# Trade & Development in Least Developed Countries

## ASSESSING TRANSPORT & TRADE FACILITATION IN UGANDA, RWANDA AND TANZANIA






SciencesPo. | Master of Public Affairs

This report is the result of the work carried out for the Capstone Project by Master degree students of the MPA programme of Sciences Po, Paris.

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*Report submitted for partial fulfillment of the requirements for the*

*MPA Capstone Project*

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## Abbreviations

| | |
|---|---|
| AfDB | African Development Bank |
| AFP | African Financing Partnership |
| AfT | Aid for Trade |
| AICD | Africa Infrastructure Country Diagnostics |
| ASYCUDA | Customs Operation Facilitation Program of UNCTAD |
| AU | African Union |
| BEST | Business Environment Strengthening for Tanzania |
| BOT | Build, Operate, Transfer |
| CCTTFA | Central Corridor Transit Transport Facilitation Agency |
| CDB | Chinese Development Bank |
| CDP | Committee for Development Policy |
| CEPGL | Economic Community of the Great Lakes |
| CICS | Competitiveness and Investment Climate Strategy |
| COMESA | Common Market for Eastern and Southern Africa |
| DAC | Development Assistance Committee |
| DFID | Department for International Development |
| DPCG | Development Partners Coordination Group |
| DRC | Democratic Republic of Congo |
| DTIS | Diagnostic Trade Integration Study |
| EAC | East African Community |
| EALA | East Africa Legislative Assembly |
| EC | European Commission |
| ECA | Economic Commission for Africa |
| ECOSOC | Economic and Social Council |
| EDPRS | Economic Development and Poverty Reduction Strategy |
| EIB | European Investment Bank |
| EIF | Enhanced Integrated Framework |
| EPZ | Economic Processing Zones |
| EU | European Union |
| EVI | Economic Vulnerability Index |
| FAO | Food and Agricultural Organization |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| HAI | Human Assets Index |
| HIPC | Highly Indebted Poor Countries |
| IBRD | International Bank for Reconstruction and Development |
| ICD | Inland Container Depot |
| ICO | International Coffee Organization |
| ICT | Information and Communication Technology |
| ICTSI | International Container Terminal Services Inc. |
| IDA | International Development Association |
| IF | Integrated Framework |
| IITA | International Institute of Tropical Agriculture |
| IMF | International Monetary Fund |

| | |
|---|---|
| ITC | International Trade Centre |
| JICA | Japan International Cooperation Agency |
| LDC | Least Developed Country |
| MDG | Millennium Development Goal |
| MINICOM | Ministry of Commerce, Industry, Investment Promotion, Tourism & Cooperatives |
| MLTSF | Medium to Long-Term Strategic Framework |
| MTCS | Medium Term Competitiveness Strategy |
| MTEF | Medium Term Expenditure Framework |
| NCTTCA | Northern Corridor Transit Transport Co-ordination Authority |
| NEPAD | New Partnership for Africa's Development |
| NGO | Non-Governmental Organization |
| NPES | National Poverty Eradication Strategy |
| NSGRP | National Strategy for Growth and Reduction of Poverty |
| NTB | Non-Tariff Barrier |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Co-operation and Development |
| PEAP | Poverty Eradication Action Plan |
| PRS | Poverty Reduction Strategy |
| RDB | Rwandan Development Board |
| RMI | Road Maintenance Initiative |
| RVR | Rift Valley Railways |
| SADC | Southern Africa Development Community |
| SEZ | Special Economic Zones |
| SME | Small and Medium Enterprise |
| SPREAD | Sustaining Partnership to Enhance Rural Enterprise and Agribusiness Development |
| SSATP | Sub-Saharan Africa Transport Policy Program |
| T&D | Trade and Development |
| TANROADS | Tanzania National Roads Agency |
| TICTS | Tanzania International Container Terminal Services |
| TMTP | Tanzania Mini-Tiger Plan |
| TRC | Tanzania Railways Corporation |
| TRTA | Technical Related Technical Assistance |
| TTIS | Tanzania Trade Integration Strategy |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Program |
| UNECA | United Nations Economic Commission for Africa |
| UNIDO | United Nations Industrial Development Organization |
| USAID | United States Agency for International Development |
| VAT | Value Added Tax |
| WB | World Bank |
| WTO | World Trade Organization |

# 1. Executive Summary

### *The East African Region - Background*

The East African region has a total land area of about 1.7 million square kilometers with a combined population of about 126.6 million. The combined GDP at current prices levels at USD 73 billion (GDP per capita USD 506) (EAC, 2010). The region has a vast potential in mineral, water, energy, forestry, and wildlife resources as well as has agricultural, livestock, industry and tourism development. Coffee and tea are the major export commodities from East African countries. Both products combined contribute roughly between 10 and 35% of total exports. Tea and coffee are not only major export commodities but they are also quite important as they are the largest employment generators in rural areas. It is estimated that in Uganda, the coffee sector employs roughly 7 to 8 million people – roughly one-third of the country's total population. Moreover, in Uganda the average household consists of 7 to 8 people and in many cases one or more household members are employed in the coffee production. Thus, it is necessary for the region to move upward in the value chain since any fluctuation in the coffee market will eventually affect the livelihood of large shares of the population.

Uganda, Rwanda and Tanzania have very different development priorities due to large differences of the three countries. Uganda and Rwanda are small landlocked economies and highly dependent on transport networks and infrastructure that is for the most part going through their neighboring countries Kenya and Tanzania. Disruptions on those transport corridors can have severe consequences for both countries as the post-election riots in Kenya have shown. While transport routes in Uganda and Rwanda are fairly short, distances in Tanzania are long due to the large size of the country. Challenges such as maintaining infrastructure are very different. As a logical consequence, each country has its own development plan with individual priorities. Also, all three countries are in individual Enhanced Integrated Framework processes and have their own Action Matrix.

However, from our observation and several conversations with government officials, private sector and civil society in all three countries, the regional focus and pace of regional integration is not equal. Despite some challenging economic effects for some countries, overall the long-term growth prospects seem to be good. Increased regional cooperation and coordination is needed to overcome common regional challenges. Win-win scenarios for all countries need to be created in order to foster interest and participation in working on issues beyond national borders.

### *Research Question and Scope of the Study*

This report will analyze whether the current transportation infrastructure is efficient and effective for improving exports. In geographic terms, the scope of the project is limited to Uganda, Rwanda and Tanzania, all members of the East African Community. Considering the importance of agricultural commodities, this report discusses solely coffee exports as commodity. The variable of interest is transportation infrastructure – herewith limited to road and highways, railways and culminating in port facilities where actual foreign export takes place. The study seeks to analyze the planned construction of the Central Transport Corridor between Kampala (Uganda) to Dar-es-Salaam (Tanzania) via Kigali (Rwanda) and the improvements in trade that are expected to follow. Much of the analysis focuses on the opportunities and challenges for this new transport corridor.

## *Aid for Trade and (Enhanced) Integrated Framework – Background*

Trade is seen as a key driver in eradicating poverty on a large scale (Bhagwati & Srinivasan, 2002). In recent decades, tariffs and non-tariff barriers have been reduced through multilateral trade rounds to stimulate trade. However, it was mainly developed countries that reaped the benefits from trade liberalization. Many developing countries face supply-side constraints and especially for Least Developed Countries the development gap widened. In response to that development, the international community designed Aid for Trade, a comprehensive initiative for developing countries to build trade capacities, promote inclusive growth and sustainable development. The Enhanced Integrated Framework is a tool for Least Developed Countries to operationalize the Aid for Trade initiative and better enable them to reap benefits from trade liberalization. However, despite large efforts by donors, multilateral organizations and the countries concerned in the past, the results for LDCs were moderate. With the Integrated Framework and the Enhanced Integrated Framework, a remedial support for LDCs was being inaugurated.

## *Towards a regional trade plan*

According to Rwanda's President Paul Kagame, "Each additional day an export transaction is held up in a country, that country distances itself from its trading partners by one percent." (Kagame, 2008) The relevance of regional integration to both trade and development becomes increasingly important to growth strategies of Least Developed Countries. Particularly landlocked countries such as Uganda and Rwanda are highly dependent on transit states and are therefore critical when debating about developing regional transport infrastructure. Being landlocked does not only increase transport costs due to longer distances to the export points. In many cases, crossing a border implies also higher transaction costs due to customs and handling costs. Therefore, landlockedness leads to raising import prices and reducing export revenues.

With rapid globalization and the integration of regional markets, roads, aviation and railway networks can no longer be limited within national boundaries if they are to spur inter-regional trade and development. States need to cooperate with regional their neighbors to confront the complexities of internal, regional and international trade policies.

## *Regional solutions require regional ownership*

Harnessing trade for development crucially depends on African countries themselves to take on the ownership for comprehensive strategies and to integrate trade in their economic and development planning. The importance of trade facilitation to African countries is reflected in numerous agreements at bilateral, regional and international levels as well as in efforts made at the country level to facilitate the flow of goods and services. To implement those agreements reliable and adequate economic infrastructure that link production with markets in both the regional and the national sphere are crucial. Moreover, trade and transport facilitation must be enhanced to offer producers in the region access to a greater choice of road and rail networks in pursuit of economic profit.

## *A virtuous circle: larger markets, higher investment, more development*

Regional integration could also serve as an engine for international competitiveness. The validation being that productivity increases due to competition pressure which in turn can trigger institutional reforms. Trade is a fundamental policy issue in not only local but also the global economy. However, private sector investments are necessary to achieve substantial economic growth and reduce poverty on a large scale. This can only be achieved if the costs of production allow producers to be competitive on the world market. Regional cooperation and open market access could help to overcome constraints of economic size to utilize economies of scale. This might enable private firms to lower their production cost and compete on world markets which in turn will stimulates trade and investment. Moreover, with increasing trade and gaining importance of the region will enable the region to negotiate more effectively with other trading blocks.

### *…but integration means that for every win there are some losses*

Although regional integration offers lots of benefits for the population and countries at large, regional trade initiatives can also have negative effects. Opening domestic markets to partner countries, for example, can increase competition in sectors with previously highly concentrated industrial structures and thereby reduce the monopolistic pricing power of incumbents. While this may be good for the region, for the consumer, and the country, it can also mean loss of jobs, profits and power for established players.

As competition increases and existing local monopolies that are torn down in the process can present a formidable opposition. Social differences problems also act as impediment to trade. Also ethnic divisions are critical in distributional policies of the political leaders which may leave some groups feeling marginalized. The logic of integrative policies is the introduction of a more structured regulation process. Indeed, our team felt that ethnic rivalries both within and between countries have a significant – if officially unstated – impact on the willingness to integrate. This presents an opportunity for cross-sectoral aid programs from donors and civil society organizations to bridge the cultural divide between groups.

### *Bridging the insecurity gap*

The subsidiary principle provides a clear basis for distributing powers and responsibilities - from national to regional - of the organizational structure of a regional integration scheme according to the comparative advantage of each in respect of the different functions.

Even though East African countries have already shown some forms of policy convergence. A more formulated approach to trade policy would allow member countries to specialize in areas where they enjoy comparative advantages: Kenya in the provision of a wide range of tradable services, Tanzania in its vast natural resources, and Uganda in agro-industrial products and food. Intra-regional trade expansion will be facilitated by differences, among regional partners, not only in indigenous commodities but also in per capita income and consumption patterns, which translate into significant potentials for product differentiation and trade.

Regional integration among countries at different levels of economic development may favor the more developed partners in terms of the distribution of the fruit of regional investment. Therefore government incentives must take into account a sense of balance acceptable to all integrating parties. Similar to the approach of the European Union, the East African integration strategy permits countries to proceed on the basis of progressive steps, by allowing smaller sub-groups to move faster than the whole group. Within the region, Rwanda was perceived by the group as the country with not only the most enthusiasm for the initiative but also with the most to gain in economic sufficiency from assimilation. The enthusiasm in Rwanda seems reflective of both a continuous appreciation of its traumatic history, juxtaposed with a keenness for more involvement alongside the international community; however its disadvantageous geographical location means regional economics as the only outlet to make those feasible. It was best summarized by a government official as a window of possibility for countries to go from being "landlocked to land-linked".

The policies of Rwanda are comparatively more enthused by the prospect of integration than neighboring countries. It is a base to build on to a much desired role as a services and distribution hub. The infrastructure development which would follow integration would serve as a base to build on comparative advantage and matching buyers with sellers. It could act as a device in the country's ambition, to be Africa's gateway to the West.

### *Regional Economic Planning: An exercise in consensus-building*

The concepts of competitiveness and comparative advantage are of great importance in the design of trade policies. In their poverty reduction strategy papers the three countries placed high priority on accelerating broad based growth by developing sectors with high growth potentials (due to comparative advantage) and employment generation for the poor. Differences between countries could fuel the process of specialization and diversification and used to the region's advantage. Economic integration has the potential to bring economic growth, create wealth and employment, improve social conditions and result in a better division of labor between countries. The establishment of regional projects can give equal power to all.

Although there is a large political will to drive forward the integration process, member countries may not always give a high priority to regional integration as a policy objective in view of the many other pressing needs identified at the national level. In the long-term, a much stronger legal framework is required but many planned activities remain delayed and compete with national commitments. Without an overarching regional economic development roadmap it will be difficult to maintain momentum on integration and to streamline existing ad-hoc policies into an eventual consensus.

### *Transport bottlenecks in East Africa*

One of the primary inefficiencies concerning transport infrastructure in East Africa is the length of time taken to get products from producers to consumers. Oftentimes, the length of the delay contributes to the lack of competitiveness of the products in a global marketplace. Due to a lack of options in transportation of goods in East Africa – road is in many cases the only way to move bulk goods to and from the ports – shipping traffic has become concentrated on a handful of highways in the region. Where there is an option to move goods by rail, the dubious reliability of service and the chronic maintenance issues have combined to increase the price of rail to reach on par with shipping by truck (AICD, 2007). Roads, on the other hand, are in good condition and the trucking industry is responsive to customer's needs due to regional competition. Supplying, maintaining and upgrading trucking fleets have become viable businesses in their own right. There were also several initiatives to facilitate transport on roads. These have had some success. Especially transit times from landlocked countries were reduced significantly in the last few years. However, over the same time period, the absolute import and export costs per container were rising in all three countries, which might be partly a result of the recent oil price hike. Additionally, vehicle maintenance costs as well as corruption may also be explanations for higher costs.

A crucial element of any regional transportation plan must take into account all modes of transportation. Much emphasis, funding and planning has focused on rehabilitation of roadways. Yet, railways do not offer the full benefits as they could. As highways are generally in good condition (now), railways seem to be the next aspect of transportation that agencies and governments are eager to tackle. Air transport has improved its standing with transportation planners – however, it is meant only for perishable cargo and excludes bulk cargo transport. As it is not suitable for point-to-point delivery it will remain a national priority. The sole remaining avenue for cargo transport in the region remains waterways and ports.

Traders in East Africa are not only confronted with bad infrastructure but also with difficult border procedures. In the case of Rwanda, these have been recently reduced by streamlining transport procedures at borders and allow traffic to pass through and from neighboring states with fewer restrictions (World Bank, 2010). Yet, major challenges to implement one-stop border posts are legal aspects concerning smugglers and joint security. For example, Rwanda and Uganda recently agreed to implement one-stop border posts by sharing a single facility between both customs personnel. The Rusumo border post is located on the central transport corridor and vital for the flow of goods not only between Rwanda and Tanzania but also for neighboring countries such as Burundi and the Democratic Republic of Congo (EAC, 2010). From our experience at Rusumo, truckers had to wait roughly two days to cross both border posts. One-stop border crossings are expected to expedite this process but extending opening hours can also provide immediate transit time reductions. Other reasons for border delays are long and duplicating border procedures and paper work, customs inspections and the waiting time in between. In some cases additional facilitation costs are involved.

A significant contributor to reduce time and costs at the border crossing was the introduction of information and communication technology systems. It simplified processes at the border to expedite clearance of cargo through online filing and electronic payments. All three countries joined the ASYCUDA program of UNCTAD, a program to facilitate customs operations through information and communication technology. While Tanzania and Uganda have been part of the program for many years (1994 and 1996 respectively), Rwanda has started their implementation process relatively recently (2004). The implementation of the new system has allowed transporters in the region to reduce clearing times by one-third (from three days to one) (Majyambere, 2009).

### *A lack of coordinated transport planning*

The cause of these problems are acknowledged to be years of neglect and uncoordinated and unintegrated regional corridor planning (CPCS Transcom, 2009). There is simply no impetus or agency, for all five nations of the East African Community to cooperatively coordinate transportation planning in the region. This is disappointing, particularly when considering that until the demise of the previous East African Community all transportation was integrated – to the extent where there were no national agencies, only regional bodies that managed infrastructure across borders (McCrow, 2010). Today, existing infrastructure is considered a national good rather than a regional interest. Landlocked countries are completely dependent on Tanzania and none of these countries have leverage in influencing the growth and planning of transport infrastructure.

The allocation of resources to planning bodies is a key factor in the ability of an agency to develop, assess and execute on an infrastructure project. Strong and stable funding can be the key to attract the right talent, having a fully staffed department and appropriate resources to carry out duties. Among infrastructure planning authorities there are three types of organizations: 1) national government ministries 2) regional secretariat 3) corridor agencies.

However, regardless of which agency we visited, it was almost universally reflected back to us that there was simply too much work that had to be done by too few individuals. The key here is not necessarily one of time – though that may also be the case – but it seems to be one of diffusion of responsibilities. Simply, there did not appear to be a great amount of depth in the bureaucracy. An African Infrastructure Country Diagnostic report states:

> *A major finding is that African countries are typically only managing to execute about two thirds of the budget allocated to public investment in infrastructure (Briceño-Garmendia, 2008). Or put differently, public investment could increase by 50 percent without any increase in spending, but simply by addressing the institutional bottlenecks that inhibit capital budget execution. These include better planning of investment projects, earlier completion of feasibility studies, more efficient procurement processes, and a move to medium term multi-year budgeting. Increasing capital budget execution to 100 percent could potentially capture an additional USD 3 billion per annum in public investment. (Foster, 2008)*

For this reason alone, alleviating this constraint could lead to a more streamlined, timely and effective process of infrastructure project planning and implementation.

### Intermodal Planning Required

The overlap of responsibilities among ministries, stakeholders and corridor officials raised the need for greater coordination on the regional level. What is required is a clear delineation of responsibilities, with the EAC taking on the development of policy standards and continuing to be a forum to discuss long-term planning, while leaving the corridor agencies to implement with donor assistance.

One area of particular importance to our study was the dearth of accurate, relevant and up-to-date transportation data. This highlights the need for coordinated, comprehensive and standardized data gathering and dissemination. The fact that high-level officials are misinformed on the state of infrastructure for which they are directly responsible can only lead to poor planning and further deterioration in the future. In this area, the World Bank’s Sub-Saharan Africa Transportation Program unit has had a great deal of success in the intelligence and insight they have brought to the Northern Corridor through monitoring stations. It is imperative that this system be replicated for the Central Corridor.

### Recommendations: Aid

The Aid for Trade Task Force recognized that some constraints can only be addressed on a regional level. The establishment of a regional DTIS could be a solution to address the needs in all three countries to reap benefits from greater regional integration and to reinforce the impact of national efforts within the individual Enhanced Integrated Framework process.

One of the key issues preventing further regional integration concerns the insecurities that each nation has with regards to a loss of influence and control over domestic policies. However, to turn the region into a single market and benefit from the agglomeration effects and larger market power, further integration is required. In order to accelerate countries’ efforts to integrate, and to alleviate their concerns over loss of markets, jobs, and short-term upheaval, a regional equalization fund could be of use.

### *Recommendations: Transport*

Transport corridors can be used as anchors of socio-economic development. By providing hospitality and catering services on this destination route for cross border truckers, the government would be creating a hub for recuperation. The centers could also include educational and health service facilities. Tailored service offerings to truckers could also include logistics bureaus that facilitate a return shipment cargo. This creates efficiency within the transportation system, as well as providing social benefit that affects individuals and communities locally and throughout the entire value-chain of the corridor. This is actually not a new terrain as the Northern Corridor was in the past mandated to be transformed an “economic development corridor”.

### *Recommendations: Business*

Cumulatively, production of coffee between all five East African nations makes this region the biggest producer of coffee in the world. However, the coffee exported from the region is to a large extent green coffee because of a lack of processing facilities within the producer countries and transport time. The final processing is done by the intermediaries or in countries close to the end-customer. This prevents East Africa states from moving up the value chain and setting its own price. Moreover, local producers are vulnerable as they are exposed to international price fluctuation despite the region’s large share of coffee produce in the world. There have been some commendable successes in this arena – for example the creation of the East Africa Fine Coffee Association and Rwandese coffee brand Bourbon Café – but further effort is required to improve brand awareness internationally. Additionally, having final processing facilities in the country of production will facilitate creating a domestic market for consumption. With a population of 126.6 million people, the region could be an attractive market for the consumption of commodities. Providing marketing and branding support as well as helping to foster local competition could be an innovative way for trade-related technical assistance projects to be designed and overseen by donors, but delivered by foreign multinationals.

# 2. Introduction

## a. Relevance of the Study

Trade and Development (T&D) are essential to allow Least Developed Countries (LDCs) integrate into the world economy in a successful and sustainable manner. LDCs are low income countries often suffering from poverty with related problems such as violent conflicts, famine, diseases, corruption and general instability.

The WTO, OECD as well as other international organizations (UNCTAD, UNDP, World Bank, UNDP, UNIDO) have developed policy instruments and related programs intended to offer remedial support for LDCs such as the Enhanced Integrated Framework (EIF), Aid for Trade (AfT) and Trade Related Technical Assistance (TRTA).

Moreover, Aid for Trade is in the process of doing its 'Second Global Review' to evaluate progress made since the First Review held in November 2007 and scrutinized how Aid for Trade is being used operationally on the ground amidst the global financial recession with the key objectives of project implementation, mainstreaming trade in national and regional development strategies and assessing the effectiveness of trade.

## b. The Region at a Glance

In its latest triennial review of the list of LDCs in 2003, the Economic and Social Council (ECOSOC) of the United Nations used the following three criteria for the identification of the LDCs: (UN-OHRLLS, 2005):

- A low-income criterion, based on a three-year average estimate of the gross national income (GNI) per capita (under USD 750 for inclusion, above USD 900 for graduation);
- A human resource weakness criterion, involving a composite Human Assets Index (HAI) based on indicators of: (a) nutrition; (b) health; (c) education; and (d) adult literacy; and
- An economic vulnerability criterion, involving a composite Economic Vulnerability Index (EVI) based on indicators of: (a) the instability of agricultural production; (b) the instability of exports of goods and services; (c) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP); (d) merchandise export concentration; and (e) the handicap of economic size (as measured through the population in logarithm); and the percentage of population displaced by natural disasters.

To be added to the list, a country must satisfy all three criteria. To qualify for graduation, a country needs to meet the thresholds for two of the three criteria in two consecutive triennial reviews by the Committee for Development Policy (CDP). In order to qualify as an LDC, a country must suffer from structural handicaps. Hence, large economies are excluded from being a LDC if their population exceeds 75 million.

With four LDCs concentrated within the East African Community (EAC) – Uganda, Rwanda, Burundi and United Republic of Tanzania, the first three of which are landlocked – this region was ideally suited for the research study. The EAC Secretariat is a regional intergovernmental organization that was established in 1999 and came into force in 2000. The basic objective behind establishing the EAC is to develop a common market, a monetary union and ultimately a political federation of East African States.

From the perspective of this project, it is necessary to understand the role trade plays in developing the regional cooperation and cohesion. Moreover, infrastructure projects span often over several countries. Particularly, the Central Corridor, connecting Uganda and Rwanda with the port of Dar-es-Salaam in Tanzania can contribute significantly to further regional integration.

## c. Commodity of Interest

To have an integrated view of an infrastructure project and its impact on the lives of people, it was required that we chose a commodity that encompasses the requirements of this project. We chose 'coffee' as the commodity for this study since, the selected project countries are one of the prominent coffee exports (International Coffee Organization, 2010). On year to year basis and quantity of coffee exported Uganda is always in the list of top 10 coffee producing countries. However, the economy of the project countries are heavily tied with agricultural commodities such as - tea, cut flowers and minor agriculture produce in tertiary sector like meat and skin.

In comparison to other agricultural commodities, coffee is major employment generators in absolute numbers. Coffee growing and trade have exceptional importance in the economies of many countries, which are largely dependent upon this commodity for their export earnings, and thus for the continuation of their development program in the social and economic fields. All coffee-growing countries are developing countries in the lower-income and middle-income category measured by annual average GNP per capita. At least 20 coffee producing countries are classified as LDCs.

Coffee is grown and exported by more than 50 developing countries, but the major consumers are all located in the developed world – especially the United States, Europe and more recently, Japan. Globally, coffee is the second major traded commodity to oil and thus plays a vital role in the balance of trade between developed and developing countries, providing the latter with an important source of export earnings to pay for imports of capital and consumer goods.

In 1986, when the world coffee trade was subject to a system of export quotas for producer countries, 17 of these countries were dependent on coffee for more than 25 percent of their total export earnings; of these 9 LDCs received more than 50 percent of such earnings from coffee. The collapse of the economic clauses (quota system) of the International Coffee Agreement led to a slump in world prices. However, in general terms dependence on coffee still continues, especially in producer countries in Africa and Central America.

Coffee growing and its related activities provide a major source of employment in all producing countries. The International Coffee Organization (ICO) has estimated that coffee growing provides direct full-time employment for 25 million people worldwide. Taking into account related industrial and service activities (processing, marketing, roasting, and transportation) the figure rises to 100 million people, including dependents.

The magnitude of the impact of coffee on the development of less developed countries may be illustrated by the fact that during the three years of low coffee prices (1989/90 to 1992/3) losses in export earnings are estimated at more than USD 15 billion. This amount exceeds the total net disbursements of the World Bank (including the IDA) to Africa and Latin America during the same period (Mutua, 2000).

Agronomic practices are poor in most of coffee growing countries in Africa. Over 80% of coffee from these countries is produced by small-scale farmers who lack adequate education on proper agronomic practices for coffee farming. In the selected project countries and lack enough resources to offer effective Agricultural Extension services to their farmers.

