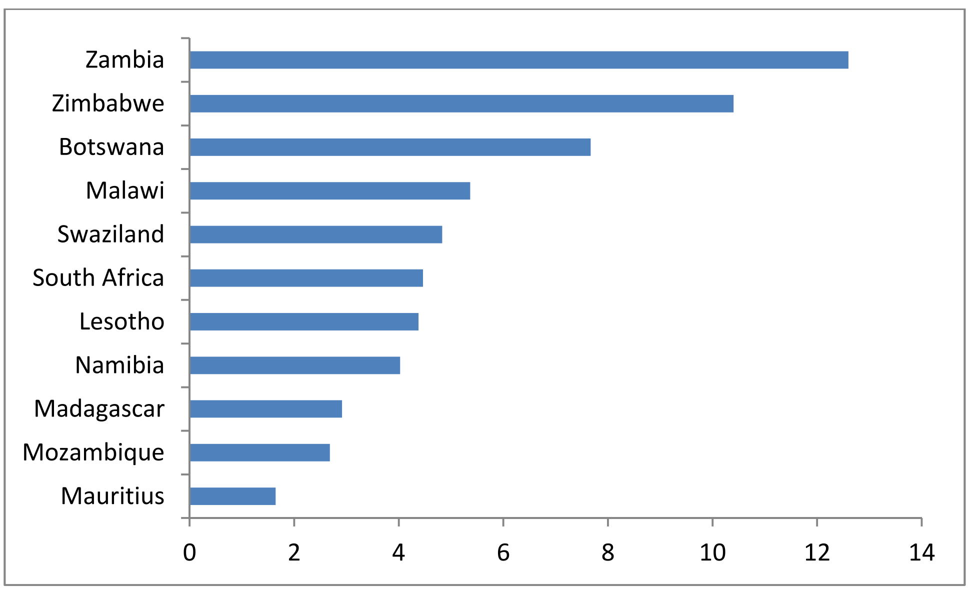
Figure 5: Cost of Importing Premium relative to Cost of Exporting



Note: The bars show the percentage premium for importing a container relative to exporting a container.
Source: Derived from Doing Business 2015, Going Beyond Efficiency, World Bank.

29. Comparing the ratio of export costs to world best practice illustrates the magnitude of trade costs as a critical constraint to growth. Mauritius, which represents the most internationally competitive regional economy, faces export costs which are 65 percent higher than the global leader. The other countries in Southern Africa have, on average, to pay a premium for exporting that ranges from almost three times to over 12 times the global leader. This is shown below in Table 4.

Table 4: Index of Export Costs relative Best Practice Export Costs



Note: Frontier export costs ratio equals 0, therefore 2 means exports costs are double those of the frontier economy.
Source: Derived from Doing Business 2015, Going Beyond Efficiency, World Bank.

30. In Southern Africa, the economies with high trade costs, according to the benchmarking, include Botswana, Malawi, Mozambique, Madagascar, Zambia, and Zimbabwe. The recent World Bank Transport and Trade Facilitation assessment for the SACU (2014) reported significantly higher border clearance times for trade flows coming into SACU compared with intra-SACU trade. The bulk of imports by volume and value to the BLNS originate from South Africa. Within SACU Botswana's high import and export costs reported in the Doing Business Trading across Borders is an anomaly and requires further investigation. While Botswana as a landlocked country could be expected to have higher trade costs compared to Namibia, both Lesotho and Swaziland are landlocked and experience similar trade costs to South Africa.

31. **Trade costs remain high across Southern Africa, with many of the recommendations from previous studies awaiting implementation.** Recent DTIS Updates for Lesotho, Madagascar, Malawi, Mozambique, and Zambia, along with Economic Diversification Studies for Botswana and Swaziland, a Trade and Competitiveness Study for Zimbabwe, and regional assessments reiterate many recommendations that were first proposed in reports submitted 5-10 years earlier. For example, the recommendations of a 2010 World Bank report, *Harnessing Regional Integration for Trade and Growth in Southern Africa*, remain valid. This report identified three key elements for enhancing competitiveness in regional and international markets. Firstly, firms need to have access to reliable and competitively priced ''backbone'' services. These include energy, telecommunications (broadband internet), transport and logistics, and finance. Improving regulatory effectiveness and promoting competition in these key service sectors is important to promoting increased efficiency. Secondly, the trade agenda includes many 'behind the border' regulatory issues and administrative procedures that cut across a wide range of Government Ministries, Departments and Regulatory Agencies making effective coordination for investment and trade promotion essential. Thirdly, it is critical that the incentive framework does not discriminate against exports through privileging established import substituting firms. Neutral tax, investment and labor market policies will assist in establishing an incentive structure that encourages the efficient allocation of resources.

32. **Trade constraints to growth continue to prevent Southern African economies from realizing their potential.** Recent reviews of trade policy and performance in Southern Africa either at the country or regional level all consider exports as a potential key growth driver. Unfortunately, except for one economy, most countries and the region as a whole have been underperforming relative to the growth in world trade over the past two decades. High aggregate growth rates were driven by large increases in commodity prices, and consequently have proven to be unsustainable. The growth in exports did not reflect significant increases in productivity and translated into a modest impact on reducing poverty and employment creation. With the sole exception of the largest economy, South Africa, Southern Africa economies continue to export a relatively narrow range of products to a small group of countries. Indeed Malawi exported 26 fewer products to 11 fewer countries in 2013 compared with 2009. Zimbabwe also experienced a decline in product diversity and export markets. This contrasts with the experience of Chile[12] which exported 382 products to 25 countries in 1990 and by 2013 was exporting 1,377 products to 111 countries. Similarly, over the same period Malaysia increased the number of products from 1906 to 3106 while the number of countries increased from 29 to 117. In 2013 Vietnam exported 2,642 products to 137 countries while the more specialized Cambodia exported 453 products to 85 countries.

[12] Chile is also dependent on mining exports (copper); however, over the past three decades it has successfully increased the number of products and diversified its export markets. During this period Chile substantially reduced its tariffs and non-tariff barriers.

Table 5: Number of Countries and Products Exported

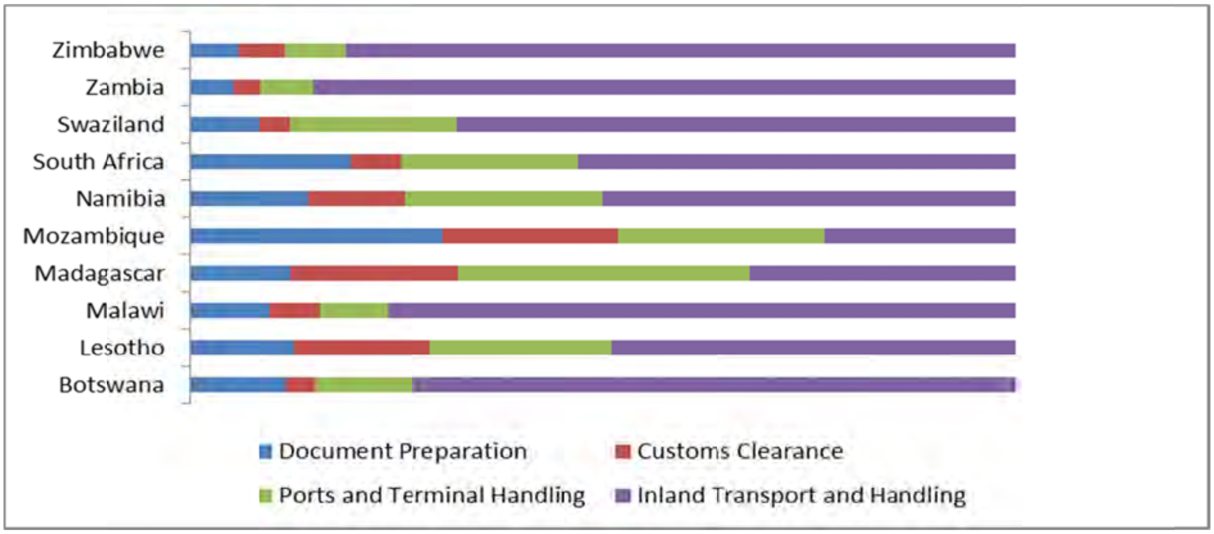
Country	Number of Partner Countries	Number of Products Exported
Botswana	33	385
Lesotho	21	49
Madagascar	62	278
Malawi	68	110
Mauritius	75	529
Mozambique	66	306
Namibia	61	353
South Africa	117	3139
Swaziland	70	337
Zambia	52	251
Zimbabwe	66	322

Source: Derived from Doing Business Indicators (2015) and www.wits/worldbank.org

33. **High transport and logistics costs and the uncertainty of delivery times limit Southern African economies participation in Global Value Chains (GVCs)**. Surveys of developing country suppliers find that transportation costs represent the largest single hurdle to participating in a GVC. This may be observed from the table shown below. The trading across borders data (documented earlier) highlighted the high costs of logistics, customs clearance and transport in moving goods across borders. Separating out the different elements of these trading costs shows clearly the dominance of transport costs (see figure below). Unsurprisingly inland transport and handling accounts for a much higher share of the total import costs. These costs represent the costs for a standard 20 ton container. Apart from the actual costs, the time taken for the delivery of the container from the port to the customer varies considerably from almost three weeks for Namibia to over 10 weeks for Zimbabwe. In practice, delivery times vary widely, as indeed do customs clearance times, with a small number of major importers generally experiencing less volatility than small and medium-sized traders. The uncertainty over delivery and clearance times represents a more significant hurdle than the cost, even though the cost of customs clearance ranges widely from approximately 2 percent of the total delivery costs to almost one quarter for Mozambique. The high customs clearance costs and relatively modest improvements in clearance times for Mozambique raise issues regarding the aggregate benefits and overall impact of their National Single Window.

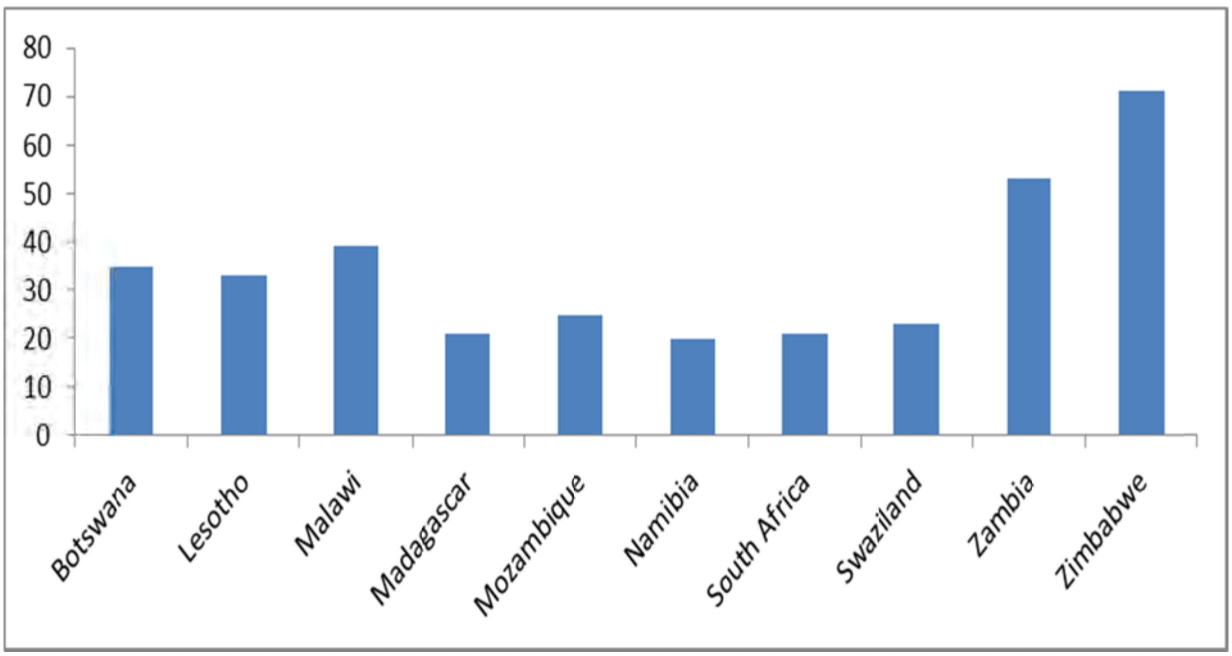
34. **Southern African landlocked countries and Mozambique take 23 days and longer to import a container.** This may be compared to 9.6 days for the OECD countries, 21.6 for East Asia and the Pacific and 18.7 for Latin America and the Caribbean. While delivery times and transport costs are just two variables entering into firms overall costs many economies have been able to reduce trade costs through implementing trade facilitation measures.

Figure 6: Trading across Borders for Importing a Container, Share of total costs



Source: Derived from Doing Business (2015)

Figure 7: Number of Days to Import a Container



Source: Derived from Doing Business (2015)

35. **Customs and administrative entry procedures represent the most frequently reported non-tariff barriers (NTBs) between SACU countries.** These include: lengthy and costly customs clearance procedures, inadequate or unreasonable customs procedures and changes, and international taxes and charges levied on imports. Import or export restrictions are the second most common NTB, followed by restrictive practices tolerated by government, and transport charges. The recent Transport and Trade Facilitation Assessment of SACU (2014) identified 10 challenges across four broad categories; these are listed below. The landlocked economies bordering the SACU countries face more significant trade facilitation and logistic constraints.

Table 6: Key Challenges Affecting Competitiveness within SACU

Category	Issue Identified
Trade Policy	Tariff raising costs of inputs
	Intra-SACU trade restrictions
Borders	Lack of predictability and harmonization of procedures
	Lack of interconnectivity within SACU
Transport	Limited Intermodal Solutions
	Unbalanced freight flows and vehicle utilization (lack of backhaul from Botswana, Lesotho, Namibia, Swaziland - BLNS)
	Limited access to containers within BLNS
	Ineffective utilization of Inland Container Depots
	Outside the main corridors –poor infrastructure
Other	Lack of coordination on VAT within SACU (except for SA & Lesotho)

Source: SACU TTFA (2014)

36. **Border performance along key transport corridors hampers the development of a wider ''Factory Southern Africa''.** Border clearance involving SADC countries continue to be a source of unpredictable delay. Key problems include a lack of harmonization and predictability in border procedures, (mainly with SPS, health, TBT, and agriculture); also few border posts are effectively operating 24/7. The major challenges for Botswana, Lesotho, Namibia, Swaziland (BLNS) is less about infrastructure and customs and more about challenges of location and scale, and the development of a competitive logistics sector. The biggest challenges in trade and transport facilitation relate to the small (with low volumes), distant and dispersed markets, with a narrow commodity focus. This results in low demand for sophisticated logistics services, and limited backhaul opportunities, resulting in higher costs. Further, the longer turnaround times increase costs as the transporters fixed costs are spread over a significantly reduced mileage (equivalent increasing fixed costs by 33-47 percent per km).

37. **Improvements in customs clearance and document preparation (through introducing electronic data transfer and allowing electronic certification) will reduce trade costs. But these will be modest and are unlikely to be sufficient to enable countries to more effectively participate in global value chains**. For transformative investment in agriculture and related economic activities, where the region has a comparative advantage, it will be necessary to increase the reliability of delivery times, reduce transport costs and improve the ability of importers to be able to purchase internationally imported inputs at closer to world prices.

38. **Tariffs and non-tariff barriers also remain a constraint and add to trade costs throughout Southern Africa**. External trade policy – both tariffs and non-tariff barriers – continue to be important. While the overall average tariff rates have declined, all economies have retained tariff peaks (defined as tariffs exceeding 15 percent) on almost a quarter of all tariff lines which also includes most of the tariffs lines related to import competing firms. Three economies with higher average tariffs and non-tariff barriers include Madagascar, Malawi, and Zimbabwe. Although all three countries provide duty rebate schemes for exporters, it is important to note that, a duty drawback or remission scheme will reduce but not eliminate the level of anti-export bias. Further, the eligibility criteria and compliance requirements for rebate schemes effectively restrict access to the larger companies.

39. **High tariff peaks are common across a quarter of all tariff lines and NTBs apply to more than 40 percent of all tariff lines**. Notwithstanding significant aggregate tariff reductions which reduced the average level of protection, the level of protection remains high in many countries as maximum tariffs of 25 percent (and higher in some economies, including SACU) continue to apply to a quarter or more of all tariff lines. Further, approximately 40 percent of all tariff lines continue to be subjected to non-tariff measures, including licensing, quotas, and import bans. Virtually all agricultural inputs and agricultural products are subject to licensing which results in domestic prices considerably exceeding world prices.

40. **Further multilateral tariff reform does not appear to be on the agenda of any of the Southern Africa economies**. Countries have agreed to remove tariffs on a preferential basis to Common Market for Eastern and Southern Africa (COMESA) and SADC members, and negotiations are in progress to extend this to the EAC countries. Almost without exception, countries have chosen to protect their import substituting sector through delaying tariff reductions, imposing licensing restrictions and agreeing to restrictive rules of origin within SADC. South Africa is not a member of COMESA which has agreed to much less restrictive rules of origin compared with SADC. Removing tariffs while retaining restrictive rules of origin renders trade in many products in the SADC FTA nugatory, although Mauritius has been able to meet the rules of origin (ROO) in selected apparel products.

Indicators as a guide to organizing priority interventions

41. **In this paper we have used the indicators as a guide to identifying countries where trade costs are a major constraint to growth.** The indicators show that all the countries in Southern Africa face high trade costs; however, where there is a challenging macroeconomic and political environment and high production costs, the impact of lowering trade costs will be muted. Initiatives to reduce trade costs do not take place in isolation. They are almost invariably part of a program that also focuses on activities aimed at improving the productive environment.

42. **The indicators should be considered as a guide to organizing priorities. They are not a substitute for detailed country level analysis and consultation.** Apart from measurement issues relating to the indicators, it is important to caveat that any conclusions are vulnerable to change if additional indicators are included[13]. Identifying countries where trade interventions may have the biggest impact is not necessarily equivalent to targeting countries that have the greatest need for aid for trade.

