



AFRICAN DEVELOPMENT BANK GROUP

Second Aid for Trade Global Review

African Development Bank Activities 2008-2009

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

1. Introduction

The objective of this Note is to highlight Aid for Trade activities that the African Development Bank has embarked on since the first Global Aid for Trade Review in Tanzania in 2007. The Note also includes activities implemented under the umbrella of the Africa Aid for Trade Working Group¹. While reporting these activities, the African Development Bank recognises that it is also important to discuss briefly the impact of the current crisis on African economies and trade.

2. African Economies and the Global Financial Crisis

During the last decade there has been a 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 crises that started to gain momentum during the second half of 2008 has had an impact on key drivers of economic growth such as exports, investment and remittances. The African Development Bank expects an average Gross Domestic Product (GDP) growth of 2.3 percent for Africa in 2009 over half of the 5.7 percent in 2008. Declining export revenue will have an impact on fiscal space and current account in many African countries. The Bank estimates a budget deficit of 5.8 percent of GDP for 2009 for the continent, down from a surplus of 2.8 percent in 2008. The full impact of the financial crisis is still not known and it important that African countries continue to monitor the impact to detect early warning signs as the impact of the crisis unfolds.

On international trade specifically, the immediate impact of the crisis created a gap in trade finance due mainly to shortage of liquidity to finance trade credits. The African Development Bank responded rapidly by setting up a trade finance initiative in the order of USD 1 billion to the support the movement of goods in Africa. The African Development Bank is also working with other development partners such as the International Finance Corporation (IFC) in the implementation of the trade finance initiative. Lessons from previous crisis show that it is important to keep access to trade finance at affordable rates in critical times to ensure that international trade can continue to play its shock-absorbing role.

Taking all these factors including trade finance and declining global demand, the World Trade Organization (WTO) expects a global trade contraction of 9 percent during 2009. Therefore, it is important to strengthen the multilateral trading system which presents an opportunity to crisis-stricken countries to recover through trade.

3. Why is Aid for Trade Important?

In this current crisis, Aid for Trade renders 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. Therefore, there should be a combined effort of all key stakeholders to identify and address supply-side constraints - 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, among others.

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

The African Development Bank 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 employment, to boost economic growth and to reduce poverty. At the same time, the Bank acknowledges that any form of trade liberalization through tariff reduction is expected to trigger restructuring of activities that may lead to, for example, loss of fiscal revenue, loss of competitiveness and changes in distribution of employment. It is therefore the responsibility of the Bank and policy makers to anticipate these potentially negative economic and social outcomes, making the Aid for Trade initiative an important instrument in addressing some of these undesirable effects. The Bank, in particular, through its increased focus on both physical infrastructure and private sector development, recognizes its important financing role in Aid for Trade.

The African Development Bank has since its inception in 1964 been involved in the creation of projects that developed and supported regional integration through the creation of infrastructure including mostly transport-related infrastructure (road and rail networks, airports and ports), energy (mostly electricity and recently gas pipelines) and information and communication technology (a new area with development potential).

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

4. Aid for Trade Global Review

The Bank has been involved in the Aid for Trade Task Force since its inception in 2006 and played a leading role with the United Nation Economic Commission for Africa (UNECA) and the WTO, in establishing a presence of the Aid for Trade agenda amongst the Regional Economic Communities and national governments. The Bank was also instrumental in organizing the first Aid for Trade Regional Review in Dar es Salaam in October 2007. This event set the scene for enhancing Aid for Trade in Africa with a large presence of more than 400 delegates ranging from government representatives (trade and finance), donors, non-governmental organisations, inter-governmental organisations and private sector. The Bank also participated in first Global Review that in November 2007 in Geneva and provided the meeting with feedback on the outcomes and actions planned during the regional Aid for Trade review that occurred the previous month in Dar es Salaam.

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 comprising of senior officials of the three institutions to implement the 2008 Aid for Trade Roadmap through the Maputo Action Plan that was drafted. The main task of this Working Group is to implement the Action Plan presented in Maputo, identify potential projects in the pipeline, work towards establishing the Aid for Trade Network and define the roles of the three institutions. In addition, the Working Group implements the Aid for Trade Roadmap on the continent.