For example, in Kenya the Government employs sufficient extension workers in all the Districts. These extension workers are unable to reach the Farmers due to the reasons like -

a. Transport services are not adequate / missing;

b. Infrastructure is very poor and particularly the roads are in very bad conditions and most of the times are impassable.

Lack of adequate infrastructure also affects the quality of coffee since pulping must be accomplished within 10 hours of harvesting in order to maintain the quality. Moreover, the transportation of the green coffee from the producing countries to the main consuming countries is normally by sea, which exposes the coffee to warm and humid conditions. Re-absorption of moisture from the air may occur which will encourages mould growth.

Moreover, transportation of coffee from farms to the consumer countries covers wide range of infrastructure transits like roads, rail and port and it is increasing important for the quality of coffee that these transit points take minimum time to further pass the commodity. So, as per the project requirement, coffee is the commodity that fulfills all the requirements.

### a. Why Transport Infrastructure?

Infrastructure provides services that support economic growth by increasing the productivity of labor and capital thereby reducing the costs of production and raising profitability, production, income and employment. Infrastructure investment and consumption of infrastructure services have significant implications for achievement of sustainable development objectives, as infrastructure services:

- Encourage new investment across the economy;
- Underpin many aspects of economic and social activity;
- Facilitate the flow of ideas, goods and services;
- Facilitate regional economic growth;
- Is critical to maintain an inclusive, healthy and productive workforce;

Infrastructure investment also increases productivity by promoting efficient resource allocation through easier access for labor and materials to particular localities, and allowing alternative activities, employment opportunities and investment to emerge.

In context of this project, we chose to study integrated supply chain, from farm to export centre, i.e. of road, rail and port. Moreover, it is also necessary to study this chain in the context of regional integration strategies adopted by the project countries. Moreover, any given moment road construction directly or indirectly generates huge employment opportunity thus increases the consumption bundle of the overall population. However, employment generated through a road construction project could be criticized on the grounds of 'creation of sustainable jobs' since the demand of labor will decrease after completion of the project. But at the same time, one also needs to look into the number of new job opportunities that are created after completion of the project through emergence new industries and allied services. Furthermore, effective regulation for infrastructure development in a country actually moves it from one time activity to long-term sustainable project by further maintenance and improvement of the existing project and by creating new projects to match the future demand of the industry.

# 3. Methodology

## a. Project Hypothesis

A key assumption is that better transportation infrastructure will result in higher exports of coffee. Subsequently, our overarching research question is:

***Is the current transportation infrastructure efficient and effective for improving exports?***

To answer the above research question, the following nine sub-questions are discussed throughout this report, but for convenience are summarized in the main findings:

- *Are current trade facilitation mechanisms such as Aid for Trade and EIF well-suited to improving trade?*
- *To what extent do development and export strategies help trade through transport for coffee?*
- *How do national objectives match with regional initiatives?*
- *How do overlapping regional commitments influence trade?*
- *What monitoring and evaluation assets are in place?*
- *How will the market structure be altered by creating transport corridors?*
- *How do transport corridors, trade facilitation and other project successes increase the capacity for governance by the state?*
- *How is the labor market affected?*
- *What is the structure of any Public-Private Partnership?*

## b. Scope & Limitations

The scope of the project is limited in geographic area to the three countries of the East African Community already discussed: Uganda, Rwanda & Tanzania. The object of analysis is commodity exports typified by coffee. The variable of interest is transportation infrastructure – herewith limited to road and highways, railways and culminating in port facilities where actual foreign export takes place. The study seeks to analyze the planned construction of a transport corridor between Kampala, Uganda to Dar-es-Salaam, Tanzania via Kigali, Rwanda and Bujumbura, Burundi and the improvements in trade that are expected to follow. The study benchmarks its results against the currently existing transport corridor that links to Mombasa, Kenya. Much of the analysis focuses on the opportunities and challenges for the new transport corridor.

As part of the background on the region, the project refers to but does not examine in detail political instability, governance structure, international relations or sector-specific issues (i.e. power supply, workforce training, and agricultural inputs). The study also does not cover socio-economic impact on citizens in the target region. Specifically, the study does not explicitly address access to opportunities – such as education, employment, finance, health services. Also, security, terrorism and national defense concerns are omitted from analysis when discussing improvements to infrastructure. Finally, the institutions in the region are considered only as far as their ability to influence infrastructure planning and investments.

### c. Research Methods

Multiple research methods have been employed for the purposes of this research project. The study relies heavily on semi-structured interviews based on questionnaires conducted during fieldwork in the three countries of interest. In order to inform the content of these questionnaires, and to provide a suitable background to the subject area, the project team conducted a literature review of primary research that has been undertaken by international organizations, regional bodies, non-governmental groups, donor agencies and academic scholars.

To better inform the discussions with government officials, a full review of existing government and regional policy documents was conducted for the three countries of interest. Questionnaires for each sector were prepared and are included in their entirety in Annex I.

To allow for appropriate evaluation of a transport corridor various databases were consulted to understand what measures were relevant and available for monitoring and evaluation. Economic and transport data was accessed from national ministries (customs & borders), regional bodies (national trade statistics), international organizations (OECD, WTO, UNCTAD, World Bank, UNECA) and private sector groups.

Finally, personal observations and inferences added context to the study conclusions and reference to these observations are found throughout this report.

### d. Subjects of Analysis

As part of our analysis, we engaged and interviewed a multitude of actors who were relevant to our research question. Chiefly, they fall into four categories: international and regional organizations, public sector, private sector, and civil society organizations. See Annex II for a full list of interviewed organizations by category and country.

# 4. Trade & Development

In recent decades, trade has gained in importance in development theories and public debates. It is seen as a main engine for economic growth and hence poverty reduction at large. In order to reach the Millennium Development Goals (especially goal one – halving poverty by 2015) trade plays a major role (ODI, 2009). Despite significant tariff reductions in the past years, developing countries were not able to benefit from market liberalizations. Especially for Least Developed Countries (LDCs) the development gap widened. In response to that development, the international community designed Aid for Trade, a comprehensive initiative for developing countries to build trade capacities, promote inclusive growth and sustainable development. This initiative aims not to replace opening to trade, but should rather be considered as an important complement for better integration in the world trading system and enable developing countries to reap benefits from trade liberalization. In this regard, a successful conclusion of the Doha Development Round will bring additional benefits, particularly on market access issues and will rather, "increase the need for [Aid for Trade] assistance to implement new agreements (e.g. Trade Facilitation), adjustment costs, and to make use of new market access." (ODI, 2009)

## a. Understanding markets in East Africa

### i. State of the market: Branding, positioning, products and partners

The East African region has a total land area of about 1.7 million square kilometers with a combined population of about 126.6 million with GDP at current prices USD 73 billion (average GDP per capita USD 506) (EAC, 2010). It has a vast potential in mineral, water, energy, forestry, and wildlife resources. It also has agricultural, livestock, industry and tourism development.

Coffee and Tea are the major export commodities from East African countries. Both the crops combined together roughly contribute from 10% to 35% of export basket. Apart from these two, other major exports from this region are spices, horticulture products from Kenya, fish and other aquatic products from Tanzania, minerals and precious stones from Burundi, and ores from Rwanda.

*Coffee and Tea are the major export commodities from East African countries. Both crops contribute 10% to 35% of the export basket.*

Tea and coffee are not only major export commodities but they are also quite important since they are the biggest employment generators in the rural areas. It is estimated that in Uganda, coffee sector employs roughly 7 to 8 million people; which is roughly one-third of the total population of Uganda. Moreover, each household consists of an average of seven individuals who are all employed in coffee production. So, any fluctuation in the coffee market will eventually affect the livelihood of small farmers in the region. Considering the importance these two commodities, it is necessary to plan intervention for the upward movement of these commodities in value chain.

Table 4.1 Coffee Production in East Africa

| Country | Production (60 kilo bags) in millions |
|---|---|
| Uganda | 3 |
| Rwanda | 0.4 |
| Kenya | 0.78 |
| Tanzania | 0.87 |
| Burundi | 0.25 |
| **Total Production** | **5.3** |

*With 5.3 million bags of coffee produced in East Africa, the region is the largest producer in the world.*

Cumulatively production statistics alone make this region the top coffee producer, far ahead of top the current leader Brazil (3.9 million bags) (International Coffee Organization, 2010) who account for one-third of global coffee production.

#### ii. Agglomeration & integration

The synergies of market integration should help non-EAC members such as DRC and South Sudan to grow through agglomeration effects. The export baskets of both are similar to other countries in the region and they should benefit from the large, integrated market on their borders. Easier access to established export channels of the EAC countries should generate better international trading opportunities and additionally, they should also benefit from knowledge diffusion from their neighbors and leverage best practices in production and exports of their produce.

### b. Aid for Trade and EIF – Understanding the aid frameworks for LDCs

#### i. Overview of Aid for Trade

At the Doha trade round in 2001, concerns of developing countries were put in the center of attention - not least, by calling it the Doha Development Agenda/Round. To address the lack of capacity and need for trade-related technical assistance for developing countries, the IMF and the World Bank jointly proposed the Aid for Trade initiative. Its goal was:

> *To help developing countries adjust to trade liberalization and enhance their capacity to take advantage of more open markets, and explores additional ways in which they, and the international community more generally, could contribute in this area via enhancements to the Integrated Framework for trade-related technical assistance. (IMF/World Bank, 2005)*

Aid for Trade was not only supposed to provide conventional trade-related technical assistance but also financial help to weather adjustment costs through revenue losses.

Contrary to the Doha Development Round that addresses barriers on the export markets, including tariff barriers and non-tariff barriers (NTBs), the Aid for Trade initiative aims to improve the conditions to trade in developing countries, especially for LDCs. As trade is a cross-cutting issue involving many areas, it has been difficult to formulate a clear and distinctive definition of Aid for Trade and distinguish it from conventional ODA.

While trade-related technical assistance is relatively straightforward and therefore can be identified easily, it is less clear with other trade supporting projects i.e. infrastructure development and trade facilitation measures that can also be seen in a wider development context (International Trade

Forum, 2006). Hence, a narrow definition of Aid for Trade concentrates on trade-related technical assistance and trade development – that is investment promotion, market development and analysis as well as the institutional support to increase trade. The broader Aid for Trade agenda encompasses other trade-related assistance such as infrastructure development, building productive capacity, trade-related adjustment and other trade-related needs (European Commission, 2009).

*Aid for Trade definitions vary between donors and organizations.*

Definitions of Aid for Trade vary between donors and organizations. This makes Aid for Trade accounting extremely difficult as the amounts labeled as Aid for Trade depends on the definition of the individual donor. The WTO & OECD define Aid for Trade by the project objectives rather than the activity (OECD , 2006). The World Bank, on the other hand, accounts only for the trade-related share of a project.

### *Goals of Aid for Trade*

To date supply-side constraints such as red tape, poor infrastructure, poor access to finance as well as trade barriers on roads and borders make it difficult for exporters to operate competitively on foreign markets. For example, many African countries face transport costs twice as high as compared to South East Asia. Transporting a container from Rwanda to either the port of Mombasa or Dar-es-Salaam is more expensive than transporting it from the port to Europe or other final markets. Reducing those constraints will increase competitiveness of goods from developing countries and, through higher competition on world markets, decrease prices for consumers. Developing countries can also benefit from higher regional and global integration into the world market, which in turn will fuel economic growth.

The WTO identified four policy areas in which Aid for Trade is most relevant:

1) *Trade Policy and Regulation*

Many developing countries lack the capacity and/or the knowledge to make trade effectively contribute to economic growth and well-being. Even if policies are well designed, limited ability to execute those policies undermine the positive effects in the country. Assistance in policy formulation as well as the effective implementation of trade policies is needed. In addition, several developing countries, especially LDCs, lack the resources to use trade agreements to their advantage as well as implement the terms of the contracts more efficiently and effectively.

2) *Infrastructure*

Inadequate or lacking infrastructure is one of the major impediments to trade in Africa. It comprises not only roads, rails and ports but also intermodal linkages between different means of transport. While transport infrastructure is only one part of the challenge, it is equally important to improve the access to information through better telecommunication networks or even ensure permanent, constant and sufficient power supply. Due to underperformance in the above issues, trade costs for developing countries are still increasing and exporters from those regions excluded from competition.

*3) Capacity Building*

Moving countries up the value chain as well as enhance the supply chain is one of the major goals of the Aid for Trade initiative. This enables developing countries not only to offer more and broader areas of service but also to better compete in the export markets.

*4) Adjustment Assistance (WTO, 2006)*

In many cases, developing countries generate less income when implementing trade facilitation measures i.e. through abolishment of weight bridges, one-stop border posts, etc. until the benefits of those instruments take effect. To cushion the expected adjustment costs in the process of liberalizing trade and markets of developing countries, Aid for Trade provides adjustment assistance.

### ii. Donor-Government interaction: what is the (Enhanced) Integrated Framework

#### *Integrated Framework*

At the first WTO Ministerial Conference in Singapore in 1996, ministers recognized the special need of LDCs to integrate into the world trading system. As a response, the Integrated Framework (IF) was inaugurated in October 1997 by six international organizations: WTO, World Bank, IMF, ITC, UNCTAD and UNDP. The aim is to bundle the distinct competences of each organization, other development partners and the donor community in the area of trade to increase the benefits for LDCs.

While Aid for Trade is available for all developing countries, the IF was established for LDCs only. Although the IF is a separate process from Aid for Trade, it is rather complimentary than competing. It translates the Aid for Trade initiative into concrete action with operational projects. In line with the Paris Declaration on Aid Effectiveness, its ultimate goal is to enhance targeting and effectiveness of aid for LDCs.

The major objective of the IF was:

> *To improve the capacity of the LDCs to formulate, negotiate and implement trade policy so as to be able to fully integrate into the multilateral trading system and to take up the market opportunities this presents. (WTO, 2006)*

However, the success of the IF was modest as only very few LDCs were able to access the benefits of this initiative. When the six implementing agencies reviewed the IF in 2000, they adopted several recommendations and institutional re-arrangements in order to increase the effectiveness. The outcome was the 'revamped' IF. The 'revamped' IF intended to harmonize trade policies with the national development plans such as the poverty reduction strategy of the individual country. It was also designed to act as a platform to better coordinate the delivery of trade-related technical assistance according to the need identified by the LDC. The IF is seen as a mechanism to increase national ownership and partnership with donors through improved supply and demand side matching.

#### *Implementation of the Integrated Framework*

In practice, the implementation of the IF is carried out in three stages. In stage I, the participation in the IF process needs to be officially requested by the individual country. As a prerequisite, the country is required to undergo a trade for development awareness-building exercise. After the technical review of the request, the IF National Steering Committee has to be established and a donor facilitator nominated. The donor facilitator should help the government in producing the required documents for the IF process as well as act as the focal point for the donor community (WTO). Simultaneously, this process is supported by small IF projects to fund activities that help establishing the IF mechanism and prepare the national stakeholders for the next phase.

Once the IF process is approved, the country moves to the diagnostic phase. In this second stage, sectors with large export potential as well as their trade barriers are identified. Each country may select an agency of their choice for the preparation of a Diagnostic Trade Integration Study (DTIS). The DTIS will be transformed into an action matrix that serves as the basis for trade-related technical assistance delivery and capacity building for the donor community.

In stage III, the findings of the diagnostic phase will be translated into the action plan, particularly the harmonization of the trade strategy with the national development plan (Integrated Framework, 2008).

### i. Overview of the WTO Diagnostic Trade Information Study Action Matrix

#### *Uganda*

##### National Development Strategy in Uganda

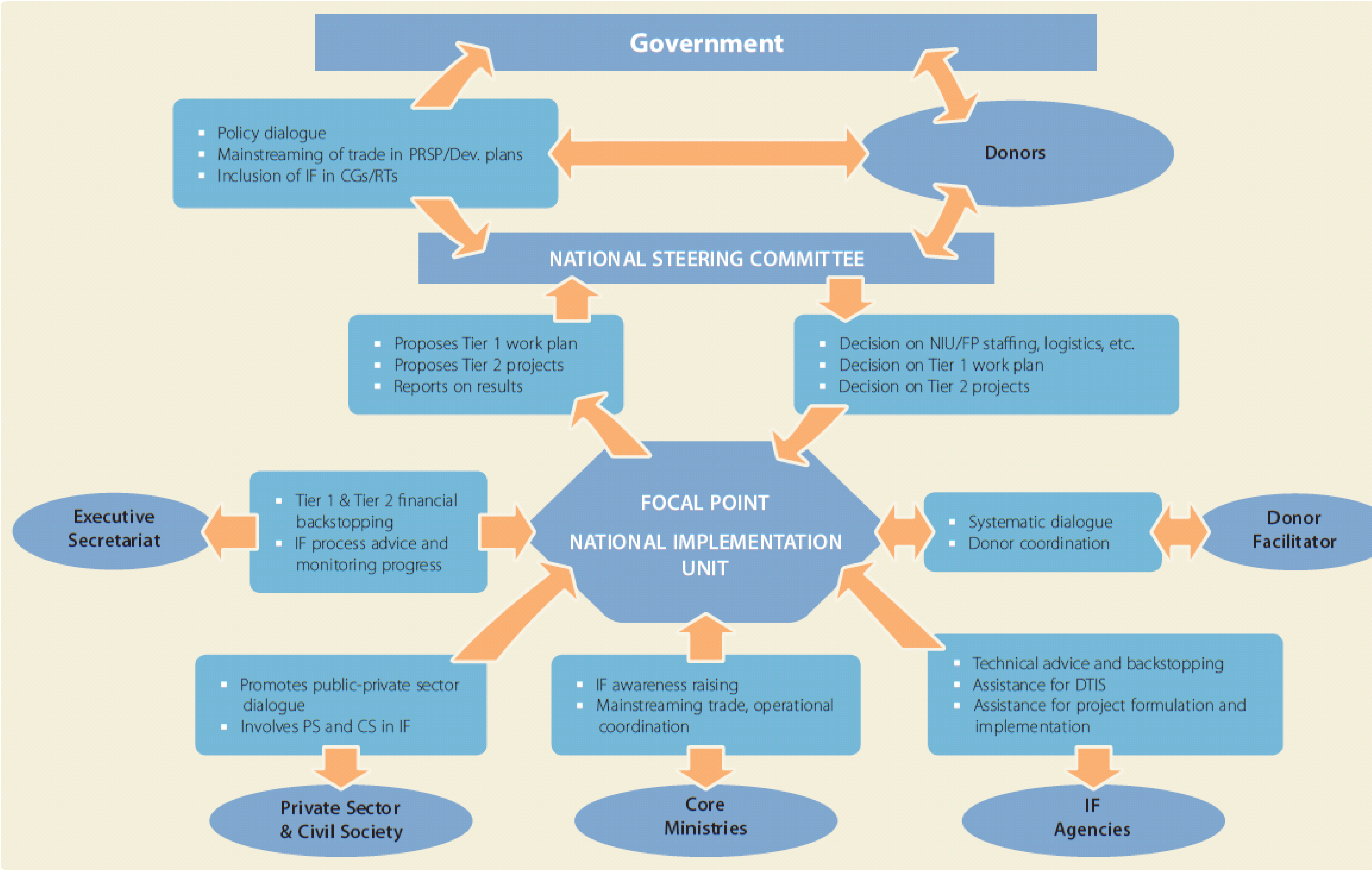
In 2003, with the update of the Poverty Eradication Action Plan (PEAP) 2004/5 - 2007/8, the country attempted to harmonize its trade strategy with the poverty reduction strategy paper. The PEAP is used as a long-term planning tool and is based on 5 elements (Economic Management; Enhancing production, competitiveness and incomes; Security, conflict resolution and disaster management; Good Governance; Human Development). However, to date no formal update of the PEAP is available.

To ensure the success of the national development strategy, there are several other programs and frameworks in place. For example, the Competitiveness and Investment Climate Strategy (CICS) 2006 – 2010 aims to enhance productivity, competitiveness, and incomes. This paper represents the second phase of planning for competitiveness and followed the Medium Term Competitiveness Strategy (MTCS) 2000 – 2005. Thereby this document contains improvements through the previous experience in the area of transport and transit trade facilitation issues, in particular the road and rail network, affecting international trade.

##### The Integrated Framework in Uganda

Uganda was one of the 12 countries undergoing the first IF process. It has received USD 300 000 from the initial IF Trust Fund to formulate an Export Sector Strategy. Uganda applied for the second stage of the IF process in 2003 when the updated PEAP was reviewed. The application for the IF was approved by the IFWG in July 2004. Following, Uganda has started to prepare its DTIS under the leadership of the World Bank and the African Region and inclusion of many stakeholders from government, private sector and civil society. In June 2006, the DTIS was completed and, according to the *Aid for Trade at a Glance 2009: Maintaining Momentum* it fully reflects trade priorities of the government (Integrated Framework, 2006).

Figure 4.1: The Integrated Framework (Source: www.IntegratedFramework.org)



The DTIS contained also a detailed Action Plan with a time line (Integrated Framework, 2006). The Action Plan includes sectoral as well as cross-sectoral mechanisms. Trade and transport infrastructure is addressed in the PEAP under the 'Economic Management' and 'Enhancing Production, Competitiveness and Incomes' pillars. Tariff and non-tariff barriers are both addressed in the PEAP. Especially transport and trade facilitation measures are aligned with the Action Matrix.

### *Rwanda*

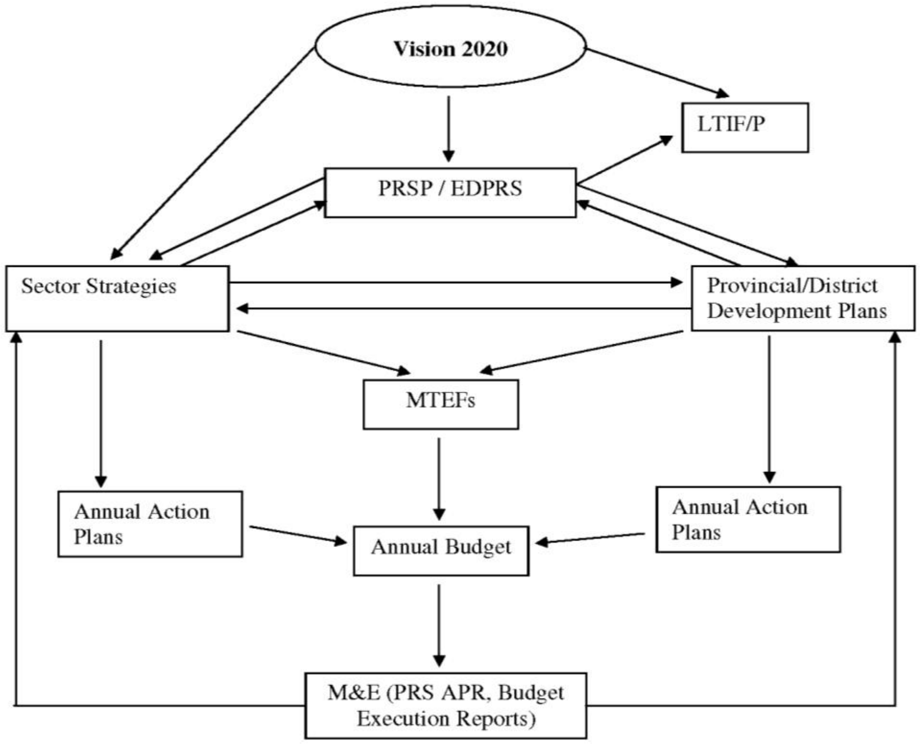
#### National Development Strategy in Rwanda

Since 1994, Rwanda has taken bold steps to create a business friendly environment. Since 1994, the government changed its planning process from short-term planning instruments such as structural adjustment programs, emergency and rehabilitation programs towards long-term planning with long-term strategies such as *Vision 2020*, a poverty reduction strategy (national level) or sector strategies and district/province development plans (local level) (Ministry of Finance and Economic Planning, 2007). *Vision 2020* was adopted in 2000 and is the overarching development plan of Rwanda, in which the government has set ambitious targets to reduce poverty and achieve significant economic growth rates. To operationalize the *Vision 2020* a 3-year poverty reduction strategy was inaugurated in 2002 and succeeded by the Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2012. This document is updated every five years (next in 2012) and contains both sectoral and cross-sectoral programs (Ministry of Finance and Economic Planning, 2007). Before a project is approved, its impact has to be linked to the objectives of the EDPRS in order to get funding. Also donors are required to align the goals of their aid projects to the priority areas of the EDPRS. Thereby, a high cohesion and target orientation is ensured. The EDPRS is also used as an evaluation tool for the Rwandan government. In addition to the EDPRS, there are Sector Strategic Plans that focus on a single sector and Provincial/District Development Plans which operate at the district level involving grassroots communities and other players of civil society. Those plans determine sector objectives as well as expected outcomes and outputs. The link between annual budget allocations and sector strategies/district plans is provided through the Medium Term Expenditure Framework (MTEF) that captures all public expenditure with a clear analysis of the links between inputs, activities and outputs over a 3-year period. The structure of this institutional framework is depicted in Figure 4.2.

#### The Integrated Framework in Rwanda

Rwanda joined the IF process in 2004 to analyze barriers to trade, identify opportunities for growth and build consensus on the key priorities for action. In order to better administer the IF process the country has established an IF Secretariat in the Ministry of Commerce, Industry, Investment Promotion, Tourism & Cooperatives (MINICOM) under the Secretary General (Focal Point).

Figure 4.2: Rwanda Medium Term Expenditure Framework (MTEF)




Source: (Ministry of Finance and Economic Planning, 2007)

*Rwanda's national development strategy is built with stakeholder input from business & civil society. It harmonizes national budgeting with donor funds, and sets the template for project evaluation.*

Donor coordination takes place on several levels and in different forums. The highest level of coordination is the Development Partners Coordination Group (DPCG) comprised of secretary generals of the government of Rwanda and heads of bilateral and multilateral donor agencies as well as civil and private sector organizations. The group was founded in 2002 and meets every two month. The meetings offer the opportunity to communicate between donors and the government, coordinate aid efforts of the donors as well as update donors regarding progress in the planning and implementation of development programs (Development Partners Coordination Group, 2007).

