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REDDUCING TRADE COSTS IN LDCS: THE ROLE OF AID FOR TRADE

Rainer Lanz, Michael Roberts, Sainabou Taal

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Abstract

This study analyses the role of Aid for Trade in reducing trade costs in least developed countries (LDCs). The analysis builds on questionnaires and case stories submitted as part of the Aid-for-Trade monitoring and evaluation exercise for the Fifth Global Review of Aid for Trade. Trade costs are high in LDCs and constitute a major impediment to their participation in international trade. The most important sources of trade costs in LDCs are inadequate transport infrastructure, cumbersome border procedures and compliance with non-tariff measures for merchandise exports. In the case of LDC services exports, major drivers of trade costs include ICT networks, poor regulation, low skill levels, the recognition of professional qualifications and restrictions on the movement of natural persons. LDCs are well aware of the issue of high trade costs, which is addressed by more than 90% of LDCs in their national strategies. Trade facilitation is the top Aid-for-Trade priority for LDCs, which is also reflected in increasing Aid-for-Trade flows. The analysis of questionnaires, case stories, diagnostic trade integration studies and existing econometric work illustrates the important role played by Aid-for-Trade interventions in lowering trade costs in LDCs.

Keywords: Trade costs, aid for trade, trade facilitation, least developed countries

JEL codes: F13, F35, F63

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1 INTRODUCTION

Trade has played a critical role in the graduation of the four least developed countries (LDCs) that have grown out of the LDC category since it was first designated in 1971. Trade provides LDC firms with growth opportunities and increases the choice of affordable products for consumers. There is tremendous scope for growth. While LDCs are home to more than 12% of the world’s population, collectively they account for only slightly more than one per cent of world trade.

This growth can only be tapped if a series of trade-related challenges that limit the participation in global trade of LDCs can be addressed. Several of these challenges relate to high trade costs, which reduce the ability of LDCs to fully benefit from trade. The importance of trade costs has been elevated by the steep decline in the prices of primary commodities since 2012, which has resulted in negative growth rates of LDC merchandise exports in both 2014 and 2015. Initiatives to reduce trade costs are therefore essential elements in the efforts of LDCs to tap into new markets and diversify their export baskets.

High trade costs can come in a number of forms. Inadequate infrastructures, burdensome border procedures and poor logistics services increase transport costs. Inadequate institutional capacities and diagnostic infrastructure affect the fixed costs for complying with standards and regulations in foreign markets and therefore often prevent LDC firms from entering new markets. Low connectivity in terms of information and communication technology (ICT), the lack of labour skills and the non-recognition of professional qualifications drive up the costs related to services trade.

The WTO-led Aid-for-Trade Initiative supports developing countries in their efforts to reduce their trade costs. The Initiative was established in 2005 with the objective to help developing countries, and LDCs in particular, build their supply-side capacities and improve their trade-related infrastructure to increase their participation in the multilateral trading system. The reduction of trade costs in LDCs is, therefore, a central objective of a large number of Aid-for-Trade projects. At the Fifth Global Review of Aid for Trade in 2015, participants from Aid-for-Trade recipient and donor countries, from international organizations, from the private sector and from academia discussed their experience and priorities regarding how Aid for Trade can help reduce trade costs to achieve sustainable and inclusive growth (WTO, 2015a).

The OECD-WTO Aid for Trade at a Glance 2015 publication (OECD/WTO, 2015) highlights that trade costs play a significant role in preventing LDCs from improving their productivity and export competitiveness. It further points to significant differences in trade costs among LDCs, which are related to a number of factors including geography, landlocked status, commodity dependence as well as political fragility and conflict.

Building on OECD/WTO (2015), this study analyses the role of Aid for Trade in reducing trade costs in LDCs. The main contribution of the study is to conduct a novel analysis of questionnaires and case stories that were submitted as part of the Aid-for-Trade monitoring and evaluation (M&E) exercise for the Fifth Global Review of Aid for Trade in 2015. In addition, the analysis also employs various trade cost indicators, Aid-for-Trade data and Diagnostic Trade Integration Studies (DTISs).

The structure of the paper is as follows. Section 2 analyses trade costs in LDCs as compared to other country groupings based on OECD-WTO questionnaires and various indicators for trade costs. Section 3 investigates what is being done to lower trade costs in LDCs. This includes an assessment of priorities and initiatives of LDCs themselves and the international community, as well as the analysis of Aid-for-Trade flows targeted at reducing trade costs. Section 4 examines the impact of Aid for Trade on reducing trade costs in LDCs using questionnaires, case stories and econometric analysis. Finally, Section 5 summarizes the main findings and its policy implications.

2 TRADE COSTS IN LDCS

Between 2010 and 2015, LDC exports of goods and services grew at annual rates of 6% and 12%, respectively, thereby outperforming world export growth. Despite this positive development, the low shares of LDCs in world exports of goods (1%) and services (0.8%) in 2015 reflect LDCs'
limited export competitiveness. Furthermore, LDC exports are still heavily concentrated in few products, including primary commodities in goods and tourism in services. High trade costs constitute a major impediment to the competitiveness and the diversification of LDC exports.

This section illustrates the importance of different sources of trade costs for LDCs based on self-assessment questionnaires submitted by government officials as part of the Aid-for-Trade M&E exercise for the Fifth Global Review of Aid for Trade in 2015. Furthermore, it will use a number of trade cost indicators to examine how high trade costs are in LDCs in both absolute and relative terms (compared to other developing countries). It is important to note that the indicators employed in this paper do not measure aggregate trade costs, but capture selected types or aspects of trade costs in LDCs, with a particular focus on infrastructures and border procedures.

2.1 Evidence from the OECD-WTO Aid-for-Trade self-assessment questionnaires

The OECD-WTO Aid-for-Trade questionnaires provide insights regarding the importance of different factors shaping the trade costs for the exports of goods and services in developing countries. A total of 62 developing countries replied to the 2015 questionnaires. Almost half of these respondents, i.e. 30, were LDCs.

LDCs identified border procedures (trade facilitation), transport infrastructure and non-tariff measures (NTMs) as the most important sources of trade costs for exports of merchandise goods (Figure 1). In comparison with other developing country respondents, border procedures, network infrastructure and access to trade finance were felt more keenly by LDC respondents. In contrast, LDCs ranked tariffs, fees and other charges lower among their sources of trade costs, as compared to other developing countries, reflective perhaps of duty-free, quota-free market access schemes in operation by developed and several developing members (WTO, 2015b).

Figure 1: Important sources of trade costs for the exports of merchandise goods

![Figure 1: Important sources of trade costs for the exports of merchandise goods](image)

Source: OECD-WTO partner country questionnaire.
Notes: Based on replies from 30 LDCs and 32 other developing country respondents. Labels indicate the number of LDCs.

Figure 2 highlights that infrastructure, both network infrastructure and transport infrastructure, was identified as the most important source of trade costs for the exports of services by LDCs. High quality and affordable internet and telephone connections are important for cross-border exports in, for example, financial services, logistics services or IT services. Likewise, inadequate transport infrastructure that results in costly or unsafe travel can be a severe impediment for the tourism sector in LDCs. Other barriers mentioned by more than half of the LDCs are a poor regulatory environment for services and a low level of skills in services sectors. The lack of a
skilled workforce can be considered as a fixed cost, which prevents the entry of firms or their upgrading into services value chains, for example in information and communication technology (ICT) or in tourism value chains (Lanz, 2013; Jansen, 2013).

Figure 2: Important sources of trade costs for the exports of services

![Figure showing trade costs for exports of services]

Source: OECD-WTO partner country questionnaire.
Notes: Based on replies from 30 LDCs and 32 other developing country respondents. Labels indicate the number of LDCs.

LDCs furthermore indicated that their exports in goods and services face the highest trade costs in the regional markets of Western Europe and North America. Answers to a related question on the determinants of trade costs in the markets with highest trade costs revealed interesting differences in the determinants of trade costs across export markets. In the case of goods exports, NTMs are regarded as the most important determinant of trade costs in developed markets, before transport infrastructure and border procedures. This is not surprising, as products sold in developed markets are often subject to more stringent technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures related to safety and quality requirements. In the case of services exports, the majority of LDCs identified the recognition of professional qualifications and restrictions on the movement of natural persons, together with infrastructures, as the main sources for high trade costs in developed markets. This view coincides with the demands of LDCs for preferential treatment in services under the WTO services waiver.3

While providing valuable insights, questionnaire results should be interpreted with caution given the self-assessment nature and possible subjectivity of respondents. Therefore, it is important to complement the findings from questionnaires with additional measures of trade costs. The following subsections employ a variety of indicators to analyse in more detail the importance of

3 The WTO LDC services waiver allows developed Members and developing Members to grant preferential treatment to services and services suppliers from LDCs (WTO Ministerial Decisions WT/L/847, WT/L/918 and WT/L/982). A collective request by the LDCs (WTO document S/C/W/356 and Corrigenda 1 and 2) illustrates their demands in terms of services preferences.
transport infrastructure and border procedures as well as network infrastructure as sources of trade costs.

2.2 Transport infrastructure and border procedures

As discussed above, LDCs identified in the Aid-for-Trade self-assessment questionnaires border procedures and infrastructure (network and transport) as key determinants of trade costs for merchandise goods and services exports. This section examines various indicators to get a better understanding of the absolute and relative size of these trade costs in LDCs. Box 1 provides a more detailed description of the methodology of the World Bank Trading Across Borders Indicators that are analysed below.

**Box 1. World Bank Doing Business: Trading Across Borders Indicators**

The World Bank Trading Across Borders indicators estimate the time, documents and cost required to export (import) a full 20-foot container from the warehouse to the departure of the container ship. The cost and time indicators take into account four components associated with trading, i.e. document preparation, customs clearance and inspections, inland transport and handling, and port and terminal handling. In the case of landlocked countries, the cost and time required for passing the inland border and transit to the next seaport are also included.

The cost measure does not include costs related to tariffs, sea transport or bribes. The time measure requires a minimum time of 1 day for each of the four components and takes also waiting times into account. The data are collected through surveys of local freight forwarders, shipping lines, customs brokers, port officials and banks.

To make the indicators comparable across countries, assumptions are made regarding the product (e.g., dry cargo, 10 tons, US$20,000, major export product of the economy) and the business trading it (e.g., located in the largest business city, domestically-owned).

