Aid for Trade – Prospects for Enhancing African Trade Capacity[1]

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ABSTRACT

Successive rounds of multilateral trade liberalization have revealed the difficulties that many African countries face in reaping the benefits of more open markets. They suffer from supply-side constraints which prevent them from benefiting from trade liberalization. It is now realized that simply dropping trade barriers will not automatically increase the trade shares of African countries if they lack the capacity to produce and the infrastructure (e.g. power, telecommunications and transport) and administrative capacity ((e.g. improved customs arrangements) to take advantage of more open trade regime. To boaster trade and competitiveness, African countries require capacity enhancement, which will involve significant investments beyond what can be internally generated.

This paper examines the prospects of Aid for trade (AfT) for enhancing African trade capacity. It discuses the role of AfT in the Doha Round, its coverage as well as progress and challenges one year on. It also analysis some estimates of AfT requirements by African countries and past AfT flows. It is observed that donors are defaulting on their promises and AfT may actually decline as a share of total aid. The paper concludes that effective building of African trade capacity would depend critically on internal efforts, both individually by countries and collectively as regional blocs. On current trend, AfT may prove grossly inadequate in fulfilling its mandate. Going forward, AfT mobilization needs to receive a new impetus if the initiative is not to end up as another empty promise.

1. Introduction

It is now well recognized that African and other developing countries must secure a development-related outcome in key areas of the Doha Round namely, Agriculture, None Agriculture Market Access (NAMA) and Services to enhance their growth and poverty reduction prospects. However, globalization and successive rounds of multilateral trade liberalization have revealed the difficulties that many African countries face in reaping the benefits of more open markets. They suffer from supply-side constraints, including infrastructure bottleneck, which prevent them from reaping the potential benefits of international trade. Simply dropping trade barriers will not automatically increase the trade shares of African countries if they lack the capacity to produce, necessary trade-related infrastructure and administrative capacity to take advantage of an improved global trading regime. Thus, African countries need a complementary package of capacity enhancement to bolster productivity and competitiveness of their economy if they are to be able to increase production and

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integrate fully into the multilateral trading system. Such capacity enhancement will require significant investments hence the World Trade Organization (WTO) has launched Aid for Trade (AfT) initiative, as a necessary complement of the Doha Development Agenda (DDA).

In the run up to the sixth WTO Ministerial Conference in Hong Kong and in response to a specific request from the G-8 Summit in Gleneagles, the World Bank and the IMF jointly proposed an AfT package. Subsequently, the Hong Kong Ministerial Conference endorsed the AfT initiative in its Declaration on AfT, paragraph 57 (WTO, 2005). Ministers mandated the WTO Director General (DG) to create a Task Force) [3]. to provide recommendations on how to operationalize AfT and how it could contribute most effectively to the development dimension of the DDA. Thus, the Hong Kong mandate implied a strong link between AfT and the Doha Round. However, Ministers emphasized the fact that AfT cannot be a substitute for the development benefits that will result from a successful conclusion of the DDA, particularly on market access. The DG was also mandated to consult with member countries as well as with the IMF and the World Bank, relevant international organisations and regional development banks, with a view to reporting to the General Council on appropriate mechanism to secure additional financial resources for AfT, where appropriate through grants and concessional loans.

The WTO Task Force[4] met a number of times during the first half of 2006 and submitted its report (WTO, 2006a) to the WTO General Council. The General Council took note of the recommendations and considered them formally in October 2006. In its recommendations on how to operationalize AfT, the Task Force acknowledged that the aid effectiveness principles of the Paris Declaration[5] are particularly relevant to the agenda, but need to be tailored to the reality of developing country's political economy and the capacity of recipient and donors to design and operate programmes effectively.

One year after General Council's endorsement of the AfT initiative, a number of questions are being asked including: Is the initiative being operationalized? What progress has been made and what challenges remain? Is the hope of additional resources for AfT being realized? What are the appropriate mechanisms for disbursing AfT – new or existing channel? Is the private sector adequately involved in the process? This paper examines these issues in the context of the prospects of AfT for enhancing African trade capacity. It incorporates insights from the Dar es Salaam AfT regional review for Africa[6], and proposes possible role for the African Development Bank (AfDB).

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[3] See WT/MIN (05)/DEC

[4] The Task Force was chaired by the Permanent Representative of Sweden to WTO, Ambassador Mia Horn af Rantzien in her personal capacity. It comprised 13 members who were represented at ambassador's level together with an expert on development issues: Barbados, Brazil, Canada, China, Colombia, EU, India, Japan, Thailand, USA, and coordinators of the ACP Group (Mauritius), the African Group (Zambia), and the LDC Group (Benin).

[5] Paris Declaration on Aid Effectiveness, Ownership, Harmonization, Alignment, Results and Mutual Accountability.

