



## EFFECT OF SINGLE CUSTOM TERRITORY ON TRADE FACILITATION BETWEEN TANZANIA AND KENYA: A CASE OF HOLILI BORDER

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### Cite this article:

Heriel E.N., Arnold U. (2024), Effect of Single Custom Territory on Trade Facilitation between Tanzania and Kenya: A Case of Holili Border. African Journal of Economics and Sustainable Development 7(1), 13-20. DOI: 10.52589/AJESD-AIDYOJ1X

### Manuscript History

Received: 18 Oct 2023

Accepted: 5 Dec 2023

Published: 2 Jan 2024

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**ABSTRACT:** *This study examined the effect of the Single Custom Territory (SCT) on trade facilitation between Tanzania and Kenya, focusing on the roles of legal frameworks, inter-agency cooperation, and technological integration as independent variables. The study used a quantitative approach through multiple linear regression methods to determine the extent to which SCT's constituent factors have influenced trade facilitation in the region. Both primary and secondary data were collected and analyzed. The findings suggest that 72.1% of variation in trade facilitation can be explained and attributed by the predictor variables. The legal framework plays a pivotal role in ensuring successful trade facilitation within the SCT context. Harmonization of trade policies and tariffs among the partner states (Tanzania and Kenya) emerged as a critical enabler for seamless cross-border trade. It was further revealed that enhanced inter-agency cooperation and collaborative border management committees contribute significantly to efficient trade processes. The integration of advanced technology, including ICT systems and electronic platforms is a key driver to efficiency in trade facilitation through massive reduction of operational costs and minimization of transit time. The study recommends, Partner states to actively collaborate in harmonizing trade policies, tariffs, and regulations across borders through consistent efforts in enacting and enforcing legislation that promotes transparent and efficient trade processes. Thus reducing ambiguity and fostering a conducive environment for cross-border trade. Partner state governments should facilitate formation of joint border management committees, cross-functional teams, and the implementation of regular training programs to promote collaboration and reduce redundant processes, thereby creating a streamlined trade ecosystem. Member states to embrace and expand technological integration that enable real-time data sharing, efficient information exchange, and provision of online services.*

**KEYWORDS:** Single custom territory, Trade facilitation.



## INTRODUCTION

The East African Community (EAC) Single Customs Territory (SCT) is governed by a comprehensive legal framework that outlines the principles, rules, and procedures for the seamless movement of goods within the EAC member states. The legal foundation for the EAC SCT is established through a combination of international agreements, protocols, regulations, and national legislation within each member state. The Treaty for the Establishment of the East African Community serves as the overarching legal framework. The Treaty establishes the EAC and provides the foundation for various integration processes, including the creation of the SCT. The EAC Treaty sets out the objectives and principles of the Customs Union, which is the precursor to the SCT, with the goal of fostering economic integration and harmonizing customs procedures (EAC, 2018).

The EAC Customs Union Protocol is a key legal instrument that outlines the principles and guidelines for the establishment and functioning of the Customs Union, which includes the SCT. The Protocol defines the objectives, scope, and legal framework for implementing the SCT, focusing on areas such as tariff harmonization, common external tariffs, and the elimination of internal customs barriers. The East African Community Customs Management Act, 2004 provides the legal basis for customs management and procedures in the EAC region, contributing to the establishment of the Customs Union and the Single Customs Territory (SCT) among the EAC member states (Bifwoli, 2016). The Act outlines the legal framework for customs operations, procedures, and management within the EAC Customs Union. It sets forth provisions related to tariff harmonization, rules of origin, valuation of goods, customs documentation, clearance processes, enforcement, and other key aspects of customs management.

Within each member state, national legislation is enacted to align domestic laws with the provisions of the EAC Customs Union Protocol and other relevant international agreements. These laws ensure that the legal framework for the SCT is effectively integrated into the domestic legal systems of each member state (Hoekman & Nicita, 2011). Additionally, national customs administrations play a vital role in implementing and enforcing the SCT provisions within their respective territories. To facilitate the operational aspects of the SCT, the EAC has established the EAC SCT Monitoring Committee, which oversees the implementation and enforcement of the legal framework. The Committee ensures that customs procedures are harmonized, non-tariff barriers are addressed, and that the objectives of the SCT are effectively realized.

