



2nd Global Review of Aid for Trade 2009

African Development Bank Activities
2008-2009



African Development
Bank Group



AFRICAN DEVELOPMENT BANK GROUP

Second Aid for Trade Global Review

African Development Bank Activities 2008-2009

**6-7 July 2009
Geneva, Switzerland**

I. INTRODUCTION

The objective of this document is to highlight some of the Aid-for-Trade activities that the African Development Bank has embarked upon since the first Global Aid-for-Trade Review held in Tanzania in 2007. The African Development Bank (AfDB) also benefited from the strong partnership it has with the United Nations Economic Commission for Africa (UNECA) and the World Trade Organization (WTO), under the umbrella of the Africa Aid for Trade Working Group.¹

II. AFRICAN ECONOMIES AND THE GLOBAL FINANCIAL CRISIS

During the last decade there has been steady economic growth in most African countries, mainly due to the positive growth in the global economy and the international demand for commodities that originate from Africa. However, the financial crisis has had an impact on key drivers of economic growth such as exports, investment and remittances. The AfDB expects an average Gross Domestic Product (GDP) growth of 2.3 per cent for Africa in 2009, over half of the 5.7 per cent experienced in 2008. Declining export revenue will have an impact on the fiscal revenue and current account in many African countries. The AfDB also estimates a budget deficit of 5.8 per cent of GDP for 2009 for the continent, down from a surplus of 2.8 per cent in 2008. The full impact of the financial crisis is still not known and it is important that African countries continue to monitor the effects to detect early warning signs as the crisis continues to unfold.

Specific to international trade, the immediate impact of the financial crisis has created a gap in trade finance due mainly to shortage of liquidity to finance trade credits. The AfDB responded by setting up a trade finance initiative in the order of USD1 billion to support the movement of goods in Africa. The AfDB is also working with other development partners such as the International Finance Corporation (IFC) in the implementation of the trade finance initiative. Past lessons have shown that it is important to keep access to trade finance at affordable rates in critical times, as a means of ensuring that international trade continues to play its shock-absorbing role.

The WTO has also predicted a global trade contraction of 9 per cent during 2009. It is therefore important to strengthen the multilateral trading system which presents an opportunity to crisis-stricken countries to recover through trade.

III. WHY IS AID FOR TRADE IMPORTANT?

In the current financial crisis, Aid for Trade provides an opportunity for African countries to make strategic decisions to boost trade performance. The Aid-for-Trade initiative constitutes a recognition by the international community that market access alone is not enough and that supply-side constraints need to be addressed to enable developing countries, especially Least-Developed Countries (LDCs), to take advantage of trade opportunities. A combined effort of all key stakeholders to identify and address supply-side constraints – especially both "hard and soft infrastructure" such as roads, ports, rail networks, one-stop border posts, harmonisation of custom systems, training of customs officials and simplification of regulations and documentation – is of utmost importance.

The AfDB recognizes that market access opportunities in the global market have the potential to offer African countries long-term sustainable income which can be used to increase unemployment, boost economic growth and reduce poverty. At the same time, the AfDB acknowledges that any form of trade liberalization through tariff reduction is expected to trigger restructuring of activities that may lead to loss of fiscal revenue and competitiveness, and changes in distribution of employment. It is therefore the responsibility of the AfDB and policy makers to anticipate these potentially negative economic and social outcomes. The Aid-for-Trade initiative is therefore an important instrument in

¹ The Africa Aid-for-Trade Working Group comprises the African Development Bank, the United Nations Economic Commission for Africa, and the World Trade Organization.

addressing some of these undesirable effects. The AfDB, in particular, through its increased focus on both physical infrastructure and private sector development, recognizes its important role in financing Aid for Trade.

Since its inception in 1964, the AfDB has been involved in the creation of projects that develop and support regional integration through the creation of infrastructure including transport-related infrastructure (mainly road and rail networks, airports and ports), energy (mainly electricity and, more recently, gas pipelines), and information and communication technology (a new area with development potential).

The AfDB also played an important role in enhancing regional integration by working with international, regional, and sub-regional development organizations as well as national governments. Over the years the AfDB has collaborated with the African Union Commission, the New Partnership for Africa's Development (NEPAD), all of the regional economic communities, multilateral development banks, United Nations organizations and other development-orientated organizations to enhance and ensure that long-term sustainable development is achieved in Africa.

IV. MAKING PROGRESS ON AID FOR TRADE

The AfDB has been actively involved in moving this agenda forward given the important role that trade can play in the economic development of Africa. To move the Aid-for-Trade agenda in Africa forward, the Heads of the AfDB, the UNECA, and the Deputy Director-General of the WTO agreed to set up an Africa Aid-for-Trade Working Group. This Group comprises senior officials from the three institutions and its main objectives are to implement the 2008 Aid-for-Trade Roadmap through the Maputo Action Plan and to identify potential projects in the pipeline, while working towards establishing an Aid-for-Trade Network and defining the roles of the three institutions. In addition, the Working Group implements the Aid-for-Trade Roadmap on the continent.

The following are the activities in which the AfDB has participated since the first Aid-for-Trade Global Review held in Geneva in November 2007: WTO Advisory Group meetings; Symposium on Monitoring and Evaluation: Identifying Indicators for Monitoring Aid for Trade; the STDF Workshop on Mobilizing Aid for Trade for Sanitary and Phytosanitary-related Technical Cooperation in East Africa; the Aid-for-Trade meeting with the Southern African Customs Union (SACU) in Namibia; the Geneva Trade and Development Forum Conference; the Trade Finance Expert Group Meetings; the Central Africa meeting with the International Trade Centre; the West Africa Meeting with the European Union on the Economic Partnership Agreements (EPAs); the Regional Integration Workshop in Tunis; and the Africa Aid-for-Trade Working Group Meetings.

