North-South Corridor
Pilot Aid for Trade Programme

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Background to Aid for Trade

In the run up to the Sixth WTO Ministerial Conference in Hong Kong, Ministers of Finance and Development had been discussing Aid for Trade in a number of fora, including the G8 Gleneagles meeting (July 2005) and the G7 Ministers of Finance meeting in London (February 2005). At these meetings a commitment to double aid to Africa was made and to raise resources allocated to (narrowly defined) Aid for Trade to US$4 billion per year.

The World Trade Organisation (WTO) recognises Aid for Trade as a valuable complement to the Doha Development Agenda (DDA) and, at the Ministerial Meeting in Hong Kong in December 2005, Ministers called for the creation of a Task Force to provide recommendations on how to put AfT into operation and how AfT might contribute to the development dimension of the DDA.

The WTO Task Force concluded its work mid-2006. It reported that additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid for Trade mandate, but did not attempt to define these terms. Aid for Trade was to be guided by the Paris Declaration on Aid Effectiveness and was defined in broad terms in that it recommended that all projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies.

The WTO Task Force Report distinguished five different categories of Aid for Trade, these being the two already existing categories of trade policy regulation and trade development and three new categories of building productive capacity; trade-related infrastructure; and trade-related adjustment.

In February 2007 the Director General of WTO (Pascal Lamy) issued a Roadmap on Aid for Trade which, amongst other things, suggested that the WTO Director General set up an Advisory Group; work with OECD DAC to widen the circle of Aid for Trade reporting and dialogue; do regional periodic reviews; and hold an annual Aid for Trade debate, which would produce an annual report. The three regional meetings (in South America, Asia and Africa) and the global meeting, as part of the DG’s Roadmap, were all held at the end of 2007.

The Africa Region Aid for Trade meeting that was held in Dar es Salaam in October 2007, outlined a number of conditions that participants thought should be in place for the AfT initiative to succeed in Africa and these included:

- strong leadership at the national and regional levels that not only provides the political direction needed but which is also capable of managing complex multi-sectoral and multi-modal non-trade solutions in support of a multilateral and regional trade agenda;
- a shift in mindset so that development is not dependent on aid flows but to use of aid to leverage addition resources from the IFIs, commercial banks and other sources of finance;
- the full involvement of the private sector at all levels of the AfT initiative, from planning to implementation and financing to monitoring and evaluation;
- additionality of AfT resources and a disbursement mechanism that is flexible (meaning that it can take account of the specific requirements of different regions and countries in regions) transparent, quick disbursing, accountable and predictable;
- coherent national and regional AfT strategies and implementation plans in place, with Africans taking full ownership; and

- mainstreaming trade into national and regional development strategies and ensuring that existing development assistance mechanisms work together more effectively.

The Dar es Salaam meeting made two major recommendations which could be seen as a roadmap for developing AfT strategies and implementation plans for Africa and these were:

1) *Identification of Needs, preparation of AfT Strategies and Implementation Plans*: It was though that some African regions (and countries) were more advanced than others in identifying their needs and, on the basis of needs assessments, preparing AfT strategies and implementation plans which address trade policy regulation; trade development; building productive capacity; trade-related infrastructure; and trade-related adjustment. It was agreed that the African Development Bank (AfDB) and the United Nations Economic Commission for Africa (UNECA) had a leadership role to play on the African continent and these two organisations, working in collaboration with other organisations and agencies such as the World Bank, should assist African regions and countries to identify needs, develop AfT strategies and prepare implementation plans. This was to be based, as much as possible, on existing assessments including NEPAD, Country Assistance Strategies, value-chain analyses, Diagnostic Trade Integration Studies, national development plans, etc. The meeting agreed that each country and region should target to have an AfT strategy and an implementation plan in place by the end of 2008. It was also agreed that the implementation plan would be in the form of costed and bankable project proposals, with time-bound and measurable outputs that reduce the main constraints to trade.

2) *Creation of an AfT Network and Monitoring and Evaluating AfT*: The African review showed that trade capacity building is taking place but it needs to be scaled up in the framework of AfT. Efforts are currently being made at national and regional levels but all actors, including the private sector, need to be brought into the process. The regional dimension, which is more than the sum of national programmes, needs to be more fully supported by Africa's cooperating partners. With this in mind, UNECA and AfDB have undertaken to organise a Regional AfT network that will bring together Africa's main cooperating partners, including bilateral donors, IFIs, development banks, recipient countries and RECs. The AfT Network should monitor implementation of AfT on the continent and should also make suggestions on how the situation can be improved. A progress report on the AfT Network is expected in the autumn of 2008.

Aid for Trade - Definition and Rationale

Aid for Trade is usually described by its components. The WTO Secretariat describes Aid for Trade as comprising "*aid that finances trade-related technical assistance, trade-related infrastructure and aid to develop productive capacity*"[1]. The WTO Aid for Trade Task Force[2] describes the rationale of Aid for Trade as being about assisting

[1] http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm

[2] http://docsonline.wto.org/DDFDocuments/t/WT/AFT/1.doc

developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access, and the scope as being defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. The Task Force report goes on to describe Aid for Trade projects and programmes as those activities that have been identified as trade-related development priorities in the recipient country's national development strategies, including, but not restricted to, Poverty Reduction Strategy Papers (PRSPs).