In 2005, a DTIS and a detailed Action Matrix has been developed by the IF Secretariat. The government of Rwanda is currently in the final stage of the capacity building phase (Tier I). Although the IF process has helped to put more attention to trade in the poverty reduction strategy, there was still room for improvement in 2005. According to a government official, the DTIS suffered from lack of ownership as it was seen as the sole responsibility of the Ministry of Trade and Industry. With the introduction of an updated DTIS and the EDPRS 2008 – 2012, national ownership has increased as it is perceived as a national task and trade plays a much greater role.

### *Tanzania*

#### National Development Strategy in Tanzania

In June 2005, the government of Tanzania introduced a National Strategy for Growth and Reduction of Poverty (NSGRP). It is based on the Poverty Reduction Strategy (PRS) Paper 2000/01 – 2002/03, the PRS

Review, the Medium Term Plan for Growth and Poverty Reduction and the Tanzania Mini -Tiger Plan 2020 (TMTP 2020). It was designed for a time frame of five years until 2009/10 which coincides with the targets of the National Poverty Eradication Strategy (NPES - 2010) and is two thirds on the way towards the MDGs (2015) and 15 years towards the targets of Vision 2025, the country's long-term development strategy (Vice President's Office Tanzania, 2005). The NPES is a very ambitious framework that acts as the medium-term national development plan.

### The Integrated Framework in Tanzania

Tanzania was one of the 12 countries that went through the first IF process and for which a needs assessment was prepared (Integrated Framework, 2005). The outcome was the *Business Environment Strengthening for Tanzania* (BEST) program. It was a targeted strategy to improve the business environment for private sector development through legal and regulatory reforms that was implemented in December 2003. Subsequently, the government of Tanzania applied for the second IF process and was approved in June 2004.

In November 2005, the DTIS including a detailed Action Matrix was launched. As Tanzania has gone through the initial (first) IF process, prior work and studies have been taken into account. However, the DTIS process was not as successful as it could have been as it only reflected partly national trade priorities. But in order to succeed in integrating trade better in the NSGRP a more permanent institutional structure needs to be established (Integrated Framework, 2005). In addition, the DTIS in 2005 suffered in part from lack of ownership as it was not equally accepted among all ministries. In 2007, the DTIS has been updated but, according to the WTO-OECD in *Aid for Trade at a Glance 2009: Maintaining Momentum*, trade has been only partly mainstreamed in the national development plan as well as addressed in the annual budget and various sectoral strategies. As a result, in May 2009, the Tanzania Trade Integration Strategy (TTIS) 2009 – 2013 was launched in order to transform the Tanzanian trade sector into an engine for economic growth by strengthening the ownership, coordination and integration of the trade agenda. To achieve this ambitious goal, two major issues are addressed in the TTIS:

1. *Enhancing Tanzania's capacity to manage trade policy, trade strategy, and Aid for-Trade formulation and implementation processes;*
2. *Expanding a competitive export supply of goods and services in Tanzania; (Ministry of Industry, Trade and Marketing, 2009)*

The strong focus on those two issues aims to build a strong institutional framework that can support the focus on export development and to enhance the capacity within institutions to deliver the services and assistance that is needed for a stronger export oriented economy. The TTIS serves as the lead framework for government, the private sector and the donor community for trade related technical assistance and the trade agenda in general. In addition, it constitutes the major coordination and planning tool for projects to finance and implement by the donor community (Embassy of Sweden, Dar-es-Salaam, 2009).

### *Kenya & Burundi*

Although not part of the scope of this report, it would be prudent to briefly mention the aid mechanisms of neighboring Kenya and Burundi. Taken together, the five East African countries depend on each other for trade, so it is helpful to understand how they access aid.

#### Kenya

According to OECD-DAC statistics, while Kenya experienced a dramatic build-up in nominal aid flows in the 1980s, there was a slackening of donor support in the 1990s. Since 1993, net ODA to Kenya started to decline with two major episodes of 'aid freeze' (in 1992 and 1997) and donor withdrawals as the government reneged on its commitments to donors (Mwega, 2009).

Bilateral donors were the key sources of funding (mainly project aid and technical assistance) to Kenya, in the 1960s and 1970s. Approximately 70 percent of its total aid comes from bilateral donors. This was mainly in the form of grants (72 percent). The UK was the major source of foreign aid until the 1980s, when Germany, the Netherlands, Sweden, Denmark, Japan and others significantly increased their contribution. Multilateral aid has mainly been in the form of loans (86 percent). The principal source of multilateral loans has been the World Bank group, accounting for almost 80 percent of total loans (Mwega, 2009). Since the 1980s, however, multilateral sources have increased in importance with a shift of emphasis from project aid to program aid (Njeru, 2003).

As the government's attempts to finance fiscal deficit rely heavily on the budgetary support program and other loan facilities offered by the multilateral agencies. Current major donors now include the World Bank, IMF, EU and Japan (Njeru, 2003). Kenya accessed USD 200 million from the IMF's Exogenous Shock Facility, to deal with the effects of the global financial crisis in June, but is now implementing policies to reduce aid dependency and cut down public debt.

New aid flows since 2002 are as a result of increased government borrowing to finance infrastructure development. The New Debt Management Strategy released by the Ministry of Finance in June 2009 entailed alternative sources of funds for infrastructure projects. This may reflect the growing influence of China in the aid market.

#### Burundi

As an LDC, its aid access structure largely mirrors its East African neighbors. Burundi has a troubled past of violence and power struggle and is also one of the Highly Indebted Poor Countries (HIPC) in the world; in 2005 its external debt alone reached a high of 1.4 billion dollars (Onyiego, 2010). Although heavily dependent on bilateral and multilateral aid (often in partnership with the World Bank and the IMF), this was suspended in 1993, due to disagreements with the IMF structural adjustment programs. Currently, Burundi receives approximately USD 450 million in foreign aid annually for capital projects and general budget support. To address infrastructure needs, Burundi worked with the African Development Bank to release the *Infrastructure Action Plan for Burundi* to expand its economic potential (Onyiego, 2010). With 90% of Burundi's population living in rural areas with little or no access to all-weather roads, the action plan aims to pave all existing roads and add 1 000 kilometers to urban centers by 2020 (Onyiego, 2010). The report is seen as part of a government effort to meet the 2015 Millennium Development

Goals. Of the USD 5.8 billion budgeted, Burundi is expected to provide 27 percent of the funding, with 56 percent coming from foreign donors.

## c. Donors, development banks, and the private sector: An institutional landscape of aid delivery in East Africa

One challenge that affects East Africa is the delivery of aid on a bilateral basis. Due to the long-standing relationships of donors and partners, bilateral aid has become institutionalized. It is mainly to alleviate the isolated approach of multiple donors to multiple independent projects within a partner country that the Integrated Framework and Enhanced Integrated Framework were intended. Certainly, political ambitions state the necessity of regional integration to increase international influence, and economic realities dictate closer integration towards a common market in order to compete better in Africa and abroad. So the future of the region is towards interdependence and unification. Therefore, planning must also occur at a regional level. Subsequently, donor aid must also be delivered regionally. Some regionally-focused aid projects already do exist in the region, but in many cases are funded, planned and implemented by a host of agencies – some in competition to each other.

### i. Development Banks & Funds in the Region

#### *African Development Bank (AfDB)*

The African Development Bank has achieved some prominence as the institution of choice for donors to incubate and disburse funds centrally to the entire continent. Chiefly, regarding infrastructure, the AfDB is home to the Investment Climate Facility that counts public, private and NGO-sector donors among its funders. This fund is focused on improving the business environment for the private sector, and one of its pillars remains: "Intra-African trade - improving Africa's import and export environment as well as improving and simplifying administration in order to facilitate cross-border trade." (African Development Bank, 2010)

Another initiative founded by the Government of Japan is the Enhancing Private Sector Initiative for Africa – again, focused on assisting the private sector. However, this fund too has seen its disbursements in the category of regional infrastructure, primarily in power supply, transmission and distribution (African Development Bank, 2010). The reallocation of private sector development funds to infrastructure projects indicates the nascent private sector in Africa. By focusing on enabling implements, donors are hoping to catalyze the private sector into advancement.

One path to the future may be through the African Financing Partnership (AFP) initiative which aims to harmonize financing from development financing institutions. This laudable project seeks to create a "financing gateway" through which funding can be channeled while also creating shared resources in risk management and a common project pipeline and due diligence reporting framework (African Development Bank, 2010). This initiative echoes much of the sentiment expressed by aid agencies to create a "tunnel of funds" to streamline funding throughout the project lifecycle. With preparations underway for establishing an AFP secretariat within the AfDB, this represents the best opportunity to do away with the administrative duplication that occurs at multiple levels of the development financing sector.

### *European Investment Bank (EIB)*

Another funding facility resides within the EIB – the EU-Africa Infrastructure Trust Fund – and covers investments in Energy, Transport (road, rail, air, and sea), Water and Information & Communication Technology. Eligibility for this fund comes from NEPAD's prioritization of trans-African infrastructure projects and states explicitly that it should have "demonstrable regional impact on at least two eligible countries in sub-Saharan Africa." (European Investment Bank, 2010) Wording like this can have two effects. One effect ensures that the region is central to project design and possibly also to implementation. But another effect can be the re-branding of local infrastructure projects as having regional benefit.

As an example, one government official recalled how building a ring road to bypass the urban centre of Nairobi in Kenya was considered to have regional impact on trucking traffic from Mombasa to Kampala and beyond to Rwanda and the DRC.

### *East African Community (EAC)*

Though currently finalizing the setup of its own development fund (EAC, 2010), the EAC has two existing vehicles for regional infrastructure investment. The first is the Regional Integration Support Program funded by the EU, and is funneled through an existing agreement signed with COMESA (EAC, 2010). Explicitly intending to further regional integration, the program cites numerous trade-related objectives such as development of a transport strategy, improved trade policy impact analysis within member states and harmonizing tax, monetary, fiscal policies and capital markets. A second vehicle residing within the EAC is the EAC Secretariat Capacity Building Project funded by the World Bank mainly focused at strengthening the ability of the EAC to design, manage, implement and evaluate projects (EAC, 2010). The lack of capacity at the EAC level is a recurring lament of a number of donor agencies, government bodies and private actors from across the region.

### *World Bank*

The World Bank is also directly engaged in supporting projects that have a regional dimension. Chiefly, the World Bank has been a prime actor in the much discussed rehabilitation of East African railways. Tentative backing has been provided by World Bank President Robert Zoellick, and currently feasibility studies and environmental assessments are underway in line with the plans laid out by the EAC Master Railways plan (Kyalimpa, 2010). This vote of confidence may galvanize investment in the railways sector, which is currently suffering due to the high costs and long payoff periods that are currently beyond the reach of the private sector.

## ii. Bilateral Donor Projects in the Region

USAID is heavily invested in the region on a bilateral basis, but also has had some history of success with regional aid. Their COMPETE project unifies the Regional Agriculture and Trade Expansion program with the East African Community Trade hub project (USAID, 2010). The intention is to provide a streamlined approach to development in the region. Highlighting agricultural productivity – an export staple for the region – and combining it with market access initiatives, specifically to the United States, gives COMPETE a target that can be easily measured. To date, COMPETE lists increased exports to the US, a number of public-private partnerships and reduced transport barriers.

DFID has a similar regional project called TradeMark – designed specifically as an aid-for-trade project – that spans the entire of East Africa, with project implementation carried out bilaterally through individual country 'windows' (DFID, 2009). Specifically, TradeMark approaches planning from a regional basis, and implements locally. Chiefly, investments have been in improving road works and also in developing one-stop border posts. As it is a relatively new program, initiated in 2009, it is also approaching trade facilitation holistically.

These types of interactions may serve as a template for future aid projects in the region as integration begins to draw the 5 EAC member states closer. By treating the region as one – and both COMPETE and TradeMark go beyond just the EAC and address the region within COMESA – aid can be allocated according to economic development. This border-agnostic style of aid provision mirrors the vision of regional economic development espoused in the ultimate mission of the EAC.

#### iii. Other Actors

Private actors are also present in funding infrastructure projects in the region, though usually they do not provide financing without substantial backing from another party. Most notably, Standard Bank and Exim Bank have been known to provide funding for road work projects under the guidance of the Chinese Development Bank (CDB). Though new to this field, and while still requiring a return on the investment, the CDB is eager to learn from the experiences of more established donors in the region. Additionally, CDB has been involved in providing a line of credit to the East African Development Bank (EADB, 2006), and the EIB has also provided financing to the institution for small and medium sized projects (EADB, 2006). Though the EADB's mandate includes funding infrastructure projects, it does not have the capitalization or experience to do so with any great impact. Indeed, recent press over court proceedings concerning USD 61 million in unpaid funds indicate that the EADB is not ready to handle larger projects (Gathara, 2010).

### d. Towards a regional trade plan in the East African Community

Regional integration initiatives can serve as a mechanism to simplify regulatory processes, speed up cross-border clearing procedures, harmonies transit and transport regulations, and simplify administrative requirements. Given the small and fragmented markets of African economies, economic integration of the continent can be seen as a stimulus for economic development, poverty reduction as well as an engine for international competitiveness. The renewed faith of Uganda, Tanzania and Rwanda, in an initiative which has had many dimensions as well as interpretations, comes from the realization by partner countries that pooling resources, provides a better platform to realize common development goals than through national efforts alone.

The first East African Co-operation Development Strategy was established in 1997, it focused on the development of the policy framework for regional co-operation. This culminated in the signing of the Treaty for the Establishment of the East African Community (Omolo, 2008). The second East African Community Development Strategy (2001-2005) was launched in April 2001. This focused on the implementation of selected regional projects and programs; institutional development; and, most significantly, the launching in 2005 of the East African Community Customs Union. The third East African Community Development Strategy enacted in December 2004, established a revived East African

Community which required the partner states to integrate as a free trade area, a customs union, a common market, an economic union and eventually a political federation. This policy is a primary affirmation of the ability of the EAC to create a single East African market. The customs union is to be supported with the establishment of a free trade agreement among the member countries.

The EAC Customs Union will assist to level the playing field for the region's producers by imposing uniform competition policy and law, customs procedures and external tariffs on goods imported from third countries, which should assist the region to advance its economic development and poverty reduction agenda (EAC, 2009). Real economic assimilation and the benefits will commence with the coming into being of the customs union. A common forum such as a tariff union could be a communicative mechanism between member countries. Especially in Tanzania and Rwanda, where the demands of the customs union have had both countries assessing their trade policies in order to make it a reality. Specifically, Tanzania's trade policy is legally determined by regional trade agreements and is thought to be one of the reasons for their withdrawal from COMESA.

### *The need to cooperate*

According to President Kagame, "Each additional day an export transaction is held up in a country, that country distances itself from its trading partners by one percent." (Kagame, 2008) Regional integration's relevance to both trade and development is an increasingly debated dimension to growth strategies of LDC's. The impact of being landlocked is based on the idea of dependence over the transit state, which is critical in the option of developing regional transport infrastructure. Mackellar (2002) helped to explain the negative relationship between landlockedness and growth using a neoclassical theory. Coastal economies in developing countries are better placed to engage in producing manufactures for world markets than are landlocked countries, and such activities are important drivers of growth. This theory confirmed the fact that crossing a border implies higher transaction costs due to customs and handling costs. Therefore, landlockedness leads to raising import prices and reducing export revenues.

With rapid globalization and the integration of regional markets, roads, aviation and railway networks can no longer be limited within national boundaries if they are to spur inter-regional trade and development. States need to cooperate with regional neighbors to answer the challenge. So, integration is the strategic mechanism to confront the complexities of internal, regional and international trade policies. Almost all transport development programs are conceptualized with the aim of eventual integration.

### *An interactive mechanism*

Regional integration is an interactive mechanism needed to foster cooperation and dialogue, and these subsequent economic exchanges often lead to mutual advantages. Transient differences arise as countries experience idiosyncratic shocks, with some countries benefiting, others possibly losing. The holistic approach of regional integration is to realign barriers by establishing an association whose members open their markets to each other. If a continent is politically fragmented, this increases the likelihood that natural advantages are unevenly distributed between countries. In tandem with Collier's (2007) classification of countries as divided into resource-rich vs. resource-scarce, and coastal vs. landlocked, it implies inequalities between countries. The UN Economic Commission for Africa considered the continent's fragmented political geography to be a serious impediment to the realization of its development goals; the East African Community was a tool to rectify this. The policies possessed a view to creating a prosperous, internationally competitive, as well as a politically united region.

### *Regional solutions require regional ownership*

Harnessing trade for development crucially depends on African countries themselves to take on the ownership for comprehensive strategies and to integrate trade in their economic and development planning. The importance African countries attach to trade facilitation has been reflected in numerous agreements at bilateral, sub-regional and regional levels as well as efforts made at the country level to facilitate the flow of goods and services. The logic to most of these agreements is to provide reliable and adequate economic infrastructure, which link production to markets, in both the regional and the national sphere. This alliance automatically brings focus to the transport system planning and maintenance, as its aim to give producers in the region access to a greater choice of road and rail networks in pursuit of economic profit.

### *A virtuous circle: larger markets, higher investment, more development*

Regional integration could serve as an engine for international competitiveness. The validation being that productivity increases due to competition pressure which in turn can trigger institutional reforms. Trade is a fundamental policy issue in not only local but also the global economy. If nations are to reach the levels of economic growth needed to reduce poverty in a sustainable manner, significant private sector investment will be required. This can only happen if the costs of production become low enough to enable producers to be competitive with those in the rest of the world. If individual countries are small in economic size, it is reasonable to suggest that a combination of several such countries in the context of an appropriate regional integration scheme would bring about a sufficiently large market size to generate lower production cost that might enable the integrated region to compete better with the rest of the world. Small developing countries will seek to combine into a single market to reap economies of scale, while raising revenue through tariffs on trade with the outside world. In larger and more harmonized markets, the free movement of goods, services, capital and people enables economies of scale and stimulates trade and investment. This will subsequently foster diversification, enlarge the skilled work force and make countries more attractive for investors, both from the region and foreign. Moreover, a combination of several small countries into a regional block would enable them negotiate more effectively with other trading blocs.

### *...but integration means that for every win there are some losses*

Regional trade initiatives can also have negative effects. Opening domestic markets to partner countries, for example, can increase competition in sectors with previously highly concentrated industrial structures and thereby reduce the monopolistic pricing power of incumbents. While this may be good for the region, for the consumer, and the country, it can also mean loss of jobs, profits and power for established players.

As competition increases and existing local monopolies that are torn down in the process can present a formidable opposition. Social differences problems also act as impediment to trade. The ethnic divisions in Uganda are critical in distributional policies of the political leaders which leave some groups feeling marginalized. The logic of integrative policies is the introduction of a more structured regulation process. Indeed, our team felt that ethnic rivalries both within and between countries have a significant – if officially unstated – impact on the willingness to integrate. This presents an opportunity for cross-sectoral aid programs from donors and civil society organizations to bridge the cultural divide between groups.

### *Bridging the insecurity gap*

The subsidiarity principle provides a clear basis for distributing powers and responsibilities - from national to regional - of the organizational structure of a regional integration scheme according to the comparative advantage of each in respect of the different functions.

Even though East African countries have already shown some forms of policy convergence. A more formulated approach to trade policy would allow member countries to specialize in areas where they enjoy comparative advantages: Kenya in the provision of a wide range of tradable services, Tanzania in its vast natural resources, and Uganda in agro-industrial products and food. Intra-regional trade expansion will be facilitated by differences, among regional partners, not only in indigenous commodities but also in per capita income and consumption patterns, which translate into significant potentials for product differentiation and, trade.

Regional integration among countries at different levels of economic development may favor the more developed partners in terms of the distribution of the fruit of regional investment. Therefore government incentives in directing industrial development activities must take into account a sense of balance acceptable to all integrating parties.

An approach borrowed from the European integration experience, is the concept of variable geometry. As a pragmatic and incremental strategy; it permits integration to proceed on the basis of progressive steps, by allowing smaller sub-groups to move faster than the whole group (EC, 1992). In this case it would therefore be relevant to refer to Rwanda as the country not only with the most enthusiasm for the initiative but also with the most to gain the most economic sufficiency from assimilation. The enthusiasm in Rwanda seems reflective of both a continuous appreciation of its traumatic history, juxtaposed with a keenness for more involvement alongside the international community; however its disadvantageous geographical location means regional economics as the only outlet to make those feasible. It was best summarized by a government official as a window of possibility for countries to go from being "landlocked to land-linked".

The policies of Rwanda are comparatively more enthused by the prospect of integration than neighboring countries. For Rwanda integration is "the sixth pillar of *Vision 2020*". It is a base to build on to a much desired role as a services & distribution hub – heavily drawing this influence from Singapore and Hong Kong. The infrastructure development which would follow integration would serve as a base to build on comparative advantage and matching buyers with sellers. It could act as a device in the country's ambition, to be Africa's gateway to the West. In Rwandan trade policies some sectors were deliberately protected, however the Ministry of Trade has currently tried to update policies to meet regional requirements, national trade and competition policies have been aligned to aid regional integration.

### *Regional Economic Planning: An exercise in consensus-building*

The contradictions of the challenges and benefits of regional integration are evident; however other factors are more implicit in affecting the actualities and realities of export and trade in a newly integrated community. One dimension of this is the political reality of contentious relations between neighboring countries. At the two-week session of the East Africa Legislative Assembly (EALA) in December 2008, Tanzania expressed objections to the purchase of land by foreigners, arguing that the other EAC members should instead consider the Tanzanian system of public land ownership, and also argued against the use of an East African passport. Its hesitance is also due to citizens wanting a review of the land issue as it is currently dominated by regulatory laws; the residency issues, and the question of national identity document use is still controversial. Moreover there are also concerns of friction with potential regional trade partners. Concerns commonly expressed in the Tanzanian population gravitate around possible social as well as economic repercussions that could arise from integration. Kenya remains one of Tanzania's largest investors. But resentments against Kenyans can often be pronounced. There is an impression of Uganda and Kenya as expansionary and still retain a strong sense of tribalism. Many Tanzanians see Kenya's history as a basis for concern relating to undue influence over Tanzania. In the past foreign corporations often used Kenya as a base to export to the rest of the region, this only served to aggravate trade imbalance and made it difficult to secure an equal distribution of the benefits of trade and further integration.

There are three distinct mechanisms that generate costs of fragmentation. The first implies that natural advantages are likely to be unevenly distributed between countries. The second concerns the loss of scale economies, while the third concerns the loss of public goods as the scale of political cooperation is reduced.  Fragmentation of a continent into countries is, first and foremost, political fragmentation. These costs are currently internalized into all economic activities but not explicitly expressed in trade policy, and cannot be appropriately dealt with in the absence of a regional trade policy.

The concepts of competitiveness and comparative advantage are of great importance in the design of trade policies. In their Poverty Reduction Strategy Papers (PRSPs), the three countries placed high priority on accelerating broad based growth by developing the sectors where the majority of the poor are found and with the highest growth potentials due to comparative advantage. A government that wishes to enhance the flow of resources into sectors of comparative advantage needs to understand not only the concept of comparative advantage, but also its determinants and sources. Working together in celebrating their own differences, the process of specialization and diversification could diffuse this threat. The establishment of regional projects can give equal power to all.

Economic integration has the potential to bring economic growth, create wealth, improve labor and social conditions and result in a better division of labor between countries based on competitive advantage. Integration is both more demanding and more constraining, involving not only cooperation among countries, but also the sharing of sovereignty. It thus demands an important degree of commitment from all participating countries from the beginning.

The integration process needs a strong legal framework, but is currently in the stage of what one official described as a “memorandum of understanding”. In some respects the commitment is evident; the recent attempts to improve integrity in customs within the EAC, seminars and workshops were conducted by the respective revenue authorities of the partner states. But member countries may not always give a high priority to regional integration as a policy objective in view of the many other pressing needs identified at national level. So, many ministries and institutions are initiating policies unprompted, in order to adjust the state to the reality of an economic existence with more powerful neighbors. As a result, many planned activities remain delayed and competing national commitments can supersede regional ones. Without an overarching regional economic development roadmap it will be difficult to maintain momentum on integration and to streamline existing ad-hoc policies into an eventual consensus.

Evidently from some of the interviews the group undertook, there were mixed reactions on the prospects of an integrated region. It lends credence to the view that in order to facilitate the building of trust, between different actors there needs to be transparency and accountability, another precondition for the planning for the development. This requires an all inclusive approach supported by meaningful consultations to agree on the overall goals. The analysis on social security and governance hopes to illuminate the possible reasons for this. It suggests the more conventional modes of assimilation are insufficient in adopting a people centered approach to policy making; moreover it could have a negating effect on private sector development. Therefore policies need to be appropriate and contextualized for new situations and adapted to the capacity and needs of local users while maintaining coherence within regional economic planning and development.

# 5. Transport & Trade Facilitation

## a. Understanding infrastructure in East Africa

One of the primary inefficiencies concerning transport infrastructure in East Africa is the length of time taken to get products from the producer to consumer. Oftentimes, the length of the delay contributes to the lack of competitiveness of the products in a global marketplace. Mainly this manifests in the form of weak quality, but mainly due to lack of responsiveness to customers. This in turn, has a significant impact on the competitiveness of the region, and its perception internationally. Of course, the other major inefficiency is the high cost of transport. This has a direct impact on the competitiveness of the national and regional private sector and subsequently, the entire economy.

### i. Driving in the fast lane: The state of roads

At first glance, road congestion does not seem to be much of an issue. Indeed the road is in good condition allowing fast speed and connects all major cities in the region. The World Bank's Africa Infrastructure Country Diagnostics (AICD) especially note that most countries have made good progress in developing sound institutions for funding and building road infrastructure (AICD, 2007). The only point they raise as an area of improvement is in road maintenance, where they note certain countries are underfunded. However, in this matter too, East Africa is well-served. The SSATP RMI Matrix for 2007 gives scores of 100% to Tanzania and 80% to Rwanda on overall performance for road maintenance (Gwilliam, Foster, Archondo-Callao, Briceño-Garmendia, Nogales, & Sethi, 2008). All three countries visited possessed a functional road maintenance fund (AICD, 2007) and Uganda has recently implemented the stationing of road maintenance brigades within each district (and under their jurisdiction) to ensure rapid response. So why then do some studies demand a further improvement of the road network – going so far as to suggest a "four-lane road network from Mombasa to Kigali making a curve back to the coast to Dar-es-Salaam"? (PSF, 2007)

The answer is due to a lack of options in transportation of goods. In East Africa, road is simply the only way to move bulk goods to and from the ports. Where there is an option to move goods by rail, the dubious reliability of service and the chronic maintenance issues have combined to increase the price of rail to reach on par with shipping by truck (AICD, 2007). As a result, all shipping traffic has become concentrated on a handful of highways in the region. Reliability is not an issue here as the roads are in good condition and the trucking industry is responsive to customers due to regional competition. Supplying, maintaining and upgrading trucking fleets have become viable businesses in their own right. These initiatives have had some success, particularly when noting export transit times from landlocked countries. Within a few years, Rwanda has reduced the number of days to export and import from 47 to 38 and from 69 to 35 respectively. In Tanzania, the number of days remained stable for exports and even increased by one day for imports (see Table 5.1 & Table 5.2). It is important to note, that over the same time period, the costs to import and export per container were rising in all countries. With more cargo transported by road, shipping firms would be vulnerable high fuel costs as a result of fluctuations in oil prices. Additionally, vehicle maintenance costs as well as corruption may also be explanations for higher costs.

