Global Developments and World Bank Aid for Trade Activities in West Africa

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As discussed in greater depth in the recently released World Bank report *Global Economic Prospects, 2010,* a recovery from the financial crisis that rocked the world in the fall of 2008 is under way. Interbank lending rates have returned to normal levels, developing-country sovereign interest rate premiums have declined from a peak of more than 800 to around 330 basis points. Industrial production and trade, after falling by unprecedented amounts worldwide, have bounced back substantially. However, economic activity is still below pre-crisis levels, and unemployment has reached double digits in many countries and continues to rise. Industrial production is still 5% below the level in late 2008, and global trade volumes are down about 3% compared to late 2008 when the crisis hit.

The collapse of global trade slowed growth in Sub-Saharan Africa markedly, to 1.1 percent in 2009 from an average of more than 5 percent in the preceding five years. Notwithstanding the severity of the shock, the improved macroeconomic fundamentals in place in many countries of the region as they entered the crisis meant that the impact was less pronounced than in other regions and relative to previous external shocks. The growth slowdown has varied across African countries, with oil exporters and middle-income countries affected more severely, at least initially, than low-income, fragile, and less globally integrated countries. The sharp decline in oil prices that accompanied the recession caused current account balances in the region's oil exporters to fall by more than 10 percent of GDP.

Given the depth of the crisis and the continued need for restructuring in the global banking system, the recovery is expected to be relatively weak. Global GDP growth is projected to come in at 2.7 percent in 2010 (after an unprecedented 2.2 percent decline in 2009), and is expected to accelerate only modestly to 3.2 percent in 2011. GDP growth in developing countries is projected to grow by some 5.2 percent in 2010, after a modest 1.2 percent rise in 2009 (-2.2 percent if India and China are excluded), and by 5.8 percent in 2011. GDP growth in Sub-Saharan Africa is expected to be a bit lower, at 3.8 and 4.6 percent in 2010 and 2011, respectively. That said, the outlook is very uncertain and the strength of the recovery will depend to a large extent on growth performance in key export markets.

Relatively low growth poses a major challenge for policy makers in reducing both unsustainably high fiscal deficits and monetary stimulus. The stimulus packages put in place by OECD countries and large developing countries such as China have had positive effects for trade and economic activity, supporting a recovery in commodity prices and demand. However, the medium-term strength of the recovery will depend on the extent to which private-sector demand picks up and the ability of policymakers to reduce fiscal and monetary support without stalling the recovery.

The human costs of the global recession are high. Globally, the number of people living on $1.25 per day or less is expected to increase by some 64 million. In Sub-Saharan Africa some 7 million more people are predicted to have fallen into poverty. The slowdown has cut sharply into the revenues of governments in poor countries, creating pressures to cut back on expenditures, with knock on negative effects for poor households requiring social and humanitarian assistance.

There are also medium term negative effects. The *Global Economic Prospects* report estimates that trend growth in developing countries may be reduced by between 0.2 and 0.7 percentage points annually over the next five to seven years as economies adjust to tighter financial conditions. Countries that are eligible for soft loans and grants from the International Development Association of the World Bank may require as much as $35 billion to $50 billion in additional funding just to maintain 2008 program levels – ignoring the resources necessary to fund additional demands brought upon by the crisis.

Development assistance in general and aid for trade in particular has become more urgent and critical as a result of the recent financial crisis and global slowdown. One implication of the crisis is that financial conditions will be tighter post-crisis than before. As the world economy recovers, developing countries will need to rely on international markets as a source of demand to revitalize economic growth. More open economies will be better placed to benefit from recovery in demand. From this perspective, it is particularly important that efforts continue to focus on enhancing the competitiveness of firms in developing countries by lowering trade costs. This generally involves overcoming limitations in trade policy and regulations, institutional support for trade, trade-related infrastructure and trade-related adjustment.

The World Bank Group's Trade Activities

A recent report, "Unlocking Global Opportunities", reviews the aid-for-trade activities of the World Bank Group.[1] The report details assistance provided through the IBRD, IDA, and IFC and describes the aid-for-trade services available to client countries. These services focus primarily on two broad areas: (i) fostering country competitiveness; and (ii) supporting regional integration efforts. As a result of the crisis the International Finance Corporation (IFC) has complemented these two areas with a major expansion of financing support for trade credit, both in the form of guarantees and the provision of liquidity for trade finance.