43. **Targeting countries with the greatest need for aid for trade is not necessarily equivalent to targeting countries where interventions would result in the greatest impact.** Gamberoni and Newfarmer (2014) examined whether the aid for trade commitments were directed to countries with the largest need. They began with the assumption that donors aim to provide aid for trade to maximize the trade-related capacity of a developing country with the aim of reducing trade costs through a mixture of investment in infrastructure, institutional development, and policy changes. Both population size and an environment conducive to aid effectiveness are considered to be

[13] The findings from large cross country regression studies using a gravity model are sensitive to both the period selected for review and the number of countries included in the assessment.

important variables. They group trade-related capacity into three broad categories: infrastructure (transport, ports, energy, telecommunications); trade-related institutions (customs and port management), and incentives to export (trade policies). Using a gravity model (and assuming equal weighting between the three broad categories) they find that all three are important determinants of trade flows.

44. **Countries with more restrictive trade policies have a greater need for trade interventions aimed at reducing trade costs, but this must be related to a commitment by the country to actively reduce anti-export bias and use trade as a vehicle for growth.** Economies with restrictive trade policies have significant anti-export bias which discourages export growth. High levels of anti-export bias (in the form of protective tariffs and/or non-tariff barriers or high transport costs) may indicate that a country is not committed to opening up to trade, and trade-related development assistance may not be a national priority. In these circumstances some donors may be discouraged from supporting aid for trade, understanding that the expected impact will be low. Gamberoni and Newfarmer (2104) argue that those economies with higher trade costs are the very ones that have a greater requirement for aid to assist them to open up. Indeed, the lower the value of their indicator, the greater the need for aid for trade. Three Southern Africa economies are included in their top ten, Namibia, Mozambique, and Zambia, while South Africa and Mauritius are included in the top ten countries with the lowest need.

45. **Trade interventions should prioritize those countries where trade costs are a binding constraint to augmenting growth**. Reducing trade costs may be expected to increase profitability and create new investment opportunities; however (as noted above), the elasticity of the supply side response will also depend on the economies broader macroeconomic and political environment, and on how the business enabling environment impacts on production costs. The sequential logic for identifying those countries in a region where investments in trade-related activities may, a priori, be expected to bring the largest benefits include firstly, ensuring macroeconomic stability, the absence of civil conflict and respect for the rule of law and property rights; secondly, movement towards an incentive framework that does not substantially discriminate against producing for the export market; and, thirdly, targeting the costs of engaging in trade through streamlining trade procedures for imports and exports.

46. **Reducing tariffs and reforming regulations aimed at either eliminating or at least reducing the price raising NTBs will support Southern African economies to transition to a higher growth path**. Reforming the existing rules of origin within SADC, which have been identified as a major constraint to expanding intra-regional trade in manufactures and agro-processed goods should be a priority. Secondly, eliminating and reducing the widespread and trade-suppressing NTBs is important. The most serious NTBs include import bans, quotas, permits and licensing. Thirdly, continuing to reduce tariffs, specifically the tariff peaks which are especially restrictive because concerns over trade deflection lends support to the necessity of restrictive rules of origin and encourages more physical inspections at the border in an attempt to stop transshipments. Fourthly, reducing border crossing costs through implementing One Stop Border Posts is important as these will also speed up clearance time and contribute to reducing transport prices along the main corridors.

47. **Policy and regulatory reforms that increase competition in the transport sector enable investors to obtain imported inputs and export without the risk of arbitrary bans or restrictions are required**. Further, liberalizing key backbone service sectors including power, telecommunications and transport will reduce costs and increase competitiveness. Such recommendations are not new;

indeed, they are contained in most of the trade reports and diversification studies that have been prepared over the past two decades. They also account for most of the priority action items that have ex post not been a priority or a commitment in many countries. In the absence of progress on reforming the incentive structure to reduce anti-export bias, the focus has been on infrastructure investments and reforms at the border, largely in customs administration. In both these areas there has been substantial progress; however, neither has been sufficient to reduce the constraints to trade sufficiently to enable the region to increase its share of global trade.

48. **Implementing successful trade interventions requires correctly identifying the problem, ensuring the intervention is credible and that private sector investors are able to respond to the new incentive structure.** Many trade interventions are characterized by design flaws which inevitably result in weak or poor implementation. Reforms focused on trade policy may, depending on the country context, fail to target the main source of anti-export bias. For example, reducing import duties will always reduce anti-export bias, but in many countries (Malawi, for example) transport costs impose a much higher implicit tax on exporters. Failing to identify the most binding constraint to trade will minimize the impact of trade reforms. The private sector must believe the reforms are credible and capable of being sustained. If the country has a history of policy reversals and recurring macroeconomic instability, the private sector response will be muted. Further, the extent to which investors respond to improved incentives will depend on the efficiency of the regulatory and institutional environment. The next section develops a schema that seeks to prioritize and identify the most likely successful trade interventions.

49. **Prioritizing trade interventions in Southern Africa should result in larger benefits as more resources, financial and technical, are directed towards activities that lead to reductions in trade costs**. Ideally, it would be possible to rank proposed trade interventions by quantifying measures which reduced trade costs relative to the financial and technical resources along with any mitigating measures required for effective implementation. In practice, there have been almost no comprehensive impact evaluations of specific trade interventions. Rather all the stakeholders have prepared a series of 'success stories' which can serve as useful case studies. However, there is always the risk that information is carefully selected to highlight the benefits while underestimating the costs. More fundamentally, a diet of 'success stories' is of limited value unless it is based on an accurate accounting of the costs and benefits related to specific trade intervention.

4 Developing Criteria for Prioritizing Trade Interventions

Introduction

50. **Section 4 develops and implements a system for prioritizing specific trade interventions by country.** The benchmarking in sections 2 and 3 identifies the broad constraints and identifies those countries were trade interventions may be expected to have the greatest impact on investment and growth. The next step is to prioritize trade related activities at either the country or regional level. A wide range of trade interventions have been identified in each country through a combination of stakeholder interviews and a review of recent country specific expert reports (including the DTIS Updates, World Bank Country Economic Memorandum, Trade and Transport Assessment, Diversification studies). Section 4 outlines criteria for prioritizing the proposed trade interventions.

51. **We develop a schema** which aims to enable all the relevant stakeholders, government, private sector operators, and international cooperating partners, to begin to prioritize or rank trade interventions. We begin by categorizing the different type of activities aimed at reducing trade costs. This is followed by a brief overview of the findings from the stakeholder interviews and the expert reviews.

52. **Projects aimed at enhancing trade cover a wide range of activities including strengthening productive capacity, economic infrastructure, trade policy and regulations, and trade-related adjustment.** The recent paper by Folletti and Newfarmer (2011) classified more than 269 Aid for Trade projects into six broad areas: *lowering trade costs* through trade facilitation programs; *reforming policy to recalibrate incentives*, support adjustment, develop strategy and adopt international standards; *building capacities* within governments to better conduct trade policy, negotiate trade agreements and implement trade-related rules and laws; *investing in infrastructure* to lower the cost of inputs and services; *undertaking industrial policies* to promote trade within a specific sector to upgrade product quality to promote diversification; and *leveraging the private sector through trade finance*, export promotion, and skill-upgrading for SMEs and women traders.

53. **For the purposes of this paper we use a narrower definition of trade improvement projects focusing on directly reducing trade costs**. Industrial policies, access to finance, and skill levels are considered under the category of production costs. Investment in physical infrastructure is assumed to be subsumed under the broader category of macroeconomic and political stability which captures both public-private partnership policy and regulations, and resource allocation for investment and maintenance of public infrastructure, and the associated regulatory framework[14].

54. **The approach presented above leaves three broad areas for trade improvement interventions that focus on reducing trade costs. This includes trade facilitation and logistics, trade policy and**

[14] Interventions aimed at reducing production costs through, for example, improving the availability and reliability of electricity are critical for increasing the competitiveness of all firms and may be addressed within trade improvement projects. However, the current paper focuses more narrowly on activities which would reduce trade costs.

regulatory reforms, and strengthening capacities. Trade facilitation and logistics interventions focus on reducing the cost of moving goods across borders and target improvements at border posts. **Trade policy and regulatory reforms** seek to reduce anti-export bias and promote more competitive markets, reduce the barriers to trade in goods and services through tariff reforms, increasing transparency and streamlining non-tariff measures (NTMs), transport services and other ''backbone'' services. **Strengthening capacities** within governments strives to build skills to more effectively conduct trade policy, negotiate trade agreements, and implement trade-related laws and regulations. This includes improving institutional coordination and cooperation within government and across diverse stakeholders.

Developing criteria for prioritizing trade interventions

55. **Recent reviews of aid for trade identify five key lessons for governments and funding agents targeting improvements in trade performance.** These recommendations are based on implementation of trade projects over the past 20 years along with experience of the Integrated Framework and the Enhanced Integrated Framework. Firstly, the reviews highlight the necessity of setting priorities, noting that the all too frequent recommendation of a long list of action items results in very limited implementation (this is the experience of all the recent DTIS Updates, including Lesotho, Malawi, Mozambique, and Zambia in Southern Africa). Having established the necessity of prioritizing, the other recommendations identify the necessity of having high level commitment from both the Government and the private sector; the need to ensure that coordinated and long-term donor support is integrated with Government priorities; effective monitoring and evaluation commencing with a baseline study and ensuring routine quality assurance; and the development of a clear theory of change for addressing poor trade performance that sets out the necessary and sufficient assumptions for the intervention to deliver the anticipated benefits (this links back to the trade constraints to growth). While these are all desirable elements for a successful project, they do not assist implementing stakeholders to choose between competing trade-related interventions.

56. **Developing a guide for choosing between competing trade-related interventions is critical**. Despite many comprehensive articles addressing trade priorities, few actively develop criteria that could be used at the national or regional level. Two broad approaches, not necessarily mutually exclusive, include the survey of experts, and interviews with stakeholders asking them to identify priorities and advice on the sequencing of reforms. Duval (2006) carried out a survey of 14 international experts on the expected costs and benefits of 12 trade facilitation measures in Asia and identified the priority activities and recommended sequencing. Based on this work Duval identified the priority activities and recommended sequencing shown below in Figure 6. While the Duval approach is useful in showing a consensus among recognized specialists on the priority activities, by focusing on the 'technical solutions' it does not directly address political economy issues that play such a key role in determining effective implementation.[15]

[15] It is possible that in responding the experts implicitly considered political economy issues when making their recommendation. However, the fact remains that political economy issues were not explicitly addressed. Furthermore, the analysis is geographically specific to Asian economies where the economic benefits from reducing trade costs are acknowledged by all the key stakeholders.

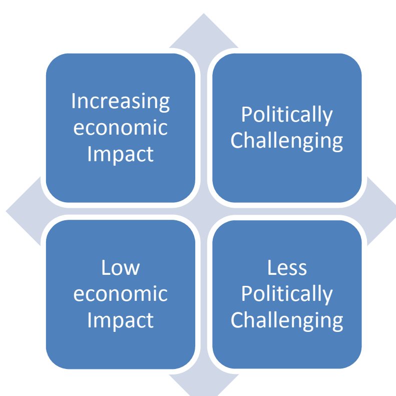
Figure 8: Experts Sequencing and Priority of Selected Trade Facilitation Measures

Rank	Sequencing	Trade Facilitation Measure
1	A	Alignment, Harmonized System nomenclature, use of international standards for trade documents
2	A	Establishment of enquiry points and single focal points for trade facilitation issues
3	A	Online publication of trade regulations and procedures in local language and English
4	A or B	Implementation of risk management systems
5	B or A	Establishment of national trade facilitation committee
6	B or A	Provision of advanced and binding rulings on tariff classification, valuation and origin
7	B	Establishment of an appeal procedure for Customs
8	B	Establishment of a single window system
9	C or B	Establishment and systematic use of pre-arrival clearance mechanisms
10	C	Establishment and wider use of audit-based customs
11	C	Bond and deposit guarantees for expedited clearance
12	Optional	Expedited procedures for express shipments and qualified companies

Source: Duval Yann (2006), Cost and Benefits of Implementing Trade Facilitation Measures under Negotiations at the WTO: An Exploratory Survey

57. **A schema or 'simple toolkit' can be used by stakeholders for ranking proposed trade interventions will ideally be rooted in country specific stakeholder knowledge, and draw on expert reports based on local and international experience.** We carried out a limited set of stakeholder interviews in nine Southern African countries and reviewed the expert literature including recent DTIS Updates, World Bank Country Economic Memorandums, National Development Plans and Regional initiatives. The focus of the reviews and meetings was to develop a schema or simple 'toolkit' that would be useful for government officials, international cooperating partners, and other stakeholders in determining priorities for trade reforms.

Figure 9: Ensuring Political Commitment and Delivering Economic Impact



58. **All technical trade initiatives have a political dimension; political economy analysis is an integral element of all trade reforms.** The proposed schema begins by recognizing that all trade interventions are not simply technical but also political, indeed the 'technical is political' as changes in policies, procedures, regulations and institutional structures will impact the incentives facing existing producers, consumers, and traders. Proposed technical solutions that work well in some countries may not be appropriate or relevant in other countries. For an intervention to succeed and deliver the expected economic benefits it will need to have a sufficient level of political

commitment to ensure effective implementation. The potential trade-off may be considered as a simple matrix as shown above in Figure 9. It may be easier to implement less politically challenging activities, for example, information sharing rather than projects requiring substantial reassignment of roles and responsibilities across different Cabinet portfolios. Such lower impact solutions may serve as stepping stones for more substantial reform through slowly building a broader consensus for trade facilitation.

59. **We propose to rank specific trade activities in two stages, political economy analysis and technical criteria.** Ensuring high level commitment for trade-related reforms is considered a necessary requirement for successful implementation. It is also necessary to establish that the specific action is considered as a priority by key stakeholders, including those responsible for implementation. These two criteria – the commitment and priority indicators - capture the political economy aspect of the proposed initiative and may be considered a critical first hurdle for the proposed activity, with the higher score corresponding to a higher priority and level of commitment. Box 5 presents a summary example of the proposed two stage criteria.

Box 5: Example of Two Stage Criteria for Ranking Trade Interventions

Activity	Commitment	Priority	Difficulty/Implementation Challenge	Pay-off/return
	Political Economy Stage 1		**Technical Criteria Stage 2**	
Strengthen Inter-Institutional Consultation mechanism on trade issues	In DTIS Update, and endorsed by Cabinet and the Chamber of Commerce	Stated in Development Plan and included in budget	Modest does not require policy or regulatory change, requires TA/finance	Modest

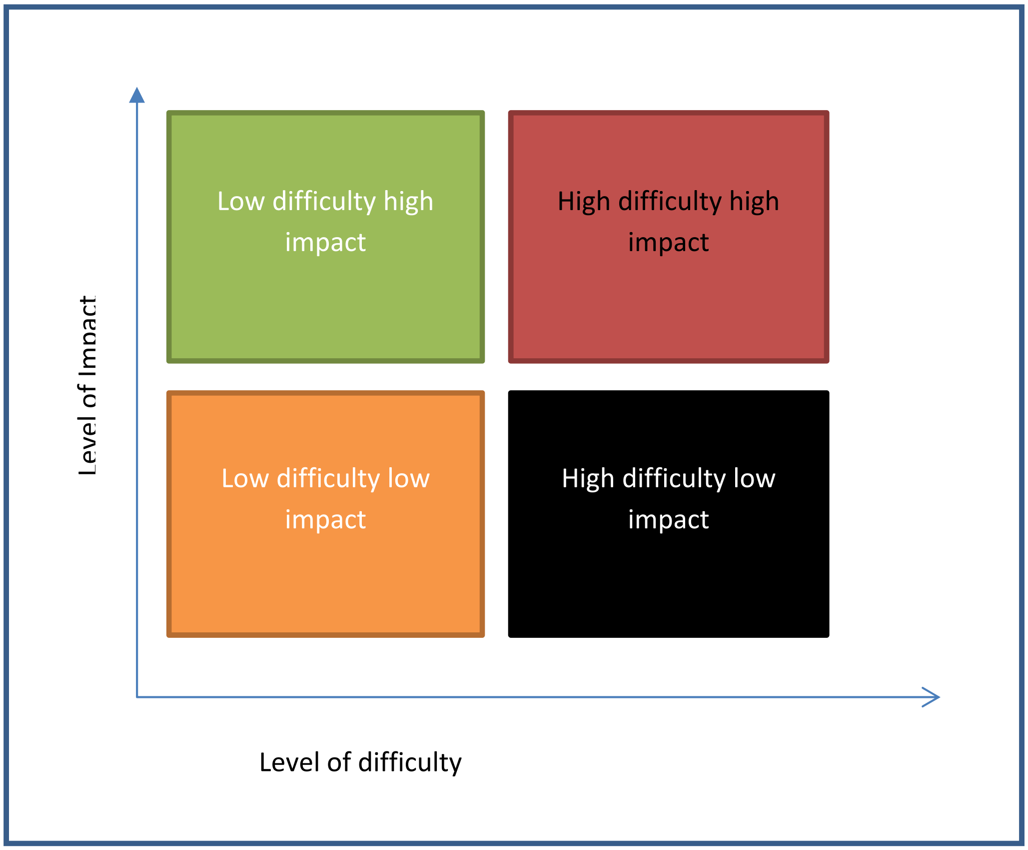
Note: Meeting the Stage 1 political economy threshold requires a 50/50 assessment of commitment and priority. See text for more details.

60. **Meeting the political economy hurdle is a necessary requirement for all proposed trade interventions.** A potentially successful trade intervention may be expected to be recognized as a priority by the implementing partner and be matched by a commensurate level of commitment. While this is generally accepted as the standard procedure by all parties (with aid being responsive to host country demand), in practice this has often become a routine formality for both implementing countries and international cooperating partners. The proposed criteria should, at a minimum, be based on a political economy analysis that identifies the interests of the stakeholders, their power relationships and presents evidence that they have identified the reform activity as a priority and are committed to its implementation. Assuming each of the two criteria (commitment and priority) is ranked between zero and 5, it is proposed that the 'political economy' threshold would achieve a minimum ranking of 5 (which translates to a 50/50 chance).

61. **The technical criteria weigh the level of difficulty with the expected economic impact.** Trade reforms cover a wide range of activities from low cost procedural changes to high cost and high profile interventions requiring consensus across a wide range of institutions and stakeholders. Activities which are expected to result in short term adjustment costs with the benefits developing slowly in the medium to long-term would be classified as very difficult, and may be expected to take longer to implement, and most likely require compensating adjustment measures. The expected economic impact from individual trade activities will also vary widely and may in many

cases be dependent on a range of complementary measures being put in place. In many cases there may be trade-off between the degree of difficulty and the level of economic impact as shown in Figure 10. When weighing technical difficulty and economic impact the analyst may be expected to prioritize activities in the top right quadrant (colloquially referred to as 'the low hanging fruit').

