

Acknowledgement

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1. Introduction

The term “trade facilitation” is being heard increasingly widely in discussions of trade and trade policy. Trade Facilitation encompasses all the steps that are required to facilitate the flow of trade, that is, to enable goods and services to cross international borders, whether as exports, imports or transit items. It covers the environment in which trade transactions take place, such as transparent procedures, efficient customs administration, an enabling regulatory regime and the harmonisation of quality standards. The WTO refers to trade facilitation as “the simplification and harmonisation of international trade procedures” and covers the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.

In recent years, trade facilitation has received increasing attention because of the increased volume, velocity and complexity of international trade. Globally trade has been growing faster

than output, hence its increased importance. In this environment, impediments to trade can seriously disadvantage countries that wish to participate effectively in the global trading system and reap the benefits that can potentially follow from increased trade.

Inefficient border procedures increase the costs of doing business, through slow and unpredictable delivery of goods, bureaucratic border requirements and lost business opportunities resulting from failure to meet delivery schedules and deterioration in product quality due to delays in delivery.

In Botswana, it is increasingly being acknowledged that given the small size of the market, export orientation and competitiveness will play a significant role in achieving sustainable economic growth and diversification. Trade facilitation therefore plays a profound role in enhancing the competitiveness of firms, because it reduces transactions costs. This is particularly beneficial to exporting firms



who continuously strive to maintain their competitive edge in international markets. As an export-driven economy, the role of trade facilitation in supporting export growth and diversification and therefore economic growth is paramount. Reducing the costs of trading across borders is particularly important in Botswana's case; given that the country is landlocked and therefore faces higher transport costs than some of its neighbours. Consequently all costs of doing business should be reduced to levels below those of major trading partners and competitors in order to maintain overall trade competitiveness.

This policy brief focuses on customs and border procedures in Botswana and their role on export diversification initiatives. Customs is at the centre of trade facilitation because it is where the majority of administrative and procedural requirements involved in the movement of goods are and where the highest potential gains in trade facilitation are to be found. The policy brief is based on the findings of the 2005 BIDPA and World Bank study entitled "Diversifying Botswana's Exports: An Overview."

2. What are the Benefits of Trade Facilitation?

The business community, government and consumers all stand to gain from simple and efficient procedures. Studies have indicated that gains from trade facilitation are in the form of:

(i) Transparency and Predictability

A transparent and predictable trade facilitation system increases the efficiency of the private sector in terms of savings on time and costs of complying with complex and unpredictable border procedures. Efficient border procedures

can improve the competitiveness of exports and make the country attractive for investment.

(ii) Customer Value

Globalisation has intensified competition both within and between countries. To maintain their competitive edge, exporting firms in particular have to create value for their customers. Customer value is created through provision of accurate information and fast delivery of goods and services at low cost. Efficient transport systems and border procedures play a key role in ensuring fast and reliable delivery of goods at a low cost to the consumer.

(iii) Time

Delays at borders, airports and harbours are a burden to trade. The business community incurs costs related to meeting requirements such as import permits and other requirements. Delays at borders impose additional costs to traders in the form of delays in delivery to customers. This may in turn lead to penalty charges, loss of supply contract and deterioration in quality of products especially if products are perishable.

(iv) Security

Inefficient borders impose costs to governments in terms of loss in revenue due to smuggling and other border evasion tactics. Inefficient borders may also be a threat to national security if dangerous and hazardous goods are smuggled into the country. Efficient borders are likely to provide government with an opportunity to divert attention away from compliant traders and devote more resources towards dealing with criminal activities such as fraud and smuggling and ensure the safety of citizens.

(v) Business Opportunity

Efficient border procedures enable companies to focus on their core business. This is particularly important for small and medium firms which often lack personnel and may spend considerable amounts of their time dealing with bureaucratic border processes rather than productive activities at their firms. This gives firms an opportunity to focus on the development of their businesses and may lead to new innovations and the production of cheaper products. Innovation plays a key role in maintaining a competitive edge and has great potential to contribute towards successful export diversification.

3. How has Botswana Fared in Trade Facilitation?

The trade facilitation regime in Botswana is characterized by three key features; proximity to a major market, South Africa; long distance from major developed country markets; and, being landlocked, dependence on its neighbours, especially South Africa, for transit to major markets. Improved efficiency in administration, procedures and logistics at ports and borders potentially plays a key role in the competitiveness of firms and supports export growth and diversification.