There is also a political-economy dimension to Aid for Trade. Although not part of the Single Undertaking and not part of the market access negotiations, Aid for Trade is an integral part of the Doha Development Agenda. By signing the Uruguay Round Agreements and agreeing to enter into the Doha Development Round, all WTO Members have accepted that a liberalised multilateral trading system is likely to generate global gains. However, this is not to say that there will not be winners and losers in the process, and to get the buy-in of all Members, there is a need to take on the requirements of those countries which are more vulnerable to economic shocks caused through multilateral liberalisation.

Trade liberalisation measures, on their own, have not had the desired effects in terms of promoting economic growth. Until recently, there has been an emphasis on trade reform and trade liberalisation measures to drive economic growth, the theory being that if a country liberalises its economy it would attract investment which would lead to economic growth through expansion of the productive sector and trade. Little attention was paid to the supply side and, owing to constraints in infrastructure, support services and utilities; availability of skills, etc., reform of the regulatory regime has not had the desired effects on economic growth.

Although financing and implementation of Aid for Trade is usually assumed to be a partnership between the recipient government’s public sector and the donor community and IFIs, there is a role that the private could and should play. In many countries the role of the private sector in mainstreaming trade is already institutionalised, such as being included in committees and other bodies that implement the PRSPs or development plans.

The private sector may also have a role to play in partnering the IFIs, donors and recipient governments in financing and implementing Aid for Trade programmes, through Public Private Partnerships and other financing arrangements. The intention of Aid for Trade is not to “crowd out” the private sector and deprive them of investing in trade-related infrastructure and other trade-related instruments, but to bring them into partnership with the public sector to meet the needs of other parts of the private sector to reduce the cost of production for export and the costs of getting goods to markets across borders. There are not many opportunities available to the private sector to profitably invest in the trade-related sector and the challenge is to identify these opportunities and structure financing in such as way as to make it accessible to the private sector.

COMESA-EAC-SADC Task Force

The Regional Economic Communities (RECs) of the Common Market for Eastern and Southern Africa (COMESA), the Southern Africa Development Community (SADC) and the East African Community (EAC) have long recognised the importance of improving trade facilitation (amongst other issues) in the context of deepening regional integration and in reducing the costs of cross-border transactions and so improving economic livelihoods. As such, the RECs have supported a number of trade facilitation instruments as well as developing plans for regional infrastructural development programmes.

It is well known that COMESA, EAC and SADC have a number of members that belong to two of the three regional organisations, although no country belongs to all three. This dual membership was not much of an issue until recently because each REC performed a function and a service which did not overlap or contradict the other REC. However, in recent years, the functionalities of COMESA, EAC and SADC have started to overlap so that, for example, all three now have targets to establish themselves as customs unions, ostensibly with the objective of creating the African Union. The RECs themselves are member driven and Secretariats are tasked with implementing the instructions of member States as defined in various protocols and the REC Treaties so cannot themselves streamline policy. However, what they can do is to work with each other so that they implement policy in such a way as to try to avoid a situation where it puts one of its members that is a member of another REC in a position that it needs to implement two contradictory programmes.

During the COMESA Policy Organs Meetings in Egypt in 2001 the then Chairs of COMESA and SADC met at the Heads of State level and directed that a COMESA-SADC Task Force be established that would work towards ensuring harmonisation of COMESA and SADC programmes. The Task Force met on average twice a year until 2006 and concentrated mainly on exchange of information, thus trying to avoid overlap in future projects and programmes rather than in taking actions to harmonise existing, on-going programmes.

In March 2006 a meeting was held in Kigali, Rwanda between the Secretariats of COMESA, EAC and SADC in which it was agreed to expand the Task Force to include EAC. The mandate of this enlarged Task Force, which has a Secretariat provided by the UK-DfID-financed Regional Trade Facilitation Programme (RTFP) is to develop an implementation mechanism for the harmonisation of trade arrangements between the three regional organisations.

North-South Corridor Pilot Aid for Trade Programme

If African countries are to reach levels of economic growth needed to reduce poverty in a sustainable manner there will need to be increased levels of private sector investment taking place in the productive sector, which will only take place if the costs of production are low enough to allow producers to be competitive with those in the rest of the world. However, if the costs of internal transport continue to remain high compared to other regions in the world then little investment in productive systems will take place, production will continue to be low, economic growth will depend mainly on the level of extraction of minerals and natural resources and be dependent on commodity prices remaining high and there will be low levels of productivity, economic growth and poverty reduction.

The intervention logic for the North-South Corridor is that the costs of production and trade in the Eastern and Southern Africa Region is high compared to other regions in the World and, unless these costs of production and trade can be reduced, the region will remain uncompetitive except in commodities.

One way to reduce costs for producers and traders is to reduce transport costs. According to a World Bank study[3] recently published, transport costs in Eastern and Southern Africa are severely affected by the opportunity cost of delays (at border crossings, weighbridges, and ports) and long custom procedures. In Southern Africa, reduction in border crossing time would have the biggest impact on prices. The authors suggest that the most effective measures to reduce costs in East and Southern Africa are likely to be road rehabilitation, reduction in fuel costs, and a reduction of border-crossing delays. Reducing informal payments would have a marginal impact on transport costs and prices and reduced transport costs in East and Southern Africa are likely to translate into a reduction in transport prices because of the deregulated market environment.