The Bank has been actively involved in the moving this agenda forward given the important role that trade could play in economic development in Africa. The following activities occurred since the Bank participated in the first Aid for Trade Global Review in Geneva in November 2007. During 2008 and 2009 the Bank participated and contributed to the

following events: WTO Advisory Group meetings; the Symposium on 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 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 Bank has completed the WTO/OECD Donor questionnaire detailing its Aid for Trade activities in 2006 and 2007. Both regional and project departments that were affected by Aid for Trade projects collaborated in this comprehensive exercise. The Bank funds a large number of projects in infrastructure through providing mainly transport infrastructure (roads) and energy. The new commitments for infrastructure in 2007 were 75 percent (USD684 million) of the total Aid for Trade that the Bank was rendering. The percentage of Aid for Trade in the agricultural sector decreased to about 25 percent (USD230 million) in 2007 of new commitment but the disbursements of agricultural projects are still high and comprised 65 percent and 84 percent respectively in 2006 and 2007 in total Aid for Trade disbursed (see Table 1 in Appendix)

Implementation

On 6-7 April 2009, the African Development Bank participated in the North South Corridor High Level Conference in Lusaka, Zambia, which was organized by COMESA-EAC-SADC Tripartite. Development partners pledged to offer strong support for this initiative and total commitments from various development partners were in the order of USD 1.2 billion. The African Development Bank committed USD600 million for four years to support activities on the corridor. For the 2008 to 2010 period, the Bank 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); (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 Bank Group Executive Directors approved a UA22.98 million (USD 35.6 million) ADF loan and a grant of UA1.124 million (USD 1.7 million) to finance the rehabilitation of the Blantyre-Zomba road, which 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 60 km 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 (USD 41 million), comprising UA25.53 million (USD 40 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 pipeline of projects 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 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.

5. Upcoming Activities

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

6. Major Outcomes from Aid for Trade Activities

There has been progress 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 (Advisory Group meetings and Committee on Trade and Development).
- Linking Aid for Trade activities to current global situations (i.e. the global financial crisis).

7. The Way Forward

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

- Improving country and political leadership is key to success.
- Financing of Aid for Trade should be enhanced.
- Improving in 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.
- Ensuring coherence and cooperation among key stakeholders.

Appendix

Table 1: Percentage contribution of various Aid for Trade Components in ADF Countries (%)

Aid-for-Trade Flows: CRS Proxies						
						Percentage
African Development Fund (%)			Commitments		Disbursements	
CRS purpose codes		2002-05 average	2006	2007	2006	2007
TRADE POLICY AND REGULATIONS and TRADE-RELATED ADJUSTMENT						
33110	Trade Policy and administrative management	0%	0%	0%	0%	0%
33120	Trade facilitation	0%	0%	0%	0%	0%
33130	Regional trade agreements (RTAs)	0%	0%	0%	0%	0%
33140	Multilateral trade negotiations	0%	0%	0%	0%	0%
33150	TRADE-RELATED ADJUSTMENT	0%	0%	0%	0%	0%
33181	Trade education/training	0%	0%	0%	0%	0%
sub-total		0%	0%	0%	0%	0%
ECONOMIC INFRASTRUCTURE						
21010 to 21081	Transport and storage	34%	53%	52%	23%	12%
22010 to 22040	Communications	0%	0%	0%	0%	0%
23010 to 23082	Energy supply and generation	6%	16%	23%	12%	3%
sub-total		41%	69%	75%	35%	16%
BUILDING PRODUCTIVE CAPACITY <i>(Includes Trade Development activities (1))</i>						
25010	Business and other services	0%	0%	0%	0%	0%
24010 to 24081	Banking and financial services	0%	0%	0%	0%	0%
31110 to 31195	Agriculture	46%	31%	25%	58%	82%
31210 to 31291	Forestry	5%	0%	0%	4%	1%
31310 to 31391	Fishing	8%	0%	0%	3%	1%
32110 to 32182	Industry	1%	0%	0%	0%	0%
32210 to 32268	Mineral resources and mining	0%	0%	0%	0%	0%
33210	Tourism	0%	0%	0%	0%	0%
sub-total		59%	31%	25%	65%	84%
not applicable	Focus on Trade Development (1):					
	Principal objective			not used		not used
	Significant objective			not used		not used
sub-total				0		0
OTHER TRADE RELATED NEEDS (2) <i>Percentage</i>						
not applicable	<i>These data will form part of donors' reporting to the WTO under the three-tier monitoring system.</i>					
TOTAL AID FOR TRADE	%	100%	100%	100%	100%	100%
TOTAL SECTOR ALLOCABLE ODA	USD	1 223 831	1 373 634	1 681 733	--	--

Source: African Development Bank