Trade facilitation is not a “once off” event but entails continuous improvements in border procedures such that even measures that used to be satisfactory in the past may need review as more and more goods flow in and out of the country, and as competing jurisdictions make their own trade facilitation regimes more efficient.

The next section outlines the state of customs procedures in Botswana.

(a) Customs Procedures, Management and Visa Rules

Botswana has streamlined and simplified its customs data procedures through the implementation of the Automated System for Customs Data (ASYCUDA) system. Documentation requirements for clearance of goods are consistent with best practice elsewhere, and according to some studies (e.g. FIAS, 2004), scope for further simplification is limited. Despite occasional delays at some borders during peak hours, e.g. Tlokweng, clearance times have been reduced substantially and goods are generally cleared within a day.

The savings in terms of time spent clearing goods are beneficial to firms, especially small and medium ones, because it reduces costs associated with delays in clearance, enhances subtle aspects of competitiveness such as timely delivery of products, reduces the risk of penalty and loss of supply contracts arising from delay, and, gives firms an opportunity to concentrate more on their core business which may lead to new innovations and production of new products. Transparent, predictable and efficient procedures are likely to attract foreign direct investment, which in turn has the potential to lead to technology and skills transfer. This can further contribute towards innovation and the development of new products.

If exporters take advantage of this saving of time, the potential exists that exports could grow further, new markets found and product ranges increased as firms venture into new products. This can contribute towards diversification of export products and markets.

Declarations of goods can be conducted electronically by a direct trader input facility available at customs. There is provision for deferred Value Added Tax (VAT) accounts for

imports by registered traders/importers. Local banks and Botswana Export Credit Insurance (BECI) offer payments guarantees, which are used as security for traders/importers who defer payment of VAT. The use of a guarantee facility as security is very important because it avoids the use of cash deposits. It is particularly important for small and medium exporting firms which may have limited financial resources but are dependent on efficient cash flow to maintain their production and ensure consistent and reliable exporting.

Despite these achievements in customs procedures, some challenges still remain. The VAT differential between Botswana (at 10%) and South Africa (at 14%) creates a barrier to the ease of movement of goods between the two countries. The South African Revenue Service (SARS) requires that Botswana exporters using road transport to forward goods to the port at Durban must pay VAT and later be reimbursed, to guard against the possible fraudulent diversion of such transit goods to the South African domestic market. These refunds are reported to often take too long and prompt exporters to unwillingly use rail – where such guarantees are not required – rather than road. Exporters therefore experience delays in delivery and unnecessary increases in costs of exporting. This may adversely affect the competitiveness of exports, frustrate existing as well as potential exporters, particularly small and medium ones and limit the success of export diversification efforts.

Botswana and South Africa use two different electronic customs management systems. In South Africa, traders still need to complete documents manually to clear goods.

Firms interviewed during the SADC Trade Protocol mid-term review identified a number

of problems affecting trade: they indicated that border procedures in the region were overly complicated and cumbersome; that differences in documentation requirements within the region's border posts confused traders; and that early closure of border posts had adverse implications for transport costs and product shelf life. The combined effect of all these constraints imposed a cost on traders and had implications for the effective diversification of exports.

Exports to Zimbabwe under the Botswana/Zimbabwe bilateral Trade Agreement require verification of rules of origin by Botswana customs. This often involves complex calculations to determine local content and was a deterrent to effective use of the trade agreement.

Weak customs administrations in some of Botswana's neighbours significantly limit the potential to expand trade within the region. For raw materials of importance to the export diversification efforts, such as cotton in Zimbabwe and Zambia for example, inefficient customs procedures have negative implications for realizing the full potential of textile export growth.

Given the likely benefits of improved trade facilitation, e.g. reduction in transaction costs and increased competitiveness of products associated with efficient customs procedures, Botswana and in particular export diversification efforts stand to gain from trade facilitation. Despite great achievements in trade facilitation resulting from automation of customs administrations, policy interventions are necessary in the following areas.

First, consideration should be given to harmonizing VAT regimes in SACU. This requires a comparative assessment of the likely gains and losses of a harmonized VAT system

within SACU compared to the current system where there are differentials in VAT within SACU.

Second, Botswana should propose development of a SACU wide transit system. Being a landlocked country, a regional transit system should be a priority area for Botswana. SACU is not only an important market for Botswana exports and source of imports but provides a gateway (particularly South Africa and Namibia) to global markets.