These findings corroborate those of the North-South Corridor Pilot Aid for Trade Programme and, as a consequence, the pilot programme has both hardware and software components and addresses a number of challenges, including:-

- The development of a mechanism to analyse and sequence holistic and multimodal solutions that allow benefits, in terms of reduced costs, to be realised by the producers and traders that are some of the main stakeholders in the corridor;

- The creation and maintenance of an efficient transport and transit network that allows trade at reduced costs to take place within the region and with the rest of the world;

- The development of infrastructure so that it reaches a level where investments in improvements and upgrades can be made that will ensure that economies of scale are reached and positive returns on investments are realised;

- Building confidence in the level of security of investments and demonstrate that there can be, and are, opportunities to invest in infrastructure in Africa;

- Allowing private sector investors to channel funds into specific investments that will ensure a positive return on investments, meaning that a mechanism to channel these funds into specific investments needs to be designed and the specific investment needs to be “ring-fenced” from the rest of the networks, most probably through the creation of a Special Purpose Vehicle (SPV) or a series of connected SPVs;

- Development of a mechanism that allows the use of donor funds and concessionary loans to leverage private sector investments; and

- Development of a mechanism that will allow governments and public sector entities to invest in both equity and provide loans to infrastructure investments so that the returns from the equity investments and loans can be used by governments to invest in other infrastructure projects.

The North South Corridor (from the Copperbelt of southern DR Congo and northern Zambia to the port of Dar es Salaam in the north-east and the southern ports in South Africa) was selected as the pilot Aid for Trade programme because it is the busiest

[3] *Transport Prices and Costs in Africa*, *A Review of the Main International Corridors* by Supee Teravaninthorn and Gaël Raballand, Transport Sector Unit, Africa Region, The World Bank. 2008

corridor in the region, in terms of values and volumes of freight. The transport infrastructure is already under pressure in relation to its design capacities and in terms of delays at strategic points, such as border posts. However, owing to the effects of increased costs of commodities, especially metals and minerals, the North South Corridor is expected to get a lot busier. What were recently interesting deposits of minerals are now economically interesting deposits and so the levels of mining activities, especially in DR Congo and Zambia, are increasing and, if the volumes of imports and exports that use the North-South Corridor continue to grow at the current rate, the infrastructure on the corridor will collapse unless remedial actions are taken.

Although there are significant amounts of aid flowing into the region, and this is a positive net transfer of assets now that debt relieve initiatives are in operation, the amount of aid provided will, on its own, never be enough to meet the costs of development of an African country or a region. It is recognised that if infrastructure is to be fully developed to meet the needs of the economic operators then there will need to be significant levels of investment from the private sector and from private sector financing institutions. However it is also recognised that, until there is an attractive rate of return to be realised from investments in Africa and that these investments become secure, the necessary level of investment from the private sector will not take place.

Status of the Transport Infrastructure Network

In theory, the Eastern and Southern Africa region has a relatively well developed and flexible road, rail and port network, providing landlocked countries with several alternative and competing transport routes serving both regional and international trade. However, the reality is that the challenges faced by producers, exporters and importers out of and into Eastern and Southern Africa are enormous.

Traffic on the North-South Corridor is characterised by exports of mining and agricultural products and imports of manufactured goods. The main operating feature of the regional road transport routes, which affects transport efficiency, costs and tariffs, is the severe imbalance of freight flows, leading to empty return hauls. This imbalance can be seasonal and can also vary month by month, meaning that in one month the problem will be to get a return load from south to north and the next month it may be the other way around. An empty return haul by road effectively means that the transport cost almost doubles. Balanced freight flows are less critical for rail, because of the inflexibility of the system and the cost and time of repositioning wagons and the breaking up of unit trains. It is often more efficient to return wagons as quickly as possibly to pick up the next load on a fixed schedule basis to achieve optimum equipment utilisation than it is to wait for a return load.

The regional road transport sector is a highly competitive, deregulated private system competing openly with rail services which has led to a marked shift in general freight volumes from rail to road resulting in lower transport costs. The shift in traffic is also partly attributable to relatively high rail tariffs and unreliable service, both because of poor management, inadequate use of assets and poor costing practices. The permissible gross vehicle mass of 56 tonnes for a 7-axle truck is one of the highest in the world (with only Australia having a higher allowable GVM) and has the effect of increasing the competitiveness of road against rail, and also of significantly increasing the cost of road maintenance, which is not fully compensated for in the setting of road user charges and toll fees. There is also a degree of cross subsidisation of road freight from passenger vehicles and directly from government.

The road network is generally in good condition although there are sections of road that are in urgent need of rehabilitation and upgrading. There are also sections that are very heavily used and if there is a blockage in these sections, such as the bridge crossing over the Kafue River in Zambia, the whole network will be closed. It is also the case that recent increases in mining activities have led to much heavier use of the road network in particular and at least some sections of the road are being used above their design capacities.

With the exception of the South African dedicated bulk lines, the regional rail freight transport sector is characterised by long distances, relatively low volumes and relatively high railway tariffs. It is also generally characterised by inflexibility, in relation to schedules and poor inter-modality, resulting in delays and unreliability. The availability of rolling stock is still low compared to other regions of the world and disjointed railway operations together with poor track condition and poor condition of rolling stock results in delays, unreliability and increased transport costs.

The regional railways are all built to the 'Cape gauge' of 1,067 mm (3'6") between the rails, with the exception of the TRC system in northern Tanzania and the Kenyan-Ugandan systems which have a 1,000 mm gauge. This means that there is almost full railway interconnectivity within the Eastern and Southern Africa region. Axle loads are generally 15 tonnes to 18 tonnes in the region, up to 26 tonnes in South Africa. To make rail more competitive with road, axle weights should not be less than 20t. This would allow a railway wagon to carry almost twice as much as a large combination (7 axle) road rig. Braking systems are gradually being upgraded to air to allow trains longer than 40 wagons.