Monitoring Aid for Trade

The AfDB has completed the WTO/OECD Aid-for-Trade Donor Questionnaire detailing its Aid-for-Trade activities in 2006 and 2007. Both regional and project departments that have benefited from Aid for Trade collaborated in this comprehensive exercise. The AfDB funds a large number of infrastructure projects, mainly transport infrastructure (roads) and energy. The new commitments for infrastructure in 2007 were 75 per cent (USD684 million) of the total Aid for Trade that the AfDB was providing. The percentage of Aid for Trade in the agricultural sector decreased to about 25 per cent (USD230 million) in 2007. However, disbursements for agricultural projects remained high, evidenced by statistics of 84 per cent in 2007 when compared to the 65 per cent disbursed in 2006.

Implementation

On 6 and 7 April 2009, the AfDB participated in the North-South Corridor High Level Conference in Lusaka, Zambia, which was organized by the COMESA-EAC-SADC Tripartite. Development partners pledged to offer strong support for this initiative and total commitments from various development partners amounted to approximately USD1.2 billion. The AfDB committed USD600 million for four years to support activities on the Corridor. For the period 2008 to 2010, the AfDB has earmarked investment on the North-South Corridor (USD380 million) comprising the following projects: (i) Kazungula Bridge (USD90 million); (ii) Zomba-Blantyre Road (USD35 million); (iii) Lilongwe Bypass (Nacala Corridor); (iv) Lusaka-Malawi border (Nacala Corridor) (USD81 million); and (v) Iringa-Dodoma Road (USD176 million). At the Conference participants stressed the need to develop similar initiatives in other regions.

On 22 May 2009, the AfDB's Group Executive Directors approved a UA22.98 million (USD 35.6 million) African Development Fund (ADF) loan and a grant of UA1.124 million (USD1.7 million) to finance the rehabilitation of the Blantyre-Zomba road, one of the projects on the North-South Corridor.

Box 1: Financing for the North-South Corridor – Blantyre-Zomba road

Blantyre-Zomba road is part of the North-South spine linking the southern part of Malawi to the central and northern regions and further on to Tanzania. The 60km road is an important link on Route 29 of the SADC Regional Trunk Road Network (RTRN). The project is to be implemented over a five-year period for a total financial requirement of UA26.713 million (USD41 million), comprising UA25.53 million (USD40 million) for the Blantyre-Zomba road. Notable impacts on the beneficiaries will include increased economic activities due to improved transport services with reductions in the cost of transport, travel time and improved road safety and ultimately improve the living standards of the communities in the zone of influence. There will be additional benefits from the project through acquisition of jobs during construction and obtaining sub-contracts for supply of goods and services.

An additional USD350 million is earmarked for intervention in linking corridors and a number of projects are in the pipeline for the 2011-2013 period. Under the NEPAD-IPPF facility, an amount of USD11.6 million is being processed for preparatory studies, capacity building and trade facilitation. The meeting demonstrated a resolve amongst development partners to focus on investing in trade-related infrastructure and ensuring that Aid for Trade remains high on the political agenda. The challenge now is to keep the momentum going.

V. AID-FOR-TRADE GLOBAL REVIEW

The AfDB has been involved in the Aid-for-Trade Task Force since its inception in 2006 and played a leading role with the UNECA and the WTO, in establishing recognition of the Aid-for-Trade agenda amongst the Regional Economic Communities and national governments. The AfDB was also instrumental in organizing the first Aid-for-Trade Regional Review in Dar es Salaam, Tanzania in October 2007. This event set the scene for raising awareness of the initiative in Africa with a large presence of more than 400 delegates ranging from government representatives (trade and finance), donors, non-governmental organizations, inter-governmental organizations, and the private sector. The AfDB also participated in the First Global Review of Aid for Trade held in Geneva in November 2007, at which it reported on the outcome and action plan developed during the regional Aid-for-Trade review that took place in Dar es Salaam.

VI. UPCOMING ACTIVITIES

The AfDB, in collaboration with the UNECA and the WTO, is planning sub-regional reviews in West Africa (with ECOWAS) and possibly in Central Africa (with ECCAS). These events will be held in collaboration and with support from donors.

VII. MAJOR OUTCOMES FROM AID-FOR-TRADE ACTIVITIES

Progress has been made towards the:

- Implementation of the Aid-for-Trade Roadmap through: (i) Contribution to the monitoring agenda; and (ii) Discussion on possible "bankable projects";
- strengthening and improved coordination with other institutions (UNECA, WTO, RECs);
- improving communication of Aid-for-Trade activities through the Geneva process (Meetings of the Advisory Group and the Committee on Trade and Development); and
- linking Aid-for-Trade activities to current global situations (i.e. the global financial crisis).

VIII. THE WAY FORWARD

The following issues should receive attention under the Aid-for-Trade initiative for the way forward:

- Improving in-country political leadership on the initiative is key to success;
- financing of Aid for Trade should be enhanced;
- improving the understanding of available Aid-for-Trade instruments by Regional Member Countries;
- focusing on priorities identified by stakeholders;
- identifying few key priorities such trade facilitation;
- strengthening the delivery of regional projects;
- involving the private sector more; and
- ensuring coherence and cooperation among key stakeholders.
