



Deloitte on Africa Mitigating Business Risk in Africa Through Regional Integration

South African President Zuma recently proclaimed that “Africa is rising and it is clear for all to see.”¹ A key determinant of Africa’s sustained rising, is regional integration. However, regional integration is still not happening fast enough and undermines Africa’s continued progress and competitiveness. The African market remains highly fragmented. With a similar population size to China and India, in comparison, Africa is 54 markets, China 1 and India 1 and therein lays the challenge for a company wanting to access African opportunities and do business on the continent.

The need for regional integration cuts across discussions on trade, energy, financial services, tourism, infrastructure development, agriculture, healthcare, capital and bond markets. It is observed that 27 of Africa’s countries are small, with populations of fewer than 20 million² and economies of less than US\$10-billion. Infrastructure systems, like their borders, are reflections of the continent’s colonial past, with roads, ports and railroads built to facilitate the export of raw materials, rather than to bind territories together economically or socially. In short – they are doubly challenged by size and connectivity.

A 2012 World Bank report shows how African countries are losing out on billions of dollars in potential trade earnings every year because of high trade barriers with neighbouring countries, and that it is easier for Africa to trade with the rest of the world than with itself. On average, only about 10 – 13% of African trade is with other African nations, whilst 40% of North American trade is with other North American countries, and 63% of trade by countries in Western Europe is with other Western European countries (African Union, 2012).

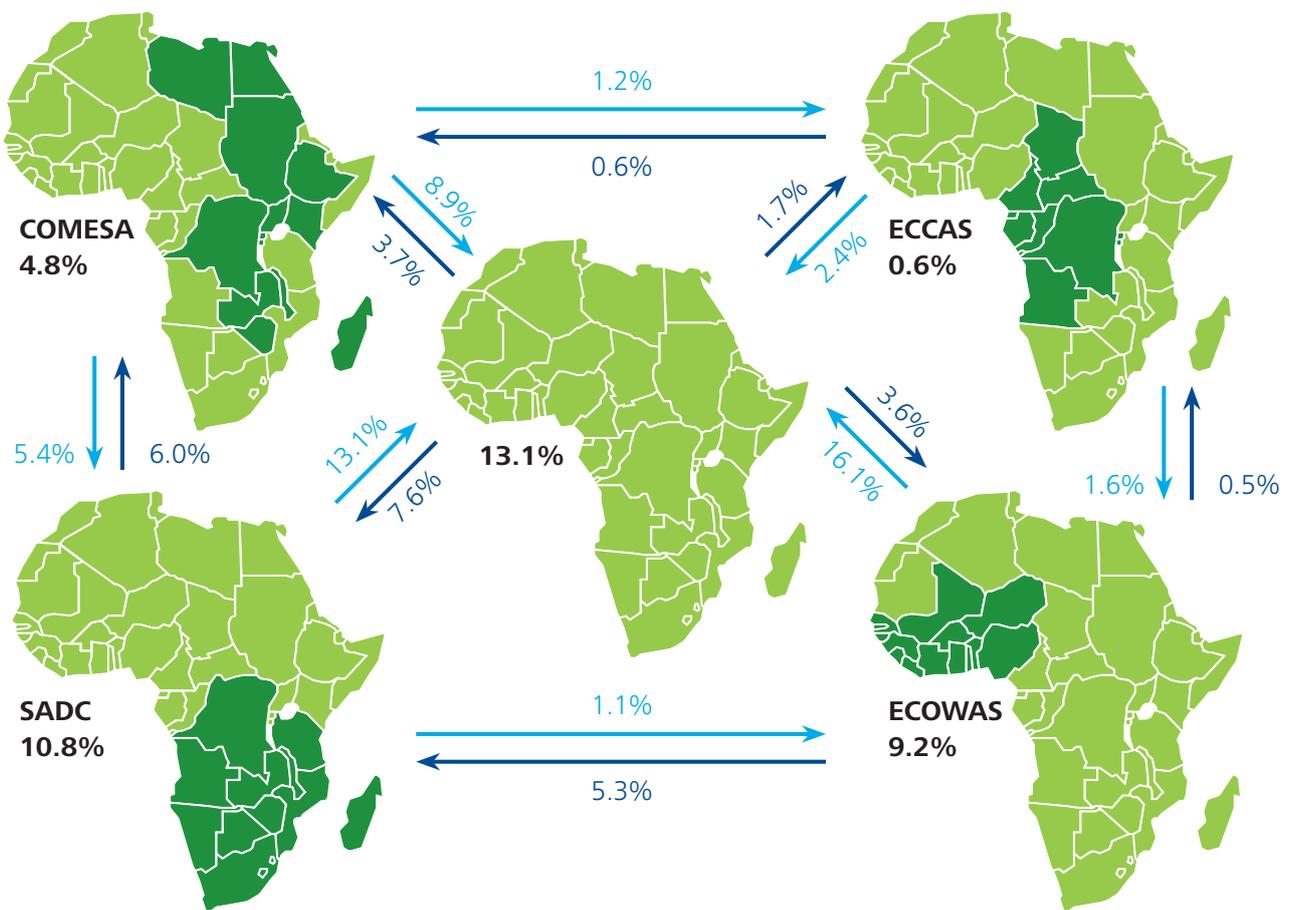
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¹ At the opening address of the Africa Dialogue Conference in April 2012 hosted by the South Africa Department of Trade and Industry with Deloitte as the Knowledge Partner