[6] In additional to the Dar es Salaam regional review, two other regional reviews also took place in 2007 in Lima, Peru on 13-14 September 2007 and Manila, Philippines on 19-20 September 2007. These will feed into the global AfT review in Geneva on 20-21 November 2007.

2. Aid for Trade in the Doha Round

2.1 Definition and Coverage of AfT

Defining what AfT should cover is a controversial task. On the one hand, there is the view that it should only cover the adjustment costs following the implementation of the commitments made under the various WTO rounds. On the other hand, there is the view that AfT should be used to help countries reap the benefits of their integration to the global market by strengthening their capacity to competitively supply the world markets (ILEAP, 2007a). Based on this two alternative views, Sheila Page offers a functional classification by dividing this type of assistance into two categories: narrow and broad AfT (ILEAP, 2007b). The former refers to the assistance required to cover the expected costs of adjustment following the implementation of the Doha Round; while the latter refers to the assistance needed by countries to strengthen their supply-side capacity so as to maximize the benefits from multilateral trade liberalization.

The Hong Kong Ministerial Declaration specified that AfT should help developing countries, particularly the less developed countries (LDCs), to build the supply-side capacity and trade-related infrastructure that they need to implement and benefit from WTO Agreements, and more broadly, to expand their trade (WTO, 2005). The Concept Paper which the WTO Secretariat prepared to guide the Task Force (WTO, 2006b) went further to say that "developing countries expect Aid for Trade to go beyond the scope of the Integrated Framework (IF) and help them to cover the costs of implementing WTO Agreements, macroeconomic adjustment, training and institutional building, as well as supply-side capacity and infrastructure".

The WTO Task Force on AfT indicated in its report that what could be funded under the AfT should be defined as "activities……..identified as trade-related development priorities in the recipient country's national development strategies" It listed those that it thought would qualify, partly by reference to the OECD/WTO database on past trade-related aid which covers mainly training and institutional support, but it added infrastructure and more general spending on adjustment which could include creating productive capacity. It also placed particular emphasis on identifying and meeting regional needs (WTO, 2006a). Thus, AfT would cover the following:

- Trade policy and regulations,
- Trade development,
- Economic infrastructure,
- Building productive capacity,
- Trade-related adjustment, and
- Other trade-related needs

2.2 Scale of Past AfT Commitment

ILEAP publications (for example ILEAP, 2007a and ILEAP, 2007c) contain some estimates of past AfT commitments by type and by donors for the period 2001-2004 based on WTO/OECD database as well as pledges by donors in the second half of 2005. These estimates show that total AfT commitments over the period 2001–

2004 amounted to about US$ 52.48 billion, 52% of which was loan, 47% grant and 1% equity investment. The annual figures show that AfT commitments were an upward trend over the period, both by type of flow (Table 1) and by donor (Table 2). In terms of type of flow, about 81% went to Infrastructure, 13% to Trade Development, while 6% went to Trade Policy and Regulation.

Table 1: AfT by Type of Flow - 2001-2004
(US$'000)

	Total (US$ 000)	Equity Investment	Grant	Loan
Trade Policy and Regulation	3,053,371	0%	92%	8%
Trade development	6,918,408	0%	85%	15%
Infrastructure	42,506,577	1%	38%	61%
Total	52,478,356	1%	47%	52%

Source: ILEAP (2007a), Negotiation Advisory Brief No. 15 (Based on WTO/OECD Database)

Table 3: Total AfT Commitments by donor (2001-2004)
(US$'000)

	2001	2002	2003	2004	2001-04
Japan	4,076,888	3,541,488	3,380,556	4,077,637	15,076,570
EC	2,259,363	2,364,378	2,179,817	2,594,250	9,397,809
USA	982,630	1,446,475	1,261,755	5,067,599	8,758,458
Germany	635,743	408,412	482,782	656,377	2,183,314
France	197,215	231,778	332.122	452,672	1,213,314
U.K	187,195	179,715	444,264	206,237	1,017,411
Netherlands	191,413	279,033	177,310	200,109	847,865
Spain	98,806	196,170	293,738	161,953	750,667
Denmark	25,993	128,879	155,135	210,128	520,136
Norway	166,199	68,886	118,553	88,767	442,404
Switzerland	63,514	98,049	136,733	117,797	416,092
Sweden	103,078	56,487	154,116	74,922	388,602
Canada	96,318	52,243	129,952	95,230	373,744
Australia	78,006	17,855	40,586	148,650	385,097
Belgium	39,391	44,754	96,188	97,913	278,246
Italy	29,379	45,747	166,626	35,504	277,256
Others	46,708	128,921	96,704	134,720	407,050
Total Bilateral	7,028,835	7,030,806	7,534,885	11,953,011	33,556,538
Total Multilateral	4,122,655	4,185,325	4,768,464	5,845,375	18,921,818
Total Donor	11,151,490	11,216,131	12,312,349	17,798,386	52,478,356

Source: ILEAP (2007c), The Financial Architecture of Aid for Trade (April). Based on WTO/OECD Database.