Table 5.1: Doing Business Report 2008

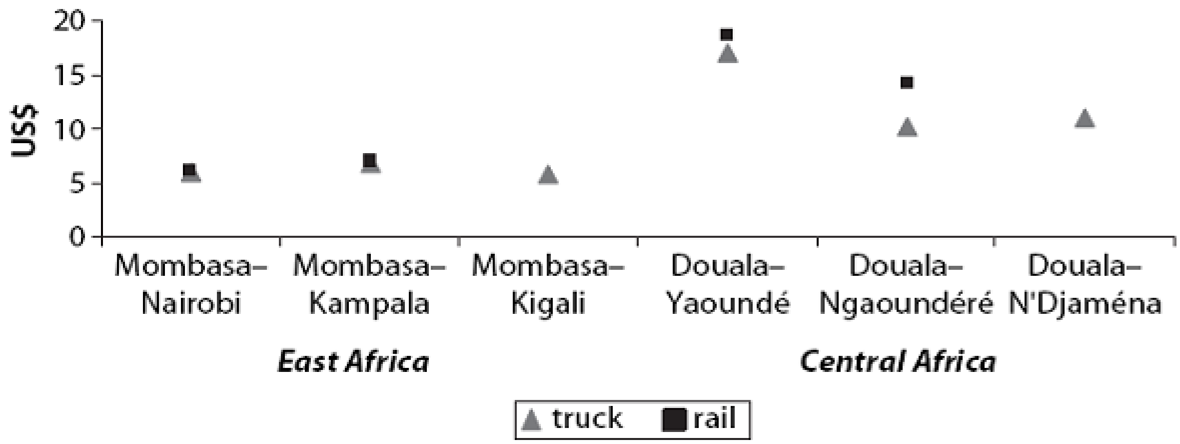
| Doing Business Report 2008 – Trading across borders | Documents to export (number) | Time to export (days) | Cost to export (USD per container) | Documents to import (number) | Time to import (days) | Cost to import (USD per container) | Rank for Trading across borders |
|---|---|---|---|---|---|---|---|
| Uganda | 6 | 39 | 2940 | 7 | 37 | 2990 | 141 |
| Rwanda | 9 | 47 | 2975 | 9 | 69 | 4970 | 166 |
| Tanzania | 5 | 24 | 1212 | 7 | 30 | 1425 | 100 |

Table 5.2: Doing Business Report 2010

| Doing Business Report 2008 – Trading across borders | Documents to export (number) | Time to export (days) | Cost to export (USD per container) | Documents to import (number) | Time to import (days) | Cost to import (USD per container) | Rank for Trading across borders |
|---|---|---|---|---|---|---|---|
| Uganda | 6 | 37 | 3190 | 7 | 34 | 3390 | 145 |
| Rwanda | 9 | 38 | 3275 | 9 | 35 | 5070 | 170 |
| Tanzania | 5 | 24 | 1262 | 7 | 31 | 1475 | 108 |

However, it is important to note that the highway system that is now acting as the backbone for international export was never intended for such a purpose. The roads that connect Kigali and Dar-es-Salaam feature two undivided lanes – one in either direction – with no room for passing and no shoulder to pull off onto. Often, due to the well-documented weaknesses in the rural road network, these main trunk highways become the main thoroughfare for foot, bicycle and even animal traffic. Especially when nearing populated communities, our research team noted hundreds of schoolchildren making their way home at the end of the day while trucks and buses sped towards the coast. Crucially, the highways form the main road within the communities that they pass through, and necessarily speed bumps, humps and rumble strips are placed to enforce safe speeds for thru traffic. This safety vs. speed trade-off is appropriately skewed towards safety in populated centers, but has the unintended consequence of forcing truck drivers to take greater risks elsewhere to make up for lost time. Tanzania has the highest accident rate in the EAC, and this has prompted a plan to upgrade 12 000 km of road to international standards – including a wider carriageway and shoulders. When the distances to travel number in the thousands of kilometers, and journey times stretch beyond 10 hours, drivers can have a tendency towards overconfidence. This, results in excessive speeding and dangerous passing and may be the cause for the crashed hulks of trucks, buses and passenger vehicles that litter the roadside with alarming regularity. There has been talk of limiting trucks to travel at night in order to mitigate congestion, but any laws along this line of thinking will undoubtedly increase transit times and costs. So while better roads may be at least partially responsible for the reduction in transport times noted by the Doing Business report, the higher traffic speed it has facilitated may be also partially responsible for higher costs due to accidents. Currently, however, sufficient data is unavailable to confirm or deny this point.

Figure 5.1: Road-Rail Price Competition in Main International Routes (USD per ton-km)




Source: (AICD, 2007)

### ii. Side tracked: The state of railways

Until the dismantling of the East African Railways, Uganda's landlocked status had a marginal impact on trade. The railway was a mode of transport linking Uganda to the ocean via Kenya. This changed in 1977 when East African Railways was split into national segments, which reduced the efficiency of the railway as it introduced additional costs pertaining to management, maintenance, border controls and other coordination costs (Atingi-Ego and Kasekende, 2008). As a result, transport costs increased dramatically, reducing Uganda's export competitiveness. Though not connected directly to the railway, the increase in costs would have had a substantial effect on Rwanda's economy as well.

#### *Rift Valley Railways*

The state of the railway network in East Africa is abysmal. The only relevant and functional railway system in the region is the chronically under maintained, underfunded and unprofitable Rift Valley Railway which runs from the port of Mombasa, through Kenya and Uganda via Kampala to Kasese near the DRC border (Kyalimpa, 2010). The inefficiency of the RVR is partly due to the lack of direction on ownership, investment and planning of how to make railway infrastructure viable in the region. Though the Kenya and Uganda governments have concessioned the operating of the railway to a private partner, both countries maintain strict requirements on operational and financial aspects. Prices cannot be set by the RVR. Upgrades and improvements must be approved by government agencies. Passenger services are mandated to support a tourist industry. With such stringent restrictions on operational aspects of railway service, the concessionaire finds itself in the dubious position of being unable to meet the requirements and maintaining financial profitability. Even within the consortium, there is no harmony, with buyouts, accusations and threats playing out in the press and in the courts (Kisero, 2010). Continued attempts to upgrade the infrastructure have been bogged down with the concessionaire unwilling to do more than refurbish the ancient 'Lunatic Line' as it was dubbed during construction (McFerrin). To compound the chaos, the government and donors are at odds over how to rehabilitate the infrastructure with the government preferring to implement a brand new standard gauge rail, while donors are in favor of refurbishing the existing narrow gauge (CPCS Transcom, 2009).

Efficient functioning of even this existing railway can have substantial cost savings for traders in Uganda, Rwanda and even the DRC (CPCS Transcom, 2009). Crucially, speaking to traders in the region, the impression of the RVR is not favorable. The sorry state of maintenance means frequent breakdowns and therefore delays in getting products to port. As more exporters shift their transportation to the more reliable trucking industry, the rail wagons often sit idle, not leaving the station until they are full. This has created a spiral of diminishing performance as the concessionaire requires a certain volume of capacity and frequency in order to justify its expenses (AICD, 2007) (Bullock, 2009). Whenever the trains do leave for Mombasa, the exporters get preferential rates, as the RVR is essentially an import driven business.

Security concerns also favor a preference towards railways. A number of exporters explicitly mentioned that stolen coffee shipments were becoming alarmingly common on the trucking route from Kampala to Mombasa. A truck carrying a container will disappear en route in one of the many rural warehouses that have cropped up along the highway. With the efficient functioning of the railways, a non-stop train pulling locked and sealed containers does not present the opportunity for theft. One response to this trend has seen logistics firms develop a convoy approach to trucking. The service features escorts at the front and back of the convoy and a 'commander' who plots the route, determines stoppages and handles all border paperwork for the trucks. Not only has this procedure reduced transport time from Kampala to Mombasa by three days, but each escort features security cameras that allow clients to monitor their shipments on their way to the port. The sad reality is that this innovation is replicating on the road what is taken for granted on the rails. This premium trucking service provides peace of mind and reliability for those clients that can afford it, while an efficiently managed RVR could provide benefits for all.

### *Tanzania Railways Corporation*

The other railway that is vital to the East Africa economy is the Tanzania Railways Corporation operated railway. While this railway was originally concessioned to RITES, a Government of India infrastructure company, the concession was terminated by mutual agreement. For the concessionaire, government clauses demanding that passenger service should also be provided in addition to operating freight trains drove up the breakeven point of the arrangement, and RITES was unable to turn a profit. Compounding this, the narrow gauge railway connecting Dar-es-Salaam to Mwanza was washed out in the heavy rains of late 2009. The resulting outlay to rebuild the tracks proved to be beyond the capability of RITES. The failure of the TRC has had ripple effects throughout the entire Central Transport Corridor. This corridor, which should be a lifeline to Rwanda, Uganda, Burundi and possibly even the DRC, is now serving all stakeholders poorly.

With the demise of the TRC concession, and heavy investment required to rehabilitate the tracks, the effectiveness in terms of cost and time of a route to Dar-es-Salaam has been dealt a large setback. Indeed, many exporters mentioned how they preferred Dar-es-Salaam as a port of export during the functional operation of the railways. One exporter noted that 5 years ago when the TRC was functioning they would ship their entire product by rail across Lake Victoria in rail wagon ferries and from there to Dar-es-Salaam by train. The lack of ferries on Lake Victoria, the lack of capacity at Port Bell, the lack of investment at Mwanza and the defunct railways combine to deprive the Dar-es-Salaam port of a higher level of trade.

### iii. Staying afloat: The state of waterways & ports

A crucial element of any regional transportation plan must take into account all modes of transportation. Much emphasis, funding and planning has focused on rehabilitation of roadways. The detriment of railways has been documented here, and now that highways are generally in good condition, railways seem to be the next aspect of transportation that agencies and governments are eager to tackle. Air transport has improved its standing with transportation planners – however, it is not meant for bulk cargo transport, and the point-to-point nature of the system means that it will remain a national priority. The sole remaining avenue for cargo transport in the region remains waterways and ports. And here, it is curious that the state of waterways has not been integrated into a holistic understanding of transport in the region.

#### *Lake Victoria*

Lake Victoria is the largest tropical and freshwater lake in the world, the largest lake in Africa, and crucially for our purposes, bordered by Kenya, Uganda and Tanzania – and therefore completely within the boundaries of the East African Community. At an average depth of 40m it has been fully navigable since the early 1900s, and has formed an important transport link between the three riparian nations mainly through the use of ferries.

However, the current state of affairs is quite different. Non-functioning navigation aids installations have led to an increase in accidents due to lack of vessel monitoring. Ships must rely on outdated hydrographical surveys from 1924, which do not reflect the level of channel silting (AU-ECA, 2008). Unfortunately, the state of the ferry and port system on Lake Victoria is currently so poor, that if the Tanzanian railways were fully functioning, the exporters who preferred to send their shipments to Dar-es-Salaam could not do so. Where the broken link used to be just the railways, now the broken links include the ports and ferries as well.

#### *Port Bell*

Where once Uganda railways operated 2 large ships, ferrying imports and exports from Port Bell to Kisumu (Kenya) and Mwanza (Tanzania), almost none make the trip. Port Bell’s infrastructure is crumbling. After discussing with a railway ferry captain in Mwanza, our team was informed that the demise of Port Bell meant that his ship only travels half as much as it used to and only to Kisumu. Senior government officials have acknowledged the problems with Port Bell and have assessed the needed rehabilitation to cost USD 13 million. The redevelopment is planned to include refurbishment of the dry dock, and remodeling to handle containerized and general cargo (Ogwang, 2009). The government of Uganda allocated USD 1.7 million towards the project in November 2009, but has not set a timeline on bidding, tendering or construction. Notably, in the same interview acknowledging the necessity of developing a competitive route through Mwanza to Dar-es-Salaam, the director of transport at the Ministry of Works stated bluntly, “Development partners and the private sector are requested to provide the required funding to develop the route.” (Ogwang, 2009)

### *Mwanza*

While Mwanza is in better shape than Port Bell, it is apparent that the port is certainly in a decline. The non-functioning cranes meant that sacks of gypsum had to be offloaded by hand onto waiting railcars. Of course, the non-functioning railway meant that the railcars would simply be shuttled further inland before being transshipped to truck. Mwanza is not quite the bustling port that it used to be when the railway was functioning, but it is quietly managing to do business thanks to its investments from the past. One fully-functional high capacity crane sat idle off to the side of the port beside an empty dry-dock. But with a little bit of investment, process streamlining and perhaps creative marketing, the rehabilitation of the Mwanza port could easily represent a quick win for an enterprising agency.

### *Kisumu*

Though it is not within the area of study, Kisumu is important to the region as one of the three main cargo terminals on Lake Victoria along with Port Bell and Mwanza. Kisumu used to be an important import and export channel for Uganda, cutting travel times and costs to and from Mombasa, and playing an important role in competition with the railway. However, the demise of Port Bell has shut down this economic corridor, with only Mwanza representing a major port of trade on the lake. While Kisumu's status was not our area of focus, it seems that the port is very much in the same category as its neighbors. Kisumu is plagued by an infestation of water hyacinths – native to South America, but spreading rampantly across the entire of Lake Victoria unchecked. This has created water shortages to the city, where intakes are clogged by the weed, but also severely impacting port activities. Some reports suggest that it is impossible for light steamers to dock due to excessive vegetation (Ochieng, 2003).

### *Other ports*

The other ports on the lake include Entebbe, Jinja (both in Uganda) and Bukoba (Tanzania) but these are mainly passenger and small cargo terminals. A trip to the passenger ferry terminal in Mwanza showed laborers offloading sacks of rice and bananas by hand from Bukoba as passengers disembarked from another gangway.

### *Ferries*

The status of the ferries plying Lake Victoria is in better shape than would be expected when considering the ports. Passenger business has been fairly consistent, and even despite the poor infrastructure, Bukoba-Mwanza ferries have fairly robust and regular service. It is even possible to take a luxury ferry across the lake, no doubt a concept to capitalize on lucrative tourist money. Where there is mobility for people however, cargo has not been able to keep up with the same level of service. There may once have been as many as a dozen ferries on the lake, but currently only 5 freight ferries are in existence – three in Uganda (now lying dormant at Port Bell), one in Kenya (since suspended after running aground in 2007), leaving one Tanzanian ferry currently in operation (MV Umoja, which was visited in Mwanza). Most importantly, the history of accidents on the lake have emphasized the need for closer monitoring of safety and seaworthiness, but with no central regulating authority, maintenance work often slips through the cracks. As a result, an accident in 1996 saw 1 000 people perish and a similar capsizing in 2006 resulted in 28 deaths (Ochola, 2006). Despite these incidents regional transporters firmly believe in the future of shipping cargo by lake, stating, "If there is some investment here it will make a huge difference to his economic bloc." Others mentioned that an efficient, fast and safe passenger and cargo vessel on the lake would increase the value of rail efficiency without having to lay a single railway track.

### *Dar-es-Salaam*

Much has been made of the port congestion, inefficiency and delays at Dar-es-Salaam. It has been held up as an example of why the central corridor is not a viable option for landlocked exporters. This perception may have been true as much as two years ago, but the situation has significantly changed for the better at the port of Dar-es-Salaam.

#### Storage

The establishment of Inland Container Depots (ICDs) has had a substantial impact on the port's performance. Like elsewhere across Africa, it has facilitated the movement of goods from one point to another without the hassle of intermediate checkpoints, customs control, or other handling. In Dar-es-Salaam, the establishment of these bonded warehouses have increased the capacity of the port from 11 000 to 23 000 TEUs. Indeed, there is now a thriving competition among merchants to open their own bonded warehouses in the city as it is seen as a lucrative business in its own right. The usage of ICDs allows the time-consuming process of logistics management and transshipment to be handled at the warehouse instead of at the port. This allows the port to concentrate on loading/offloading of ships. A case study on the port notes explicitly that crane productivity falls as the number of containers stored at the port increases (Farrell, 2009).

#### Transit Times

Innovations like ICDs have enabled the Dar-es-Salaam port to focus on its core functions. While dwell time used to be as high as 30 days for clearing transit containers, it has now dropped to 13 days, with the number as low as 11 days for local containers (Daily News, 2010). Considering that an AU-ECA report of 2008 cited dwell times at 15 days from a NEPAD-MLTSF Study (2004), this is a significant improvement. Another cause for concern has been the amount of time it takes to clear a ship at Dar port, with ship waiting days a critical issue. In this matter, it seems that perception is different from reality. As a safe haven far from Somalia's pirate-infested waters, the Dar-es-Salaam Bay has become a popular destination to anchor. Though these vessels may not be intending to dock at the port, the sight of many vessels anchored outside one of Africa's major ports leads to the perception of chronic congestion. Still, transit times can get drawn out due to factors beyond the port's control. Old and damaged ships can take up a disproportionate amount of the terminal's working time, as well as dealing with out-of-gauge cargo, while vessel delays reasons include late submission of ship manifest, customs and waiting for authorities to arrive (Farrell, 2009). Speaking to transport and port officials confirmed that there have been no major vehicle retention issues at the port since July 2009. Recent reports indicate that ship waiting time has dropped from 12.7 days in January 2009 to 3.8 days this year, as well as improving ship turnaround time from 6.7 days from 18.9 days over the same period (Kamndaya, 2010).

#### Future Investments

The concession for the Tanzania International Container Terminal Services (TICTS) was initially awarded to Philippines-based ICTSI in 2000, but was subsequently bought by Hutchison Port Holdings that manages many other ports around the world including, Hong Kong, Rotterdam, and both the Atlantic & Pacific ports of the Panama canal (Hutchison Whampoa Limited, 2003). The concession has been renewed in 2005 for another 20 years, indicating the long-term nature of HPH's investment. Officials were clear in mentioning that they see Dar-es-Salaam as a gateway to six landlocked developing countries. As a result, they have committed to investing USD 60 million on the terminal in the form of equipment and training. New cranes, new management tools to improve operational efficiency, are still to come. Even without these improvements, the port is currently operating at 23 moves per hour for loading & discharging. The internationally accepted standard is 25 moves per hour, but TICTS is being held to the higher HPH standard of aiming to hit 30 moves per hour, which the new investments should help achieve. Interestingly, the efficiency improvements came during the economic crisis, depressing economic activity in 2009, and resulted in many ports losing 10-15% of their annual traffic. Coupled with a shutdown in mining in DRC and Zambia – two of the landlocked countries the port is closest to serve – Dar-es-Salaam would have been expected to report similar results. However, Dar-es-Salaam only lost 5% of their traffic, and this too was mainly from transit shipments, not local traffic. This indicates that Dar port's efficiency helped it win business away from other ports during the crisis, or that Dar port's growth is fuelled domestically.

When discussing plans for expansion, officials at TICTS were sanguine about adding greater berthing capacity. They repeatedly stated that port density was the key. As ICDs are now successfully alleviating this pressure, current berthing capacity should be enough for the next five years. Indeed, the message that we were left with is that a functional railway system – which currently only 6% of port traffic accounts for – should result in the port simply remaining a throughput for containers going to ICDs and on the rails to final destinations.

#### *Dry Ports: Isaka*

On the other end of the railway, the creation of a dry port at Isaka was heralded as a key piece of transport facilitation for Rwanda. Sitting approximately 500 km east of Kigali inside Tanzania, it represents the western-most point of the TRC railway. Trucks from Rwanda would conduct all customs and border clearance at the Isaka border, have their cargoes transshipped onto rail and then would immediately be put onto ship at Dar-es-Salaam (Woxenius, Roso, & Lumsden, 2004). This succeeded in reducing paperwork, transit time, and costs. But with no railway to offload onto, trucks continue on the highway all the way to Dar-es-Salaam and clear customs at the port. This has meant that customs staff has been concentrated in the sea ports to deal with the growth in paperwork. Since this western leg of the railway has fallen into disrepair, the dry port's claim to reducing transit time to Dar-es-Salaam from one week to two days, has been rendered irrelevant (Woxenius, Roso, & Lumsden, 2004).

### iv. Who watches the watchmen? The state of standards & corruption

Uganda, Rwanda and Tanzania suffer from extremely high transport costs. But in addition, there are several disruptions on the transport corridor that increase time and cost apart from the status of infrastructure. These so-called "soft barriers" present major governance obstacles to overcome. They are relevant not only trade policies but also to standardization authorities, regulatory bodies, and regional integration.

### *Rules of the Road: weigh bridges, axle limits and truck size*

With the inactivity of the railroad connecting the port of Dar-es-Salaam with its hinterland, most traffic has shifted to roads. While road transportation offers great flexibility to the freight forwarders, it poses a high burden for the existing road infrastructure and its users. Cargo that used to travel by train is transported now by trucks. In order to protect the roads from too heavy use, the governments of Uganda, Rwanda and Tanzania have road regulations in place (see Table 5.3). For example, in Tanzania trucks are allowed up to 8 tons gross weight per axle (with two tires). When the EAC treaty was signed, member states agreed to harmonize axle load limits among all members (Art. 90, EAC Treaty) (EAC, 1999). In 2007, the standardization of axle load weight limits as well as truck dimensions did not happen yet. The difficulty arises from government's different memberships in regional communities such as COMESA and SADC. While Uganda and Rwanda are part of COMESA, Tanzania is a member of SADC. Each community has its own regional standards regarding axle weight load limits and dimensions of trucks. In order to facilitate transport and trade, the EAC proposed regional standards, where feasible that are summarized in Table 5.3.

**Table 5.3: Matrix of Proposed Harmonized Limits on Vehicle Specification and Loads**

**4.2 Matrix of Proposed Harmonized Limits on Vehicle Specifications and Loads**

| Item | Details | COMESA | SADC | Kenya | Uganda | Tanzania | Rwanda | Burundi | Proposed EAC Limits |
|---|---|---|---|---|---|---|---|---|---|
| 1. Max Vehicle Dimensions (m) | (i) Width | 2.65 | | 2.65 | 2.50 | 2.65 | 2.65 | | 2.65 |
| | (ii) Height | 4.60 | 4.60 | 4.20 | 4.00 | 4.60 | 4.20 | | * |
| | (iii) Length | | | | | | | | |
| | - Rigid | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | | | 12.5 |
| | - Articulated | 17.0 | 17.0 | 17.4 | 17.0 | 17.0 | 17.4 | | 17.0 |
| | - Any combination | 22.0 | 22.0 | 22.0 | 22.5 | 22.0 | 18.0 | | 22.0 |
| 2. Max Load Per Vehicle (T) | (i) Single steering drive operated (2) | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | | | 8.0 |
| | (ii) Single non-steering (2) | | 8.0 | 6.0 | 8.0 | 8.0 | | | 8.0 |
| | (iii) Two steering drive operated (2) | - | | 12.0 | 14.0 | 14.0 | | | * |
| | (iv) Single non-steering (4) | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | | | 10.0 |
| | (v) Single steering drawbar controlled (4) | - | - | 8.0 | 8.0 | 9.0 | | | * |
| | (vi) Tandem non-steering (4) | 16.0 | | 12.0 | 12.0 | 12.0 | | | * |
| | (vii) Tandem non-steering (6) | | | 14.0 | 14.0 | 15.0 | | | * |
| | (viii) Tandem non-steering (8) | 16.0 | 18.0 | 16.0 | 16.0 | 18.0 | | | * |
| | (ix) Tandem steering (Dolly) (8) | | 16.0 | 16.0 | 16.0 | 16.0 | | | 16.0 |
| | (x) Triple non-steering (6) | | - | 18.0 | 18.0 | 15.0 | | | * |
| | (x) Triple non-steering (10) | | | 22.0 | 22.0 | 21.0 | | | * |
| | (xi) Triple non-steering (12) | 24.0 | 24.0 | 24.0 | 24.0 | 24.0 | | | 24.0 |
| | (xii) Triple super single tires (6) | | | 18.0 | 18.0 | 24.0 | | | * |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 3. Gross Vehicle Mass (GVM) (T) | (i) Two axle vehicle | | | 18.0 | 18.0 | 18.0 | | | 18.0 |
| | (ii) Three axle vehicle | | | 24.0 | 24.0 | 26.0 | | | |
| | (iii) Four (or more) axle vehicle | | | 30.0 | 34.0 | 28.0 | | | * |
| | (iv) Vehicle plus semi trailer with three axles | | | 28.0 | 28.0 | 28.0 | | | 28.0 |
| | (v) Vehicle plus semi trailer with four axles | | | 36.0 | 38.0 | 36.0 | | | * |
| | (vi) Vehicle plus semi trailer with five axles | | | 42.0 | 42.0 | 44.0 | | | * |
| | (vii) Vehicle plus semi trailer with six axles | | | 48.0 | 50.0 | 50.0 | | | * |
| | (viii) Vehicle and drawbar trailer with four axles | | | 36.0 | | 37.0 | | | * |
| | (ix) Vehicle and drawbar trailer with five axles | | | 42.0 | 42.0 | 45.0 | | | * |
| | (x) Vehicle and drawbar trailer with six axles | | | 48.0 | 50.0 | 53.0 | | | * |
| | (xi) Vehicle and drawbar trailer with seven axles | | | 56.0 | 56.0 | 56.0 | | | 56.0 |

* No Agreement. Awaits further consultations

Source: (EAC, 2007)

In 2008, EAC member countries reduced the number of axles allowed on regional roads from four to three. This limited the gross weight permitted per truck to 48 tons. Rwanda and Tanzania strictly enforce the axle limit regulations (Kagenda, 2009). Axle regulations do not only preserve and protect the existing infrastructure from overuse, it adds also to general road safety as overloading increases the risk of accidents. However, while in Tanzania monitoring this regulation leads to significant disruptions on roads, in Rwanda no such disruptions were observed in the country. Only at the borders between Uganda and Rwanda (Gatuna border crossing) and between Rwanda and Tanzania (Rusumo border stop) weigh bridges were observed on each side of the border. The government of Tanzania has installed also several weigh bridges along the major transport routes. Every vehicle above 3.5 tons is required to be weighed on each weigh bridge, including public transportation such as buses. Before a vehicle is weighed, the driver has to submit driver's license, vehicle registration and cargo documents. After weighing, the driver must sign the weigh bridge report form that was obtained from weigh bridge officer and be carried throughout the whole journey. By signing the form the driver agrees on behalf of the owner that the vehicle particulars and weighing scale reading at that time are correctly reported on that form. High traffic volumes through both trucks and buses cause traffic congestion before each weigh bridge. Trucks have to wait sometimes several hours until they are permitted to continue their journey. For landlocked countries, such as Rwanda and Uganda that are dependent on the roads of their neighbors, those obstacles lead to soaring transport prices and hence make competition difficult. Furthermore, also dimensions of trucks have to comply with existing legislation. Dimensions include length, width and height. If a vehicle exceeds any of those dimensions, the owner has to apply for a permit at the Permanent Secretary of the Tanzanian Ministry of Infrastructure Development.