Figure 10: Matrix showing the Trade-off between Difficulty and Economic Impact



62. **Prioritizing trade reforms using the proposed two stage political economy and technical approach.** We identified a range of proposed interventions based on activities currently underway, interviews with stakeholders in the region, and a review of country specific expert reports (such as the DTIS Updates) across Southern Africa. The proposed trade interventions are listed in Annex 2.

63. **The proposed trade interventions were ranked according to the four criteria: commitment, priority, difficulty in implementation, and expected pay-off**. The rankings were based on a subjective review of the available reports, which in some cases identified the degree of difficulty, and interviews with government officials, technical advisors working on trade projects, international cooperating partners, private sector operators, officials at regional economic cooperation secretariats and one Minister of Trade. While such a ranking process is liable to the criticism that it is subjective, the purpose is to illustrate the value of adopting a more structured process for prioritizing specific trade interventions. Since political economy commitment and priority are necessary conditions for success, all proposed interventions must score at least 50 percent to proceed (*i.e.*, rankings of 5 and above are a 'go'; 4 and below represent a 'no go'). The

detailed rankings are shown in Annex 2 while the top two trade intervention priorities are summarized in the table below.

Table 7: Ranking of Trade Intervention Priorities

Agreed Trade Interventions: Top Two Priorities by Country		
Country	**Proposed Trade Intervention #1**	**Proposed Trade Intervention #2**
Botswana	Remove Core NTBs	National Single Window
Lesotho	Improve Border Efficiency	Implement National Trade Facilitation Committee
Namibia	National Trade Portal	Implement National Trade Facilitation Committee
Madagascar	Improve Border Management Processes and Cooperation	Implement National Trade Facilitation Committee
Malawi	Undertake an Inventory of NTBs	Implement National Trade Facilitation Committee
Mozambique	Simplify Import and Export Procedures	Implement National Trade Facilitation Committee
South Africa	SARS Modernization Continues	Implement One Stop Border Post (OSBP)
Swaziland	Implement National Trade Facilitation Committee	Streamline Border Procedures with South Africa (VAT)
Zambia	Develop a logistics strategy	Improve Border Coordination and Management
Zimbabwe	NA	NA
Indicative Proposed Trade Interventions: Top Two Priorities Requiring Political Economy Commitment and Prioritization		
Country	**Proposed Trade Intervention #1**	**Proposed Trade Intervention #2**
Botswana	Liberalize trade in priority service sectors	Phase down import substitution protection
Lesotho	Liberalize trade in priority service sectors	
Namibia	Phase down import substitution protection	Liberalize trade in priority service sectors
Madagascar	Simplify and publicize the criteria for receiving tariff and tax exemptions	
Malawi	Review tariff policy to reduce peaks, eliminate nuisance tariffs and adopt a transparent policy on exemptions	Liberalize the import of agricultural inputs
Mozambique	Undertake an inventory of all NTBs	Amend scanning fees and charges to reflect the service provided.
South Africa	Reduce the number of tariff peaks	Further liberalize trade in services (particularly infrastructure)
Swaziland	Undertake an inventory of all NTBs	Reduce the seasonal restrictions on cross border trade in agricultural products
Zambia	Liberalize the import of agricultural inputs	Eliminate the use of export bans on agricultural products
Zimbabwe	Improve efficiency at Beit Bridge	Remove restrictions on trade in priority service sectors

Source: Derived from Annex 2 and the information contained in Annex 3.

64. **Publicizing the criteria for selection will improve transparency and increase awareness among stakeholders on the importance of reducing trade constraints to growth**. In a transparent process each expert or government official participating will be required to justify their assigned ranking. For example, a score of 5 corresponding to the highest possible level of commitment might be justified by the evidence that the President or Prime Minister personally endorses the proposed reform. A statement indicating that an email had been received expressing support would not be sufficient to justify a 5[16]. In cases where commitment is based at the technical level, or is located in one Agency or Ministry, the score would be reduced. Identifying the degree of priority may be captured by evidence of active follow up or attempts to initiate the activity through allocating staff or resources, through monitoring progress, and preparing an implementation schedule.

65. **The schema/checklist can be used as a guide for ranking proposed trade interventions.** For example, this checklist could be applied to: the National Trade Portal; establishment of the National Trade Facilitation Committee; Border Management Committee; Interconnectivity; Risk Assessment/Trusted Trader; National Single Window (for all traders); and National Single Window (just for small traders). Identifying priority action items for implementation requires stakeholders, and specifically the funding agents (government, international cooperating partners, private sector) to rank a specific activity relative to others. Annex 2 presents the more detailed listing of potential trade intervention priorities.

66. **The trade intervention priorities identified by the proposed schema are consistent with the consensus from the existing applied work largely based on multi-country regressions and the expert survey on trade facilitation priorities in Asia (Duval, 2006**). The schema has the advantage of drawing on existing work, including the WTO Trade Facilitation Needs Assessment (which is a stocktaking exercise), the DTIS Update's analysis and Action Matrix. Further domestic based private advocacy groups (for example, Private Sector Foundation, Chambers of Commerce and Federation of Employers) should also be encouraged to participate in the assessment of trade priorities.

67. **Virtually all the agreed priority interventions relate to trade facilitation and focus more on administrative and procedural changes rather than those requiring policy or regulatory reforms.** Trade interventions aimed at reducing anti-export bias through tariff reform and regulatory changes, identified as priorities in most of the DTIS Updates and other reports had, to date, failed to mobilize the necessary political support from key stakeholders for implementation.

68. **Obtaining buy-in and commitment for many trade interventions requires engaging with a wide range of stakeholders. The political economy analysis can be extended to incorporate diverse stakeholders.** We propose that stakeholders are requested to rank trade interventions proposed by Government, the private sector, international cooperating partners and others according to the four category schema – priority, commitment, difficulty, and impact. For each of the actions key stakeholders can engage and rank according to agreed and transparent criteria. Ideally this will include a frank assessment of the expected level of political commitment, given the degree of political challenge and the likely impact on trade costs. The objective is to recommend activities that promise to maximize the pay-off while conserving political capital as illustrated in the top left quadrant of the matrix (Figure 10). Table 8 below illustrates the range of potential stakeholders and indicates the proposed four categories for ranking projects.

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[16] This is a real example quoted in the recent review of Aid for Trade projects (Cadot, 2014).

Table 8: Stakeholder Criteria Ranking for a Proposed Trade Intervention

Stakeholder	Priority	Example of Commitment	Degree of Difficulty	Costing/Available Resources	Potential impact
Executive	Range from 0 to 5	Cabinet Minutes/ Included in National Development Strategy	Number of Agencies/Min Engaged, are mitigation measures required, timing of costs and benefits Is training/capacity building required for government/ Private sector?	Access to donor funds/willingness of Government to allocate resources in capital budget and to approve recurrent expenditure	High/medium/low. Important to provide justification. Baseline survey is carried out ahead of implementation
Legislative		Reform on Agenda for Parliament			
Government Civil Servants		Endorsement of principles at International & Regional Fora (WTO/WCO)			
Private Sector/ Large Business		Briefing Notes			
Private Sector/ Med and Small		Champions identified			
Civil Society/Consumer		Preparation of Briefing Documents			
Labor		Briefing of Members			

69. **The agreed priority trade interventions identified by the schema (and summarized in Table 7) are strongly weighted towards activities that promote transparency and predictability, and simplify and streamline procedures.** Activities that require increased coordination and cooperation, and the reform of regulations aimed at enhancing competition in backbone service sectors and product markets offer a large pay-off or benefits; however, in most cases they are found to be both technically and logistically difficult involving multiple stakeholders and institutions, and politically challenging. Many of the activities currently under implementation are revealed to be both technically and politically difficult.

Other Criteria: Build a knowledge platform and share experiences

70. **Identifying priority trade interventions has demonstrated the necessity for better quality data, more quantitative impact evaluations, and greater use of political economy analysis**. Identifying trade intervention priorities highlights the importance of having good quality data and information on outcome and experience. More quantitative impact evaluations and better quality data will improve the ability of stakeholders to prioritize interventions. Recognizing that many best practice interventions have been ignored or sidelined has increased awareness of the importance of

carrying out political economy analyses.

71. **Build up a knowledge platform on countries experience with trade interventions**. Notwithstanding the large number of trade and trade related projects, there has been limited work measuring the economic impact of specific targeted trade interventions. A recent survey of trade-related projects found that less than five percent had carried out impact evaluations. To date, much of the monitoring and evaluation work has focused on measuring changes in the time to move goods along a supply chain, and changes in the price of transport services between two points. There is growing evidence that reducing the number of forms at the border, increasing transparency and generally simplifying processes bring significant benefits through reducing delivery times and, perhaps even more importantly, reducing the uncertainty over border crossing times. The WTO Trade Facilitation Agreement provides a useful framework for countries to prioritize specific trade and logistics instruments. The Northern Corridor Transport Observatory Report in East Africa compiles and publishes data on transport costs and has reported a decline in costs over the period 2012-2014[17].

72. **Intervening more effectively requires more rigorous assessment of aid for trade projects**. Cadot and Jaime de Melo (2014) have noted how aid for trade has been weak on evaluation and has been unable to show 'results for money' in a credible way. This has been justified by the difficultly of separating out the impact of specific trade interventions on growth, employment and poverty reduction and the absence of control groups for many of the micro trade interventions (export promotion and firm level assistance being the exceptions). Cadot considers these excuses and also points to the lack of demand by international cooperating partners for rigorous evaluation. This is changing as both recipient countries and international cooperating partners recognize the importance of allocating scarce financial and technical resources on trade activities with the highest rates of return. Requiring a baseline survey and a sufficiently large group of individuals/firms who are unaffected by the trade intervention (untreated) as an integral part of the project design will permit attribution to be established. Unfortunately many trade interventions do not permit such an approach.

73. **Most of the analytical work implicitly assumes efficient competitive markets**. Virtually all the activities aimed at cross border improvement assume that a reduction in time at the border will be passed on in reduced transport prices. It is then assumed this efficiency gain will be passed on as through a price reduction to consumers. Widespread government intervention, regulatory uncertainty, limited demand, and weak information flows, all work to restrict competition. It will be important for impact evaluations to capture the extent to which efficiency gains are passed on. **Improving market efficiency through ensuring more efficient regulations and access to information will strengthen the supply side response from reducing trade costs.**

[17] Reported in the Northern Corridor Transport Observatory Report Issue No.5 Monitoring began in 2012 and has recorded both a reduction in time and cost on the major routes from Mombasa to Nairobi, Kampala, Kigali and Bujumbura.

Annex I Constraint to Trade Indicators

Constraint to Trade Indicators by Three Broad Categories

Country level data has been organized by each of the six indicators under the three broad categories; macroeconomic and political stability, cost of production, and cost of trade across borders. Indicators have been indexed to have a minimum value of 1 (higher costs) and a maximum value of 5 (lower costs).

Macro and Political Stability						
	Political Stability	Rule of Law	Corruption Perception	Business Environment	Financial Freedom	Monetary Freedom
Botswana	4.0	3.5	3.5	3.8	3.8	4.0
Lesotho	3.3	2.8	3.0	3.3	2.8	4.0
Madagascar	2.5	2.3	2.3	3.0	3.0	4.3
Malawi	3.0	3.0	2.5	3.0	3.0	3.3
Mozambique	2.8	2.5	2.3	3.3	3.0	4.5
Namibia	3.8	3.3	3.0	3.5	2.8	4.0
South Africa	3.0	3.3	2.8	4.0	3.5	4.0
Swaziland	2.8	2.8	2.8	3.5	2.8	4.0
Zambia	3.5	2.8	2.5	3.5	3.0	4.0
Zimbabwe	2.5	1.8	2.0	3.0	1.5	4.0
Mauritius	3.8	3.8	3.3	4.0	3.8	4.3
Cambodia	3.0	2.25	1.8	3.15	3.0	4.15
Vietnam	3.25	2.6	2.2	3.65	2.15	3.65
Cost to Produce						
	Getting Credit	Paying Taxes	Regulatory	Inadequately Educated Workforce	Electricity Supply as Constraint	Construction Permit
Botswana	3.3	4.3	3.8	3.0	2.8	4.0
Lesotho	2.0	3.8	2.8	3.5	2.5	3.3
Madagascar	1.3	4.3	2.5	3.8	3.3	3.0
Malawi	2.0	4.0	2.0	3.8	3.3	4.0
Mozambique	2.3	3.8	2.8	3.5	3.3	4.0
Namibia	3.3	4.0	3.3	4.0	3.5	4.5
South Africa	3.5	4.0	3.5	3.8	3.5	4.5
Swaziland	3.3	4.0	2.8	3.8	3.8	4.3
Zambia	3.8	4.0	2.8	3.8	3.0	3.8
Zimbabwe	2.8	3.5	1.5	4.0	2.3	3.0
Mauritius	3.8	4.8	3.8	2.5	2.5	3.8
Cambodia	4.25	4.1	2.75	3.0	2.9	2.6
Vietnam	3.6	2.8	2.5	3.6	3.9	4.6

Cost to Trade						
	Customs Efficiency	Infrastructure Quality	Timeliness of Shipments	Trading Across Border	Services Restrict. Index	Average Tariff
Botswana	2.4	2.2	2.9	3.3	2.8	4.5
Lesotho	2.2	2.4	2.6	3.3	3.0	3.5
Madagascar	2.1	2.2	3.1	3.8	3.5	2.3
Malawi	2.8	3.0	3.0	2.5	2.8	1.0
Mozambique	2.3	2.2	2.7	3.8	3.5	3.5
Namibia	2.3	2.6	3.2	3.5	2.8	4.0
South Africa	3.1	3.2	3.9	4.0	2.8	3.0
Swaziland	3.1	3.2	3.9	3.8	2.8	3.8
Zambia	2.5	2.3	2.9	1.8	3.3	3.0
Zimbabwe	1.9	2.3	2.9	1.8	1.8	1.0
Mauritius	2.3	2.5	2.9	4.8	3.5	2.0
Cambodia	2.3	2.1	2.8	3.8	3.4	2.0
Vietnam	2.7	2.6	3.4	4.0	2.5	2.9

Spider Charts on Constraint to Trade Indicators by Three Broad Categories

Spider charts have been organized by the three broad categories: macroeconomic and political stability, cost of production, and cost of trade across borders. Each axis represents the six indicators under each category and the charts have been index so that 1 is for higher costs (more binding constraint) and 5 for lower costs (less binding constraint). Blue lines represent the country of interest while the others lines are for the three comparators; Cambodia (red), and Chile (olive green) are shown as international comparators.

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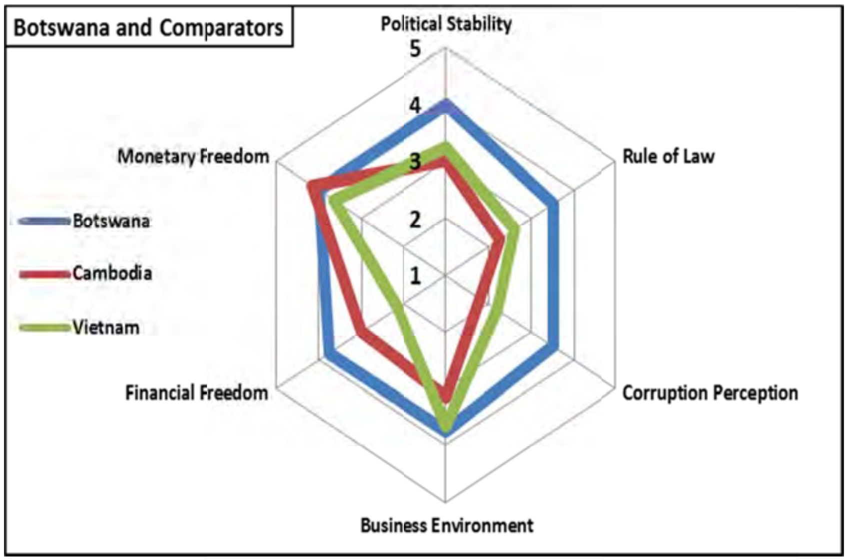