When using the indicators one should be aware that they measure trade costs for a specific case and that the data are based on few experts filling out the questionnaire. Furthermore, in the case of landlocked developing countries, trade costs will be higher as inland border procedures and transit are taken into account.


Note: Starting with the Doing Business 2016 publication, a new methodology has been applied to estimate the trading across border indicators: [http://www.doingbusiness.org/methodology/trading-across-borders](http://www.doingbusiness.org/methodology/trading-across-borders)

Figure 3 shows the average number of days required to export and to import by LDCs and by other country groups. In 2014, the export of a container required, on average, 32 days in LDCs, which is 9 days longer than in lower-middle-income countries (LMICs) and 12 days longer than in upper-middle-income countries (UMICs). Exporting is estimated to take particularly long in landlocked LDCs (LDCs-I), i.e. 42 days from the warehouse to the port in the transit country. Compared to exporting, the number of days required to import is higher for all country groupings, except in high-income countries (HICs) where import and export times are the same. For the average landlocked LDC, importing a 20 foot container delivered by sea through shipping freight is estimated at some 48 days.

While the time required to export is high in both absolute and relative terms, the trend since 2008 has been downwards. LDCs reduced their average export time by some 13% from 37 days in 2008 to 32 days in 2014. The gap between LDCs and LMIC and UMIC performance has narrowed somewhat, but remains wide.
Figure 3: Days required to export and import by country grouping

The World Bank indicators suggest that in LDCs exporting and importing is not only more time-consuming but also more costly. Figure 4 shows that a firm in an LDC needs to pay, on average, US$2,009 and US$2,525 for exporting and importing a container, respectively. These shipping costs are more than 30% higher than in LMICs. Trading is particularly expensive in the 16 landlocked LDCs, where the average costs to export (US$3,349) and import (US$4,315) are more than double the respective costs in LMICs.

Figure 4: Cost for exporting and importing by country grouping, 2014

Table 1 and Table 2 inform about the top and bottom five LDCs in terms of costs to export and time to export, respectively. Exporting is the least expensive in four LDCs in Asia and the Pacific (Timor-Leste, Myanmar, Cambodia, Solomon Islands) and in Sao Tome and Principe. In all five countries the costs to export are even lower than in the average HIC. However, the range of costs in LDCs is very large. While a firm in Timor-Leste is estimated to pay about US$410 to export a
container, the respective costs in landlocked Chad are more than sixteen fold with US$6,615. Indeed, the five LDCs with the highest cost to export are all landlocked. Table 1 also shows the five LDCs that experienced the relatively biggest reductions in their cost to export between 2008 and 2014. All of these top five improvers are countries in Sub-Saharan Africa.

Table 1: Cost to export in LDCs: Top 5, bottom 5 and top 5 improvers

<table>
<thead>
<tr>
<th>Top 5</th>
<th>LDC</th>
<th>US$</th>
<th>Change</th>
<th>Bottom 5</th>
<th>LDC</th>
<th>US$</th>
<th>Change</th>
<th>Top 5 improvers</th>
<th>LDC</th>
<th>US$</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2008</td>
<td>2014</td>
<td>(%)</td>
<td>LDC</td>
<td>2008</td>
<td>2014</td>
<td>(%)</td>
<td>LDC</td>
<td>2008</td>
<td>2014</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>410</td>
<td>410</td>
<td>0.0</td>
<td>Afghanistan</td>
<td>2,680</td>
<td>5,045</td>
<td>88.2</td>
<td>Tanzania</td>
<td>1,262</td>
<td>1,090</td>
<td>-13.6</td>
</tr>
<tr>
<td>Myanmar</td>
<td>n.a.</td>
<td>620</td>
<td>n.a.</td>
<td>Zambia</td>
<td>2,664</td>
<td>5,165</td>
<td>93.9</td>
<td>Uganda</td>
<td>3,090</td>
<td>2,800</td>
<td>-9.4</td>
</tr>
<tr>
<td>Sao Tome &amp; Principe</td>
<td>690</td>
<td>690</td>
<td>0.0</td>
<td>South Sudan</td>
<td>n.a.</td>
<td>5,335</td>
<td>n.a.</td>
<td>Gambia</td>
<td>1,141</td>
<td>1,040</td>
<td>-9.4</td>
</tr>
<tr>
<td>Cambodia</td>
<td>732</td>
<td>795</td>
<td>8.6</td>
<td>C.A.R.</td>
<td>5,121</td>
<td>5,490</td>
<td>7.2</td>
<td>Madagascar</td>
<td>1,279</td>
<td>1,195</td>
<td>-6.6</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>781</td>
<td>840</td>
<td>0.1</td>
<td>Chad</td>
<td>5,367</td>
<td>6,615</td>
<td>23.3</td>
<td>Guinea-Bissau</td>
<td>1,545</td>
<td>1,448</td>
<td>-6.3</td>
</tr>
</tbody>
</table>

Source: World Bank World Development Indicators.

Table 2 shows the top eight and bottom five LDCs in terms of time to export. In Senegal, exporting required only 12 days in 2014, which is close to the average for HICs. All top eight countries have lower or very similar times to export than the average UMIC. In contrast, in the bottom five LDCs, four of which are landlocked, exporting a container takes between 51 days in Zambia and almost three months in Afghanistan. Out of the five LDCs that reduced export times most, three are landlocked. For instance, Rwanda in Africa and Lao PDR in Asia managed to cut the time required to export from more than 38 days or more to 26 days or less, which is approximately the average number of days necessary in LMICs. Evidence from case stories confirms these positive trends. Box 7 describes the positive impact of Rwanda’s Electronic Single Window on trading times.

Table 2: Time to export in LDCs: Top 8, bottom 5 and top 5 improvers

<table>
<thead>
<tr>
<th>Top 8</th>
<th>LDC</th>
<th>Days</th>
<th>Change</th>
<th>Bottom 5</th>
<th>LDC</th>
<th>Days</th>
<th>Change</th>
<th>Top 5 improvers</th>
<th>LDC</th>
<th>Days</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2008</td>
<td>2014</td>
<td>(%)</td>
<td>LDC</td>
<td>2008</td>
<td>2014</td>
<td>(%)</td>
<td>LDC</td>
<td>2008</td>
<td>2014</td>
</tr>
<tr>
<td>Senegal</td>
<td>15</td>
<td>12</td>
<td>-20.0</td>
<td>Zambia</td>
<td>53</td>
<td>51</td>
<td>-3.8</td>
<td>Angola</td>
<td>68</td>
<td>40</td>
<td>-41.2</td>
</tr>
<tr>
<td>Liberia</td>
<td>20</td>
<td>15</td>
<td>-25.0</td>
<td>South Sudan</td>
<td>n.a.</td>
<td>55</td>
<td>n.a.</td>
<td>Lao PDR</td>
<td>38</td>
<td>23</td>
<td>-39.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>24</td>
<td>18</td>
<td>-25.0</td>
<td>Niger</td>
<td>59</td>
<td>56</td>
<td>-5.1</td>
<td>Rwanda</td>
<td>42</td>
<td>26</td>
<td>-38.1</td>
</tr>
<tr>
<td>Gambia</td>
<td>24</td>
<td>19</td>
<td>-20.8</td>
<td>Chad</td>
<td>78</td>
<td>70</td>
<td>-10.3</td>
<td>Haiti</td>
<td>43</td>
<td>28</td>
<td>-34.9</td>
</tr>
<tr>
<td>Djibouti</td>
<td>21</td>
<td>20</td>
<td>-4.8</td>
<td>Afghanistan</td>
<td>74</td>
<td>86</td>
<td>16.2</td>
<td>Burundi</td>
<td>47</td>
<td>32</td>
<td>-31.9</td>
</tr>
<tr>
<td>Kiribati</td>
<td>20</td>
<td>20</td>
<td>0.0</td>
<td>Myanmar</td>
<td>n.a.</td>
<td>20</td>
<td>n.a.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank World Development Indicators.

Another set of indicators developed by the World Bank is the Logistics Performance Index (LPI). The LPI is a composite indicator of the six logistics components i) efficiency and border clearance, ii) quality of trade and transport infrastructure, iii) ease of arranging competitively priced shipments, iv) competence and quality of logistics services, v) ability to track and trace consignments and vi) frequency with which shipments reach consignees within scheduled or expected delivery times.

Figure 5 shows the logistics performance index and its sub-components for LDCs, LMICs and UMICs. In 2014, LDCs had an overall LPI score of 2.4 out of 5 in 2014. While LDCs could increase their logistics performance from 2007 to 2014, their performance is still lower compared to LMICs and UMICs. Similar to these two country groups, LDCs have the lowest score in the component quality of trade and transport infrastructure (2.2) and the highest score in the timeliness component (2.8), which measures the frequency with which shipments reach consignees within scheduled or expected delivery times.
**Figure 5: Logistics performance index (LPI) and components for LDCs, LMICs and UMICs, 2014**

Source: World Bank Logistics Performance Index (LPI)

Notes: The aggregate indicators are calculated as simple averages of 28 LDCs, 25 LMICs and 30 UMICs. The LPI ranges from 1 (low) to 5 (high).

**Figure 6**: The quality of air transport, port and road infrastructure in LDCs is considered to be of similar quality by the respondents to the Executive Opinion Survey of the World Economic Forum (WEF). In contrast, railroad infrastructure in LDCs is considered of substantially lower quality. In comparison to LMICs and UMICs, the LDC infrastructure gap is highest for air transport and rail infrastructure.

**Figure 6: Quality of transport infrastructure (1 to 7), 2013**

Source: World Economic Forum Competitiveness Indicators

Notes: The aggregate indicators for air, port and road infrastructure are calculated as simple averages of 29 LDCs, 27 LMICs and 37 UMICs. The indicator on rail infrastructure is based on 20 LDCs, 25 LMICs and 33 UMICs. The indicators range from ranges from 1 (extremely underdeveloped) to 7 (extensive and efficient).
The UNCTAD Liner shipping connectivity index (LSCI) measures the shipping connectivity of countries based on five components related to the deployment of container ships: (a) the number of ships; (b) the total container-carrying capacity of those ships; (c) the maximum vessel size; (d) the number of services; and (e) the number of companies that deploy container ships on services to and from a country’s ports. The index ranges from 0 to 100, with 100 being of the best connected country in 2004.

Figure 7 shows that there is a wide gap in liner shipping connectivity between LDCs and other developing and developed countries. LDCs had an average LSCI score of 8.7 in 2014, which is only about 40% of the LSCI scores of LMICs (23.5) and UMICs (22.6).