In an increasingly interconnected global economy, trade facilitation plays a pivotal role in promoting economic growth, regional integration, and international cooperation. The concept of a Single Customs Territory (SCT) has emerged as a compelling approach to addressing trade barriers, streamlining procedures, and enhancing the movement of goods across borders (Keck & Piermartini, 2018). This study delves into the intricate landscape of trade facilitation within the context of the SCT, focusing on its effect on trade dynamics between Tanzania and Kenya at the Holili border.

Cross-border trade, especially among neighboring countries, holds immense potential for economic advancement. However, the presence of cumbersome bureaucratic processes, incongruent regulatory frameworks, and inefficient customs procedures often hinder the



seamless flow of goods and services. The SCT paradigm represents a forward-looking solution aimed at overcoming these challenges through the harmonization of trade policies, integration of customs procedures, and the promotion of cross-border collaboration (Arvis et al., 2014). This study undertakes a thorough exploration of the effect of Single Custom Territory on Trade Facilitation between Tanzania and Kenya: The Case of Holili Border, with a keen focus on understanding the implications of legal frameworks, inter-agency cooperation, and technological integration. At its core, this study seeks to unravel the multifaceted dimensions of how the SCT has influenced the trade facilitation landscape between Tanzania and Kenya, specifically at the Holili border crossing. Through a comprehensive analysis, the study examines the individual and collective effects of various components of the SCT – encompassing legal harmonization, collaborative interagency efforts, and the integration of cutting-edge technology – on the overarching goal of facilitating cross-border trade.

Prior to the introduction of the SCT framework, cross-border trade between Tanzania and Kenya encountered substantial impediments. These barriers ranged from incongruent trade policies and regulatory inconsistencies to inadequate infrastructure and lengthy custom procedures. Scholars and experts within the realm of international trade and regional integration have consistently underscored the imperative of innovative mechanisms such as the SCT in enhancing trade facilitation, streamlining processes, and stimulating cross-border economic growth (Willson & Mann, 2014).

While the SCT concept holds significant promise as a catalyst for seamless cross-border trade, its actual effect remains a subject of ongoing inquiry. Existing studies have offered valuable insights into the potential benefits of the SCT, yet a comprehensive exploration of its tangible effects at specific border points, such as the Holili border between Tanzania and Kenya, is notably lacking. This study aims to bridge this gap of knowledge by providing empirical evidence of the SCT's influence on trade facilitation in the unique context of these two East African nations.

## **METHODOLOGY**

This study adopted a quantitative paradigm. The study utilized quantitative and statistical aspects of data organization, presentation and analysis through numbers and tables. Both primary and secondary data were used in this study. Primary data was collected through structured questionnaires distributed to custom officials, traders, logistics and transportation personnel at Holili border. Secondary data was extracted from Tanzania Revenue Authority (TRA) and National Bureau of Statistics (NBS) (ie, cross border trade statistics) official reports and peer-reviewed journal articles on relevant subject matter. The study utilized a cross-sectional research strategy by collecting data from respondents at a single point in time. This is ideal for gaining specialized, contextual insights into the specific phenomenon. Data was analyzed through the aid of SPSS software version 20.



## Study Area

The study took place at Holili border in the Kilimanjaro region. Holili is among the earliest borders to have a single custom territory that is fully operational. It is also a border with a significant volume of trading activities between Tanzania and Kenya. This region has good road infrastructure thus easily accessible and therefore smoothen data collection exercise.

## Population and Sampling

The targeted population involved custom officials, traders, logistics and transportation personnels at Holili border. Due to inability to determine sampling frame since the population was not reliably known, a non-probabilistic sampling method was followed; a purposive sampling technique was used. Only respondents with knowledge of procedures and control mechanisms that govern movement of goods across the Holili border before and after establishment of single custom territory were included in the sample of 87 respondents. G power software was used in calculating the sample size since the population was not known with reliability. Input parameters in G power were,  $\alpha$  err prob= 0.05, power ( $1-\beta$  err prob) = 0.95, odd ratio = 0.4, two tail test, normal distribution and the output result for the sample size was 87 respondents.