Fostering country competitiveness. The World Bank's country-level assistance is developed through discussions with national government and aligns the country's developmental priorities. On the country-level, demand for World Bank Group services is strongest for

[1] *Unlocking Global Opportunities: The Aid for Trade Program of the World Bank Group,* World Bank, 2009. Available at http://www.worldbank.org/trade.

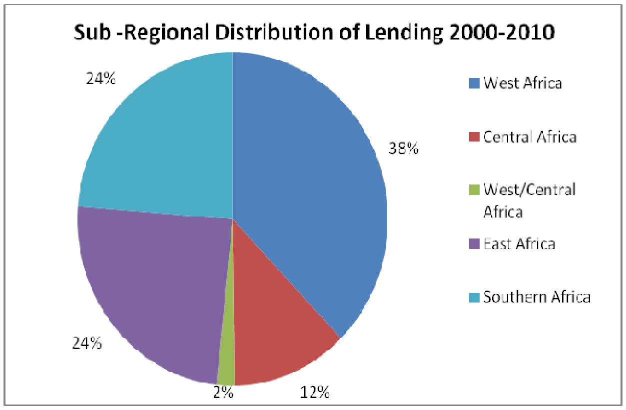
improvements in competitiveness: export development, trade facilitation and trade-related infrastructure. The instruments deployed to serve governments include concessional loans and grants, non-concessional loans, and technical assistance, as well as to market-expanding investments in trade-related private activities through the IFC.

Supporting regional integration. Regional integration of infrastructure and regulatory systems can help lower trade costs and enhance country competitiveness. The World Bank supports regional integration through analysis; capacity building and training; technical assistance; and lending for trade-related infrastructure and trade facilitation and transport projects. It also promotes “open regionalism” in advocating for regional trade agreements that have low external barriers to trade, nonrestrictive rules of origin, liberalized service markets, and a strong focus on reducing transaction costs at borders.

Notwithstanding the importance of adequate aid-for-trade resources, improving trade-related institutions and policies is a key dimension of effective aid-for-trade delivery. Much progress has been made in integrating trade into development strategies, reflecting a collective effort by governments and donors, and by the trade and development communities to work together. The World Bank Group, working in conjunction with other organization such as the International Trade Center (ITC), UNCTAD, UNDP and WTO, has provided trade-specific technical assistance and funded trade capacity-building projects in developing countries. One measure of the impact of these collective efforts is the increasing prominence given to trade and competitiveness in the World Bank’s Country Assistance Strategies, which partner governments and the World Bank forge together. Some two-thirds of these country strategies now identify trade as a priority area. This focus is part of a larger process in which governments are integrating trade into their national development programs and strategies to reduce poverty.

Activities in West Africa

As of January 2010, there were more than 30 active trade-related projects in West Africa, with total approved commitments amounting to $1.35 billion, the largest sub-regional portfolio in the Africa region (Figure 1). More than 90% of trade-related lending in West Africa takes the form of IDA credits. Regional integration and trade facilitation are the primary areas of focus.



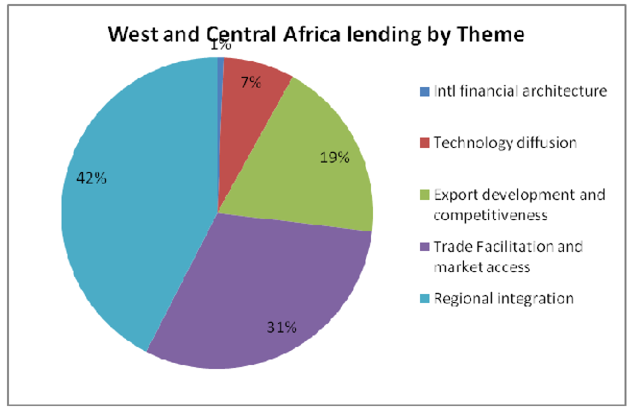


Figure 1: Distribution of Lending by African sub-region and theme

The volume of World Bank lending in West Africa for the productive sectors, including energy, water and other infrastructure investments, in terms of net commitments amounts to some US$4.5 billion, of which 76 percent and 24 percent, respectively, is provided through national and regional mechanisms. Infrastructure-related projects account for the majority of the Bank's program. Areas supported include:

- Improvement of access to quality infrastructure services at competitive prices: (i) energy (US$1.15 billion of which US$260 million through regional projects), and (ii) transport (US$1.8 billion, of which US$321 million is regional).