**Figure 7. Liner shipping connectivity index (LSCI), 0 (low) to 100 (=maximum 2004)**

Source: UNCTADstat
Notes: The aggregate LSCIs are calculated as simple averages of 29 LDCs, 24 LMICs and 44 UMICs and 56 HICs. The LSCI does not cover landlocked LDCs.

### 2.3 Network infrastructure: telecommunications and energy

In the OECD-WTO questionnaires (see Figures 1 and 2 above), more than 80% of LDCs identified network infrastructure as an important source of trade costs for services exports. In the case of merchandise exports, network infrastructure was mentioned by over two thirds of LDCs. ICT networks are required for cross-border trade of IT-related services and determine communication and information costs for both services and manufacturing firms. Energy networks are mainly related to production costs, through which they affect the export competitiveness of firms.

The analysis of quantitative indicators confirms that LDCs face higher trade costs also as a result of inadequate telecommunications and energy networks. Figure 8 shows that, on average, less than 10% of the population in LDCs are internet users. Besides the lack of digital skills, another reason for the low internet usage are inadequate fixed networks. For example, Figure 9 shows that less than 1% of the population in LDCs are subscribed to fixed broadband. The growth of internet use and fixed broadband has been slow compared to LMICs and UMICs suggesting a widening of the "digital divide".
On the positive side, the proliferation of mobile telephony and networks has the potential to reduce significantly ICT-related trade costs in LDCs. Figure 10 shows that LDCs have experienced rapid development in mobile phone subscriptions from just above 20% in 2008 to more than 60% in 2014. In contrast to transport and energy infrastructure, private investments and public-private partnerships (PPPs) drive infrastructure development such as undersea cables, which bring broadband to Africa and other developing regions (Lanz, 2013). An example for a PPP is the Interchange Cable Network, described in more detail in Box 6, which has connected Vanuatu to Fiji, and to the world, through a 1,259 kilometres long undersea cable.

Mobile broadband access has grown by more than 40% in Africa in 2014 but penetration is still at low levels and relatively high prices still exclude parts of the population in developing countries (ITU, 2014).
Energy costs are not trade costs per se but constitute an important part of production costs. While in developed countries the price of energy matters to firms, in LDCs and other developing countries, even access to and continuous supply of electricity and water can represent serious impediments. Figure 11 shows that electricity is, on average, perceived by 45% of firms in LDCs as a major constraint to their operations. Electricity is therefore a bigger problem in LDCs as compared to LMICs and UMICs where 35% and 30% of firms consider it as a major constraint, respectively. With an average of 10 electricity outages per month, firms in LDCs experience production interruptions and costs are driven up by the need to own generators.

**Figure 11: Electricity supply as a major constraint and number of monthly outages**

![Bar chart showing electricity supply as a major constraint and number of monthly outages for LDCs, LMICs, and UMICs.](image)


Notes: The two indicators are calculated as simple averages for 38 LDCs, 31 LMICs and 45 UMICs in the case of electrical outages, and 38 LDCs, 33 LMICs and 46 UMICs in the case of electricity as a major constraint.

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### 3 WHAT IS BEING DONE TO REDUCE TRADE COSTS IN LDCS?

#### 3.1 Aid-for-trade priorities in LDCs

LDCs are cognisant of the importance of trade costs for their trade performance and development. The 30 LDCs that responded to the WTO-OECD M&E questionnaire all stated that trade costs were "very important" or "important" for their exports. Furthermore, 87% of LDCs stated that trade costs were "very important" or important for their imports. Similarly, according to the survey to development partners, all 37 donors and 3 South-South partner respondents considered trade costs "very important" or "important" for the economic integration and development of developing countries and LDCs.

LDCs are also taking actions to reduce trade costs. Figure 12 shows that trade facilitation is considered as the most important Aid-for-Trade priority, being mentioned by 22 out of 30 LDCs. Other priorities mentioned by about half of the responding LDCs include competitiveness, export diversification, trade policy and transport as well as network infrastructures.
A majority of LDCs address the issues of trade costs and trade facilitation in their policies. In particular, 90% of the LDC respondents indicated that the issue of trade costs was addressed in their national planning, particularly in national development strategies, sector-specific strategies and trade policies. Trade facilitation priorities can be found in a number of policy documents such as national development strategies, in Diagnostic Trade Integration Studies (DTIS), (mentioned by 75% of LDC respondents), national trade strategies (61%), national infrastructure development strategies (46%), national sector strategies (42%) and regional trade agreements (42%). In Sierra Leone, for example, prioritization of trade facilitation by the government is manifested by the extension of the ASYCUDA system from the main sea port to two land borders with Guinea and Liberia. Almost all LDC respondents (93%) expect trade facilitation to be included in new draft documents that are currently being formulated.

As with previous monitoring exercises, this exercise continues to show that development partners are better aligning their Aid-for-trade programmes with developing country priorities. 84% of LDC respondents state that since the beginning of the Aid-for-Trade Initiative in 2005 alignment had improved - the remaining 16% indicate that it has remained the same.

In particular, 73% of LDC respondents assert that external support was better aligned with their national and regional needs to reduce trade costs. Respondents elaborated that this was due to better alignment of donor strategies to their national priorities and increased dialogue. The 17% which claim that external support was not aligned to their trade cost needs gave the exclusion of trade costs in national development strategies and the lack of dialogue on trade costs with donors as the main reason.

### 3.2 National and regional initiatives

Diagnostic Trade Integrate Studies (DTISs) – which form part of the Enhanced Integrated Framework (EIF) process – help LDCs mainstream trade into national development planning by detailing trade-related challenges as well as priorities that can help LDCs better integrate into global trade. LDCs view the EIF as a contributor to the Post-2015 Development Agenda, i.e. the 2030 Agenda for Sustainable Development, by catalysing Aid for Trade flows, engaging the private sector in national trade and development policy planning and mainstreaming trade issues into national policy. This section provides an analysis of the issue of trade facilitation in DTISs and DTIS Updates. More detail on trade facilitation issues identified in DTISs of 18 LDCs is provided in Annex I.
A large proportion of DTISs put special emphasis on trade facilitation by dedicating whole chapters to trade facilitation issues. Thereby, the focus and the issues addressed vary across LDCs depending on, amongst others, size, geography as well as economic and trade realities.

Landlocked LDCs depend heavily on transport corridors and the trade logistics of neighbouring coastal countries. This is reflected in their DTISs where emphasis on regional cooperation is largely geared towards the establishment of joint border posts and the management of transport corridors. Malawi's DTIS (2014) for example recommends the establishment of one stop border posts (OSBP), Electronic Single Windows and door-to-door transit systems at borders with Zambia and Mozambique.

Lao PDR's DTIS (2012) acknowledges that in the past, trade facilitation reforms largely focused on the institutions and procedures at the national level and neglected transit procedures through neighbouring countries. Lao PDR's DTIS recommendations therefore emphasize the need for regional approaches through the Association of Southeast Asian Nations (ASEAN) and the Greater Mekong Sub-Region (GMS) Initiative in addition to the creation of a Trade Portal, a National Single Window and possibly a Dry Port. The multi-donor Lao Trade Portal is an online resource that increases transparency and facilitates trade by making trade-related information easily accessible to traders. The portal is a single source for all trade-related laws, regulations, decrees, instructions, business processes, forms and fee schedules in the country. Putting such information into the public domain has not only helped Lao PDR to comply with its commitments under the WTO and ASEAN, but has also been pivotal in overcoming one of the country's key constraints to trade facilitation—the lack of information on trade-related processes.

Countries such as Senegal seek to use their strategic position to become a trading hub in West Africa. Senegal's DTIS (2013) focusses on the better participation of Senegal in the regional integration processes of the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (UEMOA). Actions include the acceleration of the creation of the ECOWAS Customs Union and its associated common external tariff (CET), the promotion of the inter-state road transit scheme (ISRT) and the ECOWAS Trade Liberalization Scheme (ETLS). Amongst LDCs, Senegal requires the least number of days to import and export (see Table 2 in Section 2). Details on initiatives to reduce trade costs that contribute to Senegal's regional integration and trade objectives are detailed in Box 9.

The DTISs of Tuvalu (2010) and Kiribati (2012), for example, provide recommendations for continued collaboration through regional approaches to trade facilitation such as the Regional Trade Facilitation Program (RTFP) under the Pacific Islands Forum Secretariat (PIFS), the Ocean Customs Organization (OCO) and the Pacific Agreement on Closer Economic Relations (PACER) Plus. Box 2 provides more detail regarding the importance of the PACER Plus for the Pacific Island Countries (PICs). The case study was submitted as part of the 2015 Global Review of Aid for Trade, by the Office of the Chief Trade Adviser (OCTA), which assists the PICs in analysing trade policy issues and in trade negotiations.

**Box 2: The Pacific Agreement on Closer Economic Relations (PACER) Plus**

The Pacific region is perhaps the most inaccessible region in the world with very limited trade routes. The islands are spread out across the Pacific Ocean and are separated from each other in several instances by thousands of kilometres. The geographical isolation makes the cost of transportation prohibitive, thereby affecting the competitiveness of Pacific exports in major markets. Data from the World Bank confirms that the cost of doing business in the Pacific Island Countries (PICs) is among the highest in the world contributing to low levels of foreign direct investment (FDI) and limited participation in international trade.

The Pacific Agreement on Closer Economic Relations (PACER) Plus is currently being negotiated between fourteen PICs, Australia and New Zealand. PACER Plus offers a unique opportunity to the PICs to enhance their participation in international trade through enhancing transparency, improving efficiency and lowering cost of doing business.

PACER Plus Chapters of the Agreement include those on Customs Procedures, Sanitary and Phytosanitary Measures (SPS) and Technical Regulations and Standards and Conformity Assessment Procedures (TBT) and Development and Economic Cooperation. It is expected that
these chapters will create an enabling environment for trade and investment to flourish, lower trade costs and enhance the export competitiveness of PICs’ firms.