² Botswana, Swaziland, Lesotho, Malawi, Zambia, Zimbabwe, Namibia, Rwanda, Burundi, Guinea Bissau, Gambia, Mauritania, Madagascar, Republic of Congo, Eritrea, Togo, Sierra Leone, Somalia, Guinea, Chad, Senegal, Angola, Mali, Niger, Burkina Faso, Cote d’Ivoire and Mozambique

The diagram below depicts the trade flows between various African regions:

Intra-Africa Trade Flows between Regions



Source: Mihalakas, N, "Intra-African Trade' – A Renewed Urgency for Further Regional Integration by the AU" 2011.

Regional integration also features heavily in discussions of how South Africa could better leverage its 'connector' status as the 'conduit' between Africa and the BRICS forum. It is contended that as part of the G20 and the BRICS forum, South Africa represents the broader view of Africa and has an onus to ensure that regional trade bodies function effectively. This will bestow on South Africa more negotiating muscle at the BRICS forum as part of a larger SADC market of 250 million people that are connected, and more influence as part of a functioning Grand SADC-COMESA-EAC Free Trade Area of 26 countries with a combined population of 530 million (57% of Africa's population) and a total GDP of US\$ 630 billion (53% of Africa's total GDP). There is power in numbers. Only when this is achieved will there be weight and credibility to the positioning of South Africa as the 'gateway into Africa'.

On the trade front, both the private and public sectors concur that doing business in Africa, and especially across borders, is particularly fraught with challenges and that these challenges are, in turn, associated with greater risk – real or perceived. Challenges include but are not limited to:

- Delays in moving goods across borders within and between regions. Delays at African customs are, on average, longer than in the rest of the world: 12 days in Sub-Saharan countries compared with 7 days in Latin America, less than 6 days in Central and East Asia, and slightly more than 4 days in Central and East Europe. These delays add a tremendous cost to importers and exporters, and they increase the transaction costs of trading among African countries. For food and other perishable goods, such delays can be devastating. (African Union, 2012)
- High volume of paper-work to be processed
- High cost of clearing goods at borders
- Cumbersome visa requirements for the movement of people.

By way of illustrating these trade barriers, the story of the experience of a South African retailer with a presence across the continent is often narrated on the conference circuit. In a report examining the barriers that stifle cross-border trade within Africa, the World Bank revealed that the retailer spends US\$20,000 a week in import permits to transport meat, milk and other goods to its stores in Zambia alone. Given its presence on the continent, approximately 100 single entry import permits are applied for every week and can rise up to 300 per week in peak periods. On average, according to the World Bank, there can be up to 1600 documents accompanying each truck the retailer sends with a load that crosses a border in the region (World Bank, 2012).

Another example of trade barriers relates to the costs arising from the administrative requirements for certificates of origin, which can account for nearly half the value of the duty preference. Yet another South African retailer opts not to use SADC preferences at all in sending regionally produced consignments of food and clothing to its franchise stores in non-SACU SADC markets. Instead, it simply pays full tariffs because it currently deems the process of administering Rules of Origin documentation to be too cumbersome. A large global manufacturer of cellphones, freighting some 30 000 containers annually into the rest of the continent from South Africa, bemoans the lack of visibility in the process as products cross through various borders to their destination. Their strategy? To keep their fingers crossed and be relieved when the containers arrive safely.



While regional integration has long been touted, starting with Ghanaian President Nkrumah in 1957, now more than ever, when Africa finds herself on the cusp of realising her greatness, there is a need to heed these calls to action. While in 1957, regional integration was a concept that the continent aspired towards, in 2012 it is the very obstacle to increased trade on the continent, similar to Europe post-war. But what does regional integration really mean? It is a highly-used but nebulous term. To rephrase, if the three trade zones SADC, COMESA and EAC were fully integrated within themselves, what would it look like? Characteristics of an integrated trade zone include but are not limited to the following:

- No restrictions on the movement of goods, persons and services
- Simplified border procedures:
 - Limited number of agencies at the border
 - Increased levels of professionalism of officials
- Removal of a range of non-tariff barriers to trade, such as:
 - Restrictive rules of origin
 - Onerous and costly import and export licensing procedures
- Harmonized and well-coordinated trade instruments and nomenclature so that country trade laws “speak to each other”.