Almost all the regional railway systems, including in Zimbabwe (BBR), Zambia (RSZ), Malawi (CEAR), central Mozambique (CCFB), northern Mozambique (CDN) and Tanzania (TRC) have been privatised through concession agreements. The concession agreements focus on improving management of the railways rather than improving infrastructure and have been criticised as replacing an inefficient public sector monopoly with an inefficient private sector monopoly.

The North-South Corridor utilises a number of natural harbours with good access from the sea. However, the most important operational feature of the regional ports, besides road and rail access and the efficiency of the terminal handling equipment, is the depth of the port and quays. Increasing volumes of international trade requires the use of larger vessels and most regional ports do not have sufficient depth to handle these larger (Capesize and Panamax) vessels.

Most of the region's ports, especially those utilised on the North-South corridor, suffer from congestion which leads to higher shipping costs because of storage charges, higher transport changes (as trucks wait to off-load or load) higher fees paid by ships in harbour and other costs associated with late delivery.

Regional Trade Facilitation Measures

Trade facilitation is recognised as an effective way of reducing the cost of doing business and generally lowering transaction costs in international trade. Trade facilitation is part of the Doha Development Agenda of the World Trade Organisation, but negotiations are limited to Articles V (Freedom of Transit), VIII (Fees and Formalities connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations) of GATT 1947. Although it is important to address these issues in the framework of the DDA negotiations, if trade facilitation instruments are to assist to reduce trans-border costs, they will have to be a lot more encompassing than those being negotiated at the multilateral level.

All three RECs are working on trade facilitation programmes, but the challenges which are faced by the region are to ensure that the facilitation programmes being developed and rolled out by COMESA, EAC and SADC neither duplicate nor contradict each other in order to avoid a situation in which the cost of doing business in the region becomes greater rather than being reduced, thus making the private sector even less competitive than it is at the moment.

The trade facilitation instruments that are in place (although not always functioning as effectively as they should), or which are in the development stage, are the following:

i) *One Stop Border Posts:* A One Stop Border Post is a border post shared by border officers from two adjacent countries to conduct jointly cross-border and security clearance procedures. It is seen as a practical way to reduce duplication of controls and involves setting up a common border post for two countries in a single physical location. A One Stop Border Post should reduce costs for both the countries concerned, and traders, freight forwarders and transporters. It makes the communication of trade documentation between the two neighbouring border administrations easier, reducing opportunities for fraudulent exchange of invoices, reduces clearance processing time by unifying border control processes within a single sequence and results in significant savings. The establishment of a One Stop Border Post requires strong political support and must be accompanied by a legal agreement on the location of staff and facilities, and by realignment and streamlining of procedures. The benefits can be maximised when this approach is coupled with a single window environment (which allows traders to lodge all import and export documents with a single agency). Each party needs to ensure that existing national legislation permits extra-territorial exercise of powers by officials from both countries to perform their functions from a foreign country; that legislation empowering the declaration of common areas of control is in place; and that provisions on the roles, powers and responsibilities of officials with an interest in border control are harmonised; amongst other legislative issues. There is also need to prepare a comprehensive manual of operational principles and Standard Operating Procedures for the operation and management of the joint border post, which should form a part of the bilateral (or regional) agreement and acquire force of law in each national jurisdiction respectively. In particular, customs procedures, documentation and border controls need to be addressed, along with the harmonisation of standards and procedures for all border control agencies of both countries and a mechanism to continuously update these procedures. Finally, the there is a need to ensure that the infrastructure at the joint border post is adequate to meet the needs of the users.

   On the North-South Corridor most progress has been made in establishing Chirundu (between Zambia and Zimbabwe) as a One Stop Border Post and it is expected that this will be operational before the end of 2008. Other border posts may then be transformed into one-stop border posts as there is a lot of interest in this as a mechanism to make entry and exit formalities more streamlined and efficient. The other main border posts on the North-South Corridor that would benefit from being transformed into a one-stop border post include Beit Bridge (between South Africa and Zimbabwe), Nakonde (between Zambia and Tanzania), Kasungula (between Zambia and Botswana) and Kasumbalesa (between Zambia and DR Congo).

ii) *Simplification and Harmonisation of Customs Procedures and Legislation:* To make processing of documentation quicker it is necessary to harmonise customs procedures and legislation, such as bringing countries onto the GATT valuation system; ensuring countries are on the same version of the Harmonised System of Customs Classification, simplify and harmonise temporary admission, re-exportation and transit procedures, harmonise exemption and other duty relief measures, dispense with all pre-shipment inspections, adopt regional antidumping and countervailing duty regulations, etc.