The analysis of the DTISs reveals the importance that LDCs place on taking regional approaches to trade facilitation. This finding is confirmed by the Aid-for-Trade M&E exercise, where 97% of LDC respondents indicated that regional actions were being undertaken to reduce trade costs mainly through regional economic communities (RECs), free trade agreements and initiatives supported by development partners and corridor initiatives. Regional initiatives were mainly undertaken in the form of "trade facilitation" and "network infrastructure". Responding LDCs made particular mention of efforts through their various RECs, namely the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), ECOWAS, ASEAN’s Trade in Goods Agreement and the Cambodia-Lao PDR-Myanmar-Viet Nam (CLMV) initiative. Other highlights included regional initiatives such as the Gulf Standard and Meteorological Organization and the Borderless Alliance in West Africa.

Regional Aid-for-Trade strategies provide a means of consolidating trade facilitation objectives. The Economic Community of Central African States (ECCAS), comprising nine Member States, of which seven are LDCs, developed its regional Aid-for-Trade Strategy as detailed in Box 3.

**Box 3: Aid for Trade Strategy of the Economic Community of Central African States, 2013–2016**

Regional strategies also prioritize reducing trade costs to facilitating deeper integration and access to global markets. The overall objective of the 2013–2016 Aid for Trade Strategy of the Economic Community of Central African States (ECCAS) is to improve the impact, effectiveness and efficiency of trade reforms and regional integration initiatives to benefit fully from the opportunities of regional and international trade, enhance growth, full employment and achieve development goals. The Strategy highlights that this can achieved through four mail pillars:

i. Improve the coverage of the transport infrastructure, telecommunications, energy within the region and the roads of international and intra-regional trade;

ii. Substantially reduce the delays and costs of transit regionally, as well as the costs of production factors;

iii. Building human and institutional capacity to including productive capacity and export sectors private and public; and

iv. Eliminate tariff and non-tariff barriers to commerce.


Other regional Aid-for-Trade Strategies include the Caribbean Community Aid for Trade Strategy and the ECOWAS Aid for Trade Strategy, which was validated at the expert group level in June 2015.

**3.3 Global initiatives**

**3.3.1 Preferences in goods and services trade**

The multilateral rules-based trading system under the WTO includes a number of provisions aimed at reducing trade costs in LDCs and improving their integration into the multilateral trading system. WTO Members have improved non-reciprocal trade preferences in favour of goods and services from LDCs.

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4 Member States are Angola, Burundi, Cameroon, the Central African Republic, Gabon, Equatorial Guinea, Democratic Republic of Congo, Sao Tome and Principe, Chad.

5 Caribbean Community Secretariat, "Caribbean Community Regional Aid for Trade Strategy 2013–2015"
The decision on duty-free and quota-free (DFQF) market access, part of the Declaration of the 2005 Hong Kong WTO Ministerial Conference, stipulates that developed country Members and developing country Members, declaring themselves in a position to do so, should provide DFQF market access on a lasting basis, for at least 97% products originating from LDCs. Developing country Members were further accorded flexibility with respect to the phase-in and coverage of their DFQF commitments. A second DFQF decision taken by Members at the 2013 Bali Ministerial Conference provided further impetus towards providing LDCs with DFQF market access. Today, nearly all developed Members of the WTO provide close to full DFQF market access to LDC products. Furthermore, a number of important developing country trading partners of LDCs grant a significant degree of DFQF market access to LDCs and some of them even have reached comprehensive coverage.\(^6\)

Exporters from LDCs need to comply with preferential rules of origin when they want to utilize preferences accorded to them by the importing country. WTO Members have made significant progress in this respect. At the Bali Ministerial Conference in 2013, WTO Members adopted for the first time multilateral guidelines for preferential rules of origin for LDCs. Building on the Bali Decision, a decision taken at the Nairobi Ministerial Conference, provides more concrete provisions on methods for conferring origin, cumulation possibilities and simplifying documentation requirements.\(^8\) While the provisions are not mandatory, they provide clear direction to Members for developing their preferential rules of origin.

In the case of services, WTO Members agreed in 2011 to a decision on the LDC services waiver, which allows Members to provide preferential treatment to services and service suppliers from LDCs. For the first time, this decision has allowed Members to deviate from their most-favoured nation (MFN) obligation under the General Agreement on Trade and Services (GATS). At the 2013 Bali Ministerial Conference, Members agreed to a decision operationalizing this waiver. Following a collective request by the LDCs and a High-Level meeting of the Council for Trade in Services (CTS), Members started submitting notifications of services preferences for LDCs. At the 2015 Nairobi Ministerial Conference, a decision extended the services waiver by four years until 2030 and encouraged Members to notify preferences with commercial value and to undertake specific technical assistances and capacity building.\(^9\) By the end of June 2016, 23 WTO Members submitted notifications of services preferences.

### 3.3.2 The WTO Trade Facilitation Agreement

Besides the implementation of the WTO Bali and Nairobi decisions for LDCs, the ratification of the WTO Trade Facilitation Agreement (TFA) can provide LDCs with the necessary impetus to access markets, industrialize and achieve economic growth.

The WTO TFA which was adopted at the Bali Ministerial Conference is highly relevant for reducing trade costs. The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building particularly for LDCs.

By the end of June 2016, 84 of 162 WTO Members have ratified the TFA, including nine LDCs. The TFA enters into force when ratified by two-thirds of the membership. Full implementation of the TFA is expected to reduce global trade costs by an average of 14.3% and accrue export gains between US$750 billion and well over US$1 trillion dollars per annum (WTO, 2015c). African countries and LDCs are expected to see the biggest average reduction in trade costs.

In July 2014, the WTO launched the Trade Facilitation Agreement Facility (TFAF) to assist developing countries and LDCs in implementing the TFA. Box 4 summarises the main functions of the TFAF.

\(^6\) Ministerial decisions on DFQF market access: Annex F, WT/MIN(05)/DEC (Hong Kong, 2005) and WT/L/919 (Bali, 2013).
\(^7\) WTO (2015), Report by the Secretariat, WT/COMTD/W/214.
\(^8\) Ministerial decisions on preferential rules of origin: WT/L/917 (Bali) and WT/L/917/Add.1 (Nairobi).
\(^9\) Ministerial decisions on the services waiver: WT/L/847 (Geneva, 2011), WT/L/918 (Bali, 2013) and WT/L/982 (Nairobi, 2015).
Box 4: The Trade Facilitation Agreement Facility

The WTO TFAF was launched in July 2014 to ensure that developing countries and LDCs receive the assistance they need to implement and benefit from the TFA. The Facility became operational with the adoption of the Trade Facilitation Protocol in November 2014. The functions of the Facility include:

- supporting LDCs and developing countries to assess their specific needs and identify possible development partners to help them meet those needs
- ensuring the best possible conditions for the flow of information between donors and recipients through the creation of an information sharing platform for demand and supply of Trade Facilitation-related technical assistance
- disseminating best practice in implementation of Trade Facilitation measures
- providing support to find sources of implementation assistance, including formally requesting the Director-General to act as a facilitator in securing funds for specific project implementation
- providing grants for the preparation of projects in circumstances where a Member has identified a potential donor but has been unable to develop a project for that donor’s consideration, and is unable to find funding from other sources to support the preparation of a project proposal
- providing project implementation grants related to the implementation of Trade Facilitation Agreement provisions in circumstances where attempts to attract funding from other sources have failed. These grants will be limited to “soft infrastructure” projects, such as modernization of customs laws through consulting services, in-country workshops, or training of officials.

Source: WTO Website

Through the OECD-WTO M&E exercise, all 30 LDC respondents recognized that the implementation of the TFA would have the biggest impact on the trade costs for products entering the markets of their major trading partners particularly Western Europe, North America and developed Asia. In addition, all LDCs indicated that they have already sought or plan to seek Aid-for-Trade support to implement the Agreement. 76% of the LDCs stated that they had already undertaken a Trade Facilitation Needs Assessment and 73% plan to undertake a new assessment or update those existing.

3.4 Aid-for-Trade flows and reducing trade costs

LDCs benefit from Aid for Trade, which constitutes a sub-set of Official Development Assistance (ODA), to build their capacities to better integrate into the global trading system. LDCs are major beneficiaries of Aid for Trade. Figure 13 shows that disbursements to LDCs increased by 125% from approximately US$4.6 billion in 2006 to approximately US$10.4 billion in 2014. This is, however, lower than the almost US$16 million received by LMICs. The figure also illustrates that Aid-for-Trade disbursements to landlocked LDCs (LDCs-II) have been growing at a slower pace than overall flows to LDCs.
Figure 13. Aid-for-trade disbursements by income group (US$ billions)

Source: OECD Creditor Reporting System
Notes: The aggregate indicators are calculated as simple averages of 16 landlocked LDCs, 48 LDCs, 35 LMICs and 49 UMICs.

Figure 14 illustrates the importance of Aid for Trade for LDCs as a source of development finance. Development finance comprises FDI, remittances, official development assistance (ODA) and other official flows (OOF). Other Official Flows are loans that are not concessional enough to qualify as aid, but that are provided at a discount to market rates. Figure 14 shows that Aid for Trade, on average, accounted for more than 10% of LDCs’ development finance inflows in the period 2010 to 2012. LMICs and UMICs are less dependent on Aid for Trade as indicated by Aid-for-Trade shares of 6.5% and 4.6%, respectively.

Figure 14: Aid for trade and trade-related other official flows as a share of development finance, 2010/12

Sources: Authors’ calculations based on UNCTAD, UNCTADstat; WB, World Development Indicators; OECD, DAC-CRS Aid Activities Database.
Notes: A country’s share of aid for trade in development finance is calculated by dividing the average disbursements in 2010-2012 by the average development finance. Development finance is calculated as the sum of the 2010-2012 average flows of FDI, remittances, ODA and OOF. Country aggregates are calculated as simple averages of the shares of 36 LDCs, 29 LMICs and 43 UMICs.
Aid for Trade to LDCs is concentrated in a few countries. Table 3 shows that for the period 2006-2014, almost 50% of total Aid for Trade to LDCs had been disbursed to six countries: Afghanistan (15.6%), Ethiopia (8%), Tanzania (7.8%), Bangladesh (6.9%), Uganda (5.2%) and Mozambique (4.9%).

