

# Evidence of the impacts of aid for trade:

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and Africa's Trading Capacity

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# Evidence of the effects of aid for trade

- As we know, aid for trade is a broad concept covering trade policy and regulations, economic infrastructure and building productive capacity.
- Here we look at evidence of the relationship between aid for trade and impacts and outline several examples where aid for trade has proved effective (e.g. trade facilitation), or not as effective as intended (e.g. projects such as the Enhanced Integrated Framework), and identify those interventions with a potential high impact to increase trade.

# Infrastructure and trade facilitation – analytical studies

- Research by Venables and others show that the sensitivity of trade flows to transport costs is such that a 10 percent drop in transport costs could lead to a 25 percent increase in trade flows. This study gives a useful idea of the scale of impact that can be expected from interventions that have a significant impact on regional transport costs.
- According to a World Bank study (Teravaninthorn and Raballand, 2008), in East and Southern Africa the most effective way to reduce costs is by rehabilitating roads, reducing fuel costs, and lowering delays at border crossings. In Southern Africa, delays at border crossings have the biggest impact on overall transport costs.
- Soloaga, Wilson and Mejía (2006) find that Mexico's unilateral improvements in trade facilitation measures were expected to increase manufacturing exports by \$31.8 billion, equivalent to 22.4% of the average export level for 2000-03.
- USAID (2003) show that the dramatic growth of export from Mauritius from \$89 million in 1970 to \$2.8 billion in 2000 was partly attributed to trade facilitation measures.

## Infrastructure and trade facilitation – the constraints

- Poor infrastructure, trade facilitation, and transit and transport systems – including a lack of harmonisation of policies and regulations along the corridors – are a major cause of delays and high transport costs and create obstacles to business efficiency and trade.
- Typical NTBs include cumbersome customs and administrative procedures, licensing requirements and charges, as well as immigration procedures, standards and inspection procedures, transiting procedures, road blocks and trade regulations.
- Transit processes are often some of the most restrictive NTBs to regional trade. For instance, due to differences in axle load and gross vehicle mass amongst EAC Partner States, a Tanzanian truck transiting through Kenya, en route to Tanzania, has to remove excess cargo to avoid financial penalties for overloading.

## Infrastructure and trade facilitation

- The busiest and most congested border crossings along the Central Corridor are Namanga (Kenya and Tanzania border) where delays can be as long as 1-3 days and Tunduma (Tanzania and Zambia border) where delays can be up to 8 days.
- Delays at the borders are typically due to a combination of poor physical infrastructure – badly designed border infrastructure which causes bottlenecks and log-jams, leading to lengthy queues – as well as excessive bureaucracy, inefficient and repetitive border control operations, multiple and often overlapping border organisations, poor integration of business processes across agencies at the border, rent-seeking behaviour perpetuated by long, complex and non-transparent administrative requirements.
- Clearly trade facilitation programmes aimed at addressing these weaknesses would greatly improve efficiency and facilitate trade (exporting and importing).

## Examples of success stories

- The World Bank, DFID and other development partners support to streamlining transit processes has contributed to reducing transit time:
  - From Mombasa through Uganda to Kigali from 19 days in 2005 to 8 days in 2008.
  - Reducing the customs clearance times for goods in transit through sharing of facilities and joint inspections at the Malaba border crossing (Kenya-Uganda) has reduced clearance time from 3 days to 3 hours.
- The World Bank-IFC Trade Logistics Advisory Programme aims to reduce the total time and cost to trade in developing countries by helping build efficient trade logistics systems and services through reducing the administrative and regulatory burdens to trade. For example:
  - Rwanda – by reducing the number of physical inspections and streamlining customs procedures. Contributed to reducing the time to import from 69 days in 2007 to 42 days in 2009, resulting in a direct costs savings.
  - Liberia - reduced the customs administrative charges for particular products and number of procedures for trade transactions, directly reducing the cost to trade.

## Examples of success stories

- With the help of the technical assistance provided through the USAID's Southern Africa Global Competitiveness Hub, along the Trans-Kalahari Corridor (cutting across Namibia, Botswana, and South Africa) more than a dozen customs forms have been reduced into a single form along the Trans-Kalahari Corridor, reducing the cost of moving goods along transport corridors through a single customs declaration made in the originating country.