In terms of donor commitments for AfT, Japan was the largest donor over the period, mainly due to its large assistance in infrastructure investments. The US registered a major increase in 2004 (entirely explained by infrastructure spending for the rebuilding of Iraq and Afghanistan) making it the highest contributor to AfT during the year, while France, Denmark, Australia, and Belgium also increased their spending in 2004 (ILEAP, 2007a). EC has been the largest donor in the categories more strictly related to trade (Trade Policy and Regulation and Trade Development), with relatively lower spending on infrastructure (though the level of EC aid for infrastructure was still high relative to the other donors). Multilateral spending also increased over the period, following the renewed emphasis on infrastructure investment by the World Bank. However, this analysis, raises a crucial issue namely, the conceptual and practical difficulties in separating trade-related infrastructure from other infrastructure investments. For example, including infrastructure spending for the rebuilding of Iraq and Afghanistan in aid-related infrastructure could distort the actual volume of AfT commitments.

2.3 Regional Destination of AfT Commitments

Table 3 presents the index of AfT commitments by regional destination, obtained by dividing the share of a region in total AfT by its share in total ODA (ILEAP, 2007a). For the cumulative total over the period 2001-2004, the table shows an index greater than 1 for Eastern Europe, Far East Asia and North Africa, implying high relative specialization in AfT and an index less than 1 for the other regions, implying low relative specialization in AfT. For the sub-Saharan Africa, the index is 0.66 and is the third lowest.

Table 3: AfT Commitments relative to total ODA – By Region of Destination (2001-2004)

Region	2001	2002	2003	2004	2001-04
Eastern Europe	2.38	2.19	1.89	2.89	2.32
Far East Asia	1.13	1.50	1.63	1.46	1.44
North Africa	0.72	1.36	1.91	0.82	1.14
South & Central Asia	0.75	1.12	0.95	1.17	0.98
North & Central America	0.80	0.54	1.06	0.63	0.76
Oceania	0.77	0.33	0.66	0.79	0.69
Sub-Saharan Africa	0.93	0.45	0.78	0.58	0.66
Middle East	0.20	0.15	0.11	0.99	0.58
South America	0.38	0.37	0.56	0.22	0.36

Source: ILEAP (2007c), The Financial Architecture of Aid for Trade (April). Based on WTO/OECD Database.

2.4 AfT Pledges since Mid-2005

Table 4 presents pledges by donors. In the second half of 2005, including at Hong Kong, and again in 2006, pledges on trade-related aid were announced by the G-8 member countries (Table 4). The EU announced at the G-8 Conference in 2005, repeated at Hong Kong as well as in 2006 and 2007, to make available by 2010 a total of 2 billion Euros, half from the Commission and half from national governments. Within this, the UK pledged 100 Pounds Sterling. At Hong Kong, Japan pledged a total of US$ 10 billion over three years, while the US pledged US$ 2.7 billion. The estimated annual flow from these pledges amount to about US$ 5 billion, of which less than half is considered as new money.

Table 4 AfT Pledges by Donors since 2005

Donors	Original Pledge	Annual Amount US$ million	Additional Resources
EC	1 bn Euro	1200	Current level: Euro 800 annually; Additional: Euro 200 million
Japan	US$ 10 bn in total	3300	The OECD DAC report treats this as additional but doubts exist
UK	100 million Pounds Sterling	185	50 million Pounds Sterling
USA	US$ 2.7 bn	2700	US$ 1.35 bn
France	33 million Euro	39	Nothing additional; estimate is based on WTO OECD (2005)
Total Pledges		5036	

Source: ILEAP (2007c), The Financial Architecture of Aid for Trade (April). Based on WTO/OECD Database.

2.5 Mechanisms for Delivering AfT

Following the April 2005 meeting of the IMF and the World Bank, both institutions requested two ambassadors to the WTO, from Sweden and Rwanda, to consult the ambassadors on 'the need for AfT". Ambassadors Mia Horn af Rantzien (who latter chaired the WTO Task Force on AfT) and Valentine Rugwabiza (who as Deputy Director General of the WTO, later led the drafting process to put AfT on the Hong Kong agenda) (World Bank & IMF, 2005) identified a need for enhancing the Integrated Framework (IF)[7] and also for a new multinational fund to provide "more predictable and credible financing to respond to the prioritised trade-related needs assessment and a separate 'window' for specific adjustment issues affecting certain countries arising from the Most Favoured Nations (MFN)[8] treatment (notably on preference erosion, but also other issues could be considered, including loss of fiscal revenues)". The IMF and World Bank accepted the arguments for an Enhanced Integrated Framework (EIF), but rejected the proposals for a separate fund and a separate window for adjustment (ODI, 2007). Subsequently, the WTO Task Force on AfT also did not recommend a new agency to administer AfT.