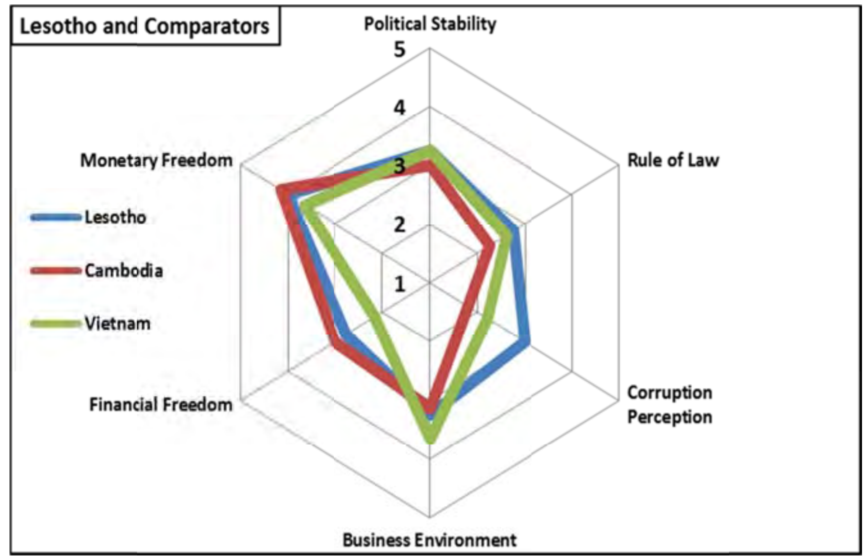

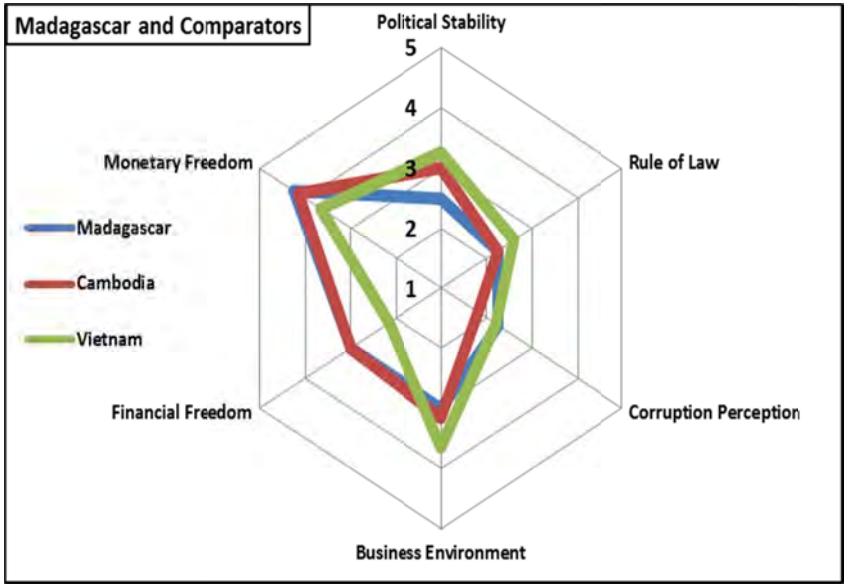
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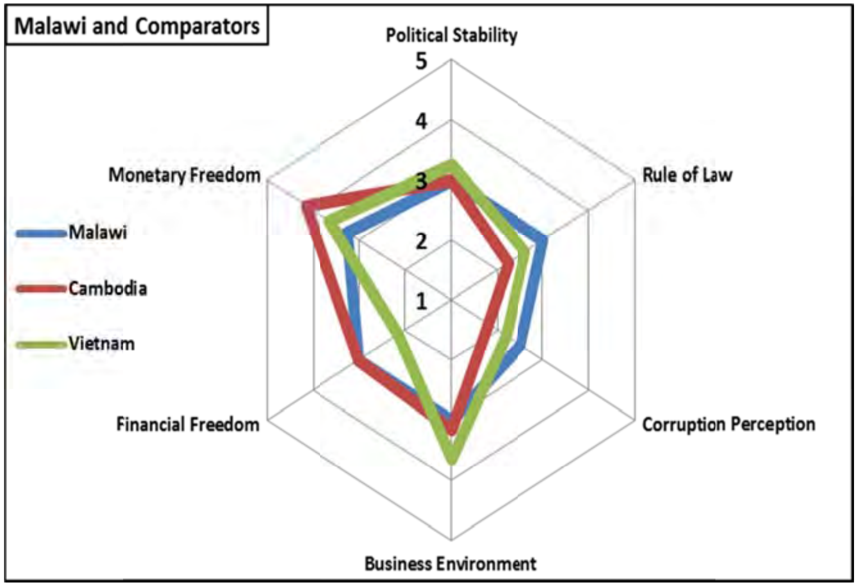
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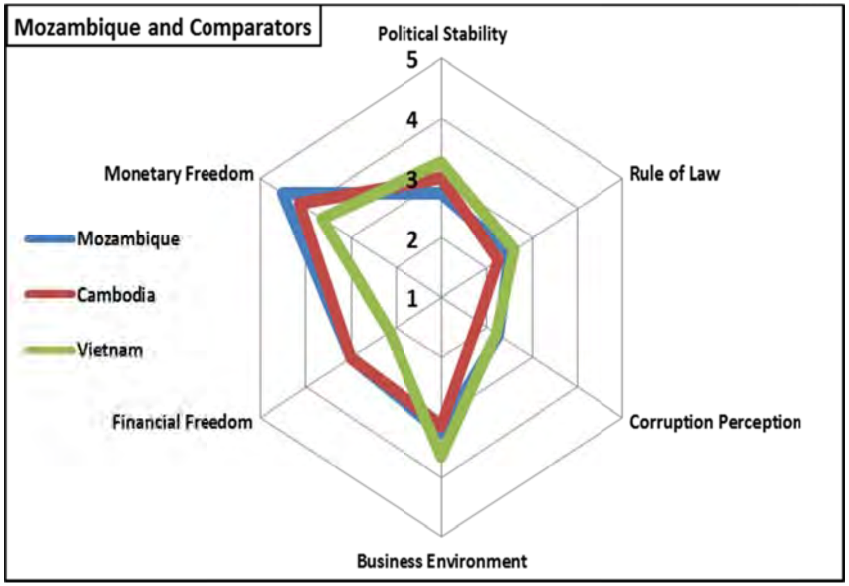
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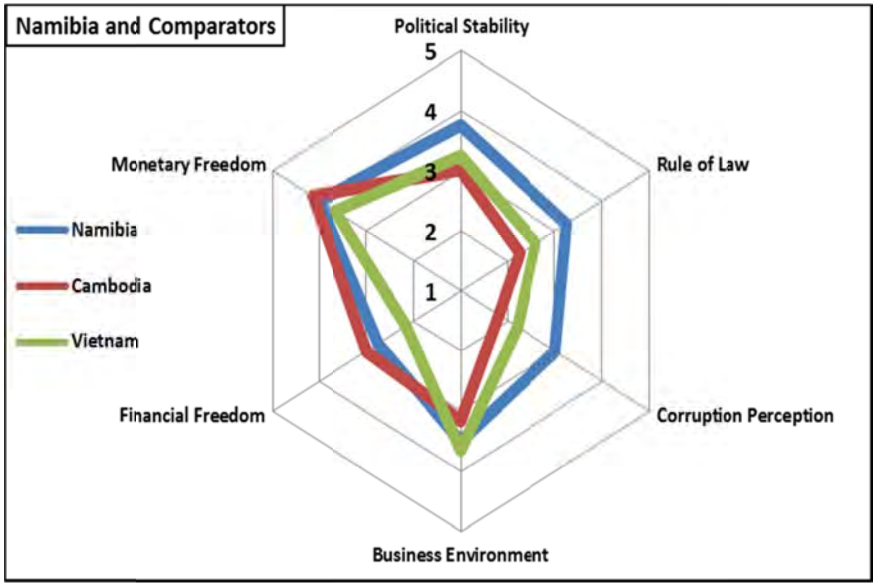
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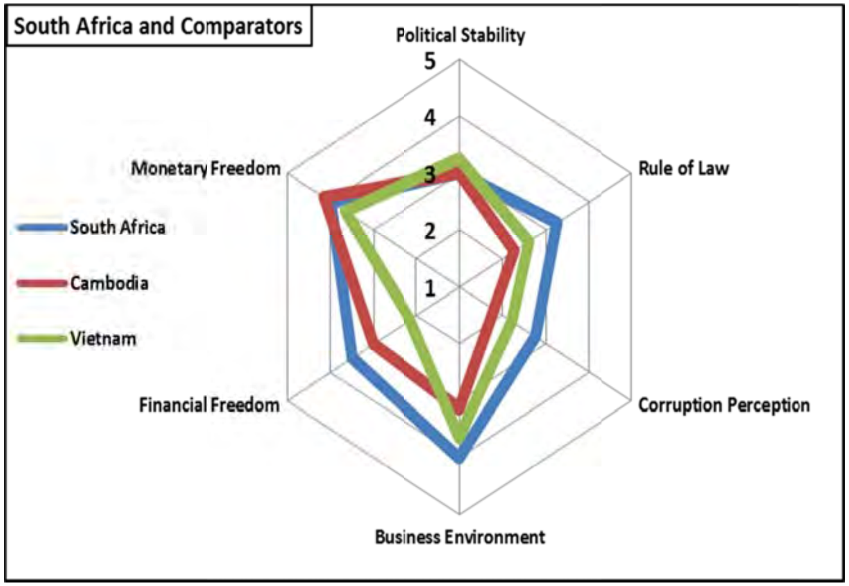
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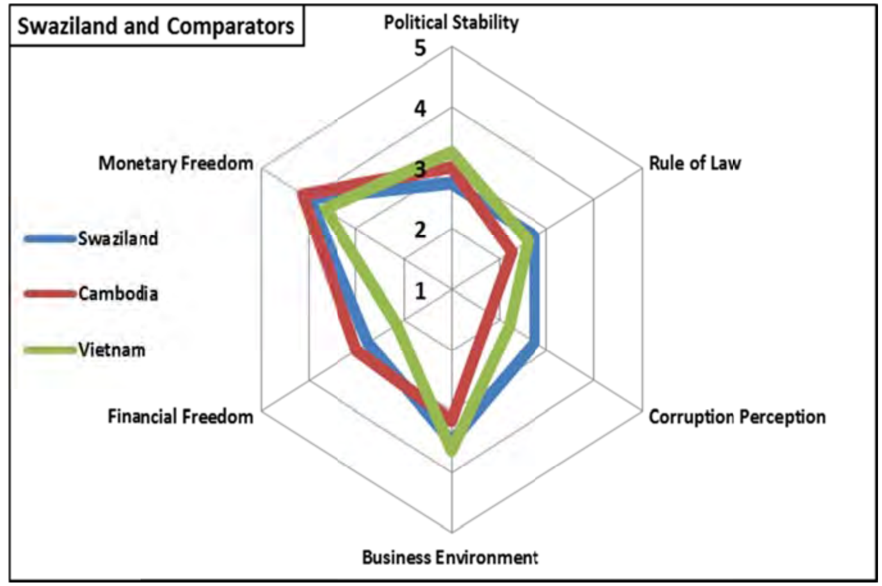
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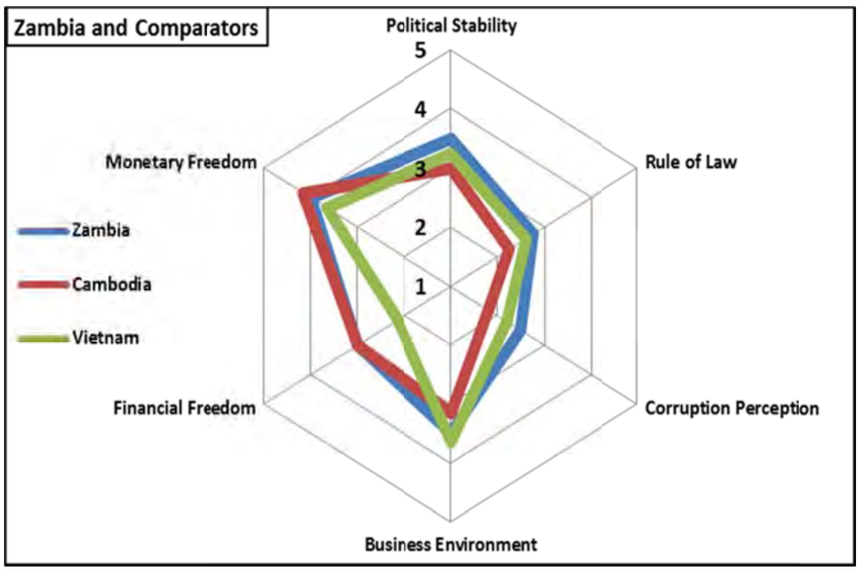
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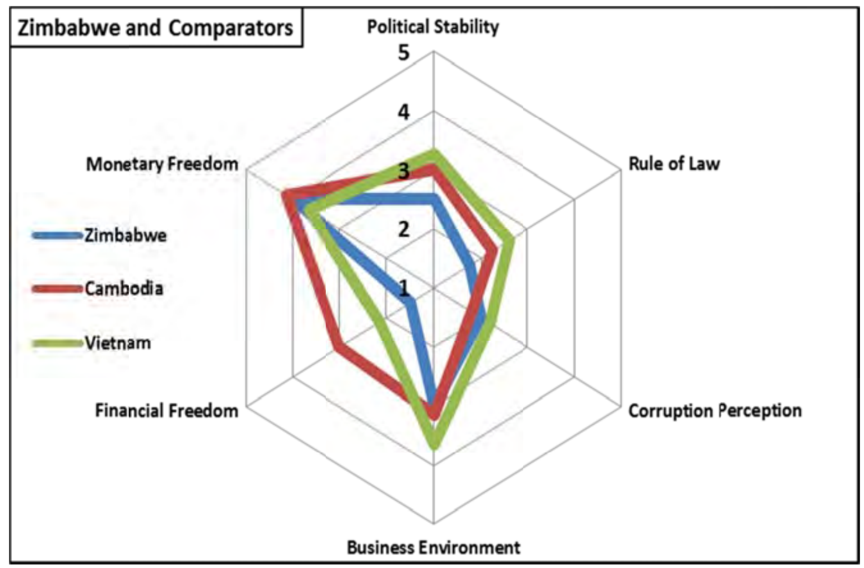
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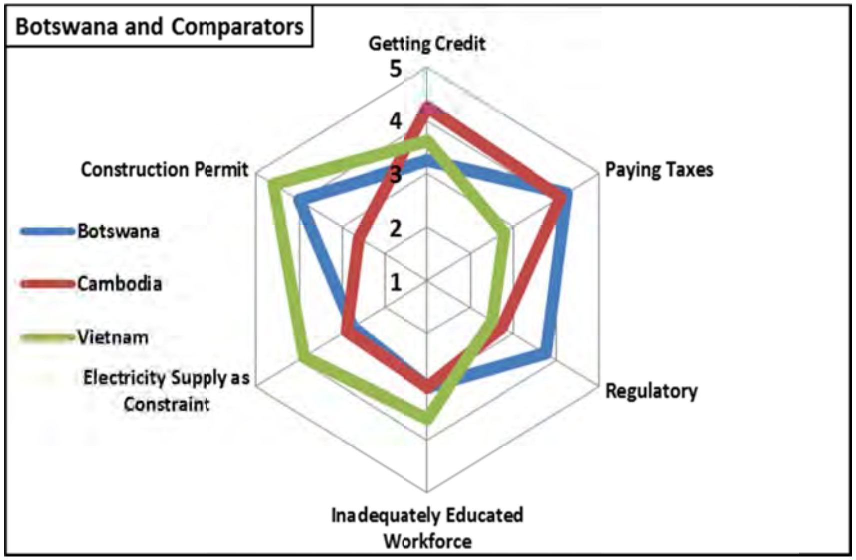