### Table 3: Aid-for-Trade disbursements in US$ millions by LDC partner (2006-2014)

<table>
<thead>
<tr>
<th>Rank</th>
<th>LDC</th>
<th>US$ mill. (2006-14)</th>
<th>Share in AFT to LDCs (%)</th>
<th>Rank</th>
<th>LDC</th>
<th>US$ mill. (2006-14)</th>
<th>Share in AFT to LDCs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Afghanistan</td>
<td>11,711</td>
<td>15.6</td>
<td>25</td>
<td>Liberia</td>
<td>977</td>
<td>1.3</td>
</tr>
<tr>
<td>2</td>
<td>Ethiopia</td>
<td>5,991</td>
<td>8.0</td>
<td>26</td>
<td>Sierra Leone</td>
<td>789</td>
<td>1.1</td>
</tr>
<tr>
<td>3</td>
<td>Tanzania</td>
<td>5,876</td>
<td>7.8</td>
<td>27</td>
<td>Myanmar</td>
<td>775</td>
<td>1.0</td>
</tr>
<tr>
<td>4</td>
<td>Bangladesh</td>
<td>5,183</td>
<td>6.9</td>
<td>28</td>
<td>Guinea</td>
<td>539</td>
<td>0.7</td>
</tr>
<tr>
<td>5</td>
<td>Uganda</td>
<td>3,902</td>
<td>5.2</td>
<td>29</td>
<td>Bhutan</td>
<td>491</td>
<td>0.7</td>
</tr>
<tr>
<td>6</td>
<td>Mozambique</td>
<td>3,710</td>
<td>4.9</td>
<td>30</td>
<td>Chad</td>
<td>456</td>
<td>0.6</td>
</tr>
<tr>
<td>7</td>
<td>Dem. Rep. Congo</td>
<td>3,431</td>
<td>4.6</td>
<td>31</td>
<td>Timor-Leste</td>
<td>385</td>
<td>0.5</td>
</tr>
<tr>
<td>8</td>
<td>Mali</td>
<td>2,643</td>
<td>3.5</td>
<td>32</td>
<td>Angola</td>
<td>379</td>
<td>0.5</td>
</tr>
<tr>
<td>9</td>
<td>Senegal</td>
<td>2,492</td>
<td>3.3</td>
<td>33</td>
<td>Togo</td>
<td>373</td>
<td>0.5</td>
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<tr>
<td>10</td>
<td>Burkina Faso</td>
<td>2,324</td>
<td>3.1</td>
<td>34</td>
<td>Central African Rep.</td>
<td>356</td>
<td>0.5</td>
</tr>
<tr>
<td>11</td>
<td>Nepal</td>
<td>1,965</td>
<td>2.6</td>
<td>35</td>
<td>The Gambia</td>
<td>306</td>
<td>0.4</td>
</tr>
<tr>
<td>12</td>
<td>Cambodia</td>
<td>1,843</td>
<td>2.5</td>
<td>36</td>
<td>Solomon Islands</td>
<td>273</td>
<td>0.4</td>
</tr>
<tr>
<td>13</td>
<td>Haiti</td>
<td>1,764</td>
<td>2.3</td>
<td>37</td>
<td>Somalia</td>
<td>262</td>
<td>0.3</td>
</tr>
<tr>
<td>14</td>
<td>Sudan</td>
<td>1,626</td>
<td>2.2</td>
<td>38</td>
<td>Vanuatu</td>
<td>229</td>
<td>0.3</td>
</tr>
<tr>
<td>15</td>
<td>Rwanda</td>
<td>1,622</td>
<td>2.2</td>
<td>39</td>
<td>Guinea-Bissau</td>
<td>209</td>
<td>0.3</td>
</tr>
<tr>
<td>16</td>
<td>Madagascar</td>
<td>1,580</td>
<td>2.1</td>
<td>40</td>
<td>Djibouti</td>
<td>190</td>
<td>0.3</td>
</tr>
<tr>
<td>17</td>
<td>Zambia</td>
<td>1,511</td>
<td>2.0</td>
<td>41</td>
<td>Lesotho</td>
<td>178</td>
<td>0.2</td>
</tr>
<tr>
<td>18</td>
<td>Benin</td>
<td>1,505</td>
<td>2.0</td>
<td>42</td>
<td>Kiribati</td>
<td>155</td>
<td>0.2</td>
</tr>
<tr>
<td>19</td>
<td>Malawi</td>
<td>1,444</td>
<td>1.9</td>
<td>43</td>
<td>Eritrea</td>
<td>128</td>
<td>0.2</td>
</tr>
<tr>
<td>20</td>
<td>Lao PDR</td>
<td>1,192</td>
<td>1.6</td>
<td>44</td>
<td>Sao Tome and Principe</td>
<td>79</td>
<td>0.1</td>
</tr>
<tr>
<td>21</td>
<td>Yemen</td>
<td>1,091</td>
<td>1.5</td>
<td>45</td>
<td>Comoros</td>
<td>63</td>
<td>0.1</td>
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<tr>
<td>22</td>
<td>Burundi</td>
<td>1,030</td>
<td>1.4</td>
<td>46</td>
<td>Tuvalu</td>
<td>53</td>
<td>0.1</td>
</tr>
<tr>
<td>23</td>
<td>Niger</td>
<td>1,023</td>
<td>1.4</td>
<td>47</td>
<td>Equatorial Guinea</td>
<td>5</td>
<td>0.0</td>
</tr>
<tr>
<td>24</td>
<td>Mauritania</td>
<td>1,015</td>
<td>1.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD Creditor Reporting System  
Note: South Sudan is not included in the table

A significant share of Aid for Trade is targeted at reducing trade costs in LDCs. Aid-for-Trade flows aimed at reducing trade costs relate mainly to economic infrastructure, trade policy, and trade facilitation (Figure 15). Between 2006 and 2014, such aid for reducing trade costs has increased by 154%. The left-hand side chart of Figure 15 shows that over time, transport and storage and energy generation and supply have been the sectors receiving the bulk of Aid-for-Trade disbursements to LDCs. The right-hand side chart shows that though relatively lower Aid-for-Trade disbursements went to communications, trade policy and regulation as well as trade facilitation, these categories, particularly trade facilitation experienced a major leap in disbursements from 2010 onwards. In 2014, however, Aid-for-Trade disbursements on trade policies and regulation experienced a significant drop, which can be partly explained by the increasing disbursements going to trade facilitation.
Figure 15: Aid-for-Trade disbursements to LDCs aimed at reducing trade costs (2006-2014; US$ million)

Figure 16 shows that about a third of Aid-for-trade disbursements to LDCs in the period 2012 to 2014 went to projects on transport and storage. Energy generation and supply was the second most important category receiving 22% of AFT disbursements to LDCs. While Aid for Trade for trade facilitation to LDCs is relatively low in value (US$127 million), LDCs received 28% of Aid for Trade for trade facilitation at the world level – more than any other country grouping.

Figure 16: Aid-for-Trade disbursements shares by categories relating to trade costs (2012-2014 average)

Figure 17 shows a decomposition of Aid for Trade for transport and storage by transport mode for the period 2012–2014. More than three quarters (77%) of Aid for Trade for transport infrastructure in LDCs is targeted at improving road transport. The share of Aid for Trade going to road transport is even higher in landlocked LDCs (80%). In contrast, in LMICs and UMICs, road transport receives

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10 This analysis only includes Aid-for-trade categories relating to reducing trade costs. Amongst all Aid for Trade categories, transport and storage remains the sectors received largest disbursements followed by building productive capacity.
only 52% and 35% of Aid for Trade for transport and storage, respectively. Aid for Trade for rail transport is also of major importance in the latter two country groups. Relatively less Aid for Trade being spent on air and maritime transport are suggestive of the bigger role of private investment for these transport modes.

**Figure 17: Aid for Trade to transport infrastructure by mode and country group (2012-2014 average)**

Source: OECD Creditor Reporting System
Note: Shares are calculated using 2012-2014 average Aid-for-Trade disbursements.

## 4 WHAT IMPACT IS AID FOR TRADE HAVING ON REDUCING LDCS TRADE COSTS

### 4.1 Evidence from the OECD-WTO questionnaires

The OECD-WTO M&E questionnaires used a result-based management approach to identify the inputs required for successfully reducing trade costs, outputs achieved from those actions, outcomes and impacts of reducing trade costs through such actions. This section summarizes the findings from the LDC, Donor and South-South partner questionnaires.

Figure 18 shows that 86% of the 30 LDC respondents view customs reform followed by the upgrading of transport infrastructure (60%) and tariff reforms (53%) as the type of actions that have achieved the most results in reducing trade costs. Quoting from Lesotho’s response; “easy and quick customs clearance procedures have contributed to reducing trade costs drastically”. For successful implementation, LDC respondents identified as key factors the engagement and commitments from key stakeholders, particularly the private sector and government, and having donor support aligned to national priorities.
**Figure 18: Which types of actions have achieved the most positive results in reducing trade costs for goods and services?**

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs reform</td>
<td>26</td>
</tr>
<tr>
<td>Upgrading transport infrastructure</td>
<td>18</td>
</tr>
<tr>
<td>Tariff reforms</td>
<td>16</td>
</tr>
<tr>
<td>Upgrading network infrastructure</td>
<td>11</td>
</tr>
<tr>
<td>Other border agency reforms</td>
<td>10</td>
</tr>
<tr>
<td>Improv regulatory env. for services</td>
<td>9</td>
</tr>
<tr>
<td>Partnering to remove Mode 4 restrictions</td>
<td>9</td>
</tr>
<tr>
<td>Support for compliance with NTMs</td>
<td>9</td>
</tr>
<tr>
<td>Improving skills levels in service sectors</td>
<td>6</td>
</tr>
<tr>
<td>Tariffs on product inputs</td>
<td>6</td>
</tr>
<tr>
<td>Removing Mode 3 domestic restrictions</td>
<td>6</td>
</tr>
<tr>
<td>Partnering for professional qualification recognition</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: OECD-WTO partner country questionnaires
Note: Based on replies from 30 LDCs. At the time of the M&E exercise, eight LDCs were in the accession process to the WTO.

LDCs observe that these actions have contributed to updates in customs legislations, greater transparency, tariff reform, and improved cooperation between border agencies. As a result, 83% of the LDC respondents reported reductions in border clearance times and 63% stated an increase in customs revenue. Lesotho highlights reduced congestion at the border posts and Yemen observes a moderate increase in exports and imports. The Democratic Republic of Congo indicated that though they have achieved reduced clearance times and increased traffic, much remains to be done to reduce informal payments at their borders. Sierra Leone notes that actions have only reduced the time element of reducing trade costs.