In parallel with the WTO Task Force on AfT, a Task Force was also set up to examine the enhancement of the IF which has become the main vehicle for delivering Trade related Technical Assistance. The other instrument for the same purpose is the Joint Integrated Technical Assistance Programme (JITAP)[9]. Ministers at Hong Kong

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[7] The IF for Trade Related Technical Assistance to LDCs is a multi-agency, multi-donor program that assists LDCs to expand their participation in the global economy. Currently, 40 LDCs are either developing or implementing IF programs. Established on the basis of the Plan of Action for LDCs by the WTO Ministerial Conference in Singapore in 1996, the IF brings together the following agencies: WTO, IMF, World Bank, UNDP, UNCTAD, and the ITC (International Trade Centre). Its key objectives are to assist LDCs in mainstreaming trade in PRSPs/NDPs and to deliver coordinated trade related technical assistance (TRTA) based on need identified by countries themselves. IF is financed by the Integrated Framework Trust Fund, which had pledges of about US$35 million.

[8] This sounds contradictory literarily suggesting special treatment, but in the WTO, it actually means non-discrimination, treating virtually all countries equally.

[9] JITAP is implemented jointly by the ITC, UNCTAD and WTO and financed by several donor countries to assist African countries in building capacities to integrate into the multilateral trading system. So far 24 African countries have benefited from phases one and two of the programme.

(WTO, 2005)[10] confirmed three main elements of the IF Task Force's mandate to secure IF enhancement: increased and predictable financial resources on a multi-year basis; strengthened capacities within beneficiary countries to implement, manage, and monitor IF programmes; and better governance. Ministers also called for more effective follow-up to national diagnostic trade integration studies (DTIS) and more effective coordination among IF stakeholders and donors (Aitic, 2006)[11]. In its report submitted on 29 June 2006 (WTO,2006c)[12], the IF Task Force estimates the resources for the EIF as about US$ 400 million, of which US$ 320 will be allocated for the country level activities, representing an average of US$ 8 million per LDC. In May 2007, the IF steering committee and IF working group approved recommendations of the EIF Transition Team but there remains challenges about the mode of implementation.

In its current form, the IF or EIF appears to be an inadequate vehicle for delivery of AfT in a number of respects. The IF was designed as a mechanism for relatively small projects and does not include infrastructure or supply-side components. It is exclusively designed for LDCs while AfT would also cover other developing countries. The billions of dollars being pledged for AfT (if they materialize) would be too big for the EIF to handle, given that the IF is currently involved with relatively small amount (US$ 35 million) and the IF Task Force only proposed US$ 400 million for the EIF.

While not formally proposing any new institution to administer AfT, the WTO Task Force on AfT made clear its dissatisfaction with the existing mechanisms, which also involve international and regional DFIs. It criticised donors and these institutions for neglecting trade and failing to understand its needs, leading to inadequate support for infrastructure and failure to meet the costs of adjustment, and for inadequate attention to regional needs. It also recommended better coordination mechanisms at country, regional and multinational level as well as a principal role for the WTO in terms of monitoring the overall and country performance of other agencies (WTO, 2006a). While there is no need to invent new channels for AfT delivery, existing institutions - the IMF, the World Bank and the regional DFIs - need to reform their aid delivery mechanisms, often criticized as too cumbersome by client countries and be fully committed to the principles of Paris Declaration on Aid Effectiveness.

2.6 Operationalizing AfT- Progress and Challenges One year On

On 24 May 2007, the Overseas Development Institute (ODI) invited leading players on AfT to a conference to review what has been done and if the high expectations are being met[13]. In the background brief prepared for the conference (ODI, 2007) a number of issues critical to AfT were raised including:

- Commitments on AfT have increased, but is more AfT actually forthcoming for those countries that need it most?
- AfT has been defined to be broader than trade policy capacity building and to include trade-related infrastructure – has this been defined satisfactorily?

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[10] See paragraph 48-51 of the Ministerial Declaration.
[11] Itic refers to the Agency for International Trade Information and Cooperation.
[12] WT/IFSC/W/155.
[13] For details of the conference see: http://www.odi.org.uk/events/aid_for_trade_07/index.html

- Ultimately, the private sector is the eventual beneficiary of AfT, but has it been adequately involved?
- Are the possible links to the private sector and other institutions which may also help provide finance (non-ODA) to trade being exploited?
- Have countries begun to plan AfT strategies and enhanced the importance of AfT in their development programmes?
- Are the regional AfT challenges being met? and
- Are the right international and national institutions involved in the right activities with the right emphasis?