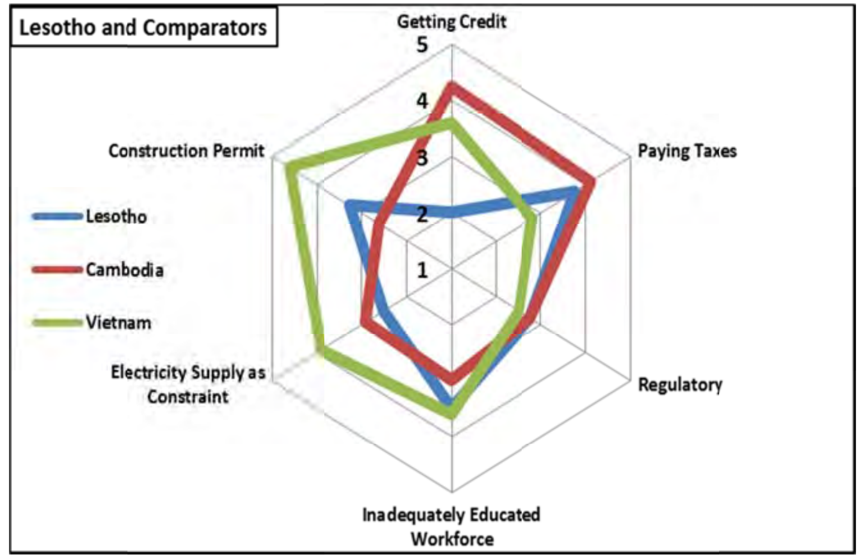

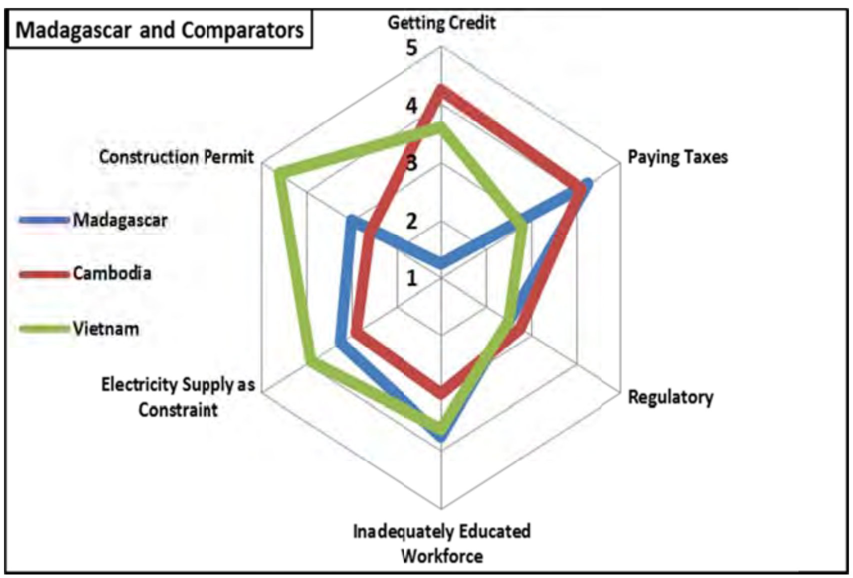

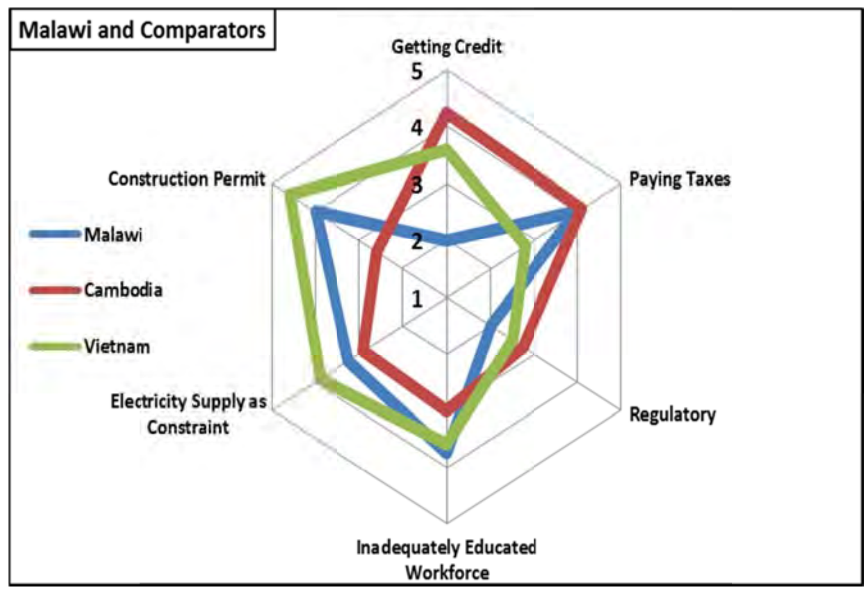

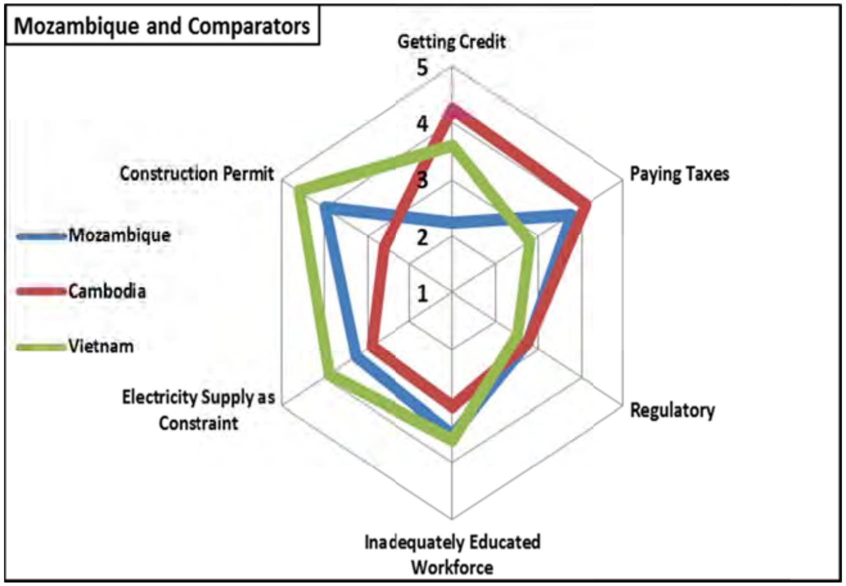
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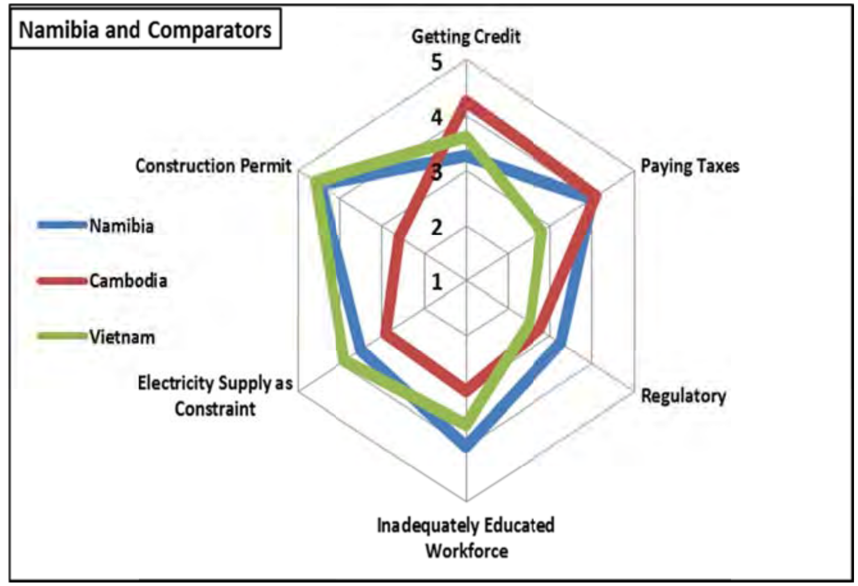
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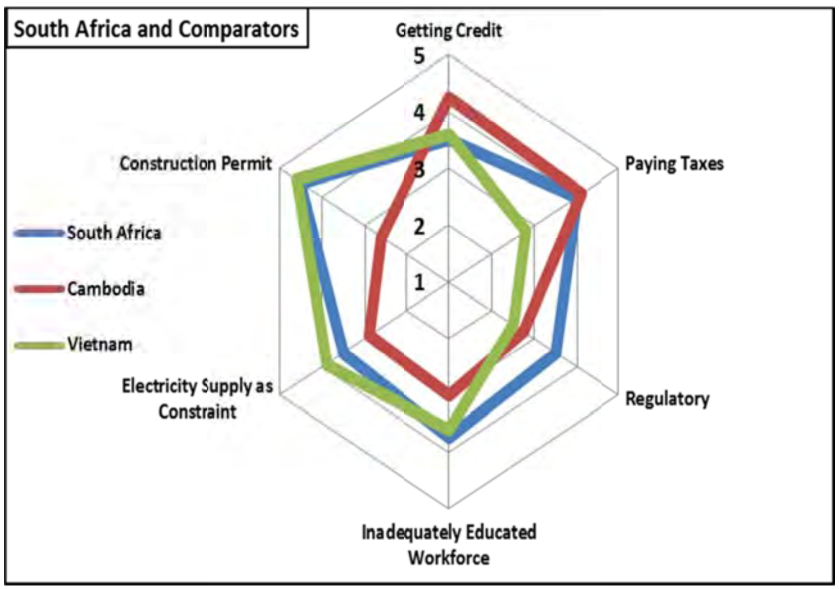
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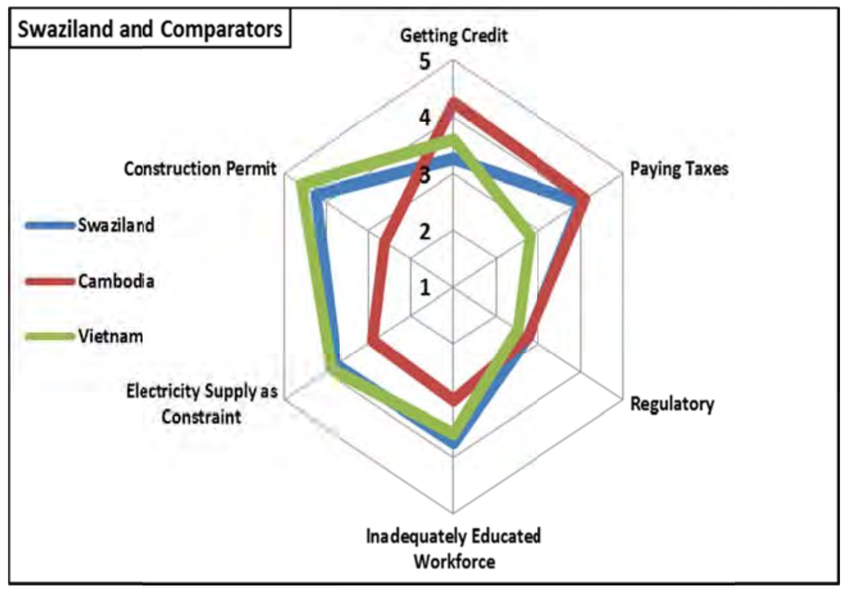
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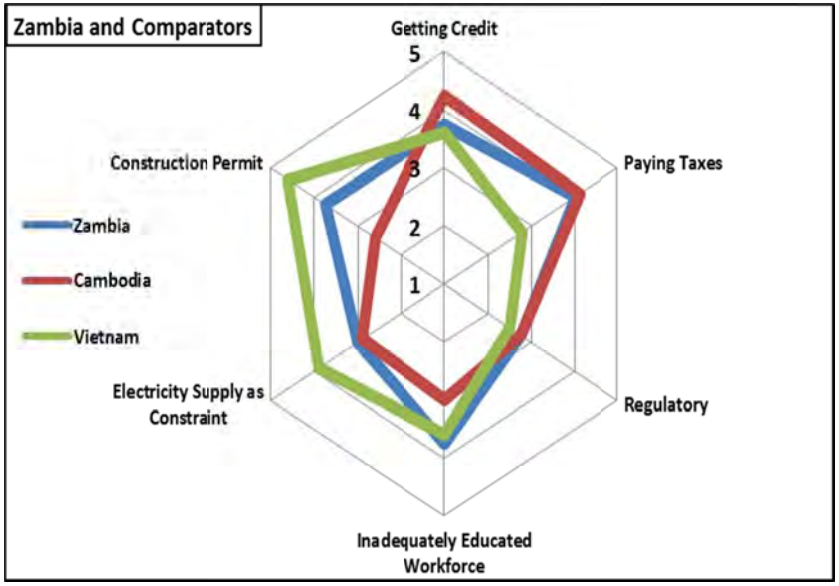
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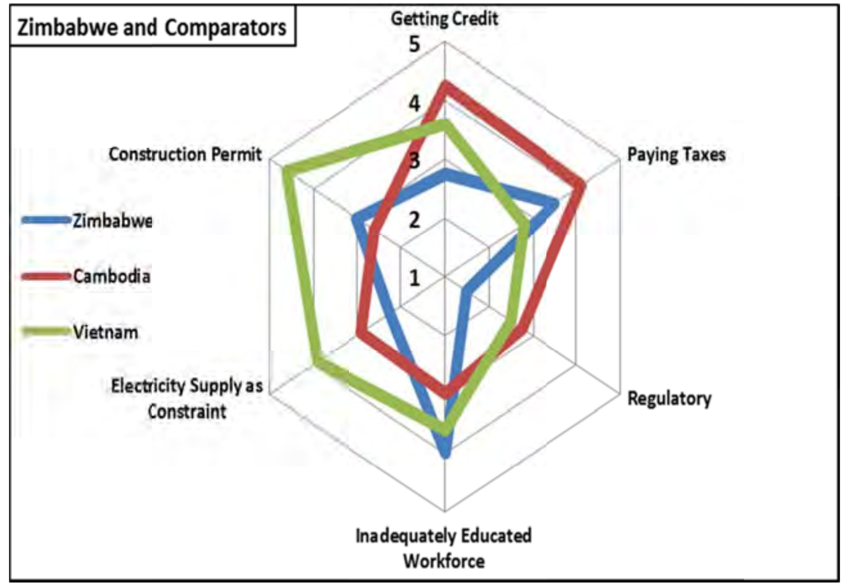
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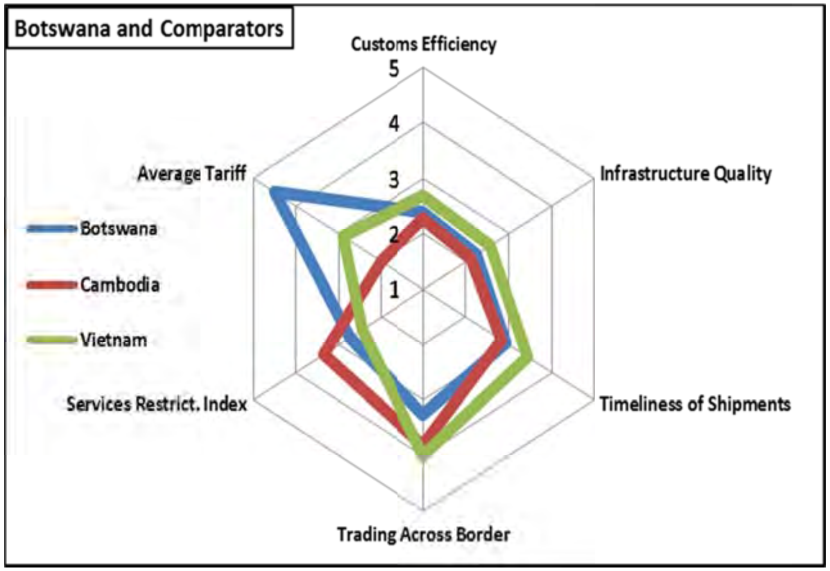