## Infrastructure and trade facilitation – building on success

- Improvement of the physical infrastructure along the corridors and at key border posts, combined with the reform and streamlining of border procedures, including the development of effective one-stop border posts (OSBPs) - with all border agencies cooperating together - are vital to reducing the cost of trading.
- Moves towards integrating joint inspections between border agencies in the region are reducing inspection times (e.g. Malaba).
- This cooperation can be built upon by introducing Integrated Border Management (IBM) – through enhanced interagency cooperation with border agencies working together and agreeing common systems, procedures, processes, etc.

## Infrastructure and trade facilitation – building on success

- Plans are in place across East and Southern Africa to develop OSBPs with IBM. The EAC has committed to establishing OSBPs throughout the Community in order to reduce the time spent at borders, with the support of various development partners (JICA, USAID, WB, DFID, etc.).
- The most advanced of the OSBPs is at the border between Zambia and Zimbabwe at Chirundu, opened earlier this year.

## Mixed experience – the Enhanced Integrated Framework

- The EIF is a multi-agency programme with the key objectives to enable LDCs to build and strengthen their trade capacities, better integrate trade in their national development strategies and use trade as a tool for growth and poverty reduction.
- The EIF has helped countries facilitate integration into the multilateral trading system (e.g. Cambodia's accession to the WTO). Cambodia's accession to the WTO is frequently cited as a "success story" largely due to the country's strong commitment to trade policy issues and ownership of the EIF process, as reflected in the high level of inter-ministerial co-operation.

## EIF - support to mainstreaming

- In Tanzania, the commitment to trade issues across government remained low in 2004/05, partly due to priorities identified by the first PRSP (2000-2004) - with heavy development partners involvement focusing predominantly on health and education - which undermined any attempts at promoting a broad set of economy-wide reforms necessary to improve the country's capacity to produce and trade.
- In preparation for the second PRSP (MKUKUTA, 2005-2010), the EIF along with DFID supported the preparation of analytical work and a consultative process (government, civil society and private sector) to explore the relationship between trade and poverty, highlighting priorities to feed into the MKUKUTA.
- These initiatives helped key national stakeholders inform the MKUKUTA drafting committee on the role of the productive sectors, which culminated in a greater role for the productive sectors in the MKUKUTA and a sizeable increase in the government budget allocated to building productive capacity with significant increases in the budget of the Ministry of Industry and Trade who were expected to lead the implementation of several actions.

## EIF – improvements needed

- The EIF (the reformed IF) has made considerable progress in producing high quality analytical work and needs assessments through Diagnostic Trade Integration Studies (DTISs).
- After a slow start, concrete proposals and approvals for aid for trade projects and programmes are emerging.
- Nevertheless, DTIS actions are not being fully translated into operations – is this due to lack of ownership, lack of funds and/or need to strengthen implementation?
- There is insufficient focus on improved trade outcomes. However, work is currently being undertaken to develop results-based management frameworks at the national level. This needs to establish a range of concrete country-level outcomes and related performance indicators, with a focus on results and on monitoring outcomes and impacts.
- Mainstreaming trade in national development strategies remains low - despite a few good case studies - this has to be country-led, not EIF-led.
- Do we need to strengthen the link between financing and priorities in a more systematic fashion?
- Do we need to strengthen and streamline the governance and management of EIF programmes? And/or build more national ownership?

## More evidence needed on aid for trade impact

- More evidence is needed on what works and what does not work, beyond empirical analysis...
- Where case studies do exist on aid for trade, they often focus on easily and narrowly defined projects – possibly because this is easier – few attempts to aggregate upwards....
- Do we need to look at impacts at a disaggregated level to enable an assessment of the impact on different groups – e.g. women and excluded groups? If so, impact assessments need to be amended and improved. For instance, poverty and social impact assessments, while assessing disaggregated impact, frequently look at the impact of a trade policy reform rather than an aid for trade programme, project or activity. Can we amend these tools?
- Case studies need to be undertaken at the national and regional level with the involvement of key stakeholders – including intended beneficiaries and those involved in project/programme management and implementation