- Improvement of the business environment, the investment climate and other competitiveness related issues. Total support for initiatives in these areas equal US$ 450 million, all of which is provided through national projects and programs.

- Improvement of production capacity (supply side). Most support centers on the agriculture and fisheries sectors: (i) fisheries (US$48.5 million, primarily through a regional project); (ii) agriculture (US$271 million, of which one regional project of US$45 million); and (iii) mining (US$ 147 million, all through national projects.

Regional projects are an important part of the overall portfolio, accounting for over $1 billion in support and another $1.4 billion in the pipeline. Examples of trade-related operations in West Africa include:

The West Africa Road Transport and Transit Facilitation (Ghana, Burkina Faso, Mali) (US$190 million) – The overarching objective of the program is to facilitate trade within the sub-region and improve access to world markets by Burkina Faso and Mali. The project aims to improve access by Burkina Faso and Mali to Ghanaian ports, as well as improve port operations and facilitate the efficient movement of traffic along the Tema–Ouagadougou–Bamako transport corridor.

The Abidjan-Lagos Transport and Trade Facilitation (Ivory Coast, Ghana, Togo, Benin, Nigeria) (US$236 million; March 2010) – The objective of this program is to reduce trade and transport barriers in the ports and on the roads along the Abidjan-Lagos coastal corridor. The regional program will cover five countries: Côte d'Ivoire, Ghana, Togo, Benin, and Nigeria, and will be tailored to countries' conditions. One of the components will focus on establishment of a trade facilitation single window within the ports of Lomé, Cotonou, and Lagos, aimed at facilitating the handling of all transactions at these ports in an efficient and speedy manner.

Looking ahead

Looking forward, the World Bank will continue to support both national development programs and the regional integration objectives of countries in the region. In both instances the portfolio will be determined by the demand and priorities that are defined by governments. In terms of trade-related activities this is likely to continue to include support for efforts aimed at improving the business environment and investment climate, various types of infrastructure, as well as on agriculture and SMEs, focusing on enhancing productivity and improving value chains and support services. At the regional level, we expect to complement existing and planned projects that center on improving hard infrastructure (power, roads) – which are implemented in collaboration with other development agencies such as the African Development Bank and the EU and donor countries – with a greater focus on the "software" aspects of trade facilitation and regional integration using instruments such as the new Trade Facilitation Facility.

An important challenge in scaling up lending and other types of support for regional integration – an important dimension of the trade agenda in West Africa – is the timely implementation of already agreed projects. Disbursement rates for much of the existing regional portfolio are quite low, which imposes a constraint on scaling up support. Regional projects are inherently more challenging than national projects to design and implement as they require the active cooperation of all involved governments and clarity on the distribution of costs and benefits associated with projects that would support the creation of a more integrated regional market for goods and services. Securing effective implementation of agreements is a key priority for moving forward and leveraging the potential for regional integration to benefit trade.

The measures that are identified in the UEMOA Regional Economic Plan and the ECOWAS regional integration priority programs would all have a major impact in reducing trade costs for traders in the region, and making them more competitive suppliers. Examples include (i) the establishment of joint border posts, (ii) implementation of the simplification and harmonization of procedures in main ports; (iii) implementation of the corridor strategy, including the establishment of observatories of abnormal practices; (iv) implementation of the interstate transport and transit facilitation program; and (v) interconnection of customs and port operations computer systems. We look forward to working with governments and the regional secretariats in supporting the implementation of such trade facilitation initiatives. In the last 2 days I participated in a workshop that aimed at fleshing out specific proposals at both national and regional level that could be supported by a new grant-based Trade Facilitation Facility, which can also provide grants to regional bodies.

Let me conclude by mentioning that we are in the process of developing a trade strategy for the World Bank Group as a whole. This will provide an opportunity to assess how we might provide more effective support for regional integration and related trade projects, as well as support to trade activities in countries. An area of particular focus of the strategy will be working more closely with the private sector and strengthening the monitoring and evaluation of our aid for trade projects and programs. We look forward to engaging in consultations with governments, our development partners, and civil society as we develop the strategy in the coming months.