No doubt some progress has been recorded but challenges also persist. It is progress that there has been an increased awareness of AfT and that the initiative has stayed on the agenda even after the collapse of the Doha Round negotiations. It is also progress that the WTO has been consulting donors and DFIs to mobilize for AfT and has agreed to monitor and evaluate AfT. Additional pledges are also being sought under the EIF and WTO regional AfT conferences in Lima, Manila and Dar es Salaam have now been concluded. As a major provider of trade-related assistance, the EC is developing a joint EU strategy on AfT.

Although AfT is not part of the Doha Round negotiations single undertaking and was not meant to depend on its successful conclusion, the conference noted that there is now no negotiating momentum behind the initiative and it might be hard to shift aid more towards improving the trading and productive capacities of developing countries and that from the pledges announced so far, there appears to be little or no increase in total AfT and its share of total aid may actually fall (ODI, 2007). Concerned about the limited progress in the area of funding, the Agency for International Trade Information and Cooperation (Aitic) remarked that the political will of the major players to deliver on their Hong Kong promises will need to be tested (Aitic, 2006). Aitic also indicated that the conditions attached to enhanced trade-related aid will also have to be carefully watched while the means of delivery and coordination among agencies remain a concern.

Regarding other questions, it is clear, as indicated earlier, that trade-related infrastructure has not been well defined. It is therefore important to find a common understanding of which parts of infrastructure are to be considered AfT. Regional infrastructure has also not been given adequate attention. It is not clear how the private sector has been involved in the AfT processes. They did not contribute significantly to the work of the AfT Task Force, but they are involved in the regional reviews. Since the private sector is ultimately responsible for trading, they should be a major recipient of AfT and should be more closely involved at the policy and strategy development at the country level. Private sector resources, especially for infrastructure development, are also still not being adequately leveraged.

In his speech to the AfT regional review conference in Manila, WTO Director General (DG), Pascal Lamy (2007a) has also highlighted three key challenges similar to those raised above. First is the need for national vision backed by a comprehensive strategy for getting there - making trade capacity and infrastructure development a national priority shared across government, including trade, finance, planning, agriculture, and other key ministries. The second is the need to focus on the required financing, how to mobilize it, and how to deliver it more efficiently and effectively -

getting donors and international agencies to focus more on trade and growth. Thirdly, the DG also echoed the need to focus on the private sector – for the simple reason that the private sector is the ultimate beneficiary of AfT and hence should be involved in shaping the debate on AfT.

4 Enhancing African Trade Capacity

4.1 African Trade Capacity Challenges

African trade performance has been limited by supply-side constraints. Three key issues have been identified in ensuring supply response namely: (i) existence of competitive enterprises that are capable of producing products and services at reasonable cost; (ii) efficient mechanisms to ensure that these products and services can reach international markets within the time and cost required to stay competitive; and (iii) trade facilitation - reducing customs and transit barriers and removing the unproductive deadweight costs that shippers have to pay. Producing goods efficiently and getting them faster from factory gate to the consumers make all the difference to trade performance. In the words of the WTO Director General, countries need access to basic infrastructure that drives globalization - 21st century transport corridors and telecommunications network that can connect exporters to world markets; modern customs facilities that can move products rapidly and efficiently across borders; testing labs to ensure that exports meet international standards; and the sophisticated expertise and institutions needed to navigate a highly complex world trading system (Lamy, 2007a).

4.2 Insights from the Dar es Salaam AfT Regional Review Conference

A number of key issues emerged from discussions at the Dar es Salaam AfT regional review conference[14] held on 1-2 October 2007 and the conference closing remarks of DG Pascal Lamy (2007b). These include the need to enhance the competitiveness of the African economies; predictability, additionality, and accessibility of financing; political commitment to making trade a national priority; need for selectivity and focus on results; regional dimension; private sector involvement; and coordination. These issues are similar to those echoed in different for a on the AfT debate. If they can be carefully addressed, AfT will have a chance of contributing to enhancing African trade capacity. otherwise, the AfT debate could become mere rhetoric and another empty promise, thereby justifying the views of its critics. The issues are discussed below.

***Enhancing competitiveness*: **The conference observed that the problem in Africa is not a lack of competitive firms but the lack of competitive economic systems, and that if this problem can be addressed, Africa can compete with the world. In this regard, African countries need to intensify economic reforms aimed at removing barriers that impede optimum performance of businesses. According to the World Bank Doing Business Survey for 2006/07, only three African countries are among the top 50 countries in terms of ease of doing business ranking among the 178 countries surveyed. These are Mauritius (27), South Africa (35) and Namibia (43).

[14] The report of the Dar es Salaam AfT regional review conference has not been released as at the time of finalizing this paper.

When the list is extended to the top 100 countries, only 9 African countries are included[15]. African countries therefore need to intensify efforts at improving the business environment so as to enhance competitiveness at the firm level and attract more foreign direct investments. AfT can improve African business environment by contributing to the removal of supply-side constraints, including the provision of critical trade-related infrastructure.