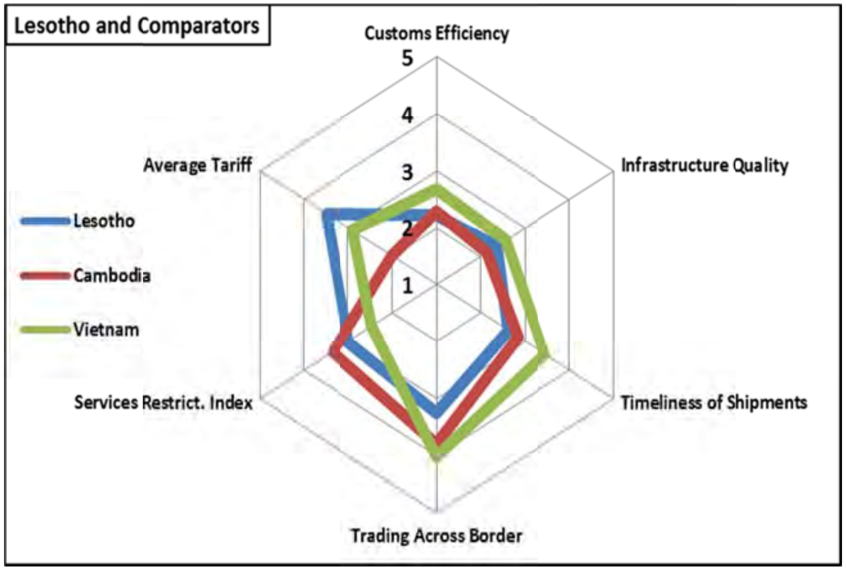

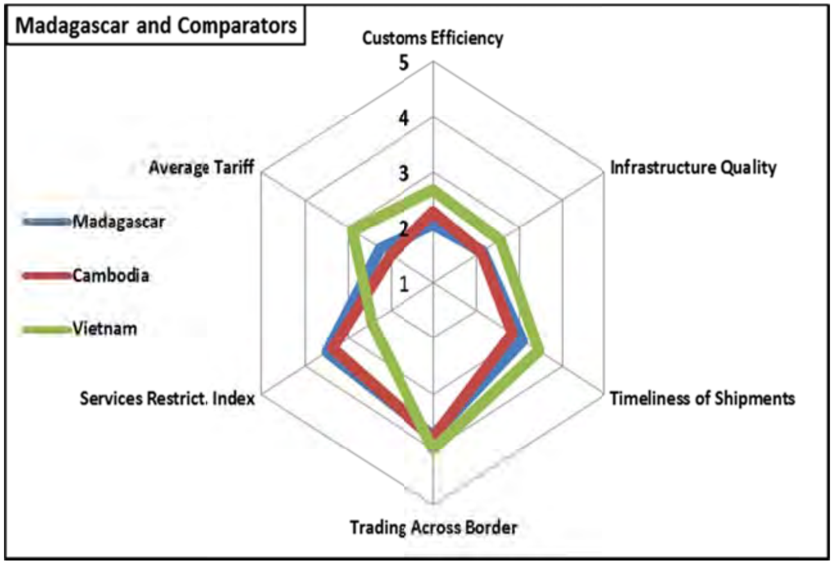

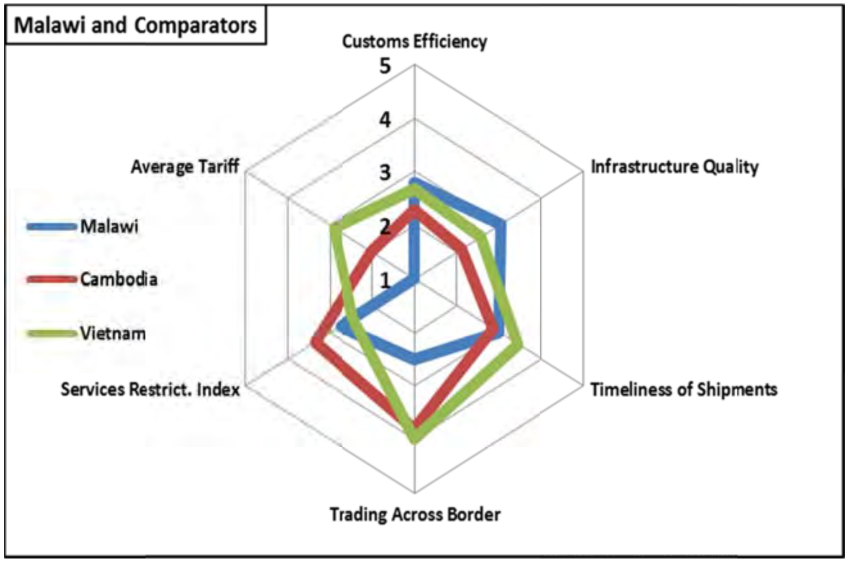

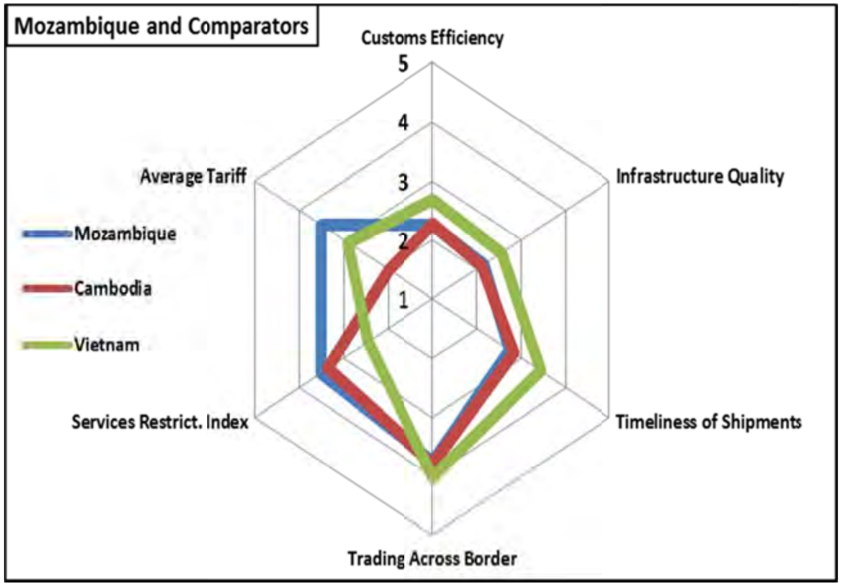
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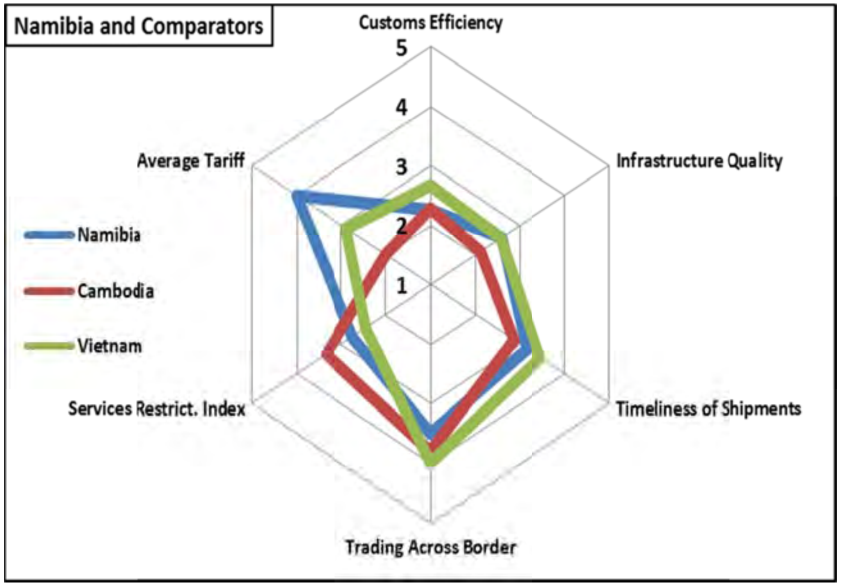
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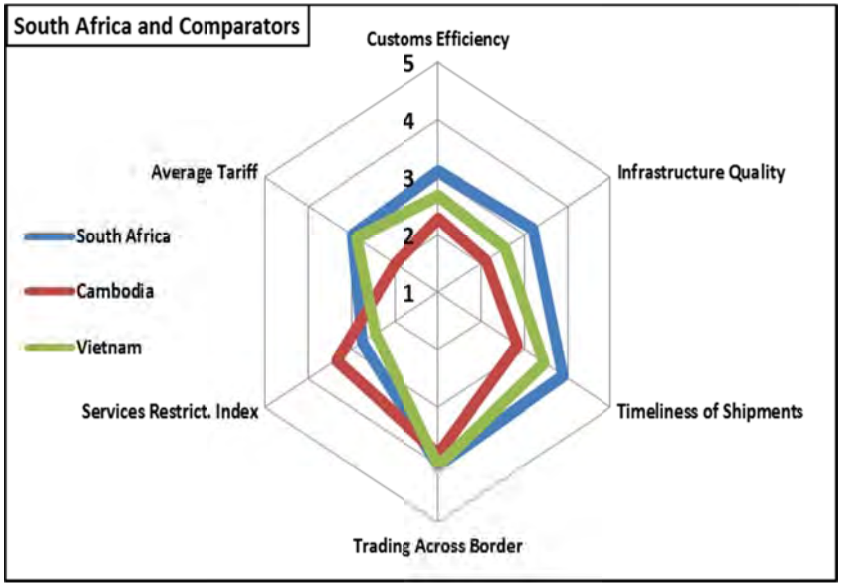
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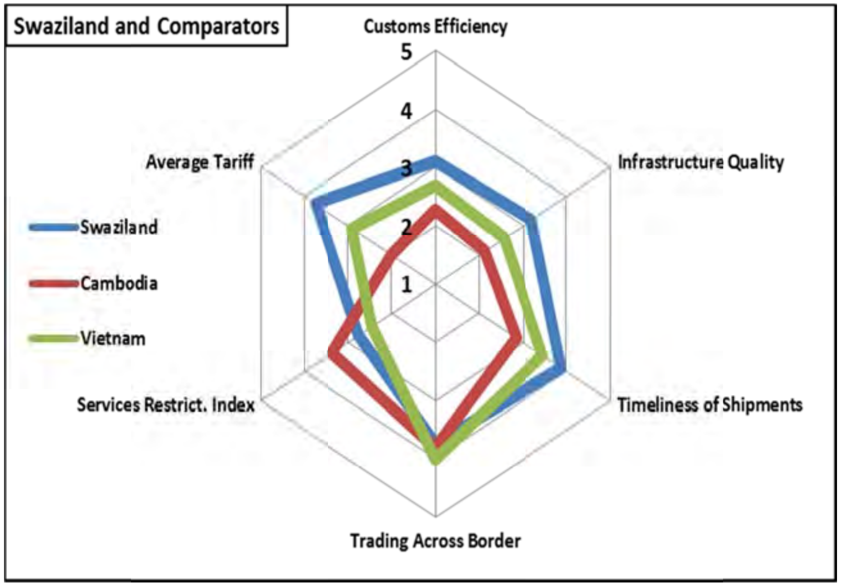
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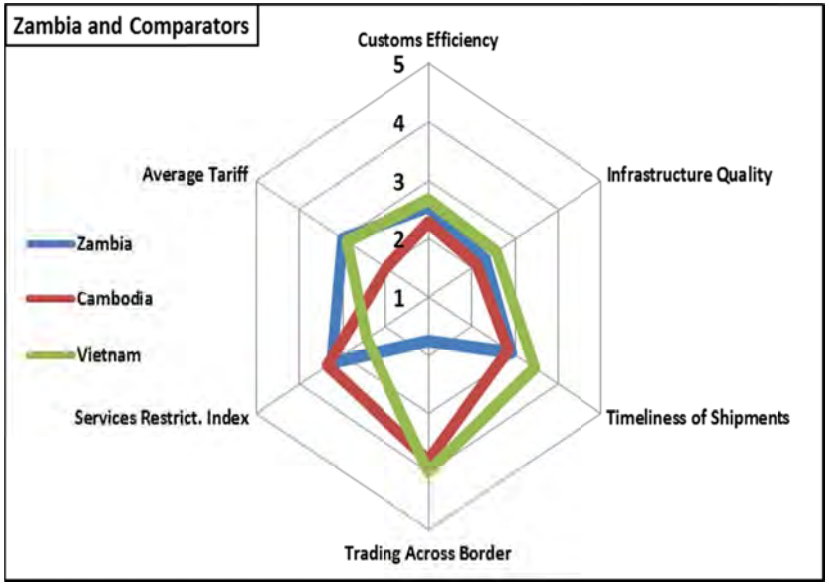
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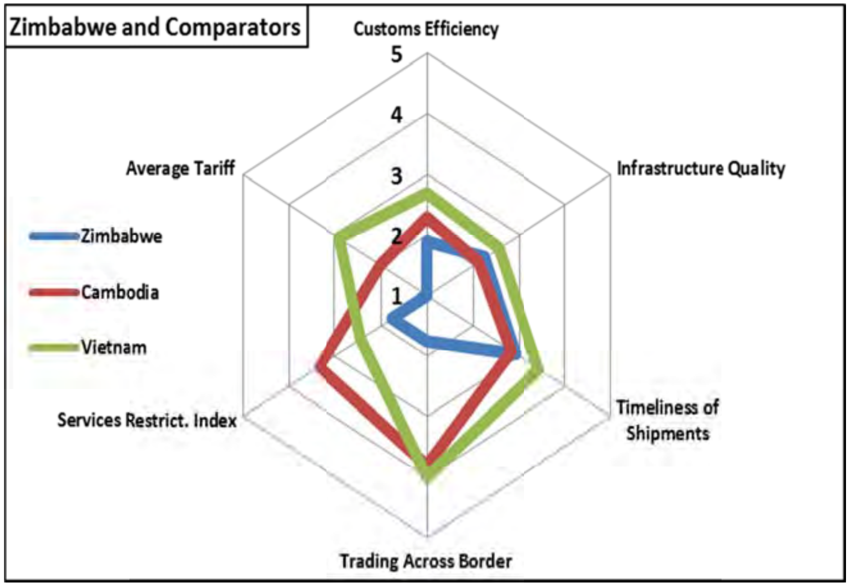
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Infrastructure Quality
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Average Tariff
Zimbabwe
Cambodia
Vietnam

Definitions and Data Source for Indicators

Indicator Name	Definition	Data Source
Trading Across Border		
Timeliness of Shipments	The frequency with which shipments reach consignees within scheduled or expected delivery times, where 1 is 'hardly ever' and 5 is 'nearly always'.	Logistics Performance Index, World Bank
Infrastructure Quality	Quality of Trade and Transport Infrastructure (*e.g.,* roads, rail roads and information technology), where 1 is 'very low' and 5 is 'very high'.	Logistics Performance Index, World Bank
Average Tariff	Calculated based on the OTRI which captures the trade policy distortions that each country imposes on its import bundle. It measures the uniform tariff equivalent of the country tariff and non-tariff barriers (NTB) that would generate the same level of import value for the country in a given year. Tariff values are based on applied tariffs, which take into account the bilateral trade preferences. There were no available OTRI values for Madagascar and Zimbabwe so data on weighted mean applied tariff for 2012 was taken from the WTO country tariff profiles.	Overall Trade Restrictiveness Index (OTRI), World Bank and Country Tariff Profiles, World Trade Organization
Customs Efficiency	The efficiency of clearance process (speed, simplicity and predictability of formalities) by border control agencies such as customs, where 1 is 'very low' and 5 is 'very high'.	Logistics Performance Index, World Bank
Trading Across Borders	Measures the time, cost, and documentation requirements associated with imports into, and exports from each economy. This measure shows the distance to the "frontier," which represents the best performance observed across all economies in the Doing Business sample. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.	Doing Business Report, World Bank
Services Trade Restrictions Index (STRI)	A measure of the restrictiveness of a country's policy regime covering five sectors (telecommunications, finance, transportation, retail and professional services) and the key modes of service supply (cross-border supply or mode 1, commercial presence/FDI or mode 3 and the presence of service supplying individuals or mode 4. The choice of sectors was based primarily on their economic importance from a development perspective. Applied policies are bundled into five broad categories; completely open (0), virtually open but with minor restrictions (25), major restrictions (50), virtually closed with limited opportunities to enter and operate (75) and completely closed (100).	Services Trade Restrictions Database, World Bank

Indicator Name	Definition	Data Source
Production Costs		
Getting Credit	Measures the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the sharing of credit information through another. The first set of indicators measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. The second set measures the coverage, scope and accessibility of credit information available through credit reporting service providers such as credit bureaus or credit registries. This measure shows the distance to the "frontier," which represents the best performance observed across all economies in the Doing Business sample. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.	Doing Business Report, World Bank
Paying Taxes	The taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees. This measure shows the distance to the "frontier," which represents the best performance observed across all economies in the Doing Business sample. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.	Doing Business Report, World Bank
Regulatory Quality	Measures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Each country is graded based on an index that ranges from approximately -2.5 (weak regulatory quality) to 2.5 (strong regulatory quality).	Worldwide Governance Indicators, World Bank
Inadequately Educated Workforce	Percentage of firms identifying labor skill level as a major constraint. The computation of the indicator is based on the rating of the obstacle(where 0 is 'no obstacle' and 4 is 'very severe obstacle') as a potential constraint to the current operations of the establishment	Enterprise Surveys, World Bank
Electricity Supply as Constraint	Percentage of firms identifying electricity as a major constraint. Computation of the indicator is based on the rating of the obstacle (where 0 is 'no obstacle' and 4 is 'very severe obstacle') as a potential	Enterprise Surveys, World Bank

Indicator Name	Definition	Data Source
	constraint to the current operations of an establishment.	
Construction Permit	Covers all procedures required for a business in the construction industry to build a warehouse. This measure shows the distance to the “frontier,” which represents the best performance observed across all economies in the Doing Business sample. An economy’s distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.	Doing Business Report, World Bank
Macroeconomic and Political Instability		
Political Stability and Absence of Violence	Measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Each country is graded based on an index that ranges from approximately -2.5 (higher likelihood of political instability) to 2.5 (lesser likelihood of political instability).	Worldwide Governance Indicators, World Bank
Rule of Law	Measures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Each country is graded based on an index that ranges from approximately -2.5 (weak ‘rule of law’) to 2.5 (strong ‘rule of law’).	Worldwide Governance Indicators, World Bank
Financial Freedom	A measure of banking efficiency as well as a measure of independence from government control and interference in the financial sector. State ownership of banks and other financial institutions such as insurers and capital markets reduces competition and generally lowers the level of available services. Each country is graded on a scale from 0 to 100, where 0 represents the highest amount of distortions while 100 represents the least amount of distortion.	Index of Economic Freedom, Heritage Foundation
Monetary Freedom	A measure of price stability with an assessment of price controls. Given both inflation and price controls distort market activity, price stability without microeconomic intervention is the ideal state for the free market. The measure is based on two factors: the weighted average inflation rate for the most recent three years and price controls. Each country is graded on a scale from 0 to 100, where 0 represents the highest amount of distortions while 100 represents the least amount of distortion.	Index of Economic Freedom, Heritage Foundation
Business environment	Measures overall ease of doing business for each economy based on 10 topics; starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across	Doing Business Report, World Bank

Indicator Name	Definition	Data Source
	borders, enforcing contracts and resolving insolvency. This measure shows the distance to the "frontier," which represents the best performance observed across all economies in the Doing Business sample. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.	
Corruption Perception	Scores countries based on how corrupt a country's public sector is perceived to be. A country's score indicates the perceived level of public sector corruption on a scale of 0-100, where 0 means that a country is perceived as highly corrupt and a 100 means that a country is perceived as very clean.	Corruption Perceptions Index (CPI), Transparency International

Note on rebasing of indicators:

For percent based indicators with ascending order of improvement (*i.e.,* 0 is worst and 100 is best), rebasing was done such that 0 = 1 and 93-100 = 5. For values in between, the indicator was rebased by increments of 4 or 5 such that 1-5 = 1.25, 6-13 = 1.5, 14-20, 1.75, 21-25 = 5, etc.

Percent based indicators with descending order of improvement *(i.e.,* 100 is worst and 0 is best) were rebased such that 76-100 = 1 and 0 = 5. For values in between, the indicator was rebased by increments of 4 or 5 such that 71-75 = 1.25, 64-70 = 1.5, 58-63 = 1.75, 51-57 = 2, etc. The only exception to this was the average tariff indicator for which there was only one data point above 20. In this case, rebasing was done so that all values 13 and above equated to 1 while all values 12 and below represented a .25 change in the rebased indicator.

Index based indicators from the Worldwide Governance Indicators which ranged from -2.5 to 2.5 were rebased so that -2.5 = 1 and 2.5 = 5. For values in between, the index was rebased by increments of .3 such that -2.2 = 1.25, -1.9 = 1.5, -1.6 = 1.75, -1.3 = 2, etc. Index based indicators from the Logistics Performance Index which ranged from 1-5 remained unchanged.

Annex 2 Action Matrix Criteria for Ranking Proposed Trade Interventions

Country/Activity	Commitment	#	Priority	#	Difficulty/Ease of Implementation	#	Pay-off	#
Botswana								
National Single Window	High, Cabinet Approved	4	High, BURS committed to implementing	4	Difficult as requires extensive inter-agency cooperation	2	Modest as will only apply to one side of the border	2
Liberalize priority trade in services	Low recommended in earlier 2005 BIDPA/WB study and repeated in 2012 WB Report	1	Does not appear a priority	2	Difficult as strong political resistance by existing state owned monopolies	1-2	High	5
Phase down import substitution activities	Low	1	Low was present in 2005 BIDPA/WB study and repeated recommendation in 2012 WB Report	1	Difficult as incumbent firm will lobby for continued protection	2	High	5
Remove Core NTBs, and improve business enabling environment	High –part of Botswana Excellence Strategy	4	High-part of Botswana Excellence Strategy	4	Medium	3-4	Medium	3
Lesotho								
Strengthen analytical capacity in support of trade and investment policy and negotiation	High in DTIS	4	Medium, project financed by Trade Advocacy Fund	3	Medium	3	Medium	3
Implement an inter-Ministerial Coordinating Body for Trade Policy	Medium, not implemented 3 years after DTIS Update	2	Increased with TFA – committee could also address Trade Facilitation Issues	3	Difficult as requires inter-ministerial support	2	Medium	3
Improve border efficiency	High	4	High, GOL committed and have implemented a National Trade Portal	4	Medium –strong support within Lesotho, necessary to improve coordination with South Africa at key border posts	3	High	4

Country/Activity	Commitment	#	Priority	#	Difficulty/Ease of Implementation	#	Pay-off	#
Establish National Standards Body	High	4	Medium, requires commitment of recurrent funding	3	Medium, technical assistance required	3	Modest, should explore increasing links with SABS –as recommended in 2004 DTIS	2
Namibia								
National Single Window	High, Cabinet Approved	4	Customs has embedded advisor and committed	4	Difficult as requires substantial changes in roles and responsibilities between currently autonomous agencies/departments	2	Medium, as will only be implemented on one side of the border	2
National Trade Portal	High	5	High, implemented in 2015	5	Easy as does not require any reassignment of roles and responsibilities	4	Medium, increases transparency	3
Establish a National Trade Facilitation Committee	High	4	High, Ministry of Trade committed	4	Relatively straightforward but would benefit from TA	4	Medium	3
Madagascar								
Simplify and publicize the criteria for receiving tariff and tax exemptions	In draft DTIS Update	Na	Unknown		Difficult will need to be phased in and may encounter resistance from existing beneficiaries	2	High	4
Establish a National Trade Facilitation Committee	In draft DTIS Update	Na	Unknown		Relatively straightforward but would benefit from TA	4	Medium	3
Improve Border Management processes and cooperation	In draft DTIS Update	Na	Unknown		TA required to introduce more modern customs procedures and begin process of collaboration with other border agencies	3	High	4

Country/Activity	Commitment	#	Priority	#	Difficulty/Ease of Implementation	#	Pay-off	#
Malawi								
Review tariff policy to reduce peaks, eliminate nuisance tariffs, adopt and publicize a transparent policy on tariff exemptions and preferences	Low	2	Low	2	Difficult as requires MOF/MRA to address revenue diversification and political economy aspects of removing discretion over tariff exemptions	2	High	5
Removal of existing NTBs and prevention of new NTBs through introducing Regulatory Impact Assessment	Medium	3	Medium, agreement at SADC level to address NTB	3	Medium –start by preventing new measures	3	High	5
Reduce the number of border agencies for more effective Integrated Border Management	Medium + Cabinet already approved (in 2014)	4	Medium –not a top priority as not implemented	2				
Introduce a National Trade Portal	Approved	5	High-consultants appointed to design NTP	5	Relatively low since focuses on provision of information rather than re-engineering of responsibilities	4	Medium, seen as first step towards more streamlined border procedures	3
National Single Window	Limited support at high levels	2	A stated priority of MRA only, not supported across all agencies	1	Very difficult without high level support and commitment to implement within an agreed and monitored timeframe	1	High, would reduce border crossing time	4
Mozambique								
Strengthen Inter-Institutional Consultation mechanism on trade issues	In DTIS Update Action Matrix	3	Commitment in Development Plan	3	Modest does not require policy or regulatory change, requires TA/finance	3	Modest	3
Mainstream Trade into Five Year Government Plan	In DTIS Update Action Matrix	3	Endorsed by Government but not implemented	2	Requires Policy Change and TA/funding	2	Limited pay-off in short run as policies unchanged	2
Undertake an inventory of all NTBs	In DTIS Update Action Matrix	3	Endorsed by Government, but not implemented and not clear it is a priority	2	Requires TA/funding	3	Baseline for undertaking regulatory impact assessments	3 or 4