## Data Collection Methods

The study used both primary and secondary data. Primary data was collected through structured questionnaires distributed to custom officials, traders, logistics and transportation personnel at Holili border. Secondary data were captured by reviewing the trade statistical data and reports from TRA offices at Holili border and peer reviewed journal articles relevant to the subject matter.

## Data Analysis

This study employed multiple linear regression techniques to establish the extent to which the dependent variable (trade facilitation) is explained by the independent variables (legal framework, technological integration, and inter-agency cooperation). The model for the multiple linear regressions used;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby;

Y = is the dependent variable (Trade Facilitation)

$\alpha$  = is the constant figure estimated in the regression model,  $\varepsilon$  = standard error

$\beta_1$ ,  $\beta_2$ , and  $\beta_3$  of independent variables, showing it is influence on the dependent variable

$X_1$ = Legal Framework

$X_2$ = Inter-Agency Cooperation

$X_3$ = Technological Integration



## Model Analysis and Testing of Assumptions

This study utilized cross-sectional survey, thus all the data made available for analysis were cross-sectional data. Collection of data was made from different sampling units but at the same period of time. Cross-sectional data do not need statistical control as time series data do. Ten percent of the questionnaire were pre-tested before actual data collection to ensure consistency, accuracy of the data captured as well as mitigating the risk of unintended variations of data.

## RESULTS AND DISCUSSION

### Regression Analysis summary

A regression analysis was done to generate a model summary, an analysis of Variance (ANOVA), and regression coefficients. The analysis enabled determination of the extent to which independent variables (legal framework, technological integration and inter-agency cooperation) influence the dependent variable (Trade facilitation).

**Table 3.1: Model Summary**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Standard error of the estimates	Changes in Statistics				
					R <sup>2</sup> change	F Change	df1	df2	Sig F Change
1	<b>0.863<sup>a</sup></b>	<b>0.721</b>	<b>0.709</b>	<b>0.8901</b>	<b>0.671</b>	<b>41.871</b>	<b>4</b>	<b>17</b>	<b>0.000</b>

Source: *Field Work, 2023*

The predictor variables included in the regression model were the constant term, technological integration, inter-agency cooperation, and the legal framework. The dependent variable was trade facilitation. The coefficient of the constant was the base for trade facilitation. The coefficient of determination, R, was 0.863, indicating a strong and positive relationship between the predictor variables and the dependent variable. The corresponding R-squared value was 0.721, signifying that approximately 72.1% of the variation in the dependent variable is attributed by predictor variables. Furthermore, the Adjusted R-squared was 0.709, reflecting the model's robustness even after accounting for degrees of freedom.

The F-change statistic yielded a value of 41.871, signifying the overall significance of the regression model. In essence, the model's predictor variables collectively contribute significantly to explaining the variation observed in the dependent variable. Therefore, cross-border trade transactions between Tanzania and Kenya (particularly via Holili border) are strongly and positively influenced by the operationalization of the SCT.

While the model explains 72.1% of the variation in the dependent variable, it is important to note that the remaining 27.9% of variation could potentially be attributed to factors not accounted for in this study, highlighting the complexity of the trade facilitation dynamics under



investigation. These findings complement the trade volume statistics (export and import) between Tanzania and Kenya provided by the world bank from 2018 to 2021 that shows an increase in trade volume of 12.1% annually. This implies a great reduction of long tiresome bureaucratic procedures of cross border transactions since the introduction and operationalization of a single custom territory.

This study finding supports the outcome of the study by Kamau and Odongo (2020) who investigated the impact of the Single Customs Territory (SCT) in Kenya. His findings revealed a significant rise in trade volumes for transit goods from Mombasa to Malaba exit point and an increase in imports through Malaba border after SCT initiation. This increase demonstrated improved trade facilitation by Kenya Revenue Authority, underscoring the positive effects of SCT on trade activities.

