



AID FOR TRADE AND VALUE CHAINS IN TRANSPORT AND LOGISTICS

EXECUTIVE SUMMARY



Transport and logistics is a sector in which global value chains (GVCs) play a vital role in connecting countries, spreading technology, and promoting best practice around the world. The transport and logistics GVC is notable for the variety of lead firms involved in it-including major shipping, express delivery, and freight forwarding firms-and the range of local operators they partner with. Increasingly, transport and logistics GVCs are extending their reach into developing countries, including some low income countries and least-developed countries.

In addition to its role as a GVC in its own right, the transport and logistics sector is also key for the performance of other sectors of the economy. Manufacturing and agriculture both depend on being able to ship their goods to consumers quickly, cost-effectively, and reliably. Indeed, the GVC business model that has become so important in sectors such as electronics or agrifood is impossible to implement without a strong transport and logistics sector in each of the countries involved. The data suggest that countries with better logistics performance tend to specialize more in manufacturing GVCs. Delays, which are related to poor transport and logistics performance, can be costly: an extra day can reduce exports by at least 1%, and can also impede export diversification.

Indeed, transport and logistics have a number of direct and indirect links with important economic and social development goals. On the one hand, transport and logistics can boost trade performance, which, under appropriate circumstances, leads to higher incomes, employment gains, and lower poverty rates. Sectoral performance is also a key determinant of a government's ability to move important human development goods-like basic foodstuffs and vaccines-to its population, particularly in remote areas, at the lowest possible cost.

The available data suggest that there is an encouraging trend of improvement in many aspects of transport and logistics sector performance in the developing world. Of course, performance varies considerably from one region to another-which suggests that there is a significant potential for South-South knowledge exchange to take place in this area. In terms of the main areas that influence performance of the transport and logistics value chain, new OECD/WTO survey data from the private sector as well as cross-country datasets from the World Bank reveal the following trends:

1. Infrastructure: Trade and transport infrastructure remains a serious constraint in many developing countries. However, there is some evidence of improvement over recent years in Sub-Saharan Africa, and the Middle East and North Africa. The most striking trend, however, is the rapid diffusion of information and communication technologies (ICTs) in most developing regions. It stands out as an area in which donors-multilateral and bilateral-partner country governments and the private sector have all made important contributions to a significant development outcome.

2 Customs and Other Border Procedures: Although improvements are evident in most regions in border procedures, they are more pronounced in customs than in other areas. In part, this dynamic reflects the global dispersion of best practice through international instruments, as well as the active involvement of donors and partner countries in upgrading customs. However, other border agencies, such as health/quarantine agencies and agencies administering sanitary and phyto-sanitary measures also need attention in order to improve supply chain performance. These other agencies are particularly important for developing countries involved in emerging agri-food value chains.

3 Private Services and Regulation:

The data suggest that the quality of private providers of transport and logistics services is generally improving around the world. Efforts at private sector development in this area would therefore appear to be bearing fruit. By contrast, improvement in the regulatory measures that support and shape the private sector's performance is taking place at a slower pace. It is important that policymakers and sectoral regulators ensure that further private sector upgrading is not inhibited by an unduly restrictive regulatory environment.

4 Red Tape: Data from the World Bank's Doing Business project suggest that although performance improvements are evident in many areas of the transport and logistics value chain, red tape still remains a serious issue facing importers and exporters in many developing countries. Reductions in documentary formalities have been minimal in recent years, and costs have actually increased in many countries. Many countries have scope to further reduce delays and improve supply chain performance by rationalizing red tape burdens.

5 Governance: More red tape often means that operators are more willing to make unofficial "speed money" payments, which undermines the objective of improving governance. Indeed, the data suggest that governance remains a significant constraint in many developing countries. The uncertainty associated with poor supply chain governance can translate into increased indirect costs for operators. Transport and logistics service providers often find it easier to deal with a known delay, even if it is not as short as it could be, than with a highly uncertain one. Governance should therefore be an important aspect of value chain upgrading around the world.

Going forward, there is a clear case for donor countries, partner countries, and the private sector to continue to work together to improve the transport and logistics value chain, and help bring about the positive economic and social development outcomes it can support. In a new OECD/WTO survey analyzed in this paper, partner countries consistently see domestic and foreign private investment, as well as official development assistance, as important sources of financing for development of the transport and logistics value chain.

According to the priorities expressed by partner countries in the same survey, the following areas will remain key for the Aid-for-Trade (AfT) agenda in the transport and logistics sector:

1 Hard infrastructure: Many developing countries still require significant investments in basic infrastructure like ports, airports, roads, and rail links. Mobilizing funds for an initial investment is not enough, however. It is also important to ensure that funds are available for continuous maintenance, so that facilities remain productive in years to come.

2 "Soft" infrastructure: Hard infrastructure development only brings maximum benefits if it is combined with other components of a comprehensive AfT agenda. Transport sector regulation is important, because it governs the conditions under which operators can do business, and often determines the conditions under which they can access key international gateways. Customs and border procedures also matter, as they can have serious impacts on delays and uncertainty faced by traders. The multilateral Agreement on Trade Facilitation, currently under negotiation at the WTO, would help promote more efficient customs and border procedures to allow goods to cross borders more quickly and more cheaply and ensure legal certainty between

trading partners. Finally, private sector development is also key, as the private sector is the engine of technological upgrading in the sector, a role that is enhanced as the transport and logistics GVC develops further.

3 Coordination and collaboration:

The case studies examined in this paper show that the best results are achieved when multilateral and bilateral donors, as well as partner countries and the private sector, are

all engaged in improving transport and logistics performance. It is important for the process to be driven by partner country priorities, with the private sector playing a key role in their development. In terms of donor collaboration and coordination, different agencies clearly have comparative advantage in different areas, but transport and logistics work is inherently multi-dimensional. It therefore requires coordinated input from a range of sources.