The COMESA-EAC-SADC Task Force is working towards the simplification of documentation but this process takes a long time and there really needs to be a driver that ensures the political will needed for change management.

iii) *Single Administrative Document for Customs*: COMESA, SADC and EAC have all agreed that each country should have one document which can be used to clear customs in the region. The Single Administrative Document (SAD) has been developed and has been piloted by SADC, with USAID support, on the Trans-Kalahari Corridor (TKC). It is also being used by South Africa, Zimbabwe, Zambia and Malawi as part of the Durban corridor pilot exercise of the Regional Customs Bond Guarantee System. A number of countries have agreed to use the SAD but in practice the document is not at present used as a single administrative document in many countries.

iv) *Harmonisation of IT systems and electronic customs management systems:* Most countries in the Eastern and Southern African region use the customs management system developed and maintained by UNCTAD (ASYCUDA) as their computerised customs management system, with the exception of Angola, Kenya, Lesotho, Mauritius, Mozambique, South Africa and Swaziland. However, although most countries are on the same system, countries do not share customs information amongst themselves for both legal and technological reasons. Furthermore, because the border posts are not usually networked, the same information is entered onto the ASYCUDA system on entry and on exit from a customs territory. Time would be saved if data could be entered once (preferably before the goods arrive at the border post so that they are pre-cleared) and then that data is shared electronically between national border posts and could be made available to the customs officials of the territory the goods are entering.

Other services at border posts (such as Immigration, Health, and the Security Services) are often not computerised and if they were this would also speed up the border clearance process.

v) *Harmonised Axle Loading:* Regional freight traffic is usually carried in large double trailer, seven-axle combination rigs, with a maximum GVM of 56 tonnes. In order to preserve the road infrastructure and ensure reasonable usable life times, countries in the region have generally agreed the following axle load limits for freight vehicles:

- single steering axle (two tyres)	8 tonnes
- single axle (dual tyres)	10 tonnes
- tandem axle (four tyres)	16 tonnes
- tandem axle (dual tyres)	18 tonnes
- triple axle (six tyres)	24 tonnes
- triple axle (twelve tyres)	24 tonnes
- combination rig (gross vehicle mass)	56 tonnes

However, not all countries apply these axle loading limits so the load weight on a freight vehicle will be limited to the load which is in compliance with the lowest axle load limit along the entire route.

The Federation of East and Southern African Road Transport Associations (FESARTA) estimates that overloading is prevalent in the region and that between 10% and 50% of vehicles travel overloaded. There have been a number of case studies in the region carried out on axle loads and weighbridges and actions taken as a result of these case studies indicate that, in some countries at least, instances of overloading have been reduced. However, there is still a need to address the issue of overloading, in part by being able to offer a viable alternative to road transport, this being rail transport, and partly by improving the efficiency of weighbridge selection, installation and operation and all this involves.

vi) *Maximum Vehicle Dimensions:* Countries within the RECs have agreed on maximum vehicle dimensions, in terms of height, width and length of vehicles. Unfortunately, as is the case for a number of trade facilitation instruments in the region, although Member States have agreed to these maximum vehicle dimensions in the forum of a REC, few countries have passed national legislation to enforce this instrument and even fewer countries actually implement. In the case of vehicle dimensions there are valid reasons as to why some countries cannot apply these regulations (for example, in mountainous countries the length of the vehicle cannot be 22 metres if the vehicle is to be able to negotiate the sharp bends in roads which are on a steep gradient) but in these cases it would be expedient to either re-negotiate the maximum vehicle dimensions that will suit all, or have regional legislation with two sets of dimensions.

vii) *Harmonised Road Transit Charges:* In practice road charges vary by country. The RECs have introduced systems of harmonised road transit charges whereby most countries apply a road transit charge of US$10 per 100km. However, there are notable exceptions. For example, Botswana, Namibia and Mozambique all have higher charges than this and in South Africa the system is based on toll roads.

viii) *Carrier's License:* RECs have introduced a regional carrier's license which allows commercial goods vehicles to be licensed with one license which is valid throughout the region so that the vehicles can operate in all of these States. This means that vehicles can pick up back-loads in other countries and this allows more efficient use of the region's transport fleet so reduces the cost of trade. However, evidence suggests that the regional carrier's license is not operational or usable in all of the countries that have signed up to using this instrument.

ix) *Regional Third-Party Vehicle Insurance:* The COMESA Yellow Card is a vehicle insurance scheme which covers third-party liability and medical expenses. A Yellow Card issued in one COMESA country is valid in all other countries participating in the scheme. This saves time and money in taking out insurance each time a border is crossed. In South Africa and Botswana (along the North-South Corridor) a third-party vehicle insurance levy is included in the price of fuel.

x) *Regional Customs Bond Guarantee Schemes:* A regional customs bond guarantee would eliminate the avoidable administrative and financial costs that are associated with the current practice of nationally executed customs bond guarantees for transit traffic. At present transporters transiting through a country to get to another country need to take out a customs bond at least equal to the duty which would be payable on their cargo. When they prove that the cargo has actually left that customs territory, the bond is released. However, the process of releasing bonds takes time so large amounts of money are tied up in the system of national bonds. This, plus the fact that it costs time and money to issue a bond, means that the cost of transport is higher than it need be if a system were found that would replace the national bond system. SADC and COMESA, together with the private sector stakeholders, are working on the development of a regional customs bond. There are both slight and fundamental differences between the two systems under development (and being piloted). The two challenges are to convince smaller transporters and freight forwarders in the smaller countries that a regional bond system will be beneficial to them; and to harmonise the two systems so that the end result is a single regional bond system. If one country along a transport route operates a different bond guarantee system to that operated by its neighbours then the benefits of the regional system are greatly reduced.