In addition, there are several police checkpoints along the transport routes. While those were not observed in Uganda and Rwanda, they were most prevalent in Tanzania. Officers at the police checkpoints perform general document controls as well as vehicle and cargo inspections. These safety checks increase travel time significantly as the number and duration of stops is random. In some cases, drivers have to decide between longer waiting times or incurring additional transaction costs in order to speed up the process. Nevertheless, both increase transport costs for the freight forwarder.

### *Checking balances: Border crossing in East Africa*

There are also several cross-border impediments to trade. The World Bank has recently pointed out in its Doing Business Report 2010 the high costs to export in Uganda and Rwanda. Both countries hold the 7th and 8th rank for the highest cost to export a container (USD 3 190 and USD 3 275). Tanzania, who has direct sea access, faces only costs of USD 1 262. In order to facilitate trade, Uganda and Rwanda have undertaken several trade facilitation reforms. Given their geographical location, Uganda and Rwanda have focused particularly on trading across borders and improving customs administration. According to the World Bank, both countries belong to the most active trade facilitation reformers in Sub-Saharan Africa over the past five years (World Bank, 2009). Regional initiatives have also triggered reforms; in support of the East African Customs Union harmonization program, there is a significant effort to enhance data sharing between Uganda, Rwanda and Kenya to ease border crossing (World Bank, 2009). Unfortunately, benefits of this program could not be fully exploited because of power supply cuts and lack of high-speed internet connections in Kenya and Tanzania (among others) (World Bank, 2009).

Traders in East Africa were not only confronted with bad infrastructure but also with difficult border procedures. In the case of Rwanda, these have been recently reduced by streamlining transport procedures at borders and allow traffic to pass through and from neighboring economies with fewer restrictions (World Bank, 2009). Yet, major challenges to implement one-stop border posts are the legal aspects concerning smugglers and joint security. For example, Rwanda and Uganda recently agreed to implement one-stop border posts by sharing a single facility between both customs personnel. Similarly, on 26 March 2010 the governments of Rwanda and Tanzania signed a bilateral agreement for the establishment and implementation of a one-stop border post at Rusumo. The Rusumo border post is located on the central transport corridor and vital for the flow of goods not only between Rwanda and Tanzania but also for neighboring countries such as Burundi and the Democratic Republic of Congo (EAC, 2010). From our experience at Rusumo, truckers had to wait roughly two days to cross both border posts. One-stop border crossings are expected to expedite this process but extending opening hours can also provide immediate transit time reductions. Recently, the Gatuna border post between Rwanda and Uganda initiated 24-hour operations (World Bank, 2008). Other reasons for border delays are long and duplicating border procedures and paper work, customs inspections and the waiting time in between. In some cases additional facilitation costs are involved.

A significant contributor to reduce time and costs at the border crossing was the introduction of information and communication technology (ICT) systems. It simplified processes at the border to expedite clearance of cargo through online filing and electronic payments. All three countries joined the ASYCUDA program of UNCTAD, a program to facilitate customs operations through ICT. While Tanzania (1994) and Uganda (1996) have been part of the program for many years, Rwanda has started their implementation process relatively recently (2004). Active investment and assistance from JAICA and

DFID has seen transporters in the region able to reduce clearing times by one-third (from three days to one) with the introduction of the new system (Majyambere, 2009).

### *Nothing is certain but taxes and insurance and licenses*

Key sunken costs for all transporters are the fees and taxes paid for proper trade licenses and insurance bonds. Some, are renewed annually, some are assigned in perpetuity. But each government requires that every trader must obtain a license to trade with separate regulations applied in each jurisdiction.

General bond insurances have to be renewed annually. The insurance bond of an individual transporter is required to cover 10% of last year's annual cargo value. The sum of the total cargo value currently passing through one country must not exceed at any time the insurance bond sum valid for that year. To date, traders are required to obtain an insurance bond in each country where any customs duty is due. This has severe implications for the market entry and operations of transporters as cargo has to be insured double on a simple route covering two countries and can be even higher when cargo is transiting through several countries. This is in many cases not bearable for small companies that carry high value cargo. However, cargo insurance is not required if custom payments are made upfront to the government. One logistics firm mentioned the headache involved in managing multiple bonds for shipping UN equipment to the Democratic Republic of Congo through Kenya and Uganda. The firm could only transport one piece of equipment at a time until it had cleared the border of the first country in order to release that bond and apply it to the second piece of equipment.

In light of the common market, there has been an effort among EAC members in recent years to harmonize domestic taxes and tariffs. Harmonizing the tax and investment code of the member states is a key measure towards greater regional integration and therefore on the top of the agenda of EAC countries. Synchronizing the tax policies is necessary for the free movement of goods, services and capital to ensure that no custom duties are imposed on goods traded between the member states. In addition, equal domestic taxes such as VAT, excise duty, and income tax avoid tax competition among EAC member states (Kamulegeya, 2010). In November 2009, the presidents of the EAC members committed themselves to progressively harmonize their tax policies and laws by signing the 'EAC Common Market Protocol'. The goal is to abolish obstacles to trade and promote investments within the community. Currently, tax rates such as VAT vary across the region (Kenya 16%, Uganda 18%, Rwanda 18% and Tanzania 20%) (Rwanda Development Gateway, 2005).

### *The need for speed: road safety and driver training*

Road safety is an important issue in East Africa and beyond. From our experience, major roads were adequate and able to handle large amounts of traffic, including heavy traffic. All of the major roads are tarmac roads that are in use the whole year, regardless of the season weather. As other transport options are currently unavailable for transporters, almost all cargo is carried by road. Hence, large roads connecting two or more economic centers or transit roads tend to be overstrained and will diminish the lifetime of the existing road network over time. Although the condition of the major road network seems to be adequate, for the time being, rural and feeder roads are in much worse condition.

Nevertheless, improved road conditions are not the key to all existing challenges. Simultaneously, driving styles of drivers on the road have to be adjusted. Despite official speed limits on Ugandan, Rwandan and Tanzanian roads, in reality speed is mostly determined by the prevailing road conditions. As roads are going through villages, pedestrians and children are in great jeopardy as drivers' use their vehicle beyond their capacity. In some cases, local inhabitants establish speed bumps to reduce speeding in their villages and increase safety for pedestrians. This effort is a consequence of the sometimes reckless driving on larger roads. However, those obstacles increase transportation cost. Therefore, improving the road network needs to be done with increased efforts of drivers' education about the risks and benefits of safer driving. Major arteries need to bypass villages, instead of passing through them and pedestrian crossing should be prevented on highways. No speed bumps will be necessary and risks of accidents through pedestrians are minimized. In addition, to increase safety on the roads in the region, major transport routes and national roads need to be widened to accommodate road shoulders. This leaves space for vehicles in case of breakdown without inhibiting traffic. Other drivers can pass those vehicles without being at risk when surpassing.

### *Switching sides: left-hand vs. right-hand driving*

As part of the Commonwealth, Uganda, Tanzania and Kenya drive on the left side with their steering wheel being placed on the right. Rwanda, on the other hand, currently drives on the right with the driver on the left-hand side. From a national perspective, it is of secondary importance. However, taking the region with large traffic flows into account, this difference poses a significant safety threat as drivers from different countries may not be used to driving on the other side. Also, the position of the steering wheel is disadvantageous for foreigners when overtaking or bypassing other vehicles.

In 2005, the government of Rwanda has passed a bill prohibiting cars with the steering wheels placed on the right side. It was passed in order to increase safety on roads in Rwanda. The transitional period was set at four years, in which all cars in Rwanda must have their steering wheel on the left. Visitors and transit traffic are exempted from this rule for a period of up to three month (Rwanda Development Gateway, 2005). The experience showed, that the ban led to less imports as left-driving vehicles are more expensive. Also, this regulation has caused irritation among investors in the transport sector. As a consequence, many transporters and freight forwarders have bought right sided vehicles and registered them abroad. This is supported by the low number of trucks registered in the country with 2165. Foreign cargo haulers account for over 70% (about 5,025) of the total number of trucks that deliver cargo in the country, partly because they are cheaper to hire (Esiara, 2009).

However, the government of Rwanda is contemplating of switching the driving side in order to harmonize with other countries in the region. In this regard, the government is aiming to abolish the previous ban. For the government, this has severe implications as import revenue is projected to fall by 16% (due to the cheaper car prices) as well as accidents will increase until drivers will get used to the new regulation. However, it is also expected that switching sides will decrease transport costs due to lower acquisition costs of the trucks (Esiara, 2009).

## b. Understanding transport planning in East Africa

The inefficiencies outlined above are all symptoms. However, the cause of these problems are acknowledged to be years of neglect and uncoordinated and unintegrated regional corridor planning (CPCS Transcom, 2009). There is simply no impetus or agency, for all 5 nations to cooperatively coordinate transportation planning in East Africa. This is disappointing, particularly when until the demise of the previous East African Community all transportation was integrated – to the extent where there were no national agencies, only regional bodies that managed infrastructure across borders (McCrow, 2010). The current state of affairs is one where Dar-es-Salaam is seen as a Tanzanian port, but not as a vital lifeline for Burundi, Rwanda and Uganda. In this scenario, the landlocked countries are completely dependent on Tanzania to increase efficiencies, in order to improve their economic development. Most crucially, none of these landlocked countries have a concrete stake in influencing the growth and planning of Kenyan and Tanzanian transport infrastructure. As the least developed nations in the region, the economic clout of these client countries is reduced, meaning that bargaining power is limited. Taken in concert with a *de facto* monopoly situation where Mombasa and Dar-es-Salaam are effectively the only routes to international markets, we can see that the East Africa region has built-in political imbalances that manifest in institutional barriers to cohesive transport planning.

### i. Ministries, secretariats, and corridor agencies: An institutional landscape

Allocation of resources for planning bodies is a key factor in the ability of an agency to develop, assess and execute on an infrastructure project. Strong and stable funding can be the key to attracting the right talent, having a fully staffed department and appropriate resources to carry out duties. Among infrastructure planning authorities there are three types of organizations: 1) national government ministries 2) regional secretariat 3) corridor agencies.

#### *Government Ministries*

Speaking with various government ministries and with other individuals and organizations that work with government ministries, our team was able to glean a sense of how they worked, who worked in them, and how effective they were. In the absence of any standard monitoring data – at least at the departmental level, much of our findings focus on observations and anecdotes.

In all countries we found professional, highly skilled and qualified staff who knew their portfolios in great depth. Additionally, we were pleasantly surprised at the accessibility of senior officials, who were happy to meet with us, sometimes on short notice and were eager to connect us to other individuals who could assist us in discussing developments in their sector. Often, it was our constrained schedule which precipitated who we could meet with, not the availability of bureaucrats.

However, despite the generosity of senior ministerial planners with their time for us, almost universally was it reflected back to us that there was simply too much work that had to be done by too few individuals. The key here is not necessarily one of time – though that may also be the case – but it seems to be one of diffusion of responsibilities. Simply, there did not appear to be a great amount of depth in the bureaucracy, with a number of able junior public servants who could execute the plans of senior bureaucrats. Often, the responsibility for this also remained with senior bureaucrats. Due to their hectic schedule including directing the activities of their department, advising their ministry, chairing stakeholder councils and interacting on regional initiatives, there remained precious little opportunity to actually shepherd projects through to implementation. An African Infrastructure Country Diagnostic report states:

> *A major finding is that African countries are typically only managing to execute about two thirds of the budget allocated to public investment in infrastructure (Briceño-Garmendia, 2008). Or put differently, public investment could increase by 50 percent without any increase in spending, but simply by addressing the institutional bottlenecks that inhibit capital budget execution. These include better planning of investment projects, earlier completion of feasibility studies, more efficient procurement processes, and a move to medium term multi-year budgeting. Increasing capital budget execution to 100 percent could potentially capture an additional USD 3 billion per annum in public investment. (Foster, 2008)*

For this reason alone, it is our opinion that alleviating this constraint could lead to a far more streamlined, timely and effective process of infrastructure project planning & implementation than currently exists. Though Trade Related Technical Assistance is made available, the expectation is to pair a foreign expert with a local contact. This advisory role creates an additional administrative burden for local bureaucrats even as it provides valuable technical expertise.

### *Regional Secretariat*

The regional secretariat of the East African Community has a department of transportation for which there is a small but dedicated and talented team of administrators involved in advocating infrastructure projects for the region. In this agency, the size of the team is not as crippling as in the government ministries, as the EAC is able to rely on the talents of national sector bureaucrats to augment their own in-house planning, analytical and strategic capacity. Certainly, the EAC's largest successes have been in shepherding an East Africa Master Railways Plan, and also identifying 5 road corridors for rehabilitation and expansion. As a forum for regional dialogue, they are also able to serve as an interface to outside stakeholders, communicating with the international private sector, and organizing investor conferences. As a standard setting body, they have been able to compile best practices and are striving to be a thought-leader on transportation expertise in the region. With the success of road maintenance funds in the region, they are assessing the feasibility of a similar mechanism for railway maintenance.

However, the small size of the secretariat department runs into difficulties in coping with the request for assistance from both government ministries and interfacing with corridor agencies. Increasingly, the secretariat is called upon to shore up deficiencies in local feasibility and environmental assessments and to provide a match-making service between donors and projects. So, its success in building expertise has led to increased reliance from understaffed and underfunded agencies at the local and national levels. This inevitably has an impact on the executing capacity of the EAC secretariat, and could distract its focus from its original purpose of long-term planning and standard setting.

### *Corridor Agencies*

Though the secretariat for the Central Corridor agency has only recently been set up, with only its director seconded from the Tanzania Railway Corporation, the ambition of the agency merits greater support if it is even partially able to mirror the achievements of its Northern Corridor sibling. Indeed, in acting as an on-the-ground interlocutor between local stakeholders, regional strategy and national implementation units, the corridor agency is taking on a key role in ensuring policy coherence between multiple levels of governance. Speaking with the newly installed director of the agency, the major issue that was highlighted was the sustainability of the agency. Though funded for three years by the African Development Bank, it was noted that the agency would have to demonstrate value to stakeholders fairly quickly to ensure that the institution continued to function. In the original grant funding from the AfDB, it is explicitly expected that corridor countries will continue to fund the secretariat based on each country contributing equally (Adzibgey, Kunaka, & Mitiku, 2007). But for a nascent agency to be successful, donors and development partners must continue to support its work. Most importantly, financial support is required to coordinate planning and attending meetings – to ensure smooth dialogue and information dissemination between all stakeholders. Additionally, the secretariat needs technical assistance to support the day-to-day running of an institution. Future plans are afoot to begin to develop support services to the corridor such as education and training for exporters and truckers. One enlightened ambition concerns the development of hospitality and catering services at strategic hubs along the corridor in conjunction with health care services for transporters, weigh station control for police, and cargo bureau outlets to facilitate return loads and data collection.

### Northern Corridor

However, things are changing in the region. Most notably due to the success of the Northern Corridor Transit Transport Co-ordination Authority (NCTTCA) brought into existence in 1985 to overcome transit transport constraints between Burundi, Kenya, Rwanda, Uganda and later included the Democratic Republic of Congo (NCTTCA). The four objectives of the agency are to (NCTTCA):

i) *Ensure freedom of transit among the member states*
ii) *Safeguard right to access to/from the sea for landlocked countries*
iii) *Develop and integrate the regional transport facilities and services*
iv) *Facilitate inter-state and transit trade*

Since, the formation of the NCTTCA, it has served as a regional body where transport ministers from all member countries meet regularly to discuss shared development goals for the Northern Corridor that serves Mombasa. Interestingly, since this body was formed in-between the demise of the previous EAC and before the currently reconstituted regional body, this agency is regarded as having greater legitimacy to address regional transportation issues than the EAC. The success of this body in being able to serve as a regional transport forum, and for donor agencies to effectively engage on pertinent transport issues, has seen it serve as the template for what should be done in the Central Transport Corridor, serving Dar-es-Salaam.

### Central Corridor

Discussions with Central Transport Corridor officials openly state that they hope to engage with development partners like the EU and USAID on construction projects and with the World Bank's SSATP unit to provide monitoring stations. The success of donor interaction with the Northern Corridor for a number of years was seen as a best practice to emulate in the Central Corridor – and with hopes to attract similar levels of donor investment through a familiar institutional structure.

The Central Corridor Transit Transport Facilitation Agency (CCTTFA) was formed through a multilateral agreement in 2006, but only recently has established and begun staffing a secretariat in Dar-es-Salaam. Its objectives are similar to its Northern sibling (Adzibgey, Kunaka, & Mitiku, 2007):

i) *Ensure that the Central Corridor is efficient and cost-effective;*
ii) *Market the corridor with a view to increase its utilization;*
iii) *Support infrastructure planning and operations on the Corridor through proactive collection, processing and dissemination of traffic data, analysis of competitive corridors and business information;*
iv) *Promote sustainable maintenance of infrastructure;*
v) *Encourage the implementation of improved customs transit procedures and the implementation of joint customs controls and juxtaposed customs offices at land borders and seaports;*
vi) *Cooperate, where appropriate, with regional bodies with similar objectives.*

The makeup of the agency includes an interstate council of ministers focused on inter-state policy, legal and regulatory harmonization and an executive board that comprises the permanent secretaries of the national ministries of transport. Also, the private sector has representation alongside the permanent secretaries on the executive board – to assist in corporate governance and appointing senior technical staff. Finally, a stakeholder's consultative committee is in place to ensure accountability and to develop and monitor performance targets.

The agency has had a few successes already – particularly in communicating and facilitating the development of bonded warehouses to decrease the congestion of Dar-es-Salaam port. A major achievement of the agency has been to serve as a central clearing house for complaints from stakeholders. The agency solicited stakeholders for a list of bottlenecks they faced on the corridor and distilled 200 separate items into 10 major actions, and then rigorously followed-up with the appropriate agency. Due to the nature of the corridor, this has meant targeting Tanzania, only. The bottlenecks in other countries relevant to the corridor feature much larger projects to mitigate – such as inland port development, expansion of railway links, and one-stop border posts. In these issues, the division of responsibilities seems to present additional obstacles to project implementation.

A story about border posts highlights the complexity of the institutional frameworks. One donor agency is involved in upgrading the border at Zambia under the mandate of the Ministry of Infrastructure; however another donor is closely aligned to the Ministry of East African Cooperation, and therefore would like to provide a comprehensive solution to upgrade all border posts. Similarly, the EAC secretariat's transport department has taken on the task of developing a transport facilitation strategy, but instead of consulting with the Ministry of Infrastructure or Transport, the inputs are coming from the Ministry of Trade as transport corridors are seen as an issue of trade facilitation.

### *Intermodal Planning Required*

In this awkward overlap of ministerial responsibilities, stakeholders and corridor officials are advocating for the EAC secretariat to step up. What is required is a clear delineation of responsibilities, with the EAC taking on the development of policy standards and continuing to be a forum to discuss long-term planning, while leaving the corridor agencies to implement with donor assistance. By setting the policy standards and staying out of implementation, the EAC can use the instruments they have to enforce or at least encourage regional integration – such as creating a Doing Business report for the EAC. Corridor officials were clear in stating that the place to debate, negotiate and decide on a path forward was the EAC. The current framework features corridor, national and regional institutional overlap with a great deal of duplication of effort and diffusion of decision-making. This is the most important aspect of regional planning, as without a clear sense of responsibility, project approvals can be stuck in a bureaucratic purgatory as implementing agencies wait on a multitude of agency deliberations. Certainly, the corridor seems best-placed to be the implementation and performance management agencies, as they have the best stakeholder access and local footprint.

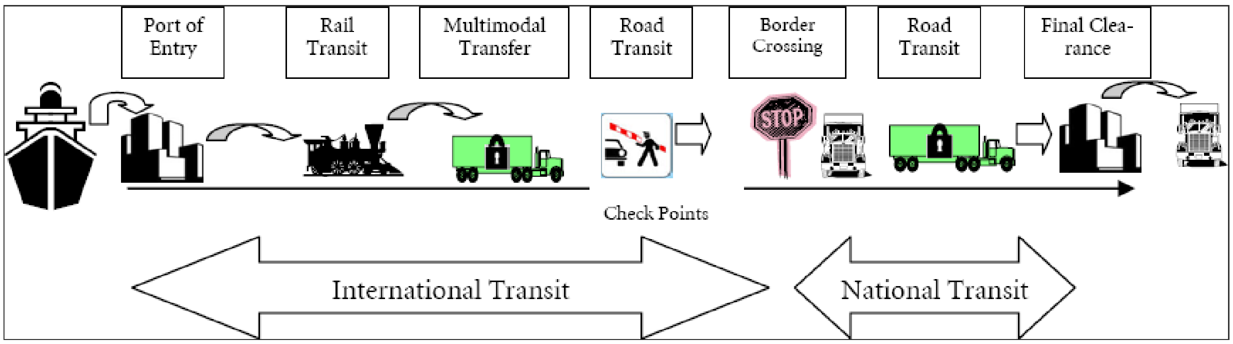
### ii. A dearth of data: Assessing information quantity and quality

One area that was of particular importance to our study was the dearth of accurate, relevant and up-to-date transportation data. Through our study, we spoke to a number of stakeholders from public, private, donor and non-governmental organizations, and at no point did we hear two opinions that were in agreement with each other. Furthermore, numerous times we heard that a transportation link was defunct when it was operational, that roads were poor when they were perfect, that congestion was intense when it was actually free-flowing. Conversely, we also were told of how certain routes were safe when they were dubious, border checkpoints were easy to cross, when they were inefficient, long and confusing and that maintenance was not a concern, when it clearly was. This highlights the need for coordinated, comprehensive and standardized data gathering and dissemination. The fact that high-level officials are misinformed on the state of infrastructure for which they are directly responsible can only lead to poor planning and further deterioration in the future. In this area, the World Bank's SSATP unit has had a great deal of success in the intelligence and insight they have brought to the Northern Corridor through monitoring stations. It is imperative that this system be replicated for the Central Corridor. Through investment and cooperation the Northern Corridor has already completed the pilot phase of a regional cargo tracking system and is contemplating how to roll out implementation across the corridor.

## a. Understanding project finance & implementation in East Africa

One challenge that has not been explored in any great depth in this report so far has been funding. Infrastructure can often be the most capital intensive development project in any country, developed or not. The massive initial investments, coupled with the long payoff periods and rising maintenance and operations costs have seen a host of literature discuss multiple forms of how to ensure sustainability of infrastructure. However, in developed countries, while the discourse is often about how to fund the construction of the infrastructure, in least developed countries there are additional challenges. The lack of human resources to shepherd projects through the assessment and planning stages means that for many donors ready to invest, there is often a shortage of "shovel-ready" or "bankable" projects. This constraint, at the very start of the planning process creates additional time lags through to project implementation, and in turn delays economic growth. On the other end, after infrastructure has been built ensuring proper maintenance requires additional investment and though public-private partnerships have been used here, often the level of "partnership" does not extend as far as to financial cost and risk sharing between government and concessionaire.

**Figure 5.2: Steps in the Logistics Chain**




| Typical Sources of Data | | | | | | |
|---|---|---|---|---|---|---|
| **Port** | **Rail** | **Road** | **Road Transit** | **Border crossing** | **ICD** | **Destination** |
| *Freight forwarders* | | | | | | |
| Customs Port opera-tors | Rail op-erator | Truck operators | Drivers | Customs | ICD op-erators | Firms |
| Volumes, disaggregated processing times | Volumes, duration and cause of stops, costs | Volumes, costs, overload control | Location, duration and cause of stops | Disaggregated processing times (both sides) | Dwell time per mode of transport | Total trip time, costs, reliability |

Source: (Raballand, Marteau, Kunaka, Kabanguka, & Hartmann, 2008)

### i. Build, operate, and maintain: Who is funding what, and how?

#### *Building*

Building infrastructure projects is fortunate enough to have a number of experienced donors who are committed to investing in the implementation phase of construction. The World Bank and African Development Bank are keen to provide loans, guarantees and financing for projects, the European Union has extensive experience and good results in road-building projects in the region, and UK's DFID and Japan's JAICA are involved in the upgrading of one-stop border posts. Of course, one of the challenges is in funding for railway and port projects. Due to the nature of the infrastructure – they are income-generating, as opposed to a necessary public good – grant money cannot be provided, particularly given the size of the capital investment. While the European Union's total aid to the EAC across multiple categories was USD 17 billion, the total cost for developing new railway links into the landlocked territories is projected at USD 34 billion (CPCS Transcom, 2009). Therefore, attention necessarily shifts to development banks and the private sector in order to make it financially feasible for construction to occur. Port upgrades are not quite as cost prohibitive – Dar-es-Salaam's private operator expects to spend USD 60 million in improvements over 5 years to increase operational capabilities.