Predictability and Accessibility of Financing: The conference emphasized that the funds under the AfT initiative should be additional, predictable and sustainable. A clear distinction should be made between existing commitments and pledges, and new money under the AfT initiative, not just shifting existing resources from other needs. It is therefore important for donors to deliver on their Hong Kong and broader Gleneagles commitments. An effective delivery of aid is also as critical as the volume of aid. To this end, donors and financial institutions need to reduce red tape and fast-track disbursement. It was emphasized that helping Africa to trade more is good for the world and the credibility of the world trading system, not just for Africans; and that AfT should be seen as an investment not charity.

Making Trade a National Priority: Again and again during the conference, ministers and other participants emphasized the need for a political commitment to making trade a central national priority; that leadership must come from the top; that there should be a strategy for getting there; and that this strategy needs to be shared across government and business and mainstreamed in all facets of national policy. To ensure a focused and sustained national commitment to trade-led growth, it is crucial that trade should be mainstreamed in PRSPs/NDPs. Recent reviews of PRSPs unfortunately have revealed that the trade and growth agenda have received limited attention.

Need for Selectivity and Focus on Results: The challenge for countries is to agree on a few objectives (two or three) that will impact most on their trade growth and pursue them consistently over the long term. Countries need to focus on what is most critical to increasing exports – key bottlenecks and constraints to be removed – and the projects that can deliver the biggest returns on investment. There was emphasis in the discussions on infrastructure, trade facilitation, trade financing, and food and technical standards. In addition to setting priorities, there should focus on results to demonstrate that AfT will deliver results. In this regard, there should be a set of monitorable indicators through which results could be measured.

Regional Dimension: There is the need to think regionally and not just nationally. One way of narrowing down priorities is to concentrate on regional needs and projects – from transport corridors to customs modernization and power pool. Therefore, in designing and implementing AfT strategies, regional integration must be seen as a necessary stepping stone to global integration. The regional dimension of AfT is critical since trade crosses borders and the priorities are often regional in scope. This means finding new ways of financing and implementing projects regionally. The NEPAD Initiative has started to address this issue and efforts need to be intensified in this direction.

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[15] The additional countries are Botswana (51), Kenya (72), Ghana (87), Tunisia (88), Seychelles (90) and Swaziland (95).

Private Sector Involvement: The role of the private sector is critical for success. Private sector advice will strengthen trade policy since the exporters know their markets; pay the price for delays, bottlenecks and red tapes; and hence are best placed to identify the right set of priorities. There is also the need for a creative way to use AfT to leverage private sector resources and dynamism since aid can never provide the whole answer to trade capacity gaps. The big money and the potential for real trade capacity building, lies with the private sector as well as with increased trade, investment and growth.

Coordination: The critical role of coordination for success was also stressed. Governments need to coordinate internally across ministries and sectors; donors and financial institutions need to coordinate with one another and with governments; countries need to coordinate regionally; and south-south coordination and cooperation are also important.

4.3 African Trade Capacity Resource Needs and AfT Flows

Some estimates have been made of African resource needs for enhancing its trade capacity (see ODI, 2007a), but no complete estimate exists. Given the level of capital requirement involved, infrastructure needs are likely to account for most of the AfT requirement. From past estimates, infrastructure accounted for over 80 percent of the cumulative AfT commitments globally in 2001-2004 (see Table 1). There are two methodological approaches to estimate such needs: (i) demand driven and (ii) supply driven. The demand-driven approach assumes that a certain level and rate of growth corresponds to a certain level of demand for infrastructure services while the supply-driven approach takes into account the trade and growth effects of infrastructure development. There are some estimates for Africa using the demand-driven approach, but no estimate using the supply-driven approach is yet available for Africa.

Estache and Yepes (2005) calculated the infrastructure needs for Africa to reach MDGs target growth rate. According to these calculations which exclude the sea port, airport and irrigation sub-sectors, and some important large regional projects, the average investment needs are estimated at about US$ 22- 24 billion while maintenance needs are estimated at around US$ 17-18 billion per year for the period 2005-2015. Based on this work, the Economic Commission for Africa (ECA, 2005) claimed that Africa needs to spend an additional US$ 20 billion a year on infrastructure investments and maintenance until 2015 to sustain a growth rate of 7 per cent and that developed countries should provide US$ 10 billion a year to improve Africa's infrastructure rising to US$ 20 billion a year.

A recent report by the Infrastructure Consortium for Africa (ICA, 2007) also highlighted infrastructure costs and needs for Africa. The ICA reports on work carried out in 2003-2004 by Professor Sachs for the UN Millennium Project, in order to meet the MDGs, including energy, roads, water and sanitation. Work in three African countries studied in depth, led to the conclusion that additional annual expenditures (from 2005-2015) of between US$32 and US$40 per person was required, of which around US$20 would need to come from donors. Applied to the whole of the Sub-Saharan Africa, this equated to the need for additional donor support amounting to US$ 14 billion per year.