Regulatory Issues

The regulation of the safety and environmental aspects (including oil spillage, disposal of dredged material, handling of dangerous cargoes and dealing with distressed vehicles) of the regional transport sector are generally well defined and covered by international conventions and national legislation and procedures. Ideally, the regional transport sector should function in a manner which requires the minimum amount of economic regulation or is to a large extent self regulating in a truly competitive and harmonised environment. To a certain extent, this is the case for regional road transport where there is open competition from a multitude of regional operators but with a degree of protection still existing in the application of cabotage rules (the transport of goods on the domestic market by foreign registered operators) and restrictions on third country operators (the transport of goods along routes which do not pass through the country of registration). The continued application of these rules requires performance monitoring and regulation. The policy documents (protocols and treaties) of COMESA, SADC and EAC have stated objectives of removal of all these constraints or barriers, but a high degree of harmonisation of regulations and policies will be required before this can be implemented. Import regulations, duties, fuel prices, operating conditions, and so on, must all be similar if all barriers are to be removed, otherwise competitive advantages will arise.

Transport Costs

The costs of transport depend, in part, on the time taken to complete the journey from the point of production to the coast, the point where shipping takes place. This time taken, in turn, depends in large part on the state of the physical infrastructure of the transport network (roads, rail, borders, ports, etc) as well as the regulatory environment (procedures used to clear borders, regulations and administrative procedures governing transit and transport, etc). In most countries in East and Southern Africa it is clear that significant investments need to take place in the transport infrastructure (such as upgrading the rail track and signalling systems, upgrading road infrastructure, installing one-stop-border-post facilities, upgrading ports etc) which should be accompanied by an overhaul of the regional regulatory and administrative environment governing transport and transit.

Transport costs and tariffs in East and Southern Africa are negotiated and are not published or regulated. With reference to the North South Corridor, the World Bank's *Transport Prices and Costs in Africa* study gives a price of transport from Lusaka (Zambia) to Johannesburg (South Africa) as US$2.32 per kilometre and from Lusaka (Zambia) to Dar es Salaam (Tanzania) as US$2.55 per kilometre. Prices charged when there is no return haul will be higher than where there is a backload, so the price of unscheduled just-in-time deliveries could be twice as much.

A recent study by the World Bank on the performance of African railway concessions showed that railway tariffs were generally higher than the regional road tariffs for full return loads. However, railway freight flows are often severely imbalanced, and railway tariffs are most often given for one way traffic. The main reasons for the highly variable railway freight tariffs are the difficulties of achieving a high degree of asset and resource utilisation for variable freight flows and of negotiating long-term fixed contracts for general freight. The tariffs therefore vary from one contract to the next, and if there is no negotiated long-term contract, the tariff will be high.

Transit times on the main corridors vary greatly with road generally being significantly faster than rail. Rail transit times are affected by interchanges between the systems and the unavailability of locomotives at the border changeover points. Road transit times are affected by delays in border crossing and opening times, single driver operations, and an average road operating speed of about 60 km/hr. Average transit times for longer trips are typically based on about 30 km/hr. Road operators from the DR Congo and northern Zambia manage about 2.1 trips per truck per month with a turnaround time of about 15 days for a distance of 2,500 – 3,000 km. This performance is fairly consistent and indicates an annual distance travelled by regional trucks operated by the larger companies to be of the order of 140,000 km which is reasonable by international standards.

Funding Interventions along the North-South Corridor

It is envisaged that funding of the projects and programmes along the North South Corridor will be financed through Special Purpose Vehicles (SPVs) and that there will be three avenues of financing, these being:

1) *Grant Funds and Concessionary Loans* – e.g. a section of road that is vital for the functioning of the overall corridor but which does not have a high enough rate of return to be financed through a public-private-partnership (PPP) or the private sector alone. This type of project could be financed in a number of ways, such as through a SPV or through a contribution to the national Road Fund.

2) *Public-Private-Partnership* – e.g. a SPV is created to finance a bridge on a build-operate-transfer (BOT) basis. In this case a private sector company would finance the building of the bridge and operate it under a concession (tolling the bridge) for an agreed period and would then have an agreed exit strategy, such as handing it over to government. The company would raise money on the capital markets in the normal way so that there may be a number of investors in the SPV.

3) *Private Investment* – e.g. a SPV is created to finance a power generating plant. In this case a private sector company would arrange finance for it to build the generating plant and to sell electricity to the national and regional grids at the market price on a build-operate-own (BOO) basis. Public sector intervention would only be needed to ensure that regulations do not preclude this type of investment and perhaps to provide assistance to establish the SPV.

COMESA has established what it calls the COMESA Fund, made up of the COMESA Adjustment Facility and the COMESA Infrastructure Fund. The two are very different instruments but are presented together by the COMESA Secretariat because there is only one Article in the COMESA Treaty (Article 150) that deals with a fund to support the process of regional integration. The other aspect that draws the two together is that they are both instruments that could be used to finance two Aid for Trade components, these being trade-related infrastructure (the COMESA Infrastructure Fund) and adjustment support (COMESA Adjustment Facility).

Currently 15 COMESA Member States (Burundi, Djibouti, Egypt, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Swaziland, Sudan, Uganda, Zambia and Zimbabwe) have signed the COMESA Protocol. Nine of these (Burundi, Djibouti, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Sudan and Zimbabwe) have ratified the Protocol (meaning that the Protocol is in force as a COMESA instrument) and 5 of these countries have paid their contributions into the COMESA Fund. Although the amount paid in can be considered to be nominal, it does show the national commitment to this fund.

In addition, the European Commission, using EDF9 funds, have allocated €78 million to the COMESA Adjustment Facility.