Country/Activity	Commitment	#	Priority	#	Difficulty/Ease of Implementation	#	Pay-off	#
Use provisions of TFA to simplify import and export procedures	In DTIS Update Action Matrix	3	Commitment to TFA but limited progress on simplifying procedures (pre-shipment, scanning charges)	1 or 2	Capacity exists within Mozambique Customs, constraint is political will	2	High-direct reduction of costs and time	4
South Africa								
SARS continue with modernization program	High	4	High	4	Successfully being implemented	4	High	4
Improve efficiency at Beit Bridge Border Post	Medium	3	Medium	3	Difficult, requires extensive inter-agency coordination and joint participation by Zimbabwe	2	High for neighboring Countries as main N-S gateway	4
Implement OSBP	High	4	High, committed to reforming legislation	4	Medium –Study underway funded by AfDB	3	Medium/High	4
Swaziland								
Streamline Border procedures to reconcile VAT with South Africa	High	4	High	4	South Africa concerned over border controls	2	Medium	3
Establish Inter-Agency Trade Facilitation Committee	High in principle	3	Agreed priority	4	Low, but will require technical support	3	Medium	3
Zambia								
Develop a Logistics Strategy	Medium-	3	High	4	Low difficulty	4	High	4
Improve Border Coordination and Management	Medium	3	High	4	Medium	3	High	4
Introduce Accreditation Scheme with training for clearing and forwarding agents	Medium	3	High	4	Low difficulty but may encounter some resistance	3	Medium	3
Ensure existing OSBP is operating effectively	High	4	High	4	Medium, requires procedural changes at the border	2	High	4
Zimbabwe								
Improve Border Coordination and Management	Limited support outside ZIMRA	2	Medium	2	Difficult without high level support and inter-agency cooperation	1	High	4

Country/Activity	Commitment	#	Priority	#	Difficulty/Ease of Implementation	#	Pay-off	#
Reduce Anti-Export Bias through reform of tariff structure	No commitment to tariff reform, focus on revenue generation	1	Low	1	Difficult as opposed by existing import substituting activities	1	High	4
Improve efficiency at Beit Bridge Border Post	Medium	2	Medium-main concern over revenue	2	Difficult, ZIMRA focuses on meting revenue targets	2	High, as main source of inputs to Zimbabwe and important for neighboring countries	4
Remove restrictions on trade in priority service sector	Limited commitment to liberalize	2	Low	2	Requires an audit of the service sector and regulatory impact assessment-TA required	2	High	4

Note: The rankings have been estimated by the authors based on a combination of stakeholder interviews, a review of expert reports, and information on the impact of specific reforms from comparator countries. This is subjective and is meant to be illustrative rather than definitive. As noted in the paper the purpose is to encourage a more systematic approach to prioritizing trade interventions. Na = not available

Annex 3 Country notes

Botswana

Key points from literature review:

Botswana Development Policy Review: An Agenda for Competitiveness and Diversification, World Bank, 2013

This report contains an extensive list of policy recommendations. Some key agenda items include the following:

- Introduce impact assessment of economic programs before approval and monitoring and evaluation of the programs after implementation.
- Improve the capacity to gather and analyze economic data in order to support evidence-based policy making.
- Phase down programs that subsidize import-substitution industries and shift resources to programs that support exports.
- Create capacity within the Ministry of Trade and Industry, by strengthening data and technical skills, to advocate effectively for trade policies in Botswana's interest.
- Remove core NTBs; continue to improve existing cumbersome customs procedures; and revamp import and export licensing, quota arrangements, and unnecessary import prohibitions.
- Review services restrictions with the view to reductions to spur competition.
- Aggressively pursue services liberalization with the EU and SADC partners through trade negotiations, with the goal of establishing Botswana as a base for niche services in the region.
- Lower telecommunications cost by developing a collaborative national broadband strategy that aims to reduce price, improve speed and reliability, enhance consumer choice, and develop new applications.
- Apply risk-based systems for border clearances, including an accredited transporter scheme.
- Improve competition in air transport services by reducing protection of Air Botswana by opening up domestic and international market to new entrants and wind down existing subsidies.
- Update and approve National Tourism Policy to enable industry to target growing market segments and develop products such as sport tourism and birding.
- Promote exports by shifting strategic focus of BEDIA to new sectors, beyond manufacturing, to include services and agriculture.
- Accelerate decision-making on the SEZ program; conduct a pre-feasibility study to identify the clear commercial case for SEZs, from which the business and institutional model and key decisions on the tax regime and regulations, will derive.

Key comments from stakeholder interviews:

Public Sector (Ministry of Finance and Economic Planning, Botswana Investment and Trade Centre, Ministry of Trade and Industry) comments:

- There is a risk that South Africa may withdraw from SACU. Botswana would like to see a stable rand/dollar exchange rate; the volatility creates problems for exporters. The recent appreciation of the Pula against the Rand creates challenges for the newly established diamond cutting activities (which are key to the forward linkages).

- A move towards a One Stop Border Post would be very welcome.
- There is concern over use of infant industry clause in SACU by Botswana (small packages of salt are now subject to import duty).
- Practical recommendation –harmonize the import exemption level and the VAT exemption level (simple issue would save considerable time and effort).
- The current trade hub focuses on higher-level macro issues; more firm level or micro support (meeting international standards, compliance with Rules of Origin) is needed.
- Michael Porter has been advising the President of Botswana –recommended supporting clusters – information technology, financial services, beef, tourism, health, mining and diamonds. He believes there is an opportunity for SATH to work on supporting the clusters (enabling environment). He also sees opportunities in niche textiles, and solar energy (although requires changes to the regulatory environment).
- In Gaborone they currently only have one factory shell available-the government builds and rents out factory shells (these are subsidized).
- The World Bank is supporting TA aimed at improving the business-enabling environment (automating procedures and increasing transparency, but this is encountering some resistance).
- Dependence on primary product exports is the major challenge. There is a need to commit to beneficiation and diversification and to attract FDI for manufacturing.
- A Special Economic Zones policy was approved in 2010, and enabling legislation should be passed in July 2015. The leather park in Lobatse will be the first SEZ. Also planning an SEZ in Gaborone for financial services and light manufacturing.
- The industrial development policy was approved in 2014 –main theme –developing clusters around value chains such as agro-processing, meat and meat products, tourism, telecoms, financial services, and leather.
- Strategy in the short term is for the government to kick-start the economy through using procurement regulations to prioritize local sourcing. All government entities are expected to purchase from local producers (defined as a Botswana registered company). This began in 2010, and there has been no evaluation.
- A National Entrepreneurship Policy and SMME Sector Policy have been developed, and they are expected to be approved by Parliament in 2015.

US Embassy comments:

- They are focusing on why Botswana is not exporting more. The main constraints were identified as SARS sudden changes in regulations, and the unloading of sealed containers in transit through SA for export to US (under AGOA).
- The National Single Window was approved by Cabinet in January 2015 with BURS as the lead agency.
- SATH is providing support on amending the Customs Law for the NSW.
- The E-Communication and Transaction Act was passed in June 2014 and is now funded in the new 2015/2016 budget (for implementation).
- Key business problems were identified as shortages of water and electricity and too much red tape. The power shortages are expected to continue for several years.
- A big problem is the lack of transparency in the denial of work permits.

Donor comments:

- SACU is trying to support member states to establish National Committees.
- The progress of the SADC service negotiations in the six priority service sectors has been very slow.

Possible trade facilitation initiatives:

- National Single Window, approved by Cabinet and led by BURS
- Implement Interconnectivity within SACU to reduce duplication and increase border crossing times
- Pursue OSBP with South Africa and Namibia
- Establish the National Committee on Trade Facilitation.

Lesotho

Key points from literature review:

Lesotho Compact II Development Project, MCC, 2014

The report identified binding constraints in three key areas:

- Low human capital – both in terms of skills as well as the poor health of the general population
    - In the area of education there is a low level of entrepreneurial and managerial skills; Lesotho also has a problem with the migration of educated and skilled people.
    - The burden of HIV/AIDS reduces labor productivity, raises costs from lower productivity and higher absenteeism, and increases replacement costs for workers and self-employed. Poor health stemming from HIV/AIDS is particularly problematic from a development perspective, as it tends to be concentrated among working-age individuals. Employee poor health also affects the quality and timeliness of service delivery for firms in Lesotho.

- Poor land management allocation systems
    - In issues related to land allocation, consultations revealed that there was a large disconnect between policy and practice at the local level wherein local councils are empowered to allocate land, but local chiefs were still allocating land in accordance with their traditional roles. This problem seems to be caused in part by the lack of capacity of many local councils to complete land allocation requirements resulting in long delays for citizens seeking to access land through allocation procedures.
    - The aggregation of adequate amounts of land for productive use was identified as an issue. Both medium and large firms in Lesotho noted that access to land was a major constraint to doing business.
    - Ineffective land management threatens a substantial portion of Lesotho's GDP. Unsustainable range management practices lead to the over-grazing of land and its subsequent loss of flora, erosion, and general degradation.

- Poor quality policy and regulatory structures

- o Poor quality regulatory and legal structures to regulate firms and promote coordination reduce expected investment returns. Several investment climate and policy reviews note that Lesotho's overall level of regulatory, policy and legal instruments for growth in any and all sectors, particularly non-manufacturing sectors, is weak.
- o The data indicate that Lesotho's regulatory quality is weaker than those of three countries in the region. The lack of a clear strategic direction within ministries, lack of accountability, and corrupt tendencies are the main issues affecting the government's effectiveness.

Key comments from stakeholder interviews:

US Embassy/MCC comments:

- Discussed constraints on exporting agricultural products to Southern Africa, specifically problems at the SA border including a lack of consistency in applying the rules. This is a real issue for the SA investor exporting Smoked Mountain Trout to Japan.
- Speed of the Internet is very variable and major source of complaint by the Chinese apparel producers (since this is how they communicate).
- The apparel factories are doing well (assisted by the recent devaluation of the Rand). The industry has moved away from cotton to focus on artificial fibers. Once AGOA is renewed they expect to see additional firms invest in Lesotho (problem is shortage of factory shells).
- Under regulatory policy the challenges of fish farming were mentioned. Aquaculture is farming, and is therefore regulated by the Ministry of Agriculture. A fish farm has to purchase its eggs and feed from Southern Africa for which it requires an import license, which in turn requires a trading license. The Ministry of Trade cannot issue a trading license to a farming activity, and the Ministry of Agriculture is not empowered to issues a trading license. The absence of a trading license means that the company cannot reclaim the VAT paid in South Africa on the inputs.

Public sector comments:

Ministry of Trade:

- Key issues for the Ministry of Trade are TBT, SPS and Trade Related Technical Assistance.
- Border procedures are a constraint. The infrastructure at Maseru Bridge needs improving –SARS is planning to expand.
- The Ministry of Trade requested TA to assist with implementation of the WTO TFA –workshops and establishment of the Trade Facilitation Committee. They have not made any progress on assessing and developing the Category C items.

Lesotho National Development Corporation:

- The private sector institutions are weak.
- The Minister would like to reform the LNDC so it focuses on investment promotion and maybe a separate agency to manage the property portfolio.
- Development of industrial infrastructure is a priority. LNDC is talking with the World Bank –they currently have a project providing TA to LNDC.
- There is a need to address the issue of linkages between the large foreign owned exporters and local small suppliers; LNDC should work to develop a strategy to support these linkages.

- Currently there is a shortage of industrial sites. The problem is rents are subsidized and not standardized, and this discourages private investment in factory shells (as not profitable at current rents). The LNDC needs to develop a strategy for commercializing the provision of commercial and industrial property.
- The LNDC would welcome the opportunity to work with the Trade Hub. They would like to establish the National Committee on Trade Facilitation.

Possible trade facilitation initiatives:

- Streamline procedures at the main border posts to expedite clearance and pursue moves towards introducing OSBP with South Africa (will follow from South Africa's own implementation of OSBP).
- Establish a National Trade Facilitation Committee (to assist with implementing the TFA)-this would work closely with the proposed Inter-Ministerial Coordinating Body on Trade.
- Improve the collection and publication of data on border clearances.
- Strengthen border management cooperation.

Madagascar

Key points from literature review:

<u>World Bank 2015 DTIS: Preliminary Findings[18]</u>

- The first DTIS completed in 2003 covered a wide range of topics. While some progress has been made 10 years later, many of the activities proposed as priorities have not, or have only partially, been implemented. Only 16 out of 59 activities proposed have been mostly or fully implemented; 19 have not started (or initiated without results), and 24 have only partially been completed. These new priorities are based on lessons learned and the current political and economic situation.
- To simplify the trade environment, the government should simplify and publicize the eligibility criteria for various exemptions, and ensure these are transparently applied. This includes improved customs control and more effective sanction mechanisms for non-compliant companies and colluding border agents.
- The government should clarify how it will transition to implement the COMESA CET to minimize the number of existing tariff rates. With tariff rates increasing as Madagascar moves to the CET, the government should communicate the coming changes early to allow consumer and companies to adjust to these changes which could raise consumer prices, or increase operating costs for companies as inputs become more expensive.
- The Ministry of Commerce, together with the NSC, will have to take the lead in raising the strategic importance of trade policy and streamline critical issues into high-level policy making. Ways and means to breaking down barriers between Ministries and Agencies, but also among departments within individual Ministries will be needed, requiring nothing less than a fundamental behavioral change in how government business is conducted.

[18] The 2015 DTIS is still in draft stage and has not been released. However, some preliminary findings were discussed with IDG consultants that greatly added to our knowledge and insights.

- Reducing regulatory barriers and the functioning of border management processes is critical to reduce trade costs and allow Malagasy companies to participate in international supply chains in regional and international markets.
- Madagascar should improve the use of risk management and reduce the share of consignments and improve targeting**.**
- Efforts to combat fraud and corruption at all agencies involved at borders needs to be renewed to ensure all businesses in Madagascar participate in a level playing field**.**
- The government should ensure that all regulatory agencies accept test results from internationally accredited laboratories.
- Improving the way in which border controls are conducted should be of highest priority to the government**.** Improving processes around the flow of goods to reduce unnecessary wait time between various control points would significantly reduce overall delays without impacting the overall control exercised by Customs.
- As WTO member, Madagascar should ratify the Trade Facilitation Agreement and notify which commitments it will not be able to meet once it enters into force.
- The government should amend the existing free zone regime to a more modern and integrated SEZ model, and towards the application of international SEZ best practices. As such zones would address key operating constraints affecting enterprises, distortionary tax preferences could be phased out and brought in line with common law provisions.

<u>Doing Business in Madagascar: 2014 Country Commercial Guide for U.S. Companies</u>

Any analysis of trade constraints facing Madagascar must be considered in the context of its emergence from a political crisis occasioned by a 2009 coup d'état. Internationally observed elections led to the inauguration in January 2014 of a democratically elected president whose stated priorities are battling poverty, improving good governance and rule of law, and promoting a better investment climate. Key points to consider include:

- Madagascar with a population of approximately 22 million ranks among the poorest countries in the world. Almost 70% of the population lives in poverty and 90% live under 2 USD per day (PPP), according to the World Bank.
- Some progress has been made in state divestiture from public enterprises but the water and energy utility company, two large insurance companies, and the national airline still belong to the Malagasy state. The country's state-owned electricity and water utility—a monopoly—provides irregular power supply in many regions, particularly in remote coastal provinces.
- The country's limited infrastructure is an obstacle to economic development and increased trade: major improvements to roads, ports, and other facilities are needed especially in rural areas. This is especially critical for the strengthening of supply chains in many sectors, particularly in agribusiness.
- Like many developing countries, Madagascar collects a significant share of government revenue through customs duties, import taxes and VAT on imports. Although they have been lowered recently, tax and customs duty rates are still relatively high.
- Since January 2010, the loss of duty free exports to the United States under the African Growth and Opportunity Act (AGOA) led to the closure of at least 40 apparel and textile firms, the unemployment of an estimated 100,000 workers, and the loss of millions of USD in export revenues and in foreign investment. The closures impacted around 50,000 additional workers. Before 2009, the garment sector was Madagascar's top export industry, with 45% of the export

market. In 2014, it had dropped to 25% of exports.
- Excessive complexities and inconsistently applied regulations impede economic development and can be a breeding ground for corrupt practices. Investors complain of a lack of transparency in government regulatory decisions. Proposed laws and regulations are not published in draft form for public comment. The only opportunity for comment on proposed laws and regulations is at the parliamentary level.
- Despite the current more stable political situation, however, numerous troubling issues remain. Weakness in the judicial system and the banking sector, the high cost and low quality of electric power, corruption, (which is most pervasive in the judiciary, police, tax, customs, land, trade, mining, industry, environment, education, and health), lack of transparency in decision-making, limited road, rail and port infrastructure, pose significant challenges, and assistance must be more targeted to support growth and employment in sectors other than mining where current growth is concentrated.

Key comments from stakeholder interviews:

The private sector expressed concern about the lack of AGOA eligibility for almost five years. They feel the need to get back up to speed with AGOA in the following ways:

- The country needs an AGOA/marketing strategy for current conditions tailored for the US market.
- There should be an outreach program for companies that lost significant apparel exports to the US and to the trained employees who lost their jobs.
- The private sector needs to understand US distribution channels and US requirements specifically in agribusiness and handicrafts.
- Companies require capacity building in quality control and meeting international market expectations.

More generic comments/assistance needs expressed by private sector operators include:

- Help with language barrier (since English is the international language of business)
- Supply chain knowledge
- Support/upgrading of laboratories for international testing – need accredited laboratory for agribusiness
- Update export guide and put it online
- More training/capacity building for business in Madagascar – can reach more people and very expensive to travel
- Help to find ways to make programs sustainable – for example, need to attend trade shows multiple times for real pay off
- Access to credit is improving
- Weakest links in the chain were identified as:
    - High freight forwarding charges
    - Cumbersome Customs and administrative procedures
    - Failure of infrastructure.

Donor feedback highlighted some additional challenges:

- New government March 2014 – took 4 to 5 months in transition. After six months there has already been a major cabinet reshuffle including Customs and Trade. There have been three Director Generals for Customs in one year.
- Despite efforts by IMF and two WB teams, there has been recent backtracking in Customs reforms; corruption is a huge problem.
- There is a need to link Customs with other agencies. Lots of import/export licenses and documents are required, and little cooperation exists among various border agencies.
- Government has asked for Trade Facilitation Committee – but WB has 15 committees already that are not doing much.
- No value chain is possible for apparel because even though there is cotton production, the electricity supply is not sufficient to run a mill to process the cotton.

