

INVESTMENT CLIMATE IN PRACTICE

TRADE LOGISTICS

GHANA LEADS WEST AFRICA IN TRANSIT REFORM

Cumbersome transit and customs procedures hinder trade and economic development. Ghana has modified several features of its transit system as part of efforts to improve road-based trade in West Africa. Since 2006 the country's transit reforms have cut the time to process and transport goods crossing the country from five to three days, significantly lowering transport costs. Applying lessons from Ghana could catalyze broader transit reforms in West Africa and other developing regions.

Complex border procedures increase the costs of importing and exporting goods. Members of the Economic Community of West African States (ECOWAS), as well as of the West African Economic and Monetary Union and other regional and bilateral groups, have been discussing reforms to facilitate transit in West Africa since ECOWAS members signed an agreement on inter-state road transit (ISRT) in 1982.¹

In recent years Ghana has pursued aggressive reforms to make its trade, port, and transit more competitive, often working with its landlocked trade partners. In the second quarter of 2008 most transit trade originating from Tema—Ghana's main port—went to the landlocked countries of Burkina Faso (40 percent of the total), Mali (24 percent), and Niger (21 percent).² Tema competes for transit trade with other port cities—Cotonou (Benin), Abidjan (Côte d'Ivoire), Lomé (Togo)—that originate shipments to the same countries.

Ghana began reengineering its transit procedures in early 2006, and reforms have significantly cut transit times and costs. Though pre-reform data

are not available, it is widely accepted that before 2006 transit times for the 818 kilometers between Tema and Paga (Ghana's border post with Burkina Faso) exceeded 5 days, with slightly faster times for containerized trucks than other trucks. In late 2006 these transit times, including transit formalities and documentation, fell to 3.3 days for containerized trucks, 3.4 days for non-containerized trucks, and 2.3 days for vehicles. In 2008 transit times were further reduced to 3 days for bulk and containerized vehicles.³

KEY REFORMS OF GHANA'S TRANSIT SYSTEM

Following international best practices, Ghana's policymakers sought to develop several features of a well-functioning transit system:

- ❑ A sealing system for transport containers to ensure that trucks could undertake transit journeys without discharging cargo inside the country and not need to be monitored by customs officers throughout the journeys.

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This note is one in a series developed by the Trade Logistics team of the World Bank Group's Investment Climate Advisory Services. The series focuses on implementation aspects of recent trade reform initiatives and risk management issues. The Trade Logistics team advises governments in developing and transition economies on improving their import, export, and risk management systems and procedures to increase their potential for trade and investment.

- ❑ Payment guarantees to ensure that customs could recover duties lost if transit goods were discharged inside Ghana.
- ❑ Authorization of operators to provide some guarantee that agents participating in transit trade were well trained and followed guidelines.
- ❑ A documentation system to enable transit documents issued at the start of transit journeys to be accepted by transport and customs authorities along transit corridors.
- ❑ Electronic tracking systems enabling customs to locate transit vehicles and guide intervention forces (including customs staff) if abnormal behavior was identified.

Sealing system

Before 2006, transit shipments were sealed by customs to prevent goods from being removed from or added to trucks.⁴ Only containers were sealed in Ghana, and non-containerized transit trucks had to travel in convoys escorted by customs officers.

Non-containerized trucks accounted for 85 percent of shipments, and the slow and expensive system did not sufficiently protect duty-related revenue. Technical or mechanical problems affecting one truck stopped entire convoys. Trucks and paperwork had to be aggregated for the entire convoy at border crossings. Escort officers often failed to perform their duties in supervising the cargo movement along the corridor.

In 2007 Ghana introduced a new system for sealing trucks after consulting with domestic truckers as well as the authorities and truck operators of neighboring landlocked countries. Customs officers now supervise the sealing of trucks at the beginning of their journeys based on ECOWAS ISRT procedures. Each container is sealed with a conventional lock, eliminating the need for more technologically sophisticated techniques. Non-containerized trucks are sealed with tarpaulins held with nylon straps attached to metal rings on the body of the truck—a low-tech system that has proven to be highly reliable.