**Figure 19: What outcomes have been achieved by actions taken to reduce trade costs?**

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in border clearance times</td>
<td>25</td>
</tr>
<tr>
<td>Increase in customs revenue</td>
<td>19</td>
</tr>
<tr>
<td>Increase in import volumes</td>
<td>16</td>
</tr>
<tr>
<td>Reduction in informal payments</td>
<td>16</td>
</tr>
<tr>
<td>Increase in export volumes</td>
<td>15</td>
</tr>
<tr>
<td>Increase in traffic flows through border posts</td>
<td>13</td>
</tr>
<tr>
<td>Reduction in customs revenue</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: OECD-WTO partner country questionnaires
Note: Based on replies from 30 LDCs. At the time of the M&E exercise, eight LDCs were in the accession process to the WTO.
In terms of impact, gains were observed through higher revenues for traders, increase in FDI, export diversification and consumer welfare. However, some countries like Sierra Leone claim that it is too early to observe outcomes and impacts of action to reduce trade costs.

**Figure 20: What impacts have been achieved by actions taken to reduce trade costs?**

<table>
<thead>
<tr>
<th>Impact</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher revenues for exporters</td>
<td>14</td>
</tr>
<tr>
<td>Increase in foreign direct investment</td>
<td>12</td>
</tr>
<tr>
<td>Higher revenues for importers</td>
<td>12</td>
</tr>
<tr>
<td>Consumer welfare effects</td>
<td>10</td>
</tr>
<tr>
<td>Diversification in export products</td>
<td>10</td>
</tr>
<tr>
<td>Diversification in export markets</td>
<td>9</td>
</tr>
<tr>
<td>Fall in poverty</td>
<td>8</td>
</tr>
<tr>
<td>Rise in employment</td>
<td>8</td>
</tr>
<tr>
<td>Increase in domestic private sector</td>
<td>7</td>
</tr>
<tr>
<td>Entry into new value chain</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: OECD-WTO partner country questionnaires

Based on replies from 30 LDCs. At the time of the M&E exercise, eight LDCs were in the accession process to the WTO.

Donors (including South-south partners) indicate that customs reforms, upgrading transport infrastructure and upgrading network infrastructure were the most effective actions to reduce trade costs. Sustainable political engagement and commitment by national authorities as well as the private sector were identified by donors as key factors of success. The use of regional approaches is also highly regarded. Donors find that such actions mainly contributed to the creation of dialogue with the private sector as well as the updating of customs working practices. In terms of outcomes, donors opined that actions resulted in the reduction of border clearance times, increase in import and export volumes and an increase in traffic flows through border posts. While many donors were unsure of impact, some cited a rise in employment, increased revenues for exporters and export diversification. Table 4 summarizes these findings.

**Table 4: Donors' view of the results chain in reducing trade costs**

<table>
<thead>
<tr>
<th>Most Effective Inputs</th>
<th>Factors of Success</th>
<th>Outputs</th>
<th>Outcomes</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Upgrading transport infrastructure</td>
<td>• Sustained political engagement and commitment by national authorities</td>
<td>• Creation of dialogue with private sector</td>
<td>• Reduction in border clearance times</td>
<td>• Unsure</td>
</tr>
<tr>
<td>• Customs reform</td>
<td>• Private sector engagement and commitment</td>
<td>• Updated customs working practices</td>
<td>• Increase in export volumes</td>
<td>• Rise in employment</td>
</tr>
<tr>
<td>• Upgrading network infrastructure</td>
<td>• Use of regional approaches</td>
<td>• Increase in traffic flows through border posts</td>
<td>• Increase in import volumes</td>
<td>• Higher revenues for exporters</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increase in import volumes</td>
<td></td>
<td>• Diversification of exports</td>
</tr>
</tbody>
</table>

Source: OECD-WTO donor country questionnaires

### 4.2 Evidence from the OECD-WTO case stories

Some 50 public sector case stories on actions to reduce trade costs in LDCs were submitted as part of the OECD-WTO M&E exercise. Box 5 provides an aggregate analysis of these case stories. In line with the questionnaires, the case stories followed a result-chain approach using inputs, outputs, outcomes and impacts. Amongst these case stories, 76% focused on customs and other border agency reforms, 32% on compliance with non-tariff measures and 28% on the upgrading for network infrastructure. 46% of the case stories rated their initiatives as "very successful" and 30% rated "successful". Others indicated that projects were ongoing therefore too early to assess.
The aggregate analysis of case stories on initiatives to reduce trade costs in LDCs illustrates that actions to reduce trade costs, particularly in the areas of customs and other border agency reforms focus on training officials, updating customs and other border procedures and updating equipment at the border. The public sector perceives that these interventions have led to reductions in clearance times at the border (both customs and other border agencies) and an increase in trade (imports, exports and shipping volumes). Increased employment, FDI and domestic investments came out as the main areas of impact. Others also reported export market diversification, increased employment for women and increased per capita income.

**Box 5: Analysis of case stories on reducing trade costs in LDCs**

### Input
76% of the case stories focused on customs and other border agency reforms, 30% on support to compliance with NTMs, 28% on upgrading network infrastructure and 18% on improving services skills.

**Figure 21: Case Story Focus**

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs reform</td>
<td>76%</td>
</tr>
<tr>
<td>Other border agency reforms</td>
<td>30%</td>
</tr>
<tr>
<td>Support for compliance with non-tariff measures (including standards)</td>
<td>28%</td>
</tr>
<tr>
<td>Upgrading network infrastructure (ICT, power, telecoms)</td>
<td>18%</td>
</tr>
<tr>
<td>Improving skills levels in service sectors</td>
<td></td>
</tr>
</tbody>
</table>

### Output
70% of the projects updated customs and other border procedures, 58% included the training of officials. Other intervention areas included new border equipment, services skills, new conformity assessment procedures and processes and new/updates electronic single windows.

**Figure 22: Output**

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officials trained</td>
<td>70%</td>
</tr>
<tr>
<td>New customs procedures</td>
<td></td>
</tr>
<tr>
<td>New other border agency procedure</td>
<td></td>
</tr>
<tr>
<td>New border equipment (e.g. scanner)</td>
<td></td>
</tr>
<tr>
<td>Services sector skills</td>
<td></td>
</tr>
<tr>
<td>New conformity assessment procedures or processes</td>
<td></td>
</tr>
<tr>
<td>New or updated electronic single window</td>
<td></td>
</tr>
</tbody>
</table>

### Outcome
In aggregate terms, 58% of the case stories reported reductions in border clearance times, 28% indicated an increase in merchandise imports, 26% stated an increase in exports and shipping volumes. Other outcomes include reductions in the costs of clearance by customs and other border agencies.
Impact
44% of the case stories claim increased employment due to their actions followed by increase in FDI (38%) and increase in domestic investment (36%). Other impacts reported include export market diversification, increase in women's employment, increase in per capita income and consumer welfare.

Source: OECD-WTO public sector case stories

Cambodia has one of the lowest trade costs amongst LDCs (see Table 1 in Section 2.2). In 2010, the Cambodian Government submitted a case story on their Rice Export Policy to remove bottlenecks and move up the value chain by increasing the export of milled rice with an ambitious target of one million tons by 2015-2016. In response, efforts across the public and private sector, with World Bank Group support, doubled the quantity of national rice exports in three years. The World Bank Group submitted a case story highlighting their support and associated results. Activities under this project included amongst others - improving regulatory framework for agro-processors; reforming the licensing and inspections framework for the food processing industry; simplifying the Certificate of Origin and the SPS Certificate for rice and automating the process of obtaining both certificates. The case story claims that these activities have so far resulted in the reduction in the cost to obtain export licenses for milled rice by US$ 175 per container – generating about US$ 0.7 million annually in savings to rice exporters.

As part of the Greater Mekong Sub-region (GMS), Cambodia has benefitted from regional initiatives. The Greater Mekong Sub-region Transmission Project for example, developed a power...
grid for the GMS in Vietnam. This enabled Cambodia to import up to 200 MW of power providing the country with more reliable, lower-cost supply of electricity. The case story states that in addition to connecting 40,000 households and businesses, reliable costs of electricity contributed to reduced cost of merchandise goods, new registration of businesses (almost doubling between 2004-2009), and overall improvements in Cambodia's Logistics Performance Index particularly in infrastructure. Box 6 describes how a sector-wide approach to reducing trade costs has worked in neighbouring Lao PDR.

**Box 6: Lao PDR's Trade Development Facility**

As a landlocked country, weak trade facilitation and high trade costs have made integration into regional and global supply chains difficult for Lao PDR. Greater regional integrations through ASEAN and global integration through the WTO has been a centrepiece of the country's trade strategy – the World Bank states.

This multi-donor Trade Development Facility (TDF) project – administered by the World Bank and financed in partnership with Australia and the European Union - was designed to provide resources to the implementation of Lao PDR's 2006 DTIS.

The TDF provided technical assistance, capacity building, and advice in five areas: trade facilitation; sanitation and phytosanitary (SPS) and technical barriers to trade (TBT); export competitiveness and business environment; trade policy, trade agreements and global opportunities; and strengthening the National Implementation Unit. Specific activities included support for Lao PDR's accession to the WTO, the establishment of the Lao Trade Portal and the set up a new National Trade Facilitation Secretariat (NTFS).

Activities undertaken contributed to faster and more transparent trade facilitation; better coordination among government agencies operating at the border; improved integration into the regional and multilateral trading system; increased productivity in the garments export sector; and increased Aid-for-Trade management capacity. The Portal has helped reduce the cost of doing business by making trade more predictable and transparent. The TDF has also reduced the clearance time of goods by 42%, from 5 days in 2009 to 2.9 days in 2012.

The World Bank reported that over the implementation period 2008 to 2013, Lao PDR's integration improved as measured by substantial increases in trade in goods and services, including from non-natural resources that generate the majority of jobs necessary to reduce poverty. Between 2008 and 2012, Lao PDR increased its non-resource exports by 42%, services exports by 100% and Logistics Performance Index (LPI) from 2.25 to 2.5. The TDF is likely to have played an important role in these achievements.

A second Trade Development Facility (TDF-2) project – with a larger pool of donors including Germany, Ireland and the United States – was launched and is currently underway. It seeks to support trade facilitation and policy activities that will improve transparency, predictability and lower associated compliance costs for traders.

Source: OECD-WTO public sector case story numbers 31 and 48


Regional approaches to reducing trade costs are particularly important for landlocked LDCs, whose access to ports is determined by transit countries. This is emphasized by a number of case stories relating to countries within the East African Community (EAC) on efforts to support the EAC regional integration process. The EAC comprises of four LDCs, of which three are landlocked, i.e. Uganda, Burundi, and Rwanda. Regional integration through the EAC process has been a key driver to reducing trade costs and providing access to international markets. In absolute terms, these countries have fared well in their efforts to reduce their trade costs compared to other LDCs.