Third, government should explore the possibility of a "one stop border post" at key border crossings with neighbouring countries.

A one-stop border post entails customs and immigration requirements for both countries being dealt with in one place, with common documentation. Besides having the potential to reduce border clearance times further, this also cuts down the potential for fraud which can otherwise arise when different sets of documentation (e.g. valuations) are presented at the two separate border posts. The main border crossings that would benefit from one-stop border posts would be Tlokweng, which handles the majority of Botswana's road-based imports, and the entry and exit points for the Trans-Kalahari highway at Lobatse (with South Africa) and Mamuno (with Namibia).

Fourth, Botswana should continue to pursue the streamlining of customs documentation in the region. The effectiveness of such a policy has been demonstrated by the introduction of a Single Administrative Document (SAD500) on the Trans-Kalahari Corridor (TKC) between South Africa, Botswana and Namibia. The SAD500 entails a single document accepted by the customs administrations of the three countries, and replaced a multiplicity of national customs documents.

Fifth, the Government of Botswana should explore the possibility of a single SACU customs authority. Being a common customs area, a single customs authority would not only harmonise border procedures and reduce further delays associated with border clearance but will also deepen regional integration.

Finally, the Customs and Immigration Departments should explore the possibility of continuous (24 hour) opening at the Tlokweng and Trans-Kalahari border posts. This would ease congestion at the borders, which often have long lines of trucks waiting when they open in the morning, and speed up the clearance of goods.

(b) Border Procedures and Tourism

Being the third largest foreign exchange earner after diamonds and beef, tourism is central to the export diversification initiatives in Botswana. There is scope to increase foreign exchange earnings from tourism if the exotic natural attractions in Chobe and other areas of the country are exploited effectively. In view of its central location in Southern Africa and that it borders four countries at the hub of Southern Africa's tourism (Namibia, Zambia, Zimbabwe and South Africa) Botswana has unique advantages of significant benefits in tourism, especially in the Chobe, North West and Kgalagadi districts. However, in order to take full advantage of these benefits and increase the contribution to export growth and diversification from the tourism sector, three impediments have to be attended to. These include:

- (i) Uncoordinated and tourist unfriendly immigration and customs systems. This could result in frustrations and delays which could have a negative impact on repeat tourist visits.

- (ii) Implementation of a universal Southern Africa regional visa has been slow. In the meantime, special effort should be made to facilitate access between the four countries through for example, a special tourist visa purchased in advance from the tourist originating country to provide access to all four countries.
- (iii) Multiple taxes (visa fee, vehicle permit fee, carbon tax and third party insurance) required by Zimbabwean authorities. These are paid at different locations at the border and have different documentation requirements. They impose an additional cost to tourism and result in unnecessary delays. The Botswana government should actively encourage and support coordination and harmonisation of customs procedures at the regional level.

4. Conclusion

The increasing volume and complexity of world trade has made trade facilitation a key focus area for reform at the national, regional and multilateral level. There are benefits associated with continued efficiency gains in border procedures. Botswana has made significant unilateral reforms in customs procedures and in many respects is comparable with international standards. However, trade facilitation requires continuous reform and improvement in border procedures. Despite the achievements made in reforming customs procedures in Botswana, policy intervention is required in areas such as harmonisation of SACU VAT systems, the possibility of introducing a SACU wide transit system, converting busy borders to 24 hour borders, the possibility of a "one stop"

border with South Africa, streamlined customs documentation and the feasibility of a single customs authority.

It is essential that steps are taken to address these reform areas and to ensure continued improvements in trade facilitation. While, there are costs associated with policy reform, the gains in terms of a quicker, transparent, predictable and efficient customs environment could go a long way in reducing transaction costs incurred by the business community and enhancing the competitiveness of exports. There are also subtle non-price competitiveness factors such as reliable and timely delivery of products that the business community stands to gain. Modern production techniques such as "just-in-time" require efficient, transparent and predictable customs procedures. Botswana can maintain her competitiveness on the international front if she continuously improves her trade facilitation. While it is not the only measure, trade facilitation plays a key role in realizing export diversification drive and making Botswana an attractive investment destination.

References

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Botswana Institute for Development Policy Analysis (BIDPA) BIDPA House
Plot 134 Millennium Office Park

Private Bag BR -29

Gaborone, Botswana

Tel: +267 397 1750

Fax: +267 397 1748

Website: www.bidpa.bw