

Consequences of the Single Customs Territory (SCT) in reducing wholesalers' role in input sourcing in Uganda

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- This study concerns the impact of the Single Customs Territory (SCT), which likely facilitated trade conducted by domestic firms by relaxing administrative burdens and costs associated with trade itself.
- **Trade facilitation works, but not only in the ways usually measured.** Standard evaluations focus on aggregate trade volumes or clearance times. Our results show that the reform reorganised entire supply chains, generating real efficiency gains for manufacturers.
- **Non-tariff barriers act as costs that exclude smaller firms.** Our results suggest that administrative burdens and clearance procedures act as fixed costs that prevent manufacturers from accessing foreign input markets directly. Reforms targeting these barriers unlock entry for firms that are often smaller in size and have the potential to scale up operations but would otherwise remain dependent on intermediaries.
- **Wholesalers face structural adjustment pressures.** The policy did not eliminate wholesalers, but it reduced their role in supplying manufacturers with targeted inputs. Policymakers should be aware that trade facilitation may have distributional consequences within domestic supply chains, benefiting manufacturers while putting pressure on the intermediary sector.
- **The East African Community (EAC) model offers a template.** The SCT has since expanded beyond its initial pilot products. Our findings suggest that the benefits of this expansion are likely real and measurable, particularly for manufacturers in landlocked EAC member states that face disproportionate non-tariff barriers due to their geographic location.

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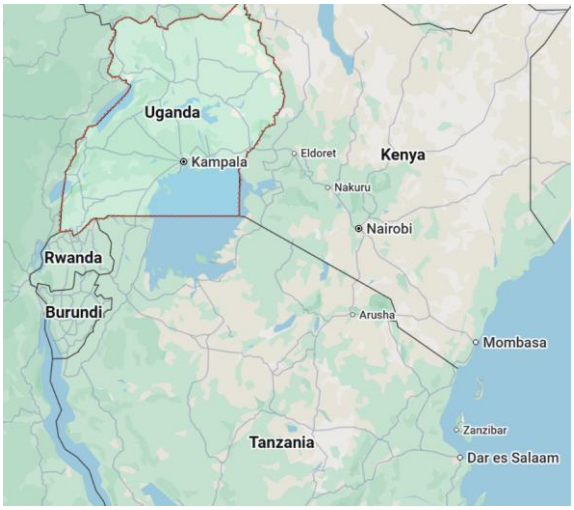
About the study

For a manufacturer in Kampala trying to source materials from abroad, importing is not simply a matter of finding a foreign supplier and placing an order. Uganda is a landlocked country. Around 80% of its maritime imports pass through the port of Mombasa in Kenya before travelling overland to the Ugandan border. Until 2013, this meant preparing multiple sets of clearance documents in different formats, for different procedures for at least three separate authorities: the Kenyan port, the relevant Revenue Authority (Kenyan or Tanzanian), and the Uganda Revenue Authority (URA).

These administrative requirements are real barriers to trade. They take time, create uncertainty, and impose costs that fall hardest on firms with limited capacity to manage complex cross-border procedures. As a result, many manufacturers rely on domestic wholesalers to handle imports on their behalf, paying a markup in exchange for not having to navigate the process themselves.



Surrounding Geography of Uganda. Image Credit: Google Maps

Policy: Single Customs Territory (SCT)

In 2014, Uganda and its East African Community (EAC) partners piloted the Single Customs Territory (SCT), a reform that eliminated much of this administrative duplication.

- Under the new system, a single document issued by URA serves as proof of compliance and is recognised by all relevant authorities along the transit route.
- Crucially, the reform was rolled out gradually, starting with a specific list of products, including wheat, cement clinkers, palm oil, rice, and steel, before expanding further. This product-by-product rollout creates a rare research opportunity: we can compare firms that import targeted products with similar firms that do not and measure the policy's causal effect.

Target products

The selection of HS4 products for the Single Customs Territory (SCT) pilot, outlined in **Table 1**, was driven primarily by administrative and logistical considerations rather than firm-level lobbying. Contemporary accounts indicate that the pilot initially targeted high-volume, bulk commodities such as clinker, wheat, and edible oils, because these goods move in large, standardised consignments that are relatively straightforward to classify and value for customs purposes.

Furthermore, these products were already flowing heavily through the main regional trade corridors, particularly the Northern Corridor linking Mombasa to Uganda. This made them the most practical candidates for testing coordinated, cross-border customs procedures among the East African Community partner states.