Case stories submitted on work to modernise customs and other border procedures include the World Bank's International Financial Corporation's work on Rwanda's Investment Climate Reform Program, Korea International Cooperation Agency's project for the modernization of the Tanzanian customs administration and TradeMark East Africa's work on Uganda's Revenue Authority Customs Business System Enhancement Project. Though these projects were implemented at the national
level, they complement the framework for the EAC’s Single Customs Territory. Electronic single windows (ESW) serve this function. Kenya’s ESW, TradeNet System, aims to enable traders who depend on the seaport of Mombasa to efficiently track, clear and move their goods across borders.

**Box 7: Small cost for big gains: Rwanda’s Electronic Single Window**

| According to a recent study by Rwanda’s Private Sector Foundation, only 43% of truck transport time along the trade corridors is spent moving. The rest is spent waiting at border crossings or road blocks, or resting. For a landlocked country these additional hurdles further push up the time and costs to trade. The Government of Rwanda has put considerable emphasis on regional integration as a national goal including adoption of Rwanda Electronic Single Window (RESW).

TradeMark East Africa’s support to Rwanda’s Electronic Single Window encompasses i) introducing an IT Single Window and Integrated Border Management (IBM) system, ii) upgrading the ASYCUDA customs management system and iii) reviewing the EAC Customs Management Act. This project has already reported results in reducing time taken to clear goods from 34 hours in 2010 to 23 hours in 2014. Trade costs were also reported to have reduced from US$350 to US$64.5 during this period. Return on investment based on savings for an authorized economic operator is estimated at US$18 million per year. Importers for example have experienced a reduction of costs as result of RESW from $350 per declaration to $243; this totals to estimated savings of over $2 million annually. Additionally, importers and exporters, businesses and consumers are reaping benefits because of the reduced clearance times and transaction costs. This will consequently drive down cost of doing business as well as stabilizing and reducing retail costs in the long run.

TradeMark East Africa notes that this project is complemented by other regional initiatives particularly One-Stop Border Posts.


The Northern and Central Corridors and their maintenance are especially important for connecting the landlocked. The Northern Corridor Transport Observatory assesses and measures performance of the Northern Corridor and has an online platform to track and disseminate information on various key performance indicators. The African Development Bank (AfDB) has upgraded the Nairobi-Thika highway to reduce congestion and increase access for neighbours. Other interventions along these corridors include Japan International Cooperation Agency’s work on introducing One-Stop Border Posts throughout the EAC, Tanzania’s Joint Border Committees initiative and the German Development Agency; GIZ’s support to the EAC integration process by building the capacity of the EAC Secretariat.

Case stories submitted on reducing trade costs in Pacific countries are mainly region-wide initiatives programmes – more so to benefit from economies of scale rather than linking the countries. In addition to the Office of the Chief Trade Advisors’ support to the PACER Plus negotiations, compliance to agri-food standards and support to trade in services are other areas of intervention. The Pacific Horticultural and Agricultural Market Access (PHAMA) Programme assists Pacific Island Countries (PICs) to gain access to key markets for selected high-value primary products (particularly in agriculture and horticulture) by helping these countries meet the regulatory requirements such as quarantine and food safety standards. PHAMA established national market access working groups (MAWGs) in Fiji, Samoa, Solomon Islands, Tonga and Vanuatu.

MAWG constitute a new process of engagement between government and industry in most of these countries and are widely acknowledged as effective mechanisms that strengthen connections between exporters and market access regulatory bodies.

Other regional initiatives include the South Pacific Tourism Organization’s work on Small and Micro-Enterprise e-marketing Support in eleven PacificACP countries and the Pacific Financial Inclusion Programme. In line with the region’s priorities, it is clear there is great attention to provide support in the area of services. The Australian Government with the Asian Development Bank, the International Finance Corporation and the UN Capital Development Fund as also helping take banking to the people of Papua New Guinea with the use of mobile phones, post offices and village shops. Support to services such as telecommunications also come in the form of Public Private Partnerships (PPPs) as with the case of the interchange cable network in Vanuatu described in Box 8.
Box 8: Interchange Cable Network – Connecting Vanuatu to the World

The Interchange Cable Network is a submarine cable project that connects Vanuatu via Fiji to the world. The 1,259 kilometres cable project is the first underwater cable to Vanuatu. The project is a private-public partnership investment between Interchange Vanuatu Limited, a local telecommunication company, and the Government of the Republic of Vanuatu plus other stakeholders. The total costs of installation and connection of the submarine cable was $US30 million, in which the Government committed through a pre-purchase agreement to the cable in support of the project.

Since the arrival of the cable on 14 January 2014, all four major internet service providers were connected by April 2014, and users are now enjoying high speed internet. In November 2014, the Telecommunications and Radio Communications Regulator reported that price of broadband internet had significantly dropped, by at least 70%, and is likely to drop further as demand for internet increases. The Government's Universal Access Policy aims to connect 98% of over 270,000 of Vanuatu’s population, spread over 83 islands, to telecommunications services by 1 January 2018. The arrival of the cable is a contributing element to reaching this objective.

Telecommunication services contribute to approximately 5% of Vanuatu’s GDP, and the arrival of the submarine cable should boost dependent services such as Agriculture, Trade, Tourism, Finance, and others. Interchange Vanuatu Limited plans to install three more redundant cables, one to New Caledonia, one to Solomon Islands and one to Papua New Guinea. The proposed new cable project will be ready for service by June 2016. Vanuatu will continue to be the competitive ICT/Telecommunications hub of the South Pacific region.

In March 2015, Cyclone Pam hit Vanuatu and nearby Pacific countries. Communication across the country was crippled, with only one cellular tower in Port Vila remaining operational. Luxemburg is among donors working to rebuild communications.

Source: OECD-WTO public sector case story number 47

Box 9: Linking Senegal, linking West Africa

Senegal was the first LDC to notify its Category A Trade Facilitation Agreement commitments. In Senegal's questionnaire, the country states that trade facilitation was on top in terms of their Aid-for-Trade priorities and that it had been prioritized in national and regional strategies. Government commitment to trade facilitation is starting to bear fruit for Senegal, and the broader region.

Senegal is strategically located to serve as a regional trade hub in West Africa. Neighbouring and landlocked countries, namely; Burkina Faso, Mali, Mauritania and Niger rely on the Port of Dakar to connect to international markets. Reducing trade costs in Senegal has therefore been crucial in the regional integration process of the region.

The African Development Bank (AfDB) in collaboration with a number of public and private partners co-financed the "Mali/Senegal: Road Development and Transport Facilitation Project: The Southern Bamako-Dakar Corridor" from 2008 to 2012. The Dakar–Bamako corridor now serves as the main entry and exit point for trade in the region via the Port of Dakar. Dubai Ports World (DP World) took over the management of the Port of Dakar in 2008. Through a EUR47.5 million loan from the AfDB to finance the upgrading of the container terminal in 2010, upgrading and expansion of the facility resulted in trade and economic benefits for the country and the region. Since its officially opening in November 2011, the capacity of the port rose from less than 300,000 TEU (twenty foot equivalent container units) to more than 600,000 TEU. Good road network
connections offer swift transit times for cargo bound for Guinea-Bissau, Mauritania, and Gambia. With its onsite rail terminal, Dakar Port is the historic gateway to Bamako, Mali.

The reduction in transport costs has also benefited people living in the project area, specifically women who account for 52% of the population in the area and 60% of the economic activity. Illicit fees and charges have fallen considerably; in the first quarter of 2011, they were an estimated US$140 per truck per trip on the Bamako-Dakar corridor, versus US$351 per truck per trip on the Bamako-Abidjan corridor (AfDB, 2012). These figures are backed up by the USAID supported Borderless Alliance, a coalition of private sector organizations working in close collaboration with public sector stakeholders to facilitate the free movement of persons, goods, and vehicles within ECOWAS and increasing trade across West Africa. Its last Road Governance Report in 2013 concluded that significant strides were made by Senegalese authorities to reduce road governance issues along this corridor.12

The Dakar Financing Summit for Africa’s Infrastructure in June 2014 aimed at strengthening public private partnerships to mobilize financial investments and sustain the implementation of the Programme for Infrastructure Development in Africa (PIDA). The Summit prioritized the financing of 16 infrastructure projects as a pilot to accelerate the implementation of PIDA. This included the "Modernization of Dakar-Bamako Rail Line" estimated at US$3 billion. The project involves investment in new rail infrastructure (track and rolling stock), and signalling system for the rail line between Dakar port and Bamako. The existing metric gauge railway, built between 1907 and 1927, is currently non-operational.13

ECOWAS is working with the AfDB and the European Commission on the West Africa Joint Border Post Programme to reduce border crossing times between ECOWAS Member States. Thus far, the Togo/Ghana and the Benin/Niger JBPs have been completed. Currently ongoing include the Nigeria/Benin, Benin/Togo and the Gambia/Senegal bridge (the latter two is being implemented by the AfDB).

Source: OECD-WTO private sector case number 94 and WTO Secretariat research

4.3 Evidence from aggregate econometric analysis

In addition to questionnaires and case studies, econometric regression analysis constitutes a third way to assess the impact of Aid for Trade on trade costs for LDCs. Existing empirical studies point to a positive relationship between Aid for Trade and the cost of trading, even though findings vary depending on the direction of trade costs (import or export), how trade costs are measured (in US$ or number of days), on the types of Aid-for-Trade variables and on the country sample. Cadot et al. (2014) survey recent studies that evaluate Aid for Trade, including its possible impact on trade costs.

The findings of Vijil and Wagner (2012) suggest that aid for infrastructure has a positive impact on infrastructure. Cali and te Velde (2011) find that aid for trade facilitation, in contrast to aid for transport infrastructure, significantly reduces the cost to import a container. Both Cali and te Velde (2011) and Cali and Razzaque (2013) find that aid for trade policy and regulation significantly reduces import costs only in the case of Sub-Saharan Africa.

Busse et al. (2012) find that cumulated aid for trade policy and in particular aid for trade facilitation significantly reduce the cost of both exporting and importing. However, in the case of LDCs, both aid for trade policy and aid for trade facilitation appear to have no significant impact. Besides a possible lack of absorption capacity, they argue that aid flows to LDCs are too marginal to have a significant impact on the cost of trading.