Both EAC and SADC also have plans to establish funds that can be used to finance infrastructure funds but these are still in the planning stage.

Diagram 1 provides a schematic outline of the way projects and programmes on the North-South Corridor could be funded.

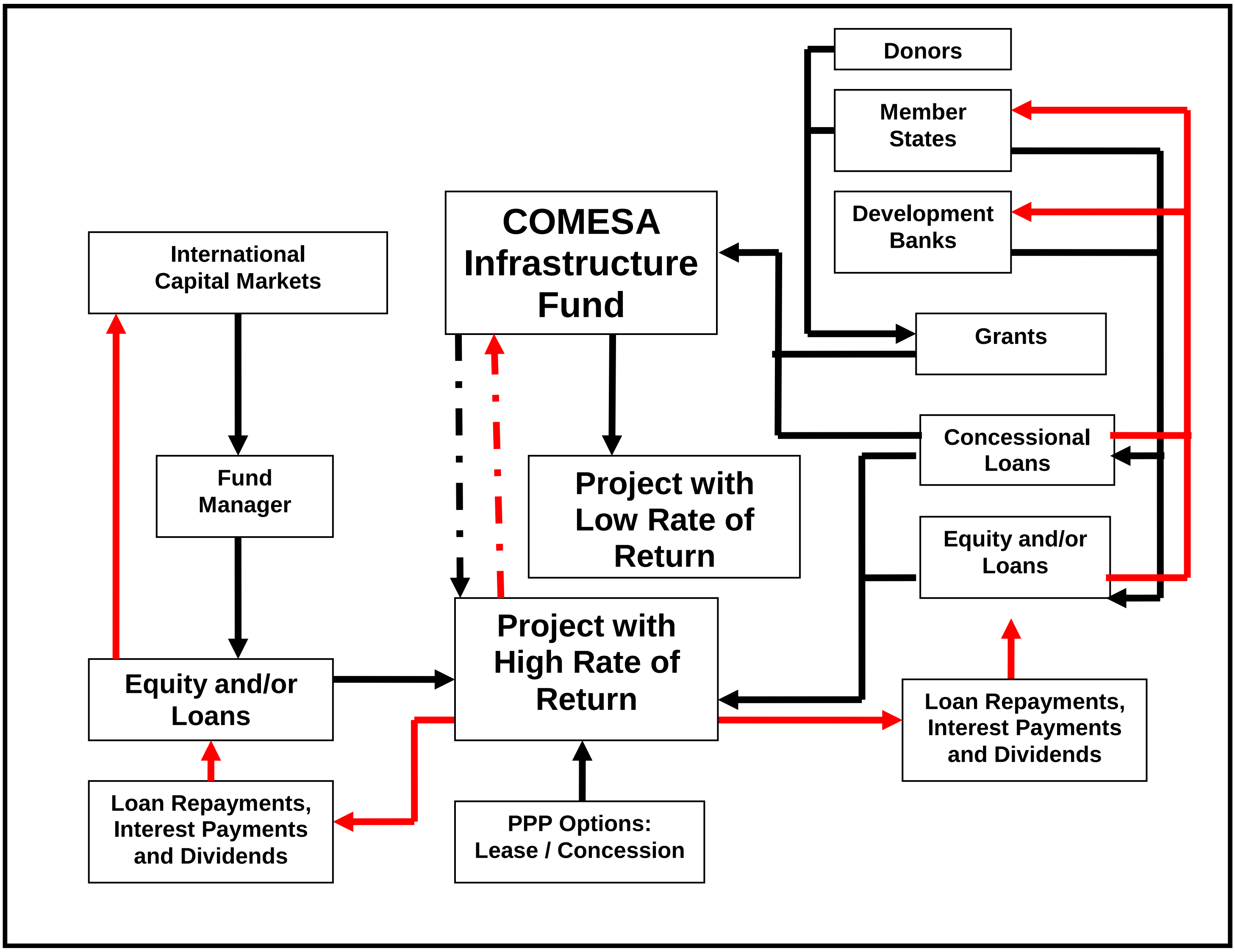
<u>North-South Corridor Pilot Aid for Trade Programme – Activities Undertaken</u>

The N-S Corridor Pilot Programme has been operational for about 12 months. Annex 1 summarises the main activities undertaken during this time and outlines outstanding issues to be tackled.

- Liaised with the African Development Bank on how to address Aid for Trade and the North-South Corridor jointly.

- Worked with DFID on a detailed influencing strategy.

Diagram 1 – Funding of Projects and Programmes on the North South Corridor



Annex 1

Summary of Activities Undertaken as part of the North South Corridor Pilot Aid for Trade Programme