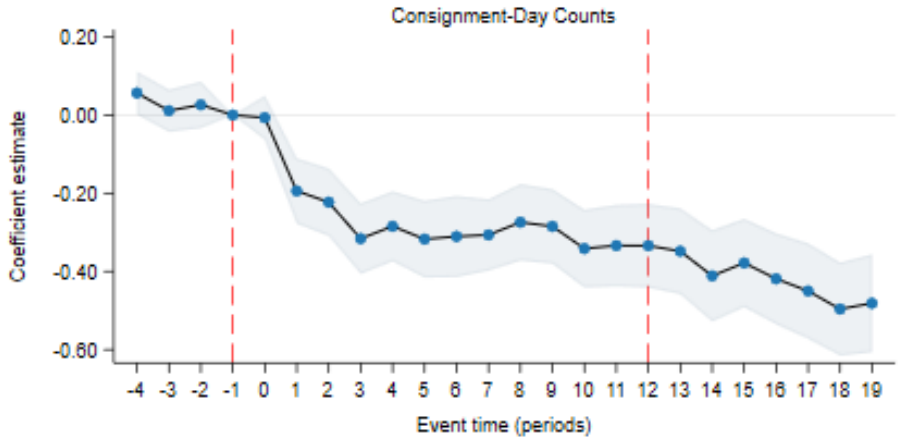
Table 1: Examples of policy targeted products

No.	Product Description	HS Code	Announced
1	Other wheat and meslin	1001	February 2014
2	Flat/hot-rolled iron or steel, not in coils, width ≥ 600mm, thickness > 10mm	7208	February 2014
3	Cement clinkers, whether or not colored	2523	February 2014
4	Palm olein, whether or not refined, but not chemically modified	1511	February 2014

Findings

We found that on the first hand, SCT has improved clearance times. Measuring the number of days spent on goods clearance in each quarter. We find a 20-40% reduction in clearance times, which amounts to approximately five fewer days on average.

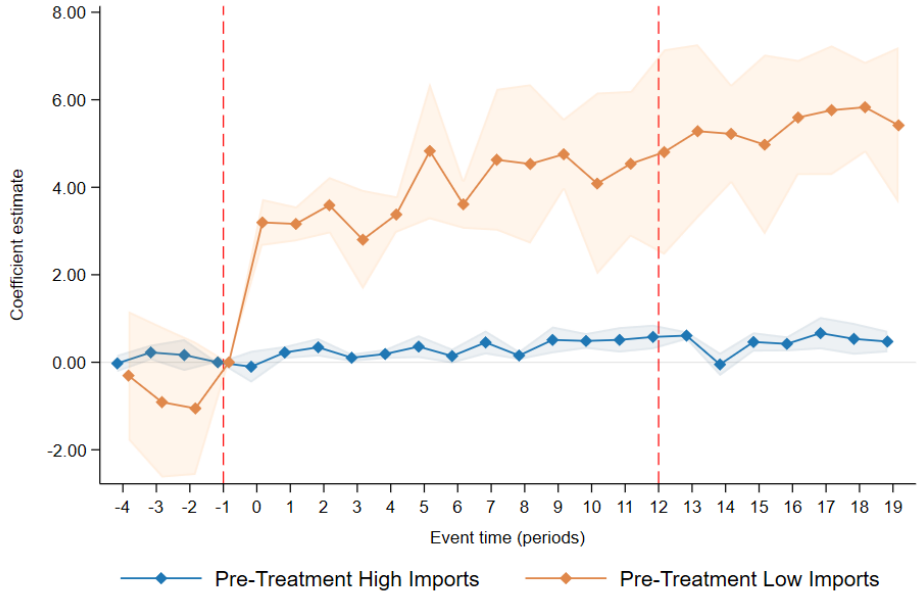
Figure 1: Improvement in clearance times



Note: The first reference line (dashed, red) refers to 2013 Q4. The second reference line refers to 2017 Q1, when SCT opened up to all products.

We then find that manufacturers (including agro-processors) that were not mainly importing target products begin directly importing them in real terms (kg). **Figure 2** suggests a 7-53-fold increase in target product imports.[1] In aggregate terms, among such firms, this implies a jump from **280,000 kg to 45,000,000 kg or more** by 2016 Q4, representing approximately a 15% increase in manufacturers' target product import volume.

Figure 2: Manufacturers begin direct imports



1 Due to the methodology used, the measured effects are calculated back as approximately 2.718 to the power of effects -1. For instance, 2.718 to the power of 4 is approximately 54.57; thus, the implied effect is a 53-57 times increase on average. This applies to Figure 3 as well.

Simultaneously, wholesalers that were major importers of the target products began losing domestic sales to manufacturers that subsequently began importing directly. The implied magnitude of these losses is substantial: if a wholesaler relied entirely on these manufacturers for its sales, it would lose between 75% and 93% of its sales relative to wholesalers with no such dependence, as shown in **Figure 3**. These results strongly indicate that manufacturers substituted away from domestic wholesalers in favour of directly importing the targeted goods.