The ICA further estimated that total ODA to African Infrastructure reached US$ 5.6 billion in 2006 and total non-concessional capital flows reached US$ 2.1 billion. Of these estimates, only 10 per cent of total commitments were for cross-border infrastructure, suggesting a particularly serious gap in regional infrastructure investment. The OECD has also estimated that aid to African infrastructure in 2005 was about US$ 1.5 billion, which was about one-third of total aid to Africa.

Analysis of resource flows during 2001-2004 reveals that cumulative AfT commitments to Africa amounted to US$ 13.68 billion (average annual commitments of US$ 3.42 billion) representing 26.1 percent of total global AfT commitments (Table 5). This average annual AfT commitment in Africa is a far cry from the estimated annual resource needs for African infrastructure alone (US$ 14–20 billion). The situation becomes even more frightening when viewed against the projected annual global resource flow from pledges (US$ 5 billion)[16], which is only about a third to a quarter of the estimated African needs for infrastructure alone.

Table 5: African Share of AFT Commitments (2001-2004)
(US$'000)

	2001	2002	2003	2004	2001-2004
North Africa	397,410	834,468	803,957	710,042	2,846,257
Sub-Saharan Africa	2,556,546	1,587,703	2,723,313	3,246,941	2,846,257
Africa Total	3,084,410	2,482,327	3,943,984	4,173,953	13,684.674
Global Total	11,151,490	11,216,131	12,312,349	17,798,386	52,478,356
% Share of Africa	27.66	22.13	32.03	23.45	26.08

Source: ILEAP (2007c), The Financial Architecture of Aid for Trade (April).
Based on WTO/OECD Database.

These figures signal the need for a substantial increase in current levels of pledges and increased impetus for mobilizing AfT. However the signals are not encouraging. The original demand by LDCs that AfT be additional to planned increases in total aid, in order not to divert resources from other areas and supported by the AfT Task Force was not accepted by donors. Rather, donors insist that the large increase projected for total aid **(**US$ 50 billion more per year by 2010) was designed to allow for new demands, and therefore, for AfT (ODI, 2007a). The targeting of this amount however dated back to the Monterrey conference of 2002, before the Doha Round negotiations gathered momentum and this amount was accepted by the G-8 in July 2005 before the AfT mandate. There is therefore no coherence of AfT pledges with the wider Monterrey Consensus on Financing for Development.

In view of the collapse of Doha Round negotiations, or at least its inconclusiveness, the needed increased impetus for mobilizing AfT may be more difficult to sustain and additionality of AfT resources difficult to secure. AfT is likely to meet only an insignificant fraction of the huge resources needed by Africa to build it's productive and trade capacity. In the prevailing circumstance, putting substantial hope on AfT might be a recipe for failure. Africa's success in building an effective

[16] Other estimates have even shown that total G-8 commitments confirmed at the 2006 meeting, is about US$ 4 billion annually for AfT in total, not an increase, and it includes the EIF.

productive and trade capacity would critically depend on internal efforts, both individually by countries and collectively as regional blocs.

Africa therefore needs to mobilize alternative sources for its infrastructure investments essential for expanding trade and growth. In this regard, internal resources should be vigorously mobilized through increased national savings. Private sector resources, including pension funds, should also be mobilized through public-private- partnerships (PPPs), while the war on corruption, which often drains many African countries of their much-needed development resources, must also be intensified. There are also other resources which Africa could access to build its trade-related infrastructure namely, under ICA and the proposed EU-African Infrastructure Fund. These funds present alternative avenues for meeting Africa's trade-related infrastructure investment needs. With or without AfT, Africa must build its production and trade capacity so as to be able to effectively integrate into the global trading system and have a chance of lifting a larger proportion of its population out of poverty.

4.5 Possible Role for the African Development Bank

The Dar es Salaam AfT regional review conference recognized the need for a regional mechanism to bring together the regional stakeholders – including the private sector – and for moving the process forward. In his closing remarks, DG Lamy (2007b) specifically mentioned the catalytic role of the African Development Bank (AfDB) and the Economic Commission for Africa (ECA) in this regard. The possible role, which the AfDB could play in enhancing African trade capacity are highlighted below.

Articulating Trade Support Strategy: In the past, trade agenda has not featured prominently at either the strategic or operational level in the AfDB. However, in the context of its recent institutional reforms, the institution is now well positioned to play a catalytic role in promoting trade capacity building. The Bank has established a new Department of Regional Integration and NEPAD, with responsibility for regional integration, trade and NEPAD. However, a trade capacity support strategy is still lacking. The Bank needs to fill this missing gap by articulating such a strategy to enable it properly mainstream AfT into its operations. The strategy has to be selective in its areas of trade-related interventions based on its comparative advantage. The Bank could also provide technical assistance to its member countries in their efforts to mainstream trade policy and AfT into their PRSPs/NDPs. Bank's country strategy papers and regional assistance strategy papers should also mainstream incorporate AfT to facilitate effective delivery.