Payment guarantees

Guarantee bonds are usually issued to ensure that a customs department receives import duties, taxes, and other charges if shipments are unloaded unlawfully in the country of transit. Historically,

transit guarantees were granted by several agencies in Ghana. But in 2006 the State Insurance Company was granted a monopoly to do so, and the formula for calculating the guarantee fee was changed from 0.5 percent of the value of the cargo to 0.5 percent of the taxes and duties at risk. No fee is charged for shipments that would have incurred no taxes and duties and for which Ghana's customs department does not request a guarantee from the transit operator.

The State Insurance Company is now connected to the customs management system and has real-time access to the data needed to verify and release transit guarantees. Most transit bonds are now promptly released, and customs staff is being trained to enter all information at border crossings.

But these guarantees are currently valid only in Ghana. When leaving Ghana, a transit operator must acquire a transit guarantee for the other country—requiring another bureaucratic process and expense. Ghana's guarantee reform was intended to be a first step toward instituting a liberalized “chain of guarantors” agreed to at a 2006 conference attended by most transit guarantors in West Africa. Under that agreement the transit fees paid at the beginning of transit journeys would be shared between the guarantors of the countries through which transit vehicles pass. However, the agreement needs to come into effect in the landlocked partner countries.

Authorization of operators

Ideally, national transit organizations are responsible for regulating transit operators. Moreover, only operators that abide by transit rules, can mobilize transit guarantees, and operate acceptable vehicles should be allowed to participate in transit trade. Ghana's government rejected a proposal that would have certified for transit only those vehicles meeting criteria such as roadworthiness, safety, and quality standards. This position was taken both for political reasons—excluding some transport vehicles would raise strong opposition from the transport sector—and because the region does not yet have the necessary harmonized regulations nor reliable testing procedures. Instead, Ghana chose to authorize a selected set of owners and their vehicles.

Documentation system

Customs departments should have reliable documentation systems for controlling the start and end of transit procedures. Documents issued by customs authorities at the origin of transit

shipments should be verified by customs posts in each transit country, permitting the timely lifting of the guarantee bond attached to the shipment. In Ghana document flow was entirely manual before an electronic system was introduced. Transit guarantees could be freed only when paper-based proofs of exit of transit operations were physically returned to customs headquarters in Accra or Tema.

The transit module of the new customs management system was launched at Paga in 2006, connecting the border crossing to the customs authorities in Tema. By February 2007 all external border posts with transit journeys originating in Tema were electronically connected to the customs management system. Transit guarantees are now released immediately on arrival at a Ghanaian border crossing. Also, the system was modified to permit trucks that transport sub-consignments—those covered by one customs declaration and bill of lading—to depart as soon as the individual transport vehicle is ready, without having to wait for other trucks covered by the same customs declaration.

Electronic tracking systems

Lacking a modern vehicle tracking system, Ghana's customs department operated several mobile control units. But those units led to complaints of harassment and demands for bribes. So, since September 2007 the customs service has used transponders to track transit trucks between Tema and Paga in real time.

A public-private partnership company (GCNET) that also operates Ghana's single window for goods declarations runs the tracking system. Each transit vehicle pays a fee for this service, a cost that is approximately the same as what was formerly paid for the customs escort. In addition, cameras installed at Ghana's territorial entry and exit points, as well as inland transit check points, verify the integrity of transit vehicles and their loads.

LESSONS—AND SUGGESTIONS FOR REGIONAL REFORM

Effective policies to increase regional transit require cooperation between landlocked countries and those with access to sea and port facilities. Although members of ECOWAS signed an agreement on the ISRT in 1982, significant steps toward regional reforms remain limited in the ECOWAS region.

Leveraging Ghana's example

Ghana's evolving national transit system can inspire reforms elsewhere in ECOWAS. Some progress has been made:

- ❑ **Truck sealing.** Sealing methods for trucks in Burkina Faso and Mali are evolving to meet those in Ghana, and regional momentum should increase once a regional tracking system under development becomes operational (see below).
- ❑ **Payment guarantees.** In 2006 ECOWAS members adopted a proposal to create a chain of eventual guarantors and fee-sharing arrangements covering all transit through West Africa. In March 2009 the transit guarantors of Ghana, Burkina Faso, and Mali signed an agreement to settle all outstanding issues so that the system can be activated as soon as the ISRT becomes operational.
- ❑ **Documentation.** The West African Economic and Monetary Union (WAEMU) is spearheading efforts to initiate the IRST, based on electronic sharing and exchange of the appropriate documentation, and has focused on creating such a system in specific corridors rather than across the WAEMU or ECOWAS. The IRST convention signed between the authorities of Ghana, Mali, and Burkina Faso in May 2006 is a first step. But this convention still needs to be ratified by Ghana's Parliament. Once that happens, the electronic ISRT could become effective as soon as the electronic infrastructure is in place along the trade corridor to ensure that IRST electronic documents travel seamlessly through the customs management system with full legal validity.
- ❑ **Tracking systems.** Ghana and Mali are studying the extension of Ghana's satellite-based truck tracking system throughout their segments of the Tema-Bamako corridor. In the meantime Mali's transport and customs authorities are testing another GPS-based system, which if approved would be adopted in late 2010. Installing the same system region-wide could lead to significant benefits and synergies.
- ❑ **Involving customs administrations.** Progress on regional transit issues can only occur with greater cooperation between national customs

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IN PRACTICE

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The Investment Climate Advisory Services of the World Bank Group helps governments implement reforms to improve their business environments and encourage and retain investment, thus fostering competitive markets, growth, and job creation. Funding is provided by the World Bank Group (IFC, MIGA, and the World Bank) and over 15 donor partners working through the multidonor FIAS platform.

authorities. Controlling customs risk in regional transit requires high-level cooperation between the customs administrations of the different countries. The transit program being initiated by the WAEMU, ECOWAS, and national transport authorities would benefit from greater involvement by the national customs authorities.

Addressing regional issues

A number of issues need to be resolved before regional transit issues can be streamlined.

❑ **Reducing nontariff barriers.** Nontariff barriers along transit journeys—especially the many inspections, document checks, and related bribes—have long attracted complaints from transit operators in the region. This situation creates substantial delays, raises the cost of doing business, and ultimately makes countries and businesses along the transit corridor less competitive. Data collected by the West Africa Trade Hub indicate that the costs and delays of these nontariff barriers have not improved in recent years.⁵

❑ **Replacing anticompetitive practices.** Anticompetitive practices such as rigid transport business fixed shares must be replaced with practices that encourage competition among transport operators. The reduction in these sharing agreements has significantly reduced transit fees in countries that have abandoned this practice. Governments should lean on their transport sectors to liberalize this trade and foster external competitiveness.

Several countries in the region have agreed in principle to operate one-stop border posts in which the border agencies of the neighboring countries would work together to streamline border-crossing operations. Under the guidance and assistance of the WAEMU and after many years of preparation, a border post on the Burkina Faso–Togo border is expected to be operational in 2010. Each country will take responsibility only for incoming traffic, and sharing of information will take place on

a when-needed basis. This experience, including the project's underlying legal framework and operational modalities, could inform the plans for other juxtaposed border posts in the region. Still, much preparatory work will be needed before more such border posts can be opened.

CONCLUSION

Ghana's transit reforms have streamlined and modernized the country's customs and transit. Though Ghana's progress on its national transit system has not come easily, the main elements of its transit reforms can be reproduced in countries where there is the necessary political will to overcome resistance to change.

The spread of Ghanaian transit reforms also shows that reforms in one country can create a foundation for more widespread regional reforms. Reforms in each of these critical transit elements are being evaluated, and in some cases adopted, by other West African countries, particularly by Ghana's major trading partners, Burkina Faso and Mali. Much work remains to be done, however, to simplify transit and trade in West Africa. A great deal of coordination between the countries—with the full participation of their customs administrations—is still required. Nontariff barriers need to be reduced to make the most of the hard-won transit improvements. *For more information, contact Uma Subramanian, Global Product Leader, Trade Logistics (usubramanian@worldbank.org).*

ENDNOTES

- ¹ See ECOWAS Commission web site: <http://www.comm.ecowas.int>.
- ² Data provided by Ghana Community Network Services (GCNET).
- ³ Ibid.
- ⁴ For illustrative purposes, this discussion focuses on road transport.
- ⁵ The most recent data on nontariff barriers are available at the West Africa Trade Hub web site: <http://www.watradehub.com>.



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