Figure 3: Wholesalers lose sales to manufacturers

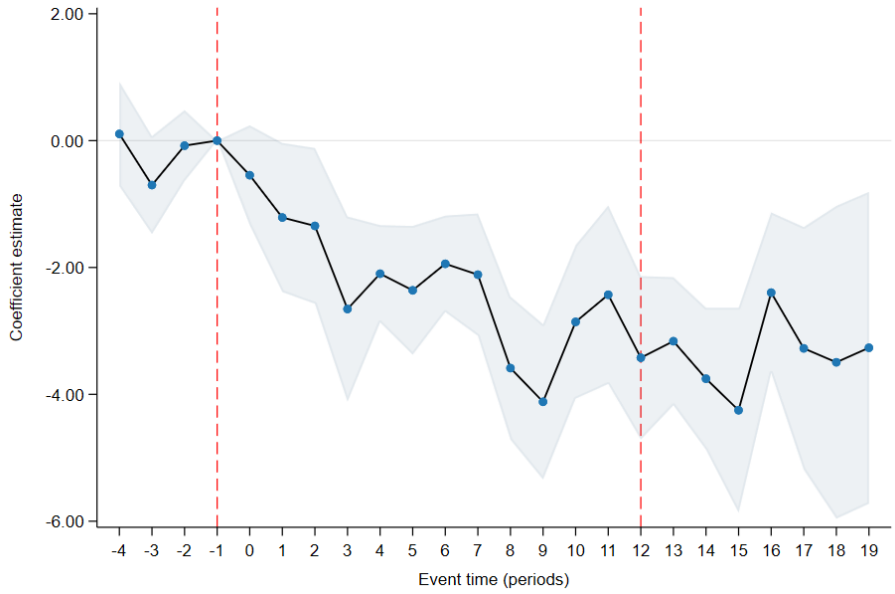
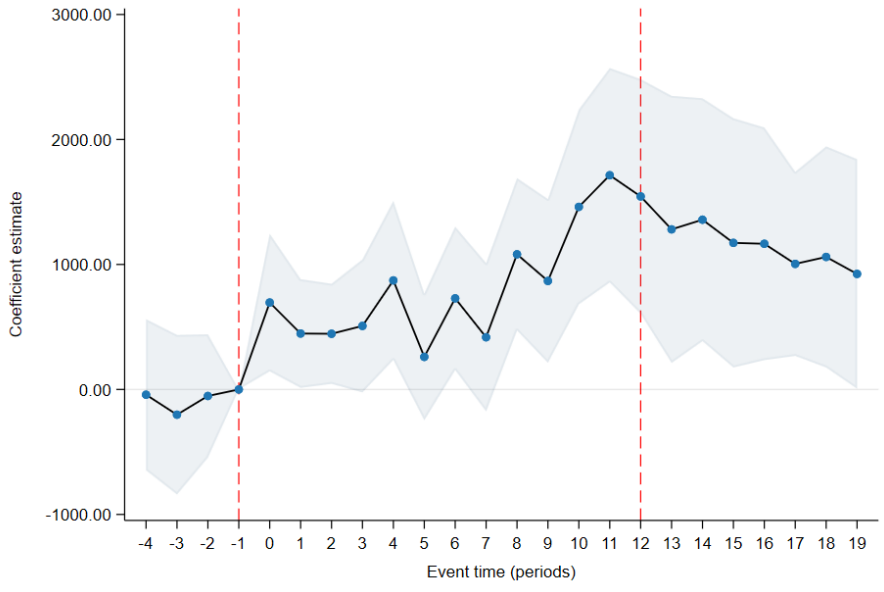


Figure 4: Manufacturers gain large operating surpluses



Finally, as manufacturers substitute away from domestic wholesalers, they experience large gains of UGX 500,000,000 million to UGX 1,500,000,000 during the pilot phase of the Single Customs Territory, as shown in **Figure 4**. This suggests that the re-wiring of the supply chain structure supported domestic firm growth by empowering them to become more productive and expand their scale. This is given that the ones that subsequently picked up direct imports are, on average, smaller than manufacturers that were already importing the target products on a large scale.

Policy Suggestions

- **Trade facilitation works not only in the ways usually measured, but also through supply chain adjustment channels.** Therefore, analysing trade policy must involve looking not only at the aggregate volume of trade, but specifically at which firms benefit from such policies, especially given the high barriers to conducting trade in developing economies such as Uganda.
- **Non-tariff barriers act as costs that exclude smaller firms.** Much policy debate focuses on tariffs. However, regardless of tariffs, high non-tariff barriers, such as administrative burdens, act as significant obstacles that disproportionately hinder smaller businesses from conducting trade. Policies that further unlock trade opportunities are therefore necessary, as even large-scale reforms like the SCT cannot enable all manufacturers to trade directly.
- **Wholesalers face structural adjustment pressures.** The policy did not eliminate wholesalers, but it reduced their role in supplying manufacturers with targeted inputs. Policymakers should be aware that trade facilitation may have distributional consequences within domestic supply chains, for example, by benefiting manufacturers while putting pressure on the intermediary sector, as in the case of SCT.
- **Intraregional collaboration appears crucial.** The SCT has since expanded beyond its initial pilot products. Our findings suggest that the benefits of this expansion are likely real and visibly large. Intraregional collaboration to reduce trade barriers was the driver behind implementing SCT. Many other policies could be considered if developing economies promote intraregional cooperation, which is an active area of discussion in EAC.

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