Activity	Description
Data collection and presentation	All roads (except section from border of Mozambique and Zimbabwe to Beit Bridge) driven and state of the roads and other related infrastructure recorded and photographs taken. Reports on mining activities in Zambia and southern DRC prepared and completed. Dar es Salaam port visited and preliminary assessments of possible interventions needed made. Desk study of RSZ and TAZARA railways, identifying weaknesses in concession agreements and proposing further work so that a solution to poor performance of these railways can be found. Survey of inter-mine traffic on the Copperbelt on-going (to be completed by end-October 2008) All relevant national Roads Boards visited and discussions held. Information on regular and periodic maintenance plans, as well as future plans, obtained. Working with HDM4 modellers to use HDM to assess economic benefits of maintaining the road network to a specific standard. All data put onto a GIS database and the GIS put up as a web-based map (at www.rtfp.org) <u>Outstanding</u> - Finalise inter-mine traffic report - Finalise putting up of data onto the GIS map and database - Finalise traffic simulations, based on estimated volumes of outputs and inputs from the mines, along different routes and using different modes of transport.
Establishment of Chirundu one-stop border post	<u>Facilities</u> - New bridge construction completed in 2001 - Zimbabwean new buildings completed 2002 - Zambian new buildings to be completed in September 2008 - Zambian traffic circulation plan awaiting official approval (Zimbabwean plan approved) - Required signage in the Common Control Zone agreed - Plan to share office accommodation and other facilities agreed - Old bridge survey completed. <u>Legislation</u> - Bilateral Agreement signed in August 2007 - Zimbabwean legislation enacted. <u>Procedures</u> - Procedures approved by stakeholders in January 2008 - Officials' procedures manual prepared <u>ICT</u> - ICT needs analysis draft report presented to key stakeholders in August 2008 but major revisions are needed.

	<u>Baseline Study</u> - Baseline study finalised in July 2008. <u>Outstanding Issues</u> - Procedures' manual for use by other agencies and the private sector – to be finalised before end of October 2008 - Final bound copies of the training manual to be printed - immediately after the stakeholders meeting in October 2008. - Training - expected to start in October/November 2008 - Opening of old bridge to passenger traffic - Passing of Zambian SI before December 2008 and Zambian Act in 2009
Project Preparation Activities	<u>Funding</u> - Secured an in-principle commitment of €50m from the 2009 allocation of the EDF10 Regional Indicative Programme for Eastern and Southern Africa and the Indian Ocean. - Request for DFID CDEL capital funds pending <u>Packaging of Interventions</u> - Projects and programmes have been identified and for each project or programme a "project fiche" is being prepared which gives the identification code, title of project, general status of the project, estimated traffic figures (and projected traffic) where appropriate, description of the intervention, estimated costs, estimated benefits, rate of return, funding status and recommendations for funding. Projects prepared for trade facilitation issues, roads, railways, ports and border posts <u>Outstanding</u> - Finalise all project fiches by end November 2008
Advocacy Strategy	<u>Presentations</u> - AfDB-UNECA-WTO Africa Region meeting, Dar es Salaam, October 2007 - Global AfT meeting, Geneva, November 2007. - COMESA-EAC-SADC RTFP Donor and Stakeholder Meeting on the North-South Corridor – Pretoria – March 2008 - ILEAP meeting on Aid for Trade, Oxford, April 2008 - RECs and EU meeting on accelerating regional integration in east and southern Africa, July 2008, Dar es Salaam - FES/IGD meeting on Infrastructure and Trade Facilitation Challenges in SADC and Aid for Trade Solutions, August 2008, Pretoria - WTO Symposium on AfT Evaluation, September 2008, Geneva. - COMESA Ministers of Finance Meeting, October 2008, Mauritius <u>Institutional Linkages</u> - Institutional, financial and technical linkages with DFID - Discussions with the World Bank on areas of collaboration on Trade Facilitation, Aid for Trade and the North South Corridor. - Through the Inter-Regional Co-ordinating Committee of COMESA-EAC-IOC and IGAD (with SADC as a member) linkages with the European Commission and the Regional Strategy Paper for EDF10. - Discussions with African Development Bank on collaboration on Aid for Trade in general - Sharing of information and collaboration on Aid for Trade with the Secretariat of the World Trade Organisation.

	<u>Private Sector Linkages</u> - meetings on possible linkages with African Development Bank, Development Bank of Southern Africa and the European Investment Bank - development of working relationships with the Zambia Chamber of Mines and the NEPAD Business Foundation - Discussions with the Hewlett Packard Foundation on Corridor Development <u>Outstanding</u> - *Roadshows*: Once the infrastructure projects have been identified, roughly costed and rates of returns calculated and a funding mechanism outlined (meaning that packages will be either totally grant funded and/or concessionary loan-financed, or PPPs or fully private sector financed), the packages will need to be “sold”. This will involve a team going to the potential “investor” and getting these organisations and agencies to buy in. - *Influencing Strategy*: Preparation of a detailed influencing strategy that will guide the roll-out of the North-South Corridor as an Aid for Trade Initiative and the consolidation of the methodology so that it can be used on other corridors.

Table 3 – Planned Activities

Planned Activity	Expected Date of Completion
Visit to Dar es Salaam port and work with the port authorities on a series of interventions that will assist to remove the delays experienced when goods are shipped through this port.	October 2008
Get approval from the Government of Zambia to do further work on the RSZ concession agreement and propose possible solutions to the problems faced by both Zambia Railways and TAZARA	Early 2009.
	November 2008
Complete all project sheets which identify the intervention, provide the justification, outlines the level and method of financing, to be used to secure funding for individual projects on the North South Corridor from donors, IFI,s DFIs and private sector financiers and stakeholders.	November 2008
Rate of Return Calculations - once the projects have been designed and packaged (in a very rough manner), packages will be costed so that an order of magnitude of cost can be obtained. Rough rates of return on investments will be calculated.	November 2008
Preparation of project data sheets to ing project data sheets to be used to	
Finalise and implement influencing strategy with DFID	Ongoing
Open Chirundu as a One-Stop Border Post	December 2008

Project Summary Sheet

Project Title	Project Description	Grant (GBP)	Private Sector (GBP)	Concessional Loan (GBP)