Subsequently, unique investment challenges remain solely for railway investment, as the combination of a small market, poor existing infrastructure, long construction period, and declining market for passenger services – even as government concessions explicitly require a certain level of (usually loss-making) passenger service – ensure that the solution to financing railway investment will be difficult to achieve. With donor funding reduced in light of the economic crisis, a solution to financing major infrastructure projects may have to come at the cost of existing aid projects or the involvement of non-OECD donors (Foster, 2008).

### *Operation & Maintenance*

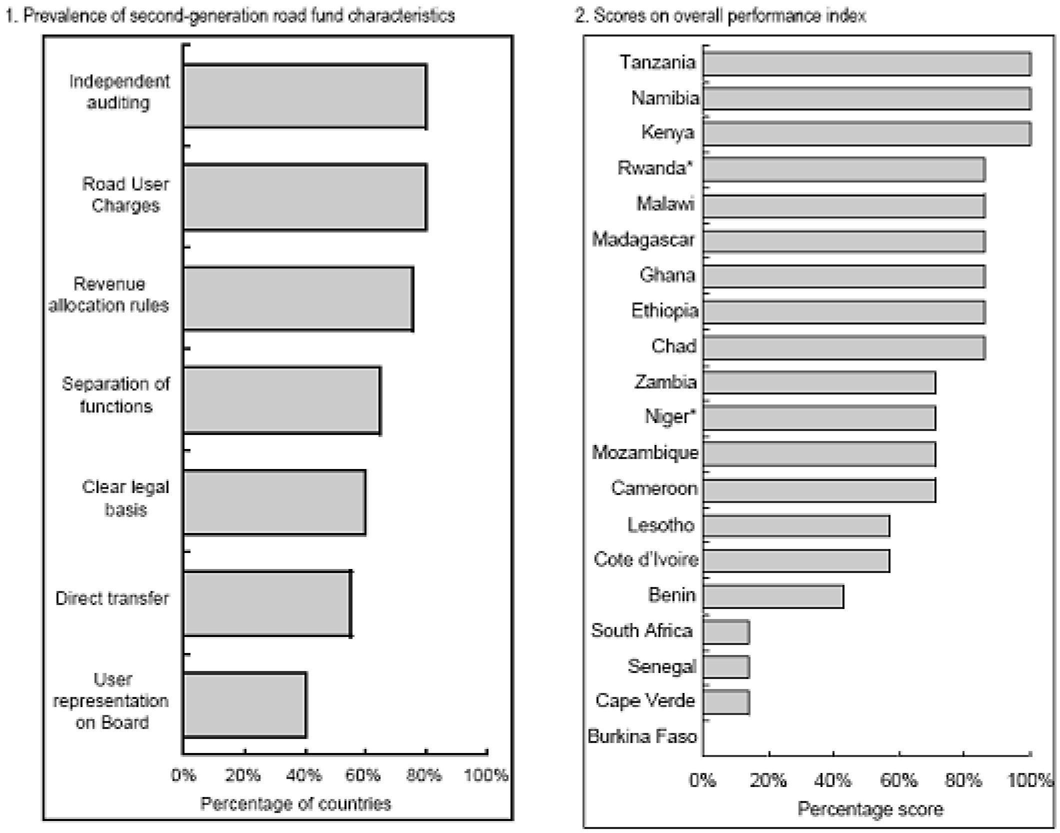
One of the criticisms of infrastructure projects in Africa has been that sufficient attention has not been placed on operations and maintenance. Whether it is in the budget or on-the-ground, it is only recently that the adequate funding, staffing and planning of how to implement a sustainable operation of infrastructure is taking place.

#### Roads

Roads have been the main culprits in poor infrastructure in the past. A new road would be built, but without regular maintenance and poor monitoring, would quickly deteriorate. This is no longer the case. Each of the countries visited had fully functioning road maintenance funds. We routinely heard of adequate resources being allocated to local administrations, both to build local capacity and ownership as well as ensure quick responsiveness and regular monitoring. In order to maintain and improve the condition of the existing road network, there are several national solutions. For instance, Uganda launched a Road Fund in May 2009. The fund will be fed by the revenues generated from fuel levies and from weigh bridges. The major goal of the fund is to finance routine and periodic maintenance of public roads, including the national, district, urban and community access roads. Also the Ministry of Infrastructure in Rwanda has established a new Road Maintenance Fund in 2009 as the previous maintenance mechanism failed to generate sufficient funding to cover the costs. The fund work is solely directed at maintenance efforts as construction and rehabilitation is funded by the government and donor partners. Revenues are generated through a fuel levy for consumers. Tanzania operates a Road Fund under the Roads Fund Board that is responsible to provide adequate and stable flow of funds for sustainable Road maintenance.

While road building has been funded with the help of a number of donor agencies – in this region, chiefly the European Union – the maintenance of road networks has been to create an independent source of funding through road-user charges. These road maintenance funds are kept separate from government expenditures and are usually administered by an autonomous board (Gwilliam, Foster, Archondo-Callao, Briceño-Garmendia, Nogales, & Sethi, 2008). In particular, East African countries outshine their Sub-Saharan peers when it comes to performance of the funds, as they are ranked at the top of the SSATP RMI Matrix 2007.

**Figure 5.3: Evaluation of Road Fund Reforms**




Source: SSATP RMI Matrix 2007

As the economy of the region develops, and road traffic increases, toll roads are now coming into the picture in a big way. A concessionaire has been selected to operate the Nairobi bypass road as a toll route for traffic moving on to Mombasa. This is an example of a project that had been partially funded by the World Bank, and then will be concessioned on the Build-Operate-Transfer (BOT) model. The successful development of main trunk roads between major city centers has increased the amount of traffic. With that increased demand have also come increased expectations, and there are now calls from the private sector to invest money into building a regional interstate-style system with dedicated transfer ramps operated on a toll basis (PSF, 2007). With railway viability not on the horizon for the foreseeable future, it would seem the private sector is looking to invest heavily in a proven form of transportation. While this is encouraging for the viability and sustainability of the road network, it does not do much to help the cause of rebalancing investment towards rail.

## Railways

When discussing the level of investment required for African railways, a recent AICD report titled the section "Investment – how much can be justified?" (Bullock, 2009) This is an appropriate question to ask, considering the history of the railway, its current demise and the contrastingly grandiose visions for the future. Investment for the railway means new construction, new rolling stock and rehabilitation of tracks and current rolling stock. The AICD notes, "Thus the investment required at any one time is a function of the age and condition of the existing assets; lines that have been poorly maintained require a substantial volume of “backlog” investment.” Given that the market for railways is small – the population of the region is not regarded as highly mobile, so freight traffic is expected to be the sole passenger. Fundamentally, rehabilitating the railways must be positioned as rebalancing the modal split of freight transportation in the region. Railways should occupy the dominant role in freight transport (CPCS Transcom, 2009). With trains accounting for less than 10% of freight traffic, the railway has fallen far from its historical share of 60%.

But this is not necessarily such a bad thing. Our team heard from multiple sources that the concessioning of the Tanzania Railway Corporation had failed precisely because it was stipulated that they accommodate passenger service at a severe loss, and ultimately forced them to abandon the concession. In the end, focusing on freight may be the ticket to growth and development for the entire region as one interviewee stated, “Eastern DRC’s iron ore deposits alone will make electrifying railway a viable over the next 10 to 15 years.” Concentrating on efficient and effective freight service would begin to allow East African railways to dream of success, and hopefully profit. The EAC Master Railways plan has stated that an investment of just USD 1.2 billion spread over 20 years would be sufficient to rehabilitate the existing four railway lines in the region (CPCS Transcom, 2009). Donor funding is not flowing to this project yet as feasibility studies are being completed. But the World Bank and African Development Bank have stated their willingness to fund the project if it is proven to be commercially viable. Bilateral donors are not expected to provide funding as railway operations are regarded as revenue generating economic activities and therefore do not meet the criteria of typical bilateral aid projects. Over time, building up a larger and more successful stakeholder ecosystem that is profiting from effective service could lead to the possibility of greater reinvestment in modernization.

### Ports

Africa has, in general, had success in quickly turning around underperforming ports or building from scratch new ports that can immediately handle the demands of international trade. East Africa, though slightly delayed to Southern Africa, is beginning to show the same results. As stable outlets to resource-rich landlocked countries, Kenya and Tanzania are beginning to compete with each other for business. As with any competitive market, the winners of this battle will be customers. While Mombasa and Dar-es-Salaam have had reputations as slow, inefficient and corrupt ports, recently both have been carrying out maintenance operations, system upgrades and streamlining port procedures. Particularly at Dar-es-Salaam, which was visited by our team, the targets and ambitions of the private operator of the international terminal were benchmarked not to regional port leaders, but international ones. Customer choice and capacity limits have prompted port authorities to commit to continued investments in order to maintain and strengthen competitive advantage. The success that the port seems to be achieving has been in spite of an imperfect concession agreement, with equipment condition not taken into account when assigning contract duration, no proper incentives for timely replacement, and performance targets not indexed to equipment in use or types of vessels and cargo passing through the port (Farrell, 2009).

### ii. Golden goose or noose? Assessing private-sector partnerships

Concessions and other public-private partnerships have been a preferred method of attracting investment to important infrastructure projects without putting greater stress on limited donor funds and stretched government expenditures. They have for the most part succeeded in attracting private partners into the sector. But while the government usually receives concession fees as well as taxes, the successful profitability of the concessionaire can be elusive. The AICD concludes:

> *When concessions have been offered, there have generally been very few bidders. Of these, even fewer have had the resources to finance the major investments required; as a result the state has had to guarantee investments. Even then, financing has been slow. Concessionaires have generally been unenthusiastic about running passenger services and have had difficulty getting government compensation for unprofitable services and other facilities. The level of concession fees, the length of the concession, and the redundancy arrangement have provided further problems, leading some concessions to be renegotiated. (Bullock, 2009)*

Nonetheless, the report mentions that most concessionaires have improved traffic levels and productivity and are generally providing better service to users than the state. But, they do also stipulate that major investment was required by donors and international financial institutions to arrive at this level.

When speaking to transport planning experts at the Central Corridor Agency and the EAC, the same message was echoed back to us: if you go private, go all the way – partial privatization is the worst of all worlds. In this, it is clear to see that the failure of the state-directed, but privately operated TRC concession was at the forefront of minds. In this example the government effectively set the train schedule and expected the private firm to carry it out, while paying a fee, taxes and investing in upgrades. Contractually obligated by the government to provide a timely but loss-making passenger service, the private firm was unable to add capacity to the more lucrative cargo services demanded by commercial clients. Unable to recover costs, let alone turn a profit, the concession could not invest sufficient funds for maintenance and upgrades, ultimately accounting for the current state of disrepair.

In contrast, at the Dar-es-Salaam container port, the private firm has been given clear and manageable targets from the government, that coincides with the success of the firm. Higher moves per hour clear congestion in the port and increase profitability – a win for both government and concessionaire. With the port returning to efficiency despite an idle railway, the concessionaire is able to plan a long-term investment strategy to add new tools and upgrade equipment. Besides the obvious point that running a single port is very different from managing an entire railway network, the contrast is also due to the level of alignment in the goals of both public and private partners.

The OECD's best practice guidebook on public-private partnerships is titled, "In pursuit of risk sharing and value for money." (OECD, 2008) We would argue that value for money is certainly being achieved in the large number of concessions that are being parceled out in East Africa. What is yet to occur is an enlightened understanding that *both* government and concessionaire must *share* the risk of failure of any project. The OECD states:

*Risk should be allocated where it can be best managed. Risk should not be transferred to the private partner at any price for the sake of transferring risk alone. Risk transfer to the private partner may increase value for money, but only up to the point where it creates the incentive for the private partner to improve efficiency. Beyond that point, the value for money for the government may diminish as greater levels of risk are transferred to a private party. (OECD, 2010)*

If private firms view public infrastructure projects as a short-term windfall they will fail catastrophically in what will surely be a loss-making enterprise. Similarly, if governments simply view private involvement as free money they will be no nearer to their goal of national economic development when the concessionaire exits with their expertise and leaves crumbling infrastructure behind.

### b. Road to a regional transport plan: An implementation strategy

Any development of a regional transport plan in East Africa has to overcome the problems of low population density in certain areas and deep topographical differences within the region. Low population density will underutilize the capacity of the rail & road network. Moreover, the limited intra-regional mobility will increase the time of achieving break-even.

There are significant topographical differences within the region. Rwanda, for example, is comprised of mostly hilly terrain that this will substantially increase the cost of developing any rail/road network within the country. The topographical difference will also lead to the question of cost sharing on the basis of developing the infrastructure and usage as per traffic load.

*Barriers to regional transport planning:*

1) *Geography & environmental impact*
2) *Weak institutions*
3) *Lack of capacity*

The difference within the region will also affect the planning process. For example – certain rail routes to the port of Dar-es-Salaam from Mwanza will be through north Tanzania. However, most of the national parks of Tanzania are based in this region. So, any development has to bypass the parks and take a longer route to protect the sensitive Serengeti ecosystem.

The countries also lack institutional capacity to manage the transport systems. Some institutions have developed, such as the Tanzanian Road Development Authority (TANROADS). However, management of complex transport system like railways, where integration and maintenance of the systems comes with high cost and low flexibility, remains a challenge. The member countries of EAC are also members of different sub-regional, regional bodies; often the rules of these bodies overlap and interfere with the planned transport standards. Adding to the confusion, national policies are also not necessarily coherent with the regional standards. This leads to ambiguity while planning for an integrated regional transport structure. Providing a well-staffed and qualified team at the EAC level to assist national authorities with their transport plans could alleviate the pressure of capacity concerns, while also legitimizing the body as an effective regional planning forum.

The region’s British heritage has seen a long history of railway operations. However, the political division of the region resulted in a similar division of railways between the countries. Lack of resources, from the side of individual countries, to manage and maintain the system resulted in gradual decline of the railway systems. More so, many operational lines became defunct since governments didn’t invest in up-gradation and maintenance of the existing physical infrastructure. Moreover, two countries in this region – Rwanda and Burundi have no history of railway operation.

Continuous losses made by railway corporations forced governments to invite private partnerships in management and operation of railways. However, these initiatives invited criticism from different quarters. The failed concessioning of the Tanzanian Railway Corporation and increase in tariff rates for the Rift Valley Railway in Uganda have provided opponents of privatization much ammunition. But, regardless of criticism, there is no answer put forward to address the question of efficiency, resulting in a continuing loss of existing customer base.

These issues related to lack of institutional and operational capacity highlight the need for planning and managing to be centralized within a regional authority where there is sufficient talent and resources to carry out best practices in infrastructure development. So, while planning for integrated transport plan for the region stress should be more on developing institutional capacity for effective management of the transport systems than limiting itself only to creation of physical infrastructure.

# 6. Analysis: Transport, Trade & Aid interactions

## a. Aid: On the ground

### i. Uganda: PRSP & DTIS

While the Poverty Eradication Action Plan is a wider framework taking a more holistic approach to national development, the DTIS/Action Matrix within the EIF process addresses specifically trade capacity challenges. One of the major goals of the EIF process is to align the DTIS/Action Matrix to the national development plan/poverty reduction strategy.

In the PEAP, the government of Uganda outlines several policy challenges in the areas of transport, trade and trade facilitation among others. The PEAP aims to reduce both tariffs and non-tariff barriers for export markets through the simplification of procedures and elimination of duplication processes. However, when crossing the border at the Rusumo border, there were truck drivers waiting around two days to cross the border.

Other major impediments to trade are still the inadequate infrastructure in the country, especially rural roads. According to the government of Uganda, much progress has been made in recent decades with significant upgrades and rehabilitation for both national and district roads to a fair condition. The Action Matrix aims to address this in the medium-term by promoting rural road connectivity in order to reduce transport costs. However, during our field visit it was apparent that there is still much room for improvement in this area. Particularly rural roads remain a huge challenge for Uganda. On the other hand, the national road network seemed to be sufficient on the roads we travelled. There were no major traffic jams once traffic in Kampala has been passed. In order to relieve the road network from extensive heavy traffic, the Action matrix calls for significant shift of bulk goods onto railroads. The Action Matrix also advocates specific interventions at port facilities for enhancement and development in transport and trade. This issue is also discussed, to a lesser extent, within the PEAP but no specific actions are recommended to achieve improvements in transportation and trade.

In order to maintain the transport network, the PEAP also plans the establishment of a National Road Authority to take responsibility for construction maintenance of the national road network. Although not mentioned in the Action Matrix, the government of Uganda has implemented road maintenance teams that operate on a local level in order to ensure great flexibility and timeliness to react to disruptions. Unfortunately, it was not possible to validate the success of this strategy during the field trip.

Whereas the PEAP emphasizes the need to build capacity in undertaking trade negotiations in regional and international forums, the Action Matrix does not address this issue in particular. The Action Matrix rather focuses on the results of international trade negotiations than on the capacity building aspect to manage them. In other areas, both the Action Matrix and the PEAP aim to introduce vehicle inspection and enhance drivers' training. However, from our experience in the country we were not able to observe any major disruptions on the roads such as weighbridges or informal police checkpoints.

Acknowledging the importance of coffee to Uganda's economy, its DTIS addresses specific interventions implemented to boost coffee earnings such as disease control and crop re-plantation. The coffee sector's importance for poverty reduction is also noted in the PEAP due to the industry's labor intensiveness and large income share.

### ii. Rwanda: PRSP & DTIS

Major challenges for Rwanda are the high trade and transportation costs resulting from its location inland. Transport prices, as a share of import prices, are nearly three times higher than in Tanzania and Kenya in 2007. This is the highest percentage in the region and is caused by long delays on the transport corridors (i.e. long border procedures, inadequate infrastructure).

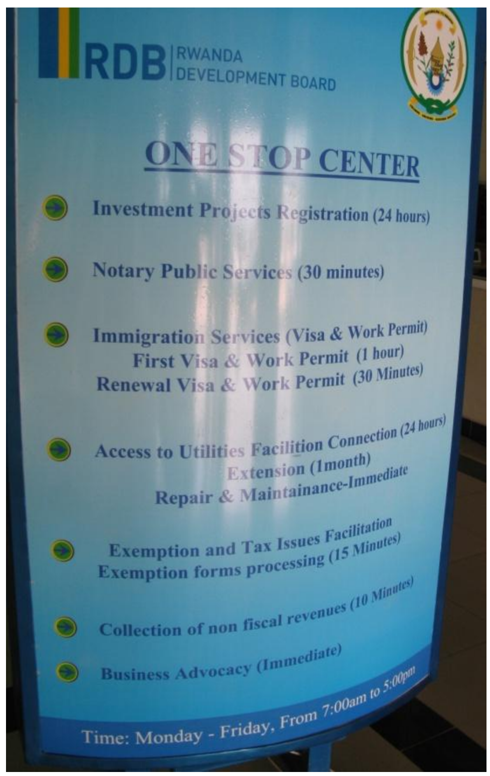
To address this problem, the DTIS/Action matrix aims to develop and implement a rural transport strategy until 2010, enhance training of customs officials and build capacity and increase awareness of the private sector. In addition, all ASYCUDA modules are supposed to be implemented in order to reduce clearance time to two days for imports and three hours for exports by 2006. JAICA and DFID have been active in this region in upgrading border posts since 2004. While awaiting ASYCUDA implementation, authorities have instituted simple reforms such as longer opening hours at border posts and simplified documentation requirements, resulting in lowered waiting hours. Still, according to truck drivers, the average waiting time to get clearance at the border crossing of Rusumo and Gatuna border (both sides) takes around two days. This is also in line with the Doing Business Report 2010 of the World Bank (World Bank, 2009).

While the DTIS/Action Matrix addresses future challenges explicitly, the EDPRS often refers to similar problems in much broader terms. It underlines the need to reduce costs of transport and trade. This is implemented through the 'Growth Flagship Program'. In particular, the expansion of the road network and the rehabilitation of the existing infrastructure through heavy investments are emphasized. In addition, issues such as road safety and adoption of the rail development strategy are targeted for the years 2010 and 2011 respectively.

To reduce corridor disruptions, the Action Matrix also emphasizes the increased need to engage in regional corridor organizations and regional trade agreements, especially greater participation in Economic Partnership Agreements. This is also in line with the EDPRS that stresses the importance of regional and global integration of Rwanda. This will broaden the country's export base and open new markets for its products. The EDPRS also envisions Rwanda as a future regional hub in the long-run. From our conversations with government officials, we observed a much greater openness towards regional cooperation and integration than in other countries. Partly due to the landlocked location of the country, the East African Region is seen vital for the future of Rwanda. Just in June 2007, Rwanda became a full member of the East African Community (EAC). Further, it belongs to the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of the Great Lakes Countries (CEPGL). Political will for further engagement and participation was observed throughout all levels and across government. With Paul Kagame chairing the EAC, the president of Rwanda sets a good example.

Furthermore, the high costs of doing business in Rwanda limit the country's competitiveness and investment climate. Therefore, the Action Matrix calls for streamlined business regulations and reinforce one-stop centers by 2006 to 2008. This is in line with the EDPRS that lists the systematic reduction of the operational costs of doing business as one of the major targets. During our stay in Rwanda, we visited the Rwandan Development Board (RDB) in Kigali. The RDB is part of the one-stop center, where other public services such as immigration services, notary public services, investment project registration etc. are available. Those centers were accessible every working day from 7am to 5pm. In our view, Rwanda has done a tremendous effort to improve the business and investment climate in the past years in order to enhance its trading and business opportunities. This is confirmed by the Doing Business Report 2010 which lists Rwanda as one of the most active reformer. The government has permanently reformed its commercial law and related institutions. For example, a business can now be opened within three days and two procedures (World Bank, 2009) and work permits issued within one hour (see Figure 6.1). But Rwanda has also improved on other indicators of the Doing Business Report such as faster property registration, closing a business or getting credit.

**Figure 6.1: Rwanda Development Board One Stop Center**




Source: (Daggupaty 2010)

OCIR café is Rwanda's coffee development authority. Created in 1964, in recent years it faced increasingly challenges of promoting Rwandan coffee regionally and internationally not least due to a lacking business strategy. The coffee sector is vital to Rwanda's economy which is still to a large extent based on agriculture and feeds around 90% of the population (EAC, 2010). As a response, there are several initiatives currently implemented in line with the EDPRS such as the coffee marketing alliance, extension of services to farmers, technical assistance to washing stations and the variable pricing scheme. The special needs of the coffee sector are also recognized in the Action Matrix in which special support in the form of technical assistance to develop a stronger role in marketing and extension of OCIR café. Today, Rwandan coffee is known for its high quality in markets around the world and is marketed as a premium product.

Before the EIF process took place in Rwanda, trade policies in the country did not fully support export development and diversification. In particular, a lack of capacity to pursue national interests in regional and multilateral organizations such as the WTO and Economic Partnership Agreements negotiations. As a consequence, Rwanda took action by enhancing their trade capacities (human resources) as well as reduced duties on raw materials. While the Action Matrix addresses this particular issue, the EDPRS leaves it to a large extent aside.

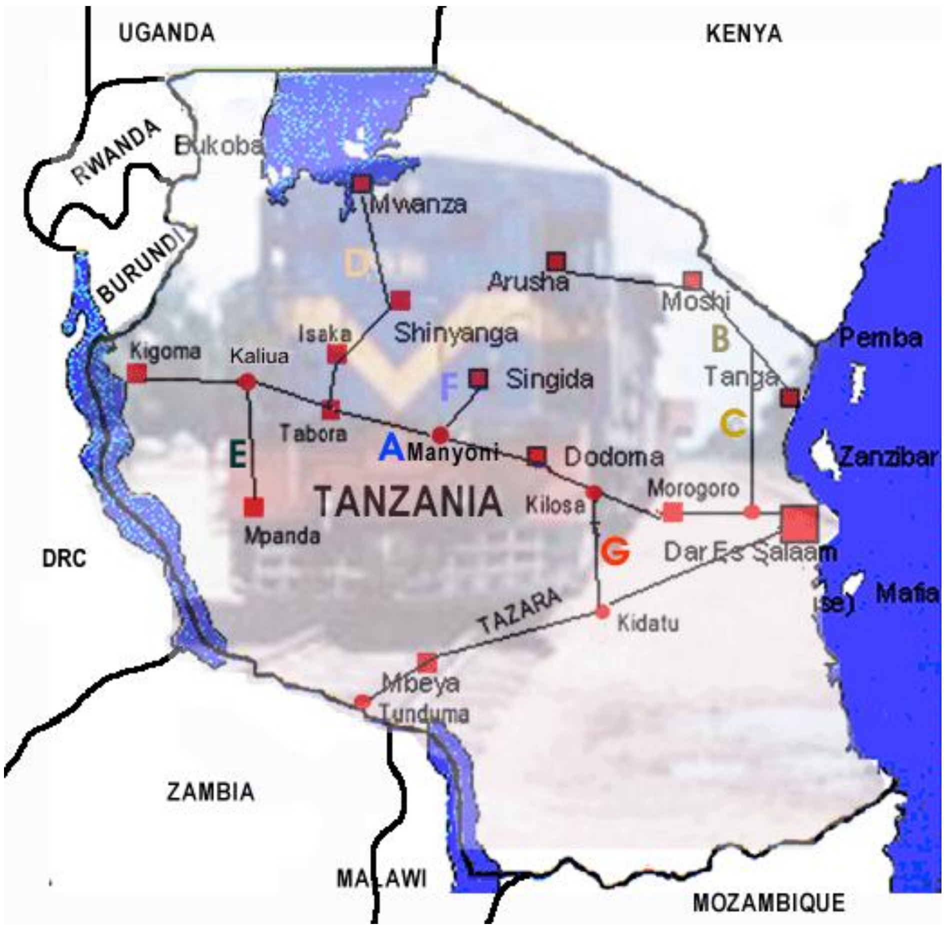
### iii. Tanzania: PRSP & DTIS

The initial DTIS, launched in 2005, as well as the 2007 update did not deliver the expected results. Comparing the DTIS Action Matrix of 2005 with the NSGRP, priorities outlined in the Action Matrix did not entirely correspond to the needs assessment of the NSGRP. For example, while both recognize and emphasize the need to expand on the hard infrastructure network, especially the transport infrastructure such as roads, rail and ports, other issues relating to trade and transport facilitation are neglected at all to a large extent in the NSGRP, i.e. border crossing and other soft infrastructure issues. As a consequence of the disappointing outcome, the Tanzanian Trade Integration Study 2009 – 2013 was introduced in May 2009. The following section reviews the current TTIS and assesses to what extent it is aligned with the NSGRP as this is seen crucial for the success of the EIF process.