Development of Trade-Related Infrastructure: The development of trade-related infrastructure, especially regional infrastructure, is one critical area in which AfDB has developed capacity to contribute to African trade capacity enhancement. At both strategic and operational level, the AfDB has shifted focus to infrastructure development. In the context of its regional integration mandate and the NEPAD initiative, the AfDB has been playing a key role in the area of regional infrastructure development. In the pursuit of its regional integration mandate, the AfDB has set aside 15 percent of its concessional financing facility, the African Development Fund (ADF), exclusively for supporting regional integration, though loans and grants for investments, regional studies and capacity building projects. Addressing more than 300 finance and trade ministers, senior donor representatives, regional institutions and key private sector actors in Dar es Salaam, Tanzania, during the recent AfT regional review conference, the President of the AfDB Group, Donald Kaberuka (2007) indicated that, going forward, the institution will increase its support to regional integration to 20 percent. This will enable the Bank to play increased role in enhancing the development of trade-related infrastructure.

In the context of the NEPAD initiative, the Heads of State and Government Implementation Committee (HSGIC) designated the AfDB as the lead agency in infrastructure development. Following this mandate, the Bank has prepared the Short Term Action Plan (STAP)[17] adopted in 2002, and is currently preparing the Medium to Long Term Strategic Framework (MLTSF) for infrastructural development in Africa. The MLTSF seeks to institute a coherent strategic framework for infrastructure development and for establishing partnerships that can best promote economic integration and support for trade development on the continent. Within the framework of the STAP, the AfDB has financed about 33 projects amounting to over US$ 1 billion and mobilized about US$ 1.6 billion in co-financing of some of these projects over the period 2002-2006. Given that the ICA is now hosted in the AfDB, the institution is now better positioned to contribute more to infrastructure development in Africa.

Training of Country Officials: The AfDB hosts the Joint African Institute (JAI) jointly owned by the IMF, World Bank and the AfDB. The institute runs courses spanning various areas and has the capacity to design and deliver programmes aimed at improving the capacity of African government officials on trade issues. This is an advantage which needs to be tapped by African countries in mainstreaming trade into their PRSPs/NDPs, monitoring and evaluation of AfT, managing for results, and enhancing trade negotiation capabilities of their officials.

Sharing of Experiences by African Finance and Trade Ministers: As an African Bank, AfDB is uniquely placed to bring together African finance and trade ministers at regular intervals and with private sector actors and civil society organizations (CSOs) to brainstorm and share experiences on trade capacity building and the process of AfT implementation. Such sessions could prove very useful in sharing experiences and transferring know-how from the more developed African countries to the less-developed ones in the area of trade policy and strategy, and managing for results. It could also serve as a forum for evaluating progress as well as deciding on the way forward.

Disbursement Channel for AfT: Global and regional DFIs have a major role to play as channels for delivering AfT to benefiting member countries. Like in the case of ICA, the AfDB can be made to host the AfT for Africa and disburse the fund to benefiting member countries based on agreed criteria. One advantage of this approach is that member countries will be able to tap into the project preparation facilities and expertise in the Bank, as well as draw on best practices in its past

[17] The STAP included projects involving establishment of policy, regulatory and institutional frameworks to create a suitable environment for investment and efficient operations, capacity building initiatives to empower implementing and coordinating institutions to meet their NEPAD mandates as well as capital investments and studies to prepare new priority projects.

infrastructure financing as well benefiting from the lessons learnt from the STAP and MLTSF under the NEPAD initiative..

Conclusion

The paper noted that while progress has been recorded in sustaining the AfT debate despite the collapse of the Doha Round negotiations, or at least it inconclusiveness, major challenges still persist. In particular, resource mobilization for AfT critically falls short of donor promises and African requirements. Going forward, the paper argues that effective building of African trade capacity would critically depend on internal efforts, both by individual countries and collectively as regional blocs, rather than reliance on AfT, which is likely to prove inadequate given the current levels of pledges by donors. AfT mobilization also needs to receive a new impetus if the initiative is not to end up as another empty promise.

Noting that the prospects are not bright for additionality of AfT resources given that the signals are not encouraging, Africa needs to mobilize alternative resources for its infrastructure investments essential for expanding trade and growth. In this regard, internal resources should be vigorously mobilized through increased national savings. Private sector resources, including pension funds, should also be mobilized through public-private- partnerships (PPPs). Emerging alternative resources such as from ICA and the proposed EU-African Infrastructure Fund, present additional avenues for meeting African trade-related infrastructure investment needs. With or without AfT, Africa must build its production and trade capacity so as to be able to effectively integrate into the global trading system and have a chance of lifting a larger proportion of its population our of poverty.

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