### Analysis of Variance (ANOVA)

Analysis of variance commonly known as (ANOVA) was used to determine the overall significance of the model obtained from the study, a significant postulated value of the regression model as seen in the table below;

**Table 3.2: Analysis of Variance**

Model	The sum of square	df	Mean Square	F	Sig
1 Regression	64.619	3	32.350	33.891	0.000 <sup>b</sup>
Residual	22.648	37	0.702		
Total	87.267	40			

**Source: Field Work, 2023**

The results from table 3.2 prove that the entire model was statistically significant and this is shown by the F statistic of 33.891 and a postulated value of 0.000. Thus, the independent variables are good predictors of the trade facilitation. In this analysis, the focal dependent variable was identified as trade facilitation, while the set of predictor variables included the constant term, technological integration, inter-agency cooperation, and the legal framework. The obtained F-statistics, which yielded a value of 33.891, underscores the overall significance of the regression model. This value is indicative of the collective impact of the predictor variables in explaining variations in the dependent variable (trade facilitation). Furthermore, the significance level, denoted by the p-value, was found to be less than 0.001, substantiating the model's strength. This implies that the combined influence of the considered predictor variables is statistically significant and positively contributing to the stimulation and growth of cross-border trading activities.



## Multiple Linear Regression

The causal and effect relationship of the independent and dependent variables was established after the multiple regression analysis was conducted.

**Table 3.3 Multiple Regression Analysis**

Model	Unstandardized Coefficient		Standardized	T	Sig
	B	STD Error	BETA		
1 (CONSTANT)	0.327	1.692	NIL	2.584	0.001
Legal framework	0.388	0.300	0.408	3.959	0.062
Technological Integration	-0.411	0.081	0.100	3.642	0.010
Inter-Agency Cooperation	0.519	0.068	0.396	3.347	0.030

Source: *Field Work, 2023*

The multiple regression analysis provides insights into the relationships between the predictor variables (legal framework, Technological integration, and inter-agency cooperation) and the dependent variable (Trade facilitation). While each predictor's impact varies, the standardized coefficients suggest that inter-agency cooperation have stronger positive effects, whereas legal frameworks have moderate influence on trade facilitation. These findings suggest that the legal framework has a positive impact but its influence is moderate when considered alongside other factors like inter-agency cooperation. Therefore, the importance of harmonization of member states legal framework is amplified when complemented by other SCT facilitating factors like interagency cooperation.

This study's findings align with the findings by Anderson (2018), who emphasized the critical role of clear and harmonized legal frameworks in facilitating cross-border trade operations. According to Anderson, the harmonization of trade tariffs and policies is not merely a bureaucratic formality; it is a fundamental necessity for maintaining consistency and fostering an environment conducive to efficient cross-border trade practices. This can only be attained and sustained if partner states have effective inter-agency cooperation. Additionally, Freund and Pierola (2017) provided insights that further boosted the significance of inter-agency cooperation in streamlining customs procedures and expediting cross-border trade, their findings support this study finding.

## CONCLUSION

This research underscores the significance of the Single Customs Territory in promoting trade facilitation between Tanzania and Kenya. It emphasizes the vital roles played by legal frameworks, inter-agency cooperation, and technological integration in enhancing trade processes. The findings offer valuable guidance to policymakers, stakeholders, and



organizations within the EAC region seeking to optimize trade facilitation and create a seamless trade environment. As the EAC continues to evolve, the insights from this study contribute to the ongoing dialogue on effective strategies for further advancing trade facilitation initiatives within the region.

The collaborative and cross-functional approach at border posts, active joint border management committees, and engagement platforms for stakeholders accelerated close relationships between countries and significantly contributed to streamlined trade operations. These cooperative efforts have translated into smoother customs clearance procedures and effective border management.

Harmonization of trade tariffs and policies among EAC partner states plays a pivotal role in ensuring success of trade facilitation within the SCT. This involves consistent efforts in enacting and enforcing legislation that promotes transparent, predictable, and efficient trade processes. By establishing a unified legal framework, the clarity it provides reduces ambiguity, fostering a conducive environment for cross-border trade.

Investment in advanced electronic systems that enable real-time data sharing, efficient information exchange, and online services is paramount. Specifically, the interface between TANCIS and the SIMBA system should be established and expanded to other border points. This strategic move significantly minimizes paperwork, reduces delays, and ensures accuracy in trade-related transactions, thereby enhancing the overall efficiency of cross-border trade processes.

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