Based on this “ideal”, what is the status of regional integration on the continent and which blocs are close to realizing it? Two African regional blocs, at different levels of maturity, will be compared. The East Africa Community – EAC – comprising of Kenya, Uganda, Tanzania, Rwanda and Burundi. It is at an advanced stage of development and integration and is often touted as the best example of a well-functioning regional bloc. First formed in 1967, there is a history of co-operation and integration amongst East African countries. Since 1967, the Community has gone through many phases, some failures and collapses – for example, in 1977 – and is, as a result of these learnings, stronger today. The regional integration bodes well for foreign investment with investors increasingly picking one of the EAC countries as a manufacturing hub and distributing into the rest of the region.

The collective population of the EAC bloc stands at 150 million. The EAC will go online in 2014 with the following:

- Free Movement of Goods
- Free Movement of Persons
- Free Movement of Workers
- Free Movement of Services
- Free Movement of Capital
- The Right of Establishment
- Right of Residence

There is also evidence the EAC integration is underpinned by a programme of infrastructure development in order to operationalise the union and lower transport costs in the region. While infrastructure is vital to Africa’s development, it is pivotal to any regional integration efforts.

CEMAC – the Economic and Monetary Community of Central Africa – comprises of Cameroon, Gabon, Chad, Central African Republic, Equatorial Guinea and Republic of Congo. CEMAC’s key objectives are the promotion of trade and the institution of a genuine common market. In 1994, it succeeded in introducing quota restrictions and reductions in the range and amount of tariffs. Currently, CEMAC countries share a common financial, regulatory, and legal structure, and maintain a common external tariff on imports from non-CEMAC countries. In theory, tariffs have been eliminated on trade within CEMAC, but full implementation of this has been delayed. However, the movement of capital

within CEMAC is free. Since the ratification of the CEMAC treaty in 1999, the region has been moving, albeit slowly, towards fuller economic and monetary integration. Macroeconomic convergence has improved with greater country adherence to both fiscal and nonfiscal criteria of convergence modeled on the EU experience.

However, limited progress has been achieved in enhancing the functioning of the customs union. Administrative hurdles and an absence of economic complementarities continue to hinder the flow of goods, services, and people in the subregion. Intraregional trade still remains low – even in comparison to its West African counterpart. CEMAC’s progress has been hampered by the lack of functional transportation corridors among CEMAC countries. This is the prominent infrastructure bottleneck that hampers trade and limits the gains from regional integration. As a result, the CEMAC region trails the overall sub-Saharan African oil exporters grouping in non-oil GDP growth (IMF). However, these physical challenges of moving around the community are set to be alleviated with the announcement that the regional grouping’s airline will strategically partner with a leading international airline to begin operating scheduled flights among the member countries of the sub-regional bloc.

So what is the way forward? Infrastructure development is a crucial starting point. Also, based on our experience as Deloitte, it is our considered view that a relatively “quick win” in the process towards integration in customs modernisation to create a one-stop customs system e-border to allow for the ease of tax clearance, goods declaration and immigration processes. An upside of customs modernisation is the increased flow into the fiscus from collected taxes. We have noted that this modernisation process has practical challenges including, but not limited to, a general skills gap and inadequate ICT systems and processes. However, as the Chirundu One Stop Border Post case study illustrates, these challenges are not insurmountable with adequate and appropriate planning.

Case Study: The Chirundu One Stop Border Post

Chirundu is a border post between Zambia and Zimbabwe located on either side of the Zambezi River. It is a very busy border with between 300 to 400 trucks crossing the border each day. The Chirundu One Stop Border Post programme is managed by the Secretariat of the Common Market for Eastern and Southern Africa on behalf of the COMESA-EAC-SADC Tripartite. The main purpose of the Chirundu OSBP is, by working in a sequenced and harmonised way with other initiatives on the North South Corridor, to reduce the costs of cross-border transport by reducing the time taken to cross a border. The Chirundu one-stop border post was officially opened on 5th December 2009 and is Africa’s first functioning One-Stop Border Post. The establishment of the one-stop border post has provided some significant improvements, for example, passengers and commercial traffic stop only once to complete border formalities for both countries, and waiting times for commercial traffic have been reduced from about four to five days to a few hours.

Source: WTO and OECD – AID-FOR-TRADE CASE STORY
“Improving Service Delivery and Reducing Clearing Times at Chirundu Border Post”, 2011

To conclude, it is clear that regional integration will go a long way towards reducing the challenges and risk of doing business across borders on the continent. The World Bank’s Africa Director for Poverty Reduction and Economic Management expresses it succinctly, “The final prize is clear: helping Africans trade goods and services with each other. Few contributions carry more development power than that.”

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