The TTIS has outlined 8 major objectives of which four are directed towards greater capacity to manage trade policy and strategy as well as Aid for Trade. The second set of objectives focus on expanding Tanzania's competitive export supply of goods and services. Comparing the NSGRP with the TTIS, there exist a high degree of consistence and conformity between the two. Almost all objectives of the TTIS/Action Matrix can be found in the national development plan. Examples are building human capacities to better participate in trade negotiations – Objective 4; increase the capacity of domestic producers, particularly SMEs and rural producers in processing, packaging, financing, managerial and marketing skills and information about international market standards, patenting, shelf-life, labeling and other conditions (for competitive export supply has been strengthened through direct support to exporters and producers associations – Objective 6); promoting investment through establishment of Special Economic Zones with special incentives to accelerate growth (for increase export-oriented investment through improved investment facilitation including more effective Economic Processing Zones (EPZ) and Special Economic Zones (SEZ) – Objective 7); harmonize standards and improve customs procedures (for trade facilitation to Tanzanian exporters – Objective 8). However, while the national development plan has assigned clear responsibilities to certain ministries and agencies, they are not specifically repeated in the TTIS. According to the donor facilitator and government officials, the new TTIS enjoys a high level of ownership both among the government and donors. Nevertheless, other governments are more flexible and responsive to regional integration and liberalizing trade.

In general, the TTIS fulfilled its purpose as it produced the results aspired: it is aligned with the national development plan. During our field visit in Tanzania, we have seen many custom bonded warehouses and special economic zones to reduce port congestion. In addition, many dry ports have been established by the Tanzanian government, such as one in Isaka meant to streamline imports & exports from Rwanda and Burundi.

Figure 6.2: Established Dry Ports in Tanzania




Source: (Roso, 2008)

Trade and transport facilitation remains an important issue on the ground. However, responsibilities and area of expertise do not always correlate. For example, the Ministry of Industry, Trade and Marketing is responsible for transport facilitation on transport corridors. According to government employees and exporters, transport facilitation can be maximized if the ministry sets the standards and implementation is done through private sector. Also, it became clear that police checkpoints and weigh bridges are still a huge impediment to trade and increase the costs to trade. There seems to be still great flexibility of the rules and regulations depending on the financial compensation made by the driver. The establishment of the Central Corridor Transit Transport Facilitation Agency (TTFA) is a stepping stone to achieve trade and transport facilitation.

### iv. Regional Perspective

Uganda, Rwanda and Tanzania have very different development priorities due to large differences of the three countries. Uganda and Rwanda are small landlocked economies and highly dependent on transport networks and infrastructure that is for the most part going through their neighboring countries Kenya and Tanzania. Disruptions on those transport corridors can have severe consequences for both countries as the post-election riots in Kenya have shown. Particularly Uganda was cut off from supply of vital commodities and goods to sustain its economy. While transport routes in Uganda and Rwanda are fairly short, distances in Tanzania are long due to the large size of the country. With that, there come different challenges such as maintaining the infrastructure. As a logical consequence, each country has its own development plan with individual priorities. Also, all three countries are in individual EIF processes and have their own Action Matrix.

Yet, all three countries as well as Kenya and Burundi are part of the East African Community (EAC). The EAC aims for greater cooperation on all levels of government including areas such as 'Customs & Trade', 'Private Sector and Civil Society', 'Transport and Communications', 'Energy and Agriculture', 'Natural Resources and Environment' and the 'Social Sector'. This strong partnership and cooperation between regions offers opportunities and benefits for all countries.

However, from our observation and several conversations with government officials, private sector and civil society in all three countries, the regional focus and pace of regional integration is not equal. For example, while Rwanda is one of the major forces to enhance and bring forward the process of regional integration other countries such as Tanzania fear the short-term costs of opening their markets to regional competition. Both reactions are rational and understandable from the national point of view. Rwanda's and Uganda's economy, as landlocked countries, are highly dependent on their neighbors. Particularly the transport corridors are vital to trade and key to competitive Ugandan and Rwandan products. Hence, the economic future is in the hands of other governments. Increased regional integration facilitates trade and thereby contributes to economic growth and poverty reduction. Both economies are regionally competitive and liberalizing markets and policies promise large economic gains.

Tanzania, on the other hand, has experienced a large economic transition from socialist rule to a market economy. To this end, according to several government officials, the country still faces adjustment costs and undergoes difficult mind-setting processes, both in government and the private sector. In addition, tariff reductions and the eradication of non-tariff barriers create fears about unemployment and losing out in the region. Particularly the fierce competition on manufacturing products with Kenya is regarded with high skepticism. Although current trade statistics show increasing exports of consumer goods of Tanzania to Kenya in recent years, parts of that is due to a preferential trade agreement towards Tanzania. The common market will commence on 1 July 2010 and those preferential treatments will disappear.

Despite some challenging economic effects for some countries, overall the long-term growth prospects seem to be good. Increased regional cooperation and coordination is needed to overcome common regional challenges. Win-win scenarios for all countries need to be created in order to foster interest and participation in working on issues beyond national borders. A good example is the development of regional economic corridors that are fuelled through a thriving transport network. While it offers the opportunity to transport goods from landlocked countries and thereby grants market access for Rwanda and Uganda, Tanzania benefits from economic and social effects along those roads. It not only enables local farmers to access global markets but also stimulates the Dar-es-Salaam port. Simultaneously, a port without the connection to its hinterland will suffer from congestion. Thereby, a functioning transport corridor is vital for a successful seaport.

This example shows that regional interests can intersect with national interests and working together could lead to positive outcomes for the whole region. Nevertheless, some short-term costs, economic or social, might arise and it is not the first time countries are fearful of regional integration. Solutions have been found in the past in other regions like in the European Union that created a regional structural fund to compensate for unintended side effects. The EU structural fund is supported by temporary policies to bolster and prevent disadvantageous outcomes.

### v. Challenges of the Integrated Framework

Although the IF and 'revamped' IF provided a good basis for LDCs to increase their trade development capacity as well as better integrate into the world trading system, the IF showed also significant shortcomings both on the implementation as well as the donor support side.

In 2005, the Development Committee, a forum of World Bank and IMF Experts, proposed the establishment of the IF Task Force to come up with suggestions to improve the IF. This proposal was endorsed at the WTO Ministerial Conference in Hong Kong in December 2005 and in June 2006, the IF Task Force, comprised of government officials from LDCs and donor representatives, presented their recommendations.

The challenges identified by the IF Task Force concerned a number of issues that impeded the effective and intended functioning of the IF. The task force noted that it failed to generate increasing awareness about the importance of trade as an engine for growth and reducing poverty at the national level. Hence, the anticipated results of integrating the trade strategy into the national development plan such as the poverty reduction strategies (PRS) were not met. The financial resources provided through the Trust Fund were inadequate to reach the goals of the IF. In addition, LDCs faced a lack of human resources to deliver the planned results, slowing down the implementation process. To a large extent, investments by donors have not corresponded to the needs of the LDCs identified in the DTIS. In addition, priorities of LDCs have not been taken up in the investment programs of the donor community. Trade was not recognized both by donors and governments as the main engine for growth and poverty reduction. Hence, the IF process was not regarded in a larger development context and DTIS projects failed to create strong country ownership. In many cases, national stakeholders considered the IF as an issue of the Ministry of Trade, although a wide range of government bodies were supposed to engage (WTO, 2006).

Despite the efforts taken by the international community, the result produced by the IF for LDCs were disappointing. However, it has to be noted that underperformance in some of the above issues might be the result of other factors outside the control of the national governments. For example, as the report of the Chairman of the Task Force on an Enhanced Integrated Framework noted on 19 June 2006:

> *The donor community has generally not responded adequately to the needs identified in the DTISs. The fact that the findings and recommendations of the DTISs have not been adequately fed into the PRSP and similar processes, or into the programming frameworks of other donors, contributes to this problem. (WTO, 2006)*

### vi. EIF in action

Several amendments to the institutional framework have been made under the EIF for a more effective and efficient delivery on the ground in order to increase benefits for LDCs. However, most mechanisms and institutions have operated already successfully and have just been renamed under the new Enhanced Integrated Framework, i.e. IF Donor Facilitator became EIF Donor Facilitator, etc.

Our observations noted that the lack of a regional EIF was out of sync with the way political actors in the region expected the international donor community to support regional projects. With an annual Partnership Fund Steering Committee meeting instituted between donors and the EAC (and again focused primarily on capacity-building), benefits are accruing and could eventually transition into a full EIF-style implementation (EAC, 2010).

#### *Regional Talk, Bilateral Walk*

The main challenge noted here is that delivery of projects remains bilateral, and as a result enforces the status quo. Transitioning to regional delivery would allow for economies of scale between donor agencies and government ministries. Not only would this reduce costs, but most importantly it would free up critically overstretched resources to be redeployed both internally within local government and at the regional level with greater responsibility. The similarity between projects taking place in the EAC demand that there is deeper collaboration between and within donors and partners. IF and EIF frameworks have strengthened inter-donor collaboration within a country, but there are still challenges on donor-internal cross-country collaboration. USAID's COMPETE and DFID's TradeMark are starting to make inroads in this direction, but the general impression is one of minimal interaction and knowledge sharing across partner countries.

#### *Border collaborations: Partnerships at the fringe*

Areas where collaboration does occur seem to be concentrated at the borders. Unsurprisingly, the necessity of navigating international bureaucracy demands a greater level of collaboration. The infrastructure projects currently underway include hydroelectric power generation, one-stop border posts and wildlife & tourism collaborations where national parks overlap.

#### *Competitive advantage: Marketing the region*

One path to integrating the region is to collectively market the region's competitive advantage abroad. However, outside of coffee, there is little focus on shared branding, let alone cooperating on development of markets. Through the East Africa Fine Coffees Association, national coffee development agencies are keen to maximize their margins by ensuring quality. There are differences in national endowments – Uganda has no end processing, is mainly Robusta, and largest exporter in the region while Rwanda has a small Arabica crop that mostly ends up in its domestic Bourbon Coffee brand, and Tanzania has a small crop concentrated at its borders, far away from export, processing and bulking points.

The gravity model of trade shows that intra-sub-Saharan African trade has not been a priority focus, and as a result the entire region's global competitiveness has suffered (Foroutan & Pritchett, 1993). The decision to heavily regulate the airline industry is a symbol of inefficient regional competition between national airlines. More specifically to East Africa, regional integration has become a political reality, but not yet an on-the-ground economic one. As a result, weakness in the domestic private sector means that internal markets are particularly susceptible to foreign imports but do not have the capacity to penetrate foreign markets with exports (Darku, 2009). This highlights the importance of strengthening regional integration to create regional champions in order to compete better in global markets.

# 7. Recommendations

## a. Aid

Currently, institutional history and existing rules enforce a two-track approach to aid delivery in the region. Multilateral aid mechanisms – particularly funds and banks – are sources for regional projects, while bilateral aid funds come from national donor organizations. This system ensures that partners can draw on different resources from different actors for different projects. But this also creates inter-agency competition between donors and development banks. Only addressing aid project planning on a regional level can improve synergies between all agencies. A first step would be to identify trade integration strategies on a regional level.

### *Regional DTIS*

The Aid for Trade Task Force recognized that some constraints can only be addressed on a regional level. The establishment of a regional DTIS could be a solution to address the needs in all three countries to reap benefits from greater regional integration and to reinforce the impact of national efforts within the individual EIF process.

A regional DTIS process should be similar to the national processes that are already in place. Hence, stakeholders from different levels and sectors (governments, regional organizations, private sector (associations) as well as civil society, should be invited to participate. Also the donor community (governments, multilateral organizations) should be actively involved and cooperation between the EAC countries and the donor agencies be ensured, i.e. through the appointment of a regional focal point, regional donor facilitator, etc. Encouraging different parties of all countries and donors is crucial to ensure ownership within the community. However, in order for this approach to succeed, funding priorities of donors need to be widened and the focus turned beyond national towards regional projects. Particularly issues with a clear regional focus, such as the development of a regional transport corridor including its trade and transport facilitation issues, can best be addressed on a regional level to avoid duplication and ensure coherence. The EAC or a similar organization could be appointed to guide the process as a neutral body.

Nevertheless, as the review of the three national DTIS/Action Matrixes has shown, there are also some disparities with regards to regional issues. Aligning the national DTIS/Action Matrix as well as the National Development Plan to the regional DTIS is crucial to ensure ownership of the regional Action Matrix and achieve sustainable and long-term success. Only then, the full benefits of greater regional integration, liberalized markets within the EAC and greater market access (through the eventual conclusion of the Doha Development Round) can be reaped by Uganda, Rwanda, Tanzania and the EAC at large.

### *Equalization funds: A mechanism to support the integration process*

One of the key issues preventing further regional integration concerns the insecurities that each nation has with regards to a loss of power and influence and control over domestic policies. However, to turn the region into a single market and benefit from the agglomeration effects and larger market power, further integration is required. In order to facilitate countries to accelerate their efforts to integrate and to alleviate their concerns over loss of markets, jobs, and short-term upheaval, a regional equalization fund could be of use. Countries in the region are well aware of the European model of integration and the East Asian model of development. Emulation of East Asian growth policy is particularly well-served. Recent policies from ASEAN seem to be mimicking the institutional framework that the EU has developed. Countries in the region are aware of the immense waste in cost that results from building up national industry champions only to have to tear down barriers and force amalgamation later in the future. As a result, countries in the East Africa have designed the EAC along similar lines as the EU. Implementing a regional equalization fund would strengthen the bonds between the countries, alleviate insecurities, and empower the regional secretariat as proper forum to discuss disbursement of funds. For donors, providing the capital for the fund would demonstrate commitment to the region while allowing member nations to develop comfort with concept over time. In particular, the amount of investment that the EU and EU member countries have made bilaterally in the region put them in good stead to shepherd this process with significant stakeholder support.

### *Regional aid projects*

There is something to be said for think regional and act local, but it is conceivable that some aid projects that are delivered nationally will be obsolete when regionally integrated. While trade facilitation and transport aid projects are ideally suited for delivery at the regional level, there will always be a need for social, health and other projects that are traditionally delivered at the local level. It is the trade and transport projects that in fact could be built for obsolescence in light of expected regional aid overlap. Designing national trade projects to be rolled into a larger one could therefore provide the impetus for further integration along a well-thought out development plan. One example could be to tackle regional export standards on common products. This would have the effect of unifying disparate national stakeholders towards instituting a regional standards body.

To ease the transition, regional aid delivery need not require a shift in personnel, institutional structure, or ideology. Simply it requires donors to switch the level of analysis for projects to include regional dimension. Mandate that one section of every report focus exclusively on regional effects would have the effect of institutionalizing the concept. Then grassroots aid workers will inevitably seek out information and find collaborative opportunities within and without the organization. All that remains is for individual donors to not place any roadblocks to this kind of interaction from a budgeting and project execution perspective. Changing the way aid is designed in the region will change the way aid is delivered.

### *Trade Related Technical Assistance*

Though Trade Related Technical Assistance is made available for all countries in a number of government ministries, the expectation is to pair expertise with local assets. This advisory role creates an additional administrative burden for local bureaucrats even as it provides valuable technical expertise. Instead, assigning technical experts to report to administrators, or taking over certain roles within the ministry completely would satisfy the requirement of local ownership while creating the capacity for more work to be done. It is important to understand that diffusion of expert knowledge can flow bottom-up and top-down within a hierarchy. In some ways, this model has been put into effect in

Rwanda. The government acknowledges that they do not have the capacity to serve all their bureaucratic needs with native Rwandans. So, they actively attract foreigners to positions of power within their important ministries. This policy can also provide a useful link to expert networks outside the country and provide a continuous diffusion of best practices outside of the TRTA program.

## b. Transport

### *Corridors as a conduit to the community*

The focus on social security is an acknowledgment that there are other dimensions immersed in what is termed as infrastructural improvement, which act as a hindrance to poverty alleviation. The eventual Common Market Protocol of July 2010, will allow persons inter-region to compete for jobs with citizens of the member state on equal terms. The establishment of a common market in East African presents serious changes in the regional labor market. It is expected to not only enhance free movement of labor, services, goods, capital and the right of establishment and residence but also support the entrepreneurial, capacity of the private sector. For this to be possible, infrastructure needs to be put in place to facilitate solidarity, networking and platforms for action. The social is pivotal because any economic approach to appropriateness emphasizes the use of local resources, but it also needs to be compatible with local culture and social environment in order to have absorptive capacity and be sustainable.

Economic development involves the transformation of rural economies into more urban industrial and service based economies. This implies that flows of resources, goods, services, knowledge and information between urban and rural areas change. As knowledge transfer from communication can reduce the impact of industrialization policies of developing countries without inhibiting economic growth, initiatives should pursue an agglomeration effect. Past publications of Poverty Reduction Strategy Papers addressed development issues such as creating rural employment opportunities, improving infrastructure services, and boosting standards of health and education.

Therefore, we recommend using transportation corridors as anchors of socio-economic development. By providing hospitality and catering services on this destination route for cross border truckers, the government would be creating a hub for recuperation. The centers could also include educational and health service facilities. Tailored service offerings to truckers could also include logistics bureaus that facilitate a return shipment cargo. This creates efficiency within the transportation system, as well as providing social benefit that affects individuals and communities locally and throughout the entire value-chain of the corridor. This is actually not a new terrain as the Northern Corridor was in the past mandated to be transformed an “economic development corridor”. The consensus was there was a significant regional economic development opportunity that could be realized if the existing Northern Transport Corridor were transformed into a development corridor. The benchmark was the Regional Spatial Development from South Africa, which the program hoped to emulate.

Private sector investment is regularly identified correctly as a necessity to facilitate economic growth; a corridor hub could encourage these actors as it possibly acts as an economic bridge between rural and urban areas. The provision of hospitality and catering services could be provided by investment from the private sector.  Each hub would be an employment generating industry that would require a local work force trained in an industry that diverges from the traditional agricultural sector.  So, this activity could also diversify local economies.

As a place for multiple similarly minded stakeholders to congregate, each transportation corridor hub would also serve as a forum for collaboration.  In effect, each hub would be institutionalizing a framework for civic engagement.  While this provides accessibility benefits for planning agencies, governments, and non-governmental organizations to easily tap into the voice of the nation, tangible benefits for transporters would include easy access to trade groups, and sharing of best practices.

Moreover increasing competitiveness is pivotal to the private sector development strategy as it raises the underlying rate of growth of the economy as well as the standards of living. The development of competitive markets requires the existence of supporting market institutions and adequate provision of essential public goods and services. Enterprises require technological and information services, marketing services and capacity building through training if they are to improve performance. Strategies to make the private sector an engine of growth in the region should seek to improve the availability and quality of basic infrastructure services to facilitate investment and trade. Creating a hub of social protection and social dialogue is a way to tackle poverty and to ensure sustainable development.

### c. Business

#### *Increasing competition and building local markets*

#### *Rewarding innovation, developing best practices and moving up the value chain*

Cumulatively, production of coffee between all five East African nations makes this region the biggest producer of coffee in the world. However, the coffee exported from the region is mainly in the form of green coffee. This is mainly due to transport time and lack of processing facilities within the producer country. The final processing in terms of branding, packaging and retail marketing is done by the intermediaries or in countries close to the end-customer. So, East Africa faces barriers to moving up the value chain. This is important since it helps the producer to demand a better price and reduces local producer vulnerability to international price fluctuation. Even though the region is producing some of the biggest coffee volumes in the world, the brand of East African coffee is missing. There have been some commendable successes in this arena – the creation of the East Africa Fine Coffee Association and Rwandese coffee brand Bourbon Café are two examples – but further effort is required to improve brand awareness internationally. Additionally, having final processing facilities in the country of production will facilitate creating a domestic market for consumption. With a population of 126.6 million people, the region could be an attractive market for the consumption of commodities. Providing marketing and branding support as well as helping to foster local competition could be an innovative way for TRTA projects to be designed and overseen by donors, but delivered by foreign multinationals.

## 8. Main Findings

In this section we seek to provide some insight into the questions first raised in the methodology section. These main findings serve as a summary to the major themes explored during the course of this research study.

- *Are current trade facilitation mechanisms such as Aid for Trade and EIF well-suited to improving trade?*

Aid-for-Trade and the Enhanced Integrated Framework are both achieving the objectives they were set out to meet. The Enhanced Integrated Framework has served as a useful collaborative and deliberative body within each LDC for cooperation and coordination between donors and with the government. Especially significant has been the creation of the National Implementation Unit within each LDC. This resource can now be dedicated to full-time coordination within government and between ministries as well as acting as a donor coordination resource. In an environment where existing human resources are constrained, the creation and funding of this exclusive resource dedicated to aid has been a major aspect of the success of the EIF.

Aid-for-Trade is nothing more than an ex-post designation of whether aid projects have a trade focus or not. While this may seem trivial, and certainly does not hold much relevance to projects on the ground, within the aid and donor community it is significantly important. Classification of aid projects as related to trade within the OECD's DAC database has value for donor agencies in understanding the focus of their aid projects. While the process is self-identifying, it still makes an impact on the ground where aid workers must adjust programs to incorporate a trade component. Aid-for-Trade represents the ideology behind delivering aid in ways that will benefit trade, and therefore build capacity locally where countries can rely on the growing power of their own economy to achieve greater objectives. This ideology is important for donor agencies to internalize, and comparing agencies to one another with regards to the size of Aid-for-Trade funds helps to instill the culture of trade-related aid programming.

- *To what extent do development and export strategies help trade through transport for coffee?*

Development and export strategies comprehensively break down the value chain in coffee export and elaborate on improvements that are desired for each activity. The importance of the coffee trade to the economic well-being of the region is perfectly understood by all administrators and policymakers. As one administrator said, "If our parents didn't have one coffee plant on the farm, some of us would not have been able to go to school." Breaking down the coffee value chain is of additional benefit as many improvements in one link have inclusive benefit to other commodities. Substantial institutional support is also present in the form of coffee development authorities, who assist in spreading best practices, validating standards, conducting scientific research, and organizing the market. These arms-length agencies in concert with industry trade groups form a powerful advocacy front that government cannot ignore when developing national strategies.

- *How do national objectives match with regional initiatives?*

National objectives overlap with regional initiatives in almost all trade related issues. Creation of a common market, borders & customs procedure harmonization, tariff harmonization, and coming to a consensus on regional standards are all initiatives that have been agreed on or are currently being discussed at the highest levels. Where there is discrepancy is in the order of prioritization. Certain nations that are under greater pressure from border wait times will make it their chief priority. However, other nations that require protection of sensitive markets demand action in that area. It is in agreeing which issue to tackle first that can be the most difficult aspect of regional negotiations. Finding a way to alleviate the concerns of one nation while insisting on action in another can be achieved with a holistic timeline that denotes clear milestones to integration. Beyond a skeleton framework on broad issues, a detailed integration path is lacking, and as a result the level of action on regional harmonization of national objectives is progressing slowly.

- *How do overlapping regional commitments influence trade?*

Currently, there is minimal overlap in regional commitments. While African states in the region belonged to as many as 5 regional groupings at the same time, there is now an understanding that conflicting policies from different groups could undermine any progress in lowering trade barriers. Subsequently, COMESA, SADC and the EAC have sought to harmonize their policies so that overlapping regional commitments do not create conflicting policies. In general, while COMESA is elaborating on the minimum necessary conditions for its members to harmonize major tariffs, SADC and the EAC seek to forge ahead with tighter integration between member states on a number of more wide-ranging issues. So, at least in trade, there is now an emergence of coherent trade policy objectives that accommodates both advanced and lagging regional groups.

- *What monitoring and evaluation assets are in place?*

Monitoring and evaluation protocols are firmly established by donor agencies for internal review of project performance. When monitoring and evaluation depends on outputs received from government partners, information varies depending on specific arrangements. Some donors are completely satisfied with the internal audits and performance assessments conducted by government ministries and require no further elaboration, while others insist on extensive third-party assessments. To generalize in this field is impossible. The project, implementing agency and donor partner all combine to dictate varying requirements. However, this should not be viewed as a failure. Standardization is not the solution when some projects may be too small for audits to be relevant, implementing bodies may not have the capacity to conduct a proper evaluation assessment, and the donor has different objectives than the government partner. In this context, it is appropriate for monitoring and evaluation procedures to be adapted to the type of project that is implemented.

Though not directly related, one aspect of monitoring that has been underserved in the region is the systematic acquisition of qualitative and quantitative transportation data. This is mainly due to the nascent stage that the central corridor is currently in when compared to its established and advanced northern corridor counterpart. On the northern corridor transport observatories under the aegis of the

World Bank provide a steady stream of data that allows policymakers to make accurate needs assessments. Lack of investment and attention on the central corridor has prevented a similar system from being set up. However, having the northern corridor as an example of a successful institution should allow the central corridor to scale up rapidly with donor partnerships.

- *How will the market structure be altered by creating transport corridors?*

The transport and agriculture markets have already embarked on a period of change. Creation of transport corridors will only accelerate this process that has already begun. Thanks in part to the EIF which stipulates a level of stakeholder engagement when deciding on priorities for the DTIS all governments were required to create sector-specific trade groups. These groups were then expected to advocate for the positions of their industry after internal consultation with members. This was initially resisted, but eventually became the foundation of active stakeholder engagement and two-way dialogue between government agencies and private actors. Through farmers' cooperatives, private sector federations, and transport & logistics trade groups, the respective sectors have begun to organize themselves towards cohesive advocacy of policy. The creation of transport corridors will do two things for these groups: 1) provide them with a network of hubs to gather further support, and 2) provide them with regular, relevant and greater input from members. Subsequently, these respective markets will organize further and grow in stature to speak on behalf of greater numbers of individuals – thus making them even more relevant to government.

- *How do transport corridors, trade facilitation and other project successes increase the capacity for governance by the state?*

In many instances, successful aid projects have resulted in the creation of stakeholder groups through the assessment and implementation process. These groups sustain even after the completion of a project, sometimes attaching themselves to another stakeholder group, or attracting other members to grow in strength. In either case, these groups form a grassroots vanguard against policies that harm their interests. While this may be thought to make governing more difficult, instead it tends to have the opposite effect. Policymakers now have an easy means of accessing the opinions of those who are most affected by policies. This direct line of communication results in policies that are designed with stakeholder input – usually from their inception. The result is better targeted policies and an engaged citizen sector that acts as a local facilitator and advocate for government. The level of active, effective and targeted engagement that institutions are expected to have and regularly achieve with stakeholders they serve is inspiring.