Possible trade facilitation initiatives:

- Work to bring Madagascar up to speed on AGOA including outreach to companies formerly exporting. Assist the stakeholders to develop and implement an AGOA strategy.
- Work with the government to ratify the WTO Trade Facilitation Agreement and notify which commitments it will not be able to meet once it enters into force.
- Focus on improving the way in which border controls are conducted including improving processes around the flow of goods to reduce unnecessary wait time between various control points. Explore the use of risk management and reduce the share of consignments and improve targeting.
- Offer to assist the government to amend the existing free zone regime to create a more modern and integrated SEZ model, utilizing international SEZ best practices.

Malawi

Key points from literature review:

World Bank DTIS Update2014

The DTIS Update reviewed the progress on the recommendations from the 2004 Action Matrix. The 2004 Action Matrix included 67 recommendations across five broad areas: macroeconomic and social stability; transportation, export sector-specific measures; customs reform and other institutional capacity; and trade policy. Only 8 items were fully implemented, and these were primarily driven by other strategies and programs; 13 actions were largely implemented, and a further 12 were half implementation. The 2004 actions implemented include the comprehensive modernization program of the Malawi Revenue Authority which resulted in some advances in trade facilitation, opening the long haul international road routes to competition (which resulted in more competitive international transport prices), and the updating of several commercial laws and regulation. Recommendations from the 2014 Action Matrix included:

- Tariff policy needs to be reviewed to eliminate tariffs on all items 5 per cent or less, reduce tariff peaks, and tariffs on inputs.
- Adopt new and transparent policy on tariff exemptions, preferences, and restricted products; minimize the need for export and import licenses.

- Existing NTBs need to be reviewed and removed if possible; all new measures should be subject to Regulatory Impact Assessment (RIA).
- Operation of the Simplified Trade Regime should be improved, and transparency at the borders increased to reduce discrimination against small traders.
- Introduce a National Trade Portal easily accessible to the public that contains all legally binding information on trade procedures.
- Establish SMS based price information and dissemination system and phase out use of statutory minimum prices.
- Review the Seed Act and fast track implementation of the SADC Harmonized Seed System, and reform the regulations governing access to other agricultural inputs (fertilizer).
- Using a gradual but time-bound approach reduce the restrictions on foreign truckers on internal routes in Malawi (remove cabotage restrictions).
- Fast track regulatory audits in the professional services sectors and work to fast track reforms in the context of the COMESA, SADC and Tripartite services dialogue.

<u>MCC Report 2008</u>

- There is inadequate access to local finance, with high lending rates and wide spreads.
- Transport costs average 55% of the value of exports, the highest in the region and more than is warranted by distances.
- Power shortages, which reduce factory production by about 10%, are the highest in the region.

Key comments from stakeholder interviews:

- Interviewees emphasized the country's potential for exports of oilseeds, sugar, and light manufacturing, but cited the difficulties involved in guessing what the government was likely to do next that would impair the ability of producers to successfully export.
- An official at the Ministry of Trade reported that the Ministry was working to simplify procedures in response to the IIFPRI report on soy exports.
- The embedded SATH advisor commented that the Ministry of Trade was not proactive in moving forward with the national single window.
    - He admitted to making little progress in promoting trade facilitation reforms, although he said that progress on a trade portal is underway with the consultants appointed and starting the design in June 2015.
    - There has been no noticeable progress on using a risk-based approach to customs examinations.
- Other interviewees emphasized the need to promote foreign investment, increase productive capacity, and establish a commodity exchange to encourage value-chain development.

Possible trade facilitation initiatives:

Substantial support should be dependent on a much stronger commitment by the GOM to improvement in the trade environment, with time-bound milestones.

This includes might include:
- Simplification of trade documentation
- More transparent rules

- Predictability about prohibitions of specific commodity exports and imports.

Mozambique

Key points from literature review:

UNCTAD DTIS 2015

- There has been a dramatic increase in both imports and exports since 2004, the latter being led by minerals.
- Key issues facing the country include:
  - A skills deficit exists among the country's labor force.
  - Corruption is a problem, especially in Customs.
  - There needs to be improved public/private dialogue on export strategy, as private-sector input is almost entirely absent.
  - Access to land is a growing problem.
  - Delays at Customs are still a serious problem, although less so than in 2004.
  - The Single Electronic Window (SEW) has been a step forward.
  - The government needs to simplify procedures in the SEW for agricultural exports, and to train Customs workers in this area.
  - Better interagency coordination is needed, as well as better interaction with the private sector.
- Progress since the 2004 DTIS report has been quite slow. Of 61 objectives established in the 2004 DTIS, only 11 had been completed by 2015; four were not achieved, and 46 were still in process.

SPEED Report 2014

- SEW modules have been only partially implemented with disappointing results.
- Costs to firms using the SEW appear to have risen, compared to the previous paper-based system.
- Delays in Customs were longer with the SEW.

Key comments from stakeholder interviews:

- Several interviewees raised the issue of increased protectionism by Mozambique, mostly arising from a ten-year introduction of protectionist policies for sugar, which created jobs in the sector at the cost of higher costs to consumers and misallocation of agricultural resources.
- Another interviewee addressed agricultural commodity exports. He praised the single window, particularly the connection to South Africa. But he argued more generally that there were challenges in every area, and that government had no focus.
- Issues were raised regarding truck transportation and the need for a single export document.
- South Africa's rules of origin were much more complex than they needed to be.
- TBT is used to play tricks on exporters, and SPS rules still need to be harmonized in SADC.
- One agricultural exporter of long standing expressed the opinion that Customs procedures were not a serious problem for his firm. He also thought the use of bonded warehouses for agricultural products was an important step forward.

Possible trade facilitation initiatives:

- More work is necessary to make the SEW a solution rather than a problem in cross-border transactions.
- Most of the issues related to trade facilitation appear to be internal to the government of Mozambique's inability to coordinate among ministries and develop a coherent strategy for it. It may be possible to work through SADC to promote country-level coordination.
- Efforts to increase foreign direct investment, particularly in labor-intensive products, could help address the country's severe unemployment problem.
- Because Mozambique has potential to serve as an export corridor for the land-locked countries in Southern Africa, continued support for improvement of its export corridors will be important for its neighbors.

Namibia

Key points from literature review:

<u>World Bank's 2008 report, *Addressing Binding Constraints to Stimulate Broad-Based Growth;* IMF 2013 Report; and 2014 Economic Outlook produced jointly by AfDB, OECD, and UNDP</u>

- All reports agree on the key issues.
- Namibia's economic growth since independence has been relatively satisfactory, at close to 5 per cent, making it among the top three countries in the region in per-capita GDP, after South Africa and Botswana.
- Namibia is largely a service economy, with services accounting for about 60 per cent of GDP.
- In recent years, its largest export has been diamonds to Botswana, although other minerals are also important.
- All the reports identify skill shortages as a critical issue in the country, due to a poor educational and training environment.
- Inflexible labor laws -- an inability to hire and fire workers easily --makes firms reluctant to hire workers.
- The SACU Common External Tariff presents an obstacle to Namibia's ability to acquire inputs for its export industries at world prices.

Key comments from stakeholder interviews:

- The Walvis Bay Corridor Group proposed three action items:
    - A trade mission to the United States of public and private stakeholders in logistics;
    - A market-demand study for a possible logistics partnership between Namibia and the United States; and
    - An integrated value-chain analysis of strategic sectors in Namibia.
- The head of the Namibia Trade Forum, an organization established in 2012 to promote collaboration with the private sector by the Ministry of Trade, said the Forum was working to improve cumbersome procedures and to combat NTBs by trading partners. Quarterly meetings were held with the private sector to deal with current issues. Five areas for focused attention by the Forum include: logistics; fishing; minerals; tourism; and salt.

- A dry port for Botswana is operating at Walvis Bay, and similar spaces for other countries in the region are planned.
- The SATH embedded trade advisor highlighted the strong support from the Customs Commissioner and Senior Management within Customs for the introduction of a National Single Window, but lamented the slowness of the Ministry of Trade, which is the lead Ministry, to coordinate this work. He suggested transferring the lead responsibility for the single window from the Ministry of Trade to the Ministry of Finance. While this may address the immediate issue ensuring effective implementation will require multiple ministries and agencies to actively cooperate in changing their procedures. Work was still underway on raising awareness across government agencies on the merits of the NSW. He asserted that the Customs Trade Portal would be operational next month.
- The Commissioner of Customs echoed the embedded advisor's schedule for the trade portal, and identified a demand for a long-term advisor on trade legislation.
- The U.S. Embassy Economic Counselor made the following observations on the current trading environment:
    - The Namibian government had implemented a range of protectionist policies using the SACU infant industry facility, particularly on dairy and chicken.
    - The Namibian government had limitations on visas for foreign workers. Avon wanted to send someone to Namibia to train local workers to sell Avon products. After the Ministry of Labor had denied the visa, only the intervention of the Embassy with the Ministry of Trade allowed the visa to be approved.
    - Namibia had zero AGOA exports in 2013 or 2014.
    - The earlier $305 million MCC compact focused on education, agriculture and tourism. The tourism component was considered to have been very successful.

Possible trade facilitation initiatives:

- Walvis Bay is an important asset for most of Southern Africa, as well as for Namibia. Strengthening Namibia's logistics role in the region has the potential to be a high pay-off activity. With an effective customs administration and strong private-sector support, along with good road infrastructure, improving logistics capacity in Namibia would benefit the entire region.
- The largely untapped potential of the Walvis Bay area for export-oriented EPZ activity can also be an important source of employment and skills upgrading. Perhaps an observation visit to Mauritius might convince key actors in Namibia of the benefits of such a project.

South Africa

Key points from literature review:

South Africa Economic Update: Focus on Export Competitiveness, World Bank, 2014

- Exports identified as key driver of growth in the New Growth Plan (2011), the National Development Plan 2030, and the Industrial Action Plan.
- Over the past decade exports have underperformed.
- With the exception of minerals and commodities, South Africa exports primarily to the rest of Africa (about half of all non-mineral exports).
- Sub-Saharan Africa receives 60 per cent of South Africa's services exports.

- The non-mineral products exported to the rest of the world are dominated by high technology products that reflect Government industrial sector support policies. This is not consistent with South Africa's comparative advantage and the low skill levels of the labor force.
- In order to drive growth these changes will be necessary:
    - Increase domestic competition
    - Address existing infrastructure bottlenecks (pricing discrimination at the ports by State Owned Transnet)
    - Actively promote deeper regional integration in goods and services.

Key comments from stakeholder interviews:

- SARS is committed to working with neighboring countries and has agreed to a series of bilateral agreements that identify areas of common interest.
- The key issues (identified by a former SARS official) are to promote interconnectivity, develop standard operating procedures, and introduce the preferred trade scheme. Working with SACU and SACU Secretariat on the preferred trade scheme, South Africa is receiving support from the WTO, and is currently hoping for progress on the SA-Botswana Preferred trader.
- Would like to use SACU to assist with TFA implementation.
- The main trade facilitation constraints identified by the CBP Advisor at the US Consulate: lack of technology and equipment at most border posts, corruption, political influence over international trade relations, lack of coordination between border agencies on operating hours, and too many stakeholders. For example, SARS has to obtain approval from other government departments and agencies to release many shipments (*e.g.,* on all products which require a license like SPS.)

Possible trade facilitation initiatives:

- SARS modernization program continues to roll out
- Improve efficiency at Beit Bridge Border Post
- Implement the One Stop Border Post (amend legislation and roll out with SACU countries).

Swaziland

Key points from literature review:

<u>Swaziland Economic Diversification Study, DNA Economics, 2013</u>

- Swaziland's economic performance, prospects and international competitiveness are deteriorating. Swaziland is already exporting a wide variety of products so lack of diversification is not a major impediment to trade and economic growth. Three major constraints were identified:
    - Domestic supply constraints are the primary factor inhibiting the growth of imports. An uncompetitive investment environment, regulatory restrictions, government distortions, and the high cost of trade and transport have limited the emergence of export-oriented firms and the expansion of existing sectors.
    - Swaziland is tied to the economic structure and performance of SACU (*i.e.,* South Africa). This makes Swaziland vulnerable to shocks in consumption and production in South

  - Africa. The protective effects of the SACU tariff have reduced incentives to increase productivity and have reduced the incentive to export to other countries.
  - Most of the exports outside of SACU are closely tied to preferences, exposing Swaziland to the dangers of preference erosion and the removal of preferential access. This creates an uncertain environment that is not supportive of long-term investment.
- Almost all of Swaziland's exports and imports are with South Africa or transit through South Africa. Any delays, fees or procedures imposed or arising from the border between South Africa and Swaziland have a disproportionate impact on the cost of doing business and the cost of trading in Swaziland.
- Swaziland's future growth prognosis is weak. The domestic regulatory framework and government interference in business does little to encourage more efficient domestic and foreign private investment.

Key comments from stakeholder interviews:

Private sector comments:

- Containers get stopped at border with SA for inspection. Entire container in transit through SA gets unpacked and repacked at the border even though it was packed in Swaziland under Customs supervision. A company has to send 10 people 150 km to the border to unpack and repack – costs time and money. It also increases the possibility of a container missing its vessel.
- The same problem of border inspection occurs with imported inputs.
- It may a take a firm up to 8 months to receive refunds from SARS.
- The private sector respondents thought the Swaziland Customs was working well.
- The weakest links in chain were identified as:
  - Port authority
  - Private sector operators
  - Regulations.

Donor feedback (EU Officer):

- Based on experience with his projects (not specifically trade-focused), the constraints are usually NTBs.
- The private sector expects government to secure markets for them.
- Government tries to empower businesses to secure their own markets.
- Which agency is most keen to support an expansion of trade?
  - Trade Promotion unit under Swaziland Investment Promotion Agency
  - International Trade department under the Ministry of Commerce, Industry and Trade
- Customs Service is operating well.
- The weakest link was identified as credit.

Government of Swaziland feedback/comments:

- Biggest challenge: large exporters are foreign owned and recently many have closed or relocated to other countries.
- Trade promotion efforts are now consolidated with investment promotion in the Swaziland Investment Promotion Authority (SIPA).

- Government subsidizes participation of the private sector in trade shows.
- The issuance of certificates of origin has been decentralized to the regions.
- Government is in the process of resuscitating a trading house for promotion of the handicraft sector.
- With the assistance of cooperating partners, Government has built an exhibition facility to host trade fairs.
- Government is exploring how to encourage and support cooperatives to increase the ability of small and medium producers to join forces and export in required quantities.
- The Ministry of Agriculture works to support the trade of sugar and beef.
- The biggest obstacles faced by Swaziland exporters are non-tariff barriers ranging from sporadic roadblocks, delays at the border, and corruption by other agencies that may negatively impact on trade facilitation and the timely movement of goods and services. There is also a lack of transparency in the timely publication of new laws that affect trading partners, automated customs systems that are not compatible, a language barrier with Mozambique, and disagreements in border working hours with neighboring states.

Possible trade facilitation initiatives:

- Given Swaziland's loss of AGOA eligibility it is not clear what role the SATH would play in trade facilitation activities.
- According to U.S. State Department representative, the political will to solve the AGOA labor problem does not exist; however, there is the will to address the FDI challenge. They have recently set up an Investor Roadmap Unit and are working to overcome a history of corruption and companies getting swindled in business deals in Swaziland.
- The HIV Aids problem is huge and could possibly be addressed through a SATH activity.
- The government has developed an Aid for Trade Strategy and identified priority projects for possible funding or intervention by cooperating partners. They are willing to share the document with the view to discussing possible funding or technical assistance.

Zambia

Key points from literature review:

World Bank 2008 study

- Analyzed constraints to growth using a largely HRV framework
- Five most serious constraints were identified:
    - Coordination failure, due to poor access to markets, inputs, information, and extension services
    - An overvalued exchange rate for most products except copper
    - Serious infrastructure problems with roads, railroads, and electricity
    - Poor education, particularly at the secondary and university levels
    - Weak governance.

MCC Study 2010

- Study on constraints to growth in Zambia drawing on HRV framework

- Important conclusions:
  - High transport costs, 55 percent of the value of exports, were the highest in the region and higher than warranted.
  - Poor local finance
  - Worst electric power in the region
  - Poor human capital
  - Poor infrastructure
  - Coordination failure in export value chains.

World Bank DTIS 2013[19]

- The various chapters, notably financial services, suggest that little had changed since a previous analysis in 2004.
- On non-tariff barriers, the report notes a tendency for use of ad-hoc policy shifts instead of a clear policy that would provide certainty to traders.
- On services trade, the study suggests that Zambia is seriously underperforming its potential, as is the tourism sector.
- The report argues that the country's export strategy is focused on mining, and neglects the great potential for jobs in expanding agricultural exports.
- Finally, a chapter on trade facilitation and logistics notes the absence of a logistics strategy, the lack of a strategic plan for corridor development, poor coordination among border agencies, and opportunities to realize increased benefits from the OSBP with Zimbabwe.

Key comments from stakeholder interviews:

- The USAID staff believed that Zambia suffered from high energy and fuel costs, but, most importantly, from the country's preoccupation with subsidization of maize. They estimated that maize subsidies cost the government between $500 and $800 million dollars annually, dwarfing anything else the government spent to promote agriculture, and distorting the potential for development of other more promising agricultural products.
- The World Bank economist, a former SATH staff member, echoed the sentiments of others on the potential for agricultural exports from Zambia and the obstacles placed in their way by the government.

Possible trade facilitation initiatives:

- In order to tap into Zambia's considerable potential, particularly for agricultural exports and the development of agricultural value chains, there needs to be progress on resolving issues of government policy. It is not clear how donor support can facilitate this effort.

- Addressing the need for jobs is essential to reduce poverty and promote trade. Copper provides the bulk of foreign exchange earnings for the country, but offers far fewer job-creation opportunities than the expansion of small-scale agriculture and the logistics and coordination services needed to

[19] In 2013, the World Bank staff completed the DTIS Update, carrying out extensive analytical work in numerous sectors. The Action Matrix was finalized and presented at the Validation Workshop in 2014; however, the Main report still has to be made publicly available.

make this a reality. A change of attitude by the Zambian leadership seems essential to exploit the agricultural potential of the country.

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