5 CONCLUSIONS

High trade costs constitute a major impediment to the efforts of LDCs to increase their participation in international trade. Results from questionnaires filled by government officials as part of the OECD-WTO Aid-for-Trade M&E exercise for the Fifth Global Review of Aid for Trade indicate that inadequate transport infrastructure, cumbersome border procedures and compliance with NTMs in developed markets are the most important sources of trade costs for LDCs' merchandise exports. In the case of LDCs' services exports, infrastructure, particularly ICT networks, poor regulation and low skill levels are major drivers of trade costs. The recognition of professional qualifications and restrictions on the movement of natural persons are of particular importance when exporting to developed markets.

Available indicators of trade costs show that LDCs face high trade costs in absolute levels and also relative to other developing countries. The export of a container requires, on average, 32 days in LDCs, which is 9 days longer than in LMICs and 12 days longer than in UMICs. Trade costs are the highest in landlocked LDCs, where exporting takes, on average, 42 days. While the gap in trade costs between LDCs and other developing countries has narrowed in recent years, it still remains wide. LDCs lag behind other developing countries particularly in air transport and railroad infrastructure, and also in terms of shipping connectivity. Digital connectivity is increasing in LDCs thanks to the proliferation of mobile telephony and growing investment in ICT networks. However, LDCs still need to close the digital divide, which exists in terms of broadband internet access.

According to the Aid-for-Trade M&E exercise, LDCs are well aware of the issue of high trade costs, which is addressed by more than 90% of LDCs in their national strategies. LDCs ranked trade facilitation as their top Aid-for-Trade priority. Development partners are also prioritizing trade facilitation and have increasingly made efforts to lower trade costs in LDCs.

Aid for trade to reduce trade costs in LDCs, i.e. economic infrastructure, trade policy and trade facilitation, has increased by 154% between 2006 and 2014 and is dominated by aid flows targeting transport and storage as well as energy infrastructures. Within the category of transport and storage, more than three quarters of Aid for Trade in LDCs is targeted at improving road transport. While Aid for Trade for trade facilitation to LDCs is relatively low in value, LDCs received 28% of Aid for Trade for trade facilitation at the world level – more than any other country grouping. Aid for Trade for trade facilitation experienced a major leap in disbursements from 2010 onwards and further commitments are expected once the TFA enters into force.

The Fifth Global Review M&E exercise revealed that reducing trade costs can have positive outcomes and impacts. Questionnaire respondents claimed that customs reforms and enhancing economic infrastructure were the most effective actions to reduce trade costs. These actions have been said to increase customs revenue, increase trade volumes and reduce corruption translating to increased gains in terms of trade, FDI and export diversification. Evidence from 50 case stories on reducing trade costs in LDCs buttress these outcomes and impacts by illustrating how initiatives on the ground have helped to reduce clearance times at the border and increase trade. Many case stories reported positive impacts on employment, FDI and domestic investments.

The analysis of the questionnaires, case stories and DTISs furthermore highlights the importance of regional Aid-for-Trade initiatives. As part of the Aid-for-Trade M&E exercise, 97% of LDC respondents indicated that regional actions were being undertaken to reduce trade costs, mainly relating to trade facilitation and network infrastructure. In the case of trade facilitation, regional initiatives such as the establishment of joint border posts and the management of transport corridors are particularly important for landlocked LDCs.

This study has analysed trade costs in LDCs using novel data from questionnaires and existing trade cost indicators. Further work is required to improve the methodologies to measure trade costs and the availability of data, particularly for LDCs. In terms of methodology, efforts should focus on improving aggregate measures of trade costs and their decomposition into different components. In terms of data availability, efforts should be made to increase the capacities of LDCs to collect statistics related to trade and trade costs. It is important for LDCs to have trade costs baselines, against which they can track progress and which will help them formulate and implement better policies.
6 REFERENCES


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ANNEX I – TRADE FACILITATION IN DIAGNOSTIC TRADE INTEGRATION STUDIES

Annex Table 1: Overview of trade facilitation issues identified in national diagnostic trade integration studies

<table>
<thead>
<tr>
<th>DTIS</th>
<th>Year</th>
<th>Trade Facilitation</th>
</tr>
</thead>
</table>
| Kiribati      | 2012 | - Lack of political will and prioritization and vision for trade facilitation. Outdate legislation is some key areas.  
- Weak capacity in most areas (infrastructure, financial and human resources, administration)                                                                                                                                                                                                                                                                                                      |
| Samoa         | 2010 | - Remote economy with relatively low economies of scale and high transport costs that inhibit the competitiveness of exports  
- Technical capacity for implementing and enforcing SPS and ROO rules and regulations is limited                                                                                                                                                                                                                                                                                          |
| Solomon Islands | 2009 | - Lack of political will and prioritization and vision for trade facilitation. Outdate legislation is some key areas.  
- Weak capacity in most areas (infrastructure, financial and human resources, administration)                                                                                                                                                                                                                                                                              |
| Tuvalu        | 2010 | - Main administrative issue facing Department of Customs is the introduction of ASYCUDA  
- Problems with the forklift at the Port and slow work by stevedores has meant delays  
- High cost of moving a container due to high cost of maintaining the forklift                                                                                                                                                                                                                                                                                      |
| Afghanistan   | 2012 | - Customs and border management modernization will most likely have the greatest impact in terms of lowering transaction costs on trade in Afghanistan, by easing trade facilitation and strengthening trade integration. Ongoing customs reform in Afghanistan aims to reorganize customs procedures, improve border facilities, introduce risk management programs to expedite clearance, and when fully operational, will lower transaction costs and improve trade security. |
| Bhutan        | 2012 | - Bhutan is dependent on transit traffic through India for access to the sea and third-country markets.  
- Bhutan maintains several trade restrictions, mostly affecting imports. These restrictions are on goods as well as on import channels.                                                                                                                                                                                                                                    |
| Cambodia      | 2014 | - Inefficiencies in procedures related to custom and trade regulations remain a constraint. Additional savings in transit time can be achieved through reducing clearance times for imported fabrics and exported garments. This would add to the garment sector’s competitiveness and encourage further investment and development of the local production chain.  
- Cambodia should aim at increasing its competitiveness by reducing time/cost for import/export. By 2018, Cambodia could reduce costs to 120 percent of ASEAN-6 average (currently 136 percent), and it could reduce to ASEAN average (16 days) the time for cargo release (now 24 days). |
| Lao PDR       | 2012 | - Lao exporters spend much more time dealing with regulatory procedures than businesses that do not trade.  
- Existing studies largely focus on the institutions and procedures specific to Lao PDR but neglect the transit procedures through neighbouring countries.  
- As landlocked country, transit, bilateral and regional approaches to trade and transport facilitation are highly significant.                                                                                                                                                                                                                                  |
<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>2010</td>
<td>• Trade facilitation has improved in recent years, but Nepal remains at a comparative disadvantage when compared to India and Bangladesh. Days and costs of transport and clearing in Nepal are significantly higher than these countries.</td>
</tr>
<tr>
<td>Burundi</td>
<td>2012</td>
<td>• Regional integration and in particular regional corridors at the heart of trade connectivity. Corridors very important for the country's regional and global connectivity. More the central corridor than the northern corridor.</td>
</tr>
</tbody>
</table>
| Congo, DRC   | 2010 | • Transit at the port of Matadi is slow, complex and costly. It involves multiple and superfluous checks. Three bodies are responsible for customs controls, either directly or indirectly. Control procedures are outdated (essentially manual) and marked by a logic of excessive controls and mutual mistrust among those involved. It is by no means certain that these procedures have the desired impact on reducing fraud.  
• The main concerns of the private sector are legal insecurity, the rule of “fait accompli”, the blocking of trade by minor services which manifest their authority in the field and operate in a disorderly fashion that is prejudicial to trade facilitation. |
| Gambia, The  | 2013 | • The Gambia faces a competitiveness challenge. Its ability to play the country's traditional role as entrepot trader tends to diminish as its neighbours enhance the competitiveness of their own port facilities, engage in further regional liberalization, and undertake autonomous, domestic reforms. The previous DTIS already noted the narrowing scope for Gambian activity in this field, and The Gambia has since lost some of its competitiveness in the re-export trade to its neighbours, especially Senegal. |
| Guinea Bissau| 2010 | • The port of Bissau is in urgent need of rehabilitation. At the current rate of silting, the port will soon be inaccessible to most freighters, cutting off the country from direct access to international maritime trade.  
• A high priority must be given to simplification of Customs procedures and the reactivation of the one-stop shop (Guichet Unico), which was abandoned some years ago. Also important is the elimination of the BRPI (Boletim de Registo Previo de Importacoes) which is a process for prior registration of imports. |
| Malawi       | 2014 | • The high cost of obtaining inputs and high transport costs continue to constrain Malawi from diversifying its productive base beyond agricultural commodity production and mining.  
• As a landlocked small economy Malawi is also dependent on the efficiency of transit corridors and trade logistics in neighbouring countries. |
| Rwanda       | 2011 | • Rwanda has done a lot of regional integration and reducing trade costs. However Non-Tariff Barriers remain. Transport costs still represent 46% of export and import value. (NTBs include weighbridges, roadblocks, corruption and non-standardized border forms.  
• In order to access diverse markets, Rwandan traders face challenges meeting standards. |
| Sierra Leone | 2013 | • High transport costs, poor infrastructure and an underdeveloped logistics services sector limit Sierra Leone's ability to develop competitive value-added exports and raises the cost of imported good  
• Weaknesses remain, namely in areas of trade related infrastructure bottlenecks and intermodal connectivity, |
logistics service quality, and remaining technical and capacity issues with customs and border management entities.

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<th>Country</th>
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| Togo    | 2010 | - Regional transit agreements are not implemented, customs and escort services cause delays and extra costs, the allocation of quotas between countries reduces competition, numerous intermediaries apply unjustified charges, and there are many illegal road blocks.  
- By protecting the operation of old and inefficient trucks, it limits the number of rotations and undermines the profitability of investing in modern ones. |
| Uganda  | 2013 | - Uganda wants to move from landlocked to land-linked. Corridors (northern and central) are key to helping realize this objective. Uganda would like to leverage its central position to serve as a hub for logistics in general and distribution in particular. |

Source: National Diagnostic Trade Integration Studies