- *How is the labor market affected?*

The labor market within the region has not been able to achieve significant diversification beyond subsistence farming within the coffee industry. This is mainly due to the lack of upward movement in the value-chain. Without intermediate industries to absorb larger numbers of workers, and the higher revenues they would receive to enable paying for a more talented workforce, the labor market is limited in scope. This is changing slowly through government sponsored programs and farmer groups are mobilizing through cooperatives. However, more needs to be done to engage a larger portion of citizens into the coffee industry in order to bring about a sustained improvement in per capita GDP.

Within the transport sector, the labor market is dominated primarily by trucking firms and truckers. The absence of an efficient railway has been a boon to the trucking industry, and therefore sees a large absorption of low-skilled workers into truck driving. A corollary to this has seen larger and more sophisticated logistics and transporting firms seeking to differentiate themselves from simple trucking services. This has led to higher value employment and innovative service offerings in a bid to provide higher reliability to discerning multinational coffee exporters.

- *What is the structure of any Public-Private Partnership?*

Public-private partnerships are prevalent throughout the region in a number of different arrangements. From direct concession, to outsourcing, to joint management of a national asset, public-private partnerships have taken on many forms. Correspondingly, some have not been as successful as others. Indeed, an assessment of concessions (discussed in this report above) highlights the degree of variability. In general, it is found that those projects which foster a shared understanding by both private and public partner of their differing objectives will be successful. Particularly, it is important for both entities to want the other to succeed, as it should improve their own fortunes. This has been a controversial issue in the region as on-the-ground constraints often have forced one side or the other into untenable positions that are enforced by contract. In this circumstance, failure is inevitable. Public-private partnerships are especially important for East Africa when considering the resources private firms can bring to the table to develop markets in what are essentially green-field markets. Governments require these resources and firms' operating expertise in order to improve service levels and the economy. So, it is essential for administrators and policymakers to apply best practices in designing PPP contracts, particularly when concerning infrastructure assets. This is one area where donor agencies can play a supportive role to strengthen administrative capacity.

# 9. Further Research

This study remains anchored in the domain of transportation infrastructure and trade facilitation, but also covers the strategies and policies associated with regional integration and associated inter/intra regional trade agreements. However, during the course of our study there were a number of wider issues that require further attention and study but remain outside the scope of this research.

### *Donor aid: What is the 'exit strategy'?*

One major issue concerns the fragmentation and proliferation of aid agencies and mechanisms. *The Economist* notes, "There are too many agencies, financing too many small projects, using too many different procedures." (The Economist, 2008) In response, donor agencies have recognized the importance of regional development and reported rising demand for regional Aid for Trade as a response to further improve south-south trade. As well, donors are making greater use of coordinated donor delivery platforms such as the Enhanced Integrated Framework.

However donor engagement is often based on the expertise of the donor and the development strategy of the host country. For efficient and effective utilization of economic resources, the donor countries should leave once their resources could generate higher net benefit somewhere else or to leave once their mission is completed and the host country attains a certain development stage. But the definition of mission achievement is murky at best – especially because its assessment interacts with political and environmental factors. So, it is quite unlikely that any proposed 'exit strategy' could be developed in isolation. Nonetheless, in order to increase outreach to maximum number of beneficiaries the 'exit' option should exist.

### *Aid for Trade: Donor definitions*

This study has highlighted how the definition of Aid for Trade could potentially vary with each donor. So, it would be interesting to study the impact of donor-specific definitions of Aid for Trade and understand where and when in the donor agency hierarchy a project is classified as an Aid for Trade initiative. This would be valuable in terms of informing future aid delivery, and how better to expand and diversify agency cooperation on regional initiatives.

### *Project financing: Aid expiration dates*

Presently, the donor community provides project-bound financial resources for the specific time frame. During this time, donors can access those funds once a project qualifies for funding. Once the time window passed, all unutilized financial resources are withdrawn. While conducting field interviews, we came across some cases where available financial resources are not fully exploited due to various reasons – capacity constraints within ministries, lack of fully qualified projects and divergence of partner-donor priorities. To an extent EIF and other improvements in donor-country cooperation have addressed some of these challenges. However, it would be interesting to study and recommend an optimum strategy that could be adopted by donor agencies for utilization of financial resources within a specific time-frame.

### *Supply chain: End-to-end assessment*

Another area of interest could be management of supply chain from the perspective of different stakeholder groups. The study focused on the last leg of the integrated supply chain, from supplier to export centre. So, it might have been productive to gather more information for the supply chain along the transport corridors. Although high level officials were generous with their time, the project unfortunately did not get an opportunity to have more interviews with individuals lower down in the chain, such as gatekeepers, farmers, truckers, and farm technicians. The perspectives of these stakeholders would have added an additional and valuable perspective to understanding challenges in the trade of coffee. Importantly, these street level bureaucrats could have shed more light on issues that were touched on only briefly in our study such as coffee theft and the differentiation on various travel routes. This might further be useful to determine reasons for improvements in transport and trade facilitation.

### *Road network: Roadmap required*

The project emphasizes on the importance of synchronization between regional and national objectives. Similarly, there is a need for complementarity between national and sub-national policy. This is apparent particularly in the case of the road network. The study of feeder roads and the role they could play in infrastructural development was beyond the scope of this study. But, it would be interesting to study the impact of infrastructure development activity in districts and its impact on regional and national growth strategy. In other words, will it assist the process of scaling up? The question of the synergy between national strategies and local needs should be answered more comprehensively. This might have helped to explain reasons for the apparent miscommunication about the state of transport facilities in the region. Similarly, while better roads may be at least partially responsible for the reduction in transport times noted by the Doing Business report, the higher traffic speed it has facilitated may be also partially responsible for higher costs due to accidents. Currently, however, sufficient data is unavailable to confirm or deny this point. A comprehensive study of the entire road network would yield insight into these issues.

### *Putting a face on regional identity*

The construction of regional identity remains as a major challenge due to economic, social, and political differences that exist amongst the member countries. So, it would be interesting to study the process to devise a regional identity to reduce tensions between East African societies. This study should explore the soft mechanisms that are put in place by a number of stakeholder groups – primarily comprised of civil society organizations. Understanding what aid programs are addressing this issue, whether they have enough support and are showing progress can help target countries to use the existing knowledge base to replicate best practices. We feel the EU should play a prominent role in facilitating this process due to their long-standing experience with regional integration.

### *Infrastructure interactions: Rural electrification*

Some of the other areas of study that not directly linked with the subject of the project but are still a decisive factor for achieving the overall objective of trade facilitation and poverty reduction. One such area is production and distribution of electricity. The comprehensive look in the cost of infrastructure development, electricity tariff is required. This will further help in developing more conducive and cohesive industrial policy for the region.

### *Non-OECD donors: What strings are attached?*

Another suggested area of study could be the impact of other developing economies in the region. For example – China is playing increasingly distinct role in African development and infrastructure. It is evident that Asia is a burgeoning power and influence in large swathes of Africa. It might be prudent to study why this is, the impact it will have on international donor projects as well as influence, and where it could possibly lead.

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# Annex I. Questionnaires

## International/Regional Organizations

0. Personal Details:

- Name
- Position
- Organization
- Expertise in the field of coffee/transport corridor

1. What is the [organization] aid for trade strategy?
   a. What priorities does [organization] set?
   b. How do you cooperate with national, regional and local governments?
   c. How do you accommodate Aid for Trade needs of the country?
   d. What are the main trade development challenges and opportunities you face?
   e. How do you take on challenges/opportunities that require collaboration with other countries in the region?
   f. If your Aid for Trade strategy has evolved since 2007, please describe the changes and/or new focuses.

2. How much aid do you provide?
   a. How much of all aid is provided by [organization]?
   b. Is the aid given on any conditionality?
   c. Describe please your key priorities?
   d. One of the problems for developing countries is volatile aid flows. How do you ensure planning reliability for partner countries?
   e. What measures have you undertaken to mainstream Aid for Trade in your overall assistance strategy?

3. How does your [organization] provide help in the implementation?
   a. How do you ensure ownership?
   b. How do you cooperate with partner countries/donor countries?
   c. How do you involve stakeholders as well as the local population in the implementation?
   d. Did you undergo an own needs assessment / viability study before you granted funding? If yes, is this document publicly available?

4. How does [organization] help within the transport corridor?

5. How does the cooperation and coordination of [organization] look like with the national government / ministries?
   a. Do you share common processes such as impact evaluation, monitoring of results, etc.?

   b. How do you ensure that your Aid for Trade assistance is in line with the national development plans (i.e. National poverty reduction strategy, National development plan, etc.)?
   c. Describe the process and key actors (such as donors, private sector-representatives, etc.) involved in reviewing progress toward fulfillment of your Aid for Trade and trade development commitments?

## Public Sector/Government

0. Personal Details:

- Name
- Position
- Organization
- Expertise in the field of coffee/transport corridor

1. What is the [organization] trade facilitation strategy?
   a. What has been the effect of trade policy by the creation of these corridors?
   b. How do policy makers in the ministries interact with their neighbours?
   c. What is the current transit efficiency timeline?
   d. What is the current progress on the one border post?
   e. How are existing inland ports integrated in the transport network of [country]/the East African Community?
   f. What will be the main differences regarding trade policies between the proposed East African Federation and the current East African Community?

2. What is [country] current investment strategy?
   a. What are current investments in [country] to build up research capacities and under which [development/investment etc.] programs do they take place?
   b. As trade is a main driver for poverty reduction, does [country] education system offer any specialization within trade such as a focus on the manufacturing or service sector? i.e. are there training opportunities available for coffee workers?
   c. If yes, who provides the training and who pays for it?
   d. Since weather changes between seasons have a significant impact on road conditions, does [country] have transport contingency plans in place?
   e. Do environmental concerns play a role in infrastructure policies?
   f. Are there any programs in place that focus on enhancing skills and assets of farmers, to increase production effectiveness?

3. Civil society/private sector strategies in [country]
   a. The government's ability to conduct negotiations depends on inputs received through consultative processes in which business should play a critical role. How is the business landscape organized in [county] and does the current organization support the consultative process?
   b. How often do you meet with Unions/Associations?
   c. How relevant and effective are current national development strategies in addressing local needs? How are those needs addressed?
   d. To what extent does the level of national integration promote regional integration? Are there any areas that could be improved?

e. How will the East African Federation influence the policy debate with regards to citizenship and regional and economic security?
f. Is there a reconsideration of civil society participation in institutional reform expected, and if yes, in what context?
g. How is the government seeking to improve the operations of its foreign offices and establish roles and boundaries between departments involved in the trade negotiations cycle?

4. How do you assess the cooperation between [country] and the international/regional organizations/donor community?
    a. What has been the impact of the economic crisis on funds?
    b. Is [country] involved in the African Growth and Opportunity Act (AGOA) and if yes, what are the benefits to regional and international trade?
    c. Could you imagine external actors regulating services? Or would this be considered a threat to national sovereignty?
    d. In many aid-receiving countries aid is tied to purchases from the donor country. Does [country] face similar problems?

## Transport Sector

0. Personal Details:

- Name
- Position
- Organization
- Expertise in the field of transport

1. What are the current transport patterns?
    a. Which route do you take for coffee transport and why?
    b. How long does it take to transport coffee from [city] to export point (port)?
    c. What are the other major commodities are transported along the same route?
    d. Have coffee exports increased over the past years?
    e. How did the freight charge develop in the past years?
    f. How would you describe the competition on the different transport corridors?
    g. Have you upgraded you fleet in recent years?
    h. What are you average maintenance costs per truck? Did they change over the years with improvements of the road network as well as other safety regulations?

2. What improvements need to be done in trade and transport facilitation in order to enhance effectiveness of the sector?
    a. Were you able to realize any time savings in transporting goods in the past years?
    b. What are the major obstacles your truck drivers face during their journey to the port and who causes them? (i.e. police check points, customs, loading / unloading points at warehouses, loading / unloading points when changing means of transport such as road to rail, rail to water etc.)
    c. What steps are necessary, in your opinion, to enhance/promote transport business and by whom? (i.e. reduce cost of fuel, invest in construction of more roads, reduce license fees, reduce customs / police check points, etc.)

## Coffee Sector

0. Personal Details:

- Name
- Position
- Organization
- Expertise in the field of coffee

1. What are the major goals in coffee production and future challenges?
    a. What are the targets for coffee production for next five years in terms of
        1. Export in tons?
        2. Employment generation?
        3. Price levels?
    b. What are presently the major challenges in coffee production?
    c. How would you describe the current market structure for procurement of coffee? What challenges do you see within the existing coffee market structure?
    d. Do you face any challenges in the procurement of coffee?
    e. Do you follow any quality norms? If yes, which ones? (i.e. 4C / rainforest alliance, etc.)

2. How could the coffee production be improved?
    a. Do you export any other goods or commodities than coffee and if yes, which ones to with which destination?
    b. What steps could and/or should be taken, in your opinion, to improve the existing procurement mechanism?

3. By what means is coffee transported to the port and by which route?
    a. What are the preferred transport route / port to export coffee?
    b. How long does it take to transport coffee from warehouse to the port?
    c. What means of transport is commonly used? What are the major factors for choosing one over the other?
    d. How will current infrastructure development projects facilitate the export of coffee in future?

4. What improvements need to be done in trade and transport facilitation in order to enhance effectiveness of the coffee sector?
    a. Who are your major customers –
        1. countries
        2. companies
    b. What are presently the major challenges encountered in exporting coffee?
    c. What steps are necessary, in your opinion, to enhance/promote the coffee business in [country] and in the region and by whom? (i.e. reducing license fees, establishment of new warehouses/coffee washing places, establishment of quality labs, facilitation of allied services like roads, permission to buy land and machinery, establishing required regulatory framework like – single window clearance, developing new varieties resistant to pesticides, etc.)

# Annex II. List of Organisations Interviewed

## International and Regional Organizations

- African Development Bank, Dar-es-Salaam, Tanzania
  - Lawrence Kiggundu, Infrastructure Specialist
- East African Community Secretariat, Arusha, Tanzania
  - Hosea Nyangweso, Principal Civil Engineer
- European Commission, Kigali Office, Dar-es-Salaam, Tanzania
  - Anne-Claire Leon, First Secretary, Natural Resources
  - Marcos Sampablo, Program Manager, Trade Attaché
  - Enrico Strampelli, Head Development Cooperation
- International Labour Organization (ILO), Dar-es-Salaam Office, Dar-es-Salaam, Tanzania
  - Michael A. Lerner, Chief Technical Advisor, Improving Labour Law Compliance
- World Bank, Dar-es-Salaam Office, Dar-es-Salaam, Tanzania
  - Josaphat Kweka, Senior Economist, Poverty Reduction and Economic Management

## Public Sector Organizations

- Kreditanstalt für Wiederaufbau (KfW), Kampala Office, Kampala, Uganda
  - Dr. Jan Martin Witte, Advisor Energy Sector Development
- Department for International Development (DFID), Kigali Office, Kigali, Rwanda
  - Lindsay Wallace, Team Leader, Economic Growth
- Kreditanstalt für Wiederaufbau (KfW), Kigali Office, Kigali, Rwanda
  - Dr. Stephan Klingebiel, Director Office Kigali
  - Timo Mahn, Budget Support Advisor
- Ministry of Trade and Industry, Kigali, Rwanda
  - Douglas Kigabo, Coordinator and Director, Integrated Framework
- Ministry of Infrastructure, Kigali, Rwanda
  - Jean Kanyamuhanda, Coordinator, Transport Programmes and Project Management Cell
- Rwanda Development Board (RDB), Kigali, Rwanda
  - Pipiani Hakizabera, Director General, Enterprise and Export Development
- Rwanda Revenue Authority (RRA), Kigali, Rwanda
  - Charles Lwanga Gakwaya, Director of Planning & Research Department
- United States Agency for International Development (USAID), Kigali Office, Kigali, Rwanda
  - Joseph T. Foltz, Officer, Economic Growth
- Department for International Development (DFID), Dar-es-Salaam Office, Dar-es-Salaam, Tanzania
  - Mark Povey, Infrastructure Advisor

- High Commission of Canada, Dar-es-Salaam Office, Dar-es-Salaam, Tanzania
- Jared Duhu, Senior Development Officer, Private Sector Development

- Board of External Trade, Dar-es-Salaam, Tanzania
  - Emmanuel J. Miselya, Senior Economist cum Statistician
  - Fidelis Mugenyi, Principal Market Research Officer

- Central Corridor Facilitation Agency, Dar-es-Salaam, Tanzania
  - Rukiya Shamsi, Executive Secretary

- Embassy of Switzerland, Dar-es-Salaam, Tanzania
  - Patrick Zimmerli, Programme Officer

- Swedish International Development Cooperation Agency (SIDA), Dar-es-Salaam, Tanzania
  - Love Theodossiadis, Second Secretary, Private Sector Development and Trade

- Ministry of Trade, Industry and Marketing, Dar-es-Salaam, Tanzania
  - Edward Sungula, Principal Trade Officer, Trade and Investment Promotion

## Private Sector

- Kenfreight (U) Limited, Kampala, Uganda
  - Humphrey Pule, Asst. General Manager

- Kaweri Coffee Plantation Ltd., Neumann Kaffee Gruppe, Mubende, Uganda
  - Jeremy P. Hulme, Managing Director

- Seafast Holdings Limited, Kampala, Uganda
  - Emmanuel Nsanze, Logistics Manager
  - William Smith, Director

- UGACOF Ltd., Kampala, Uganda
  - Virginie de Visscher, Transport and Logistics

- OTF Group, Kigali, Rwanda
  - Dr. Reid E. Whitlock, Country Director

- DSM Corridor Group Ltd., Dar-es-Salaam, Tanzania
  - Mari Pennanen, Director, Business Development

- Tanzania International Container Terminal Services (TICTS) Limited, Dar-es-Salaam, Tanzania
  - Donald H. Talawa, Terminal Manager

- Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), Dar-es-Salaam, Tanzania
  - Daniel Machemba, Executive Director

## Non-Government Organizations and Associations

- East African Fine Coffees Association (EAFCA), Kampala, Uganda
  - Ishak K. Lukenge, Director

- Kampala City Traders Association (KACITA), Kampala, Uganda
  - Kayondo Everest, Vice Chairman

- Uganda Coffee Development Authority, Kampala, Uganda
  - David Kiwanuka, Manager Quality and Information
  - James Luswata, Principal Technical Officer

- Economic and Social Research Foundation (ESRF), Dar-es-Salaam, Tanzania
  - Monica Hangi, Research Assistant
  -Mbilinyi Vitalis, Assistant Research Fellow

- Tanzania Freight Forwarders Association (TFFA), Dar-es-Salaam, Tanzania
  - Solomon Kasa, Councilor

# Annex III. List of Databases Accessed

- African Development Bank – Statistics
    - http://www.afdb.org/en/knowledge/statistics
- African Economic Outlook
    - www.africaneconomicoutlook.org
- Food and Agricultural Organization – Statistics Database
    - http://faostat.fao.org
- International Coffee Organization – Statistics Database
    - http://www.ico.org
- Organization for Economic Cooperation and Development – Query Wizard for International Development Statistics
    - http://stats.oecd.org/qwids
- United Nations Conference on Trade and Development – Statistical Database Online
    - http://unctad.org
- United Nations Economic Commission for Africa
    - www.uneca.org/statistics/asds.htm
- World Bank – Logistics Performance Index (LPI)
    - www.worldbank.org/lpi
- World Bank – Sub-Saharan Africa Transport Policy (SSATP) Program
    - http://www4.worldbank.org/afr/ssatp/Resources/HTML/rttp/1_eng_intro.htm
- World Bank – Africa Infrastructure Country Diagnostics
    - http://www.infrastructureafrica.org/aicd
- World Bank – World Development Indicators
    - http://data.worldbank.org
- World Bank – Doing Business
    - http://data.worldbank.org
- World Trade Organization – Statistics Database
    - http://stat.wto.org

# Annex IV. UNDP DTIS vs Country DTIS Action Matrix

## Rwanda

**COUNTRY: RWANDA**

Commodities: 1. Coffee 2. Tea

| CRITERION | POLICY | | INSTITUTION | | ENTERPRISE | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 1 | 2 | 1 | 2 |
| Warehousing and storage | | | | | | |
| Electricity | | | | | | |
| IT and Telecom | | | | | | |
| Transportation | | | | | | |
| Production inputs | | | | | | |
| Processing the production inputs | | | | | | |
| Standard setting | | | | | | |
| Quality culture | | | | | | |
| Quality infrastructure | | | | | | |
| Distribution system | | | | | | |
| Business linkages | | | | | | |
| Pricing mechanisms | | | | | | |
| Investment climate | | | | | | |
| Social and environmental sustainability | | | | | | |

**Key:**
Shaded areas indicate correspondence of DTIS text with criterion
Blank cells indicate absence of DTIS text with respect to the criterion
Total no. of cells (No. of criteria x Levels of intervention) = 14 x 3 x 2 = **84**
Correspondence of DTIS to the criteria = **21 (25%)**

UNDP DTIS study recommends interventions in the policy areas related to transport development for tea and coffee exports. The country DTIS action matrix of Rwanda also recognises the value of developing transport infrastructure for tea and coffee export. The policy recommendations made in DTIS Rwanda are –

a. Develop strategy to improve rural transport

b. Implement rural transport strategy

c. Up gradation of cold chain facility along whole chain

d. Use participation in regional trade agreements, EPA negotiations and corridor organisations to enhance transit facilitation in gateway countries.

The DTIS Action matrix also sets the target of accessibility to rural roads by farmers in time-frame of 10 years. However, the targets of exact percentile / number of farmers are not very clear.

So, the action framework is set in DTIS Rwanda with clear timeline and targets. This is significantly different from UNDP DTIS which recommends policy action in for transport development in Rwanda.

## Tanzania

**COUNTRY: TANZANIA**

Commodities: 1. Cashew 2.Coffee 3. Cotton 4. Tea 5. Horticulture & Floriculture 6. Spices 7. Fish

| CRITERION | POLICY | | | | | | | INSTITUTION | | | | | | | ENTERPRISE | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Warehousing and storage | | | | | | | | | | | | | | | | | | | | | |
| Electricity | | | | | | | | | | | | | | | | | | | | | |
| IT and Telecom | | | | | | | | | | | | | | | | | | | | | |
| Transportation | | | | | | | | | | | | | | | | | | | | | |
| Production inputs | | | | | | | | | | | | | | | | | | | | | |
| Processing the production inputs | | | | | | | | | | | | | | | | | | | | | |
| Standard setting | | | | | | | | | | | | | | | | | | | | | |
| Quality culture | | | | | | | | | | | | | | | | | | | | | |
| Quality infrastructure | | | | | | | | | | | | | | | | | | | | | |
| Distribution system | | | | | | | | | | | | | | | | | | | | | |
| Business linkages | | | | | | | | | | | | | | | | | | | | | |
| Pricing mechanisms | | | | | | | | | | | | | | | | | | | | | |
| Investment climate | | | | | | | | | | | | | | | | | | | | | |
| Social and environmental sustainability | | | | | | | | | | | | | | | | | | | | | |

**Key:**
Shaded cells indicate correspondence of DTIS text with criterion
Blank cells indicate absence of DTIS text with respect to the criterion
Total no. of cells (No. of criteria x Levels of intervention) = 14 x 3 x 7 = **294**
Correspondence of DTIS to the criteria = **73 (25%)**

UNDP DTIS study recommends interventions in the policy and enterprise areas related to transport development for tea, coffee, cotton, cashew, horticulture and floriculture, spices and fish. Tanzania DTIS action matrix talks about reducing transport cost which will overall have an impact on export of commodities but it actually have no plan for sector specific reduction on transport cost except for horticulture and floriculture wherein the DTIS action matrix focussing on developing coordination at Kilimanjaro airport. Similarly, there is virtually no plan in Tanzania DTIS for enterprise development. It does mentions about involvement of private sector in sector specific activities but more focus is on building capacity of government agencies and producer unions / cooperatives.

So, the UNDP DTIS study of Tanzanian markets clearly identifies the gap between the existing plan and required intervention.

# Uganda

**COUNTRY: UGANDA**

Commodities: 1. Coffee 2. Tea 3. Cotton 4. Fish 5. Horticulture & Floriculture

| CRITERION | POLICY | | | | | INSTITUTION | | | | | ENTERPRISE | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 |
| Warehousing and storage | | | | | | | | | | | | | | | |
| Electricity | | | | | | | | | | | | | | | |
| IT and Telecom | | | | | | | | | | | | | | | |
| Transportation | | | | | | | | | | | | | | | |
| Production inputs | | | | | | | | | | | | | | | |
| Processing the production inputs | | | | | | | | | | | | | | | |
| Standard setting | | | | | | | | | | | | | | | |
| Quality culture | | | | | | | | | | | | | | | |
| Quality infrastructure | | | | | | | | | | | | | | | |
| Distribution system | | | | | | | | | | | | | | | |
| Business linkages | | | | | | | | | | | | | | | |
| Pricing mechanisms | | | | | | | | | | | | | | | |
| Investment climate | | | | | | | | | | | | | | | |
| Social and environmental sustainability | | | | | | | | | | | | | | | |

**Key:**

Shaded cells indicate correspondence of DTIS text with criterion

Blank cells indicate absence of DTIS text with respect to the criterion

Total no. of cells (No. of criteria x Levels of intervention x No. of commodities) = 14 x 3 x 5 = **210**

Correspondence of DTIS to the criteria = **44 (21%)**

UNDP DTIS study recommends interventions in the policy and enterprise areas related to transport development for tea, coffee, cotton, cashew, horticulture and floriculture and fish. DTIS Uganda mainly focuses on ensuring quality in the export of these commodities by establishing quality check labs, tracing supply chain in fisheries. DTIS Uganda does talk about developing rural roads but it lacks significant targeted intervention to make it accessible to the producers.

So, the gap identified by UNDP DTIS study is not complemented by the DTIS Uganda action Matrix.