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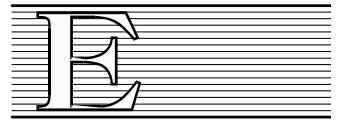
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***Aid for Trade: Emerging Issues and Challenges***

## **A. Introduction**

1. The purpose of this note is to inform the Ministers of Finance, Planning and Economic Development about the Aid for Trade (AFT) initiative. This initiative aims at mobilizing additional resources to help developing countries deal with their trade challenges.

2. This note highlights the importance of the AFT initiative, its potential to contribute to Africa's development agenda and elaborates on some of the challenges related to its operationalization. It aims at informing and enabling the Ministers to address the scope, operationalization and implications of the AFT for African countries. It also makes proposals on the role ECA can play in delivering the AFT to countries on the continent.

## **B. The rationale of Aid for Trade**

3. The idea of AFT started gaining currency at the fifth World Trade Organization (WTO) Ministerial Conference in Cancun when the United Nations Secretary-General noted the need for AFT to complement other sources of aid for development.<sup>1</sup> The idea was further deepened during the Eleventh meeting of the United Nations Conference on Trade and Development (UNCTAD XI), where it was agreed that there was need to go beyond soft trade-related technical assistance to the support that would help deepen productive capacities, finance trade-related hard infrastructure, while at the same time deal with the adjustment costs of trade reforms. The AFT was officially put on the WTO agenda at the Sixth Ministerial Conference in Hong Kong in December 2005. The mandate with respect to AFT is "to help developing countries particularly least-developing countries (LDCs), to build the supply capacity and trade-related infrastructure that would assist them to implement and benefit from WTO agreements and, more broadly, to expand their trade".<sup>2</sup>

4. The need to strengthen trade capacities in developing countries is a major element in the Doha Round. The AFT rationale is therefore built around this strong need, with the important caveat that AFT cannot be a substitute for the development benefits from the successful conclusion of the Round. The Task Force<sup>3</sup> set up to determine how AFT could be implemented has defined a concise rationale for AFT. It is about assisting developing countries to increase exports of goods and services, integrate into the multilateral trading system and benefit from liberalized trade and increased market access.

## **C. Objectives and guiding principles**

5. In the context of Africa, the AFT objectives promise to be an important complement to other forms of aid for development that the region is already receiving. These objectives include: enabling countries to use trade more effectively; helping them build supply-side capacity and trade-related infrastructure; helping them design and implement trade reform processes; deepening regional integration; assisting smooth integration into the world trading system; and assisting in the implementation of trade agreements. So far, trade-related technical assistance has failed to fully catalyze trade as an engine for growth. If AFT objectives are met, Africa could greatly benefit.

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<sup>1</sup> See UNCTAD (2006), *Aid for Trade*.

<sup>2</sup> Paragraph 57 of the Hong Kong Ministerial Declaration, WT/MIN/DEC, 22 December 2005.

<sup>3</sup> The Hong Kong Ministerial Declaration instructed the Director-General of the WTO to set up a task force to provide recommendations on how to implement AFT. The Task Force submitted its report on 27 July 2006.

6. AFT implementation will build on existing trade-related assistance mechanisms, for example, the Integrated Framework (IF) and the Joint Integrated Technical Assistance Programme (JITAP). In addition, it will use existing guidelines for aid delivery as outlined in the Paris Declaration on Aid Effectiveness within the five broad areas of ownership, alignment, harmonization, managing for results and mutual accountability. By adhering to these principles, it is expected that AFT will result in strengthened capacity in developing countries to fully mainstream trade into their national development strategies, leading to solid country-based formulation and ownership of trade related needs and priorities. On the donors' part, a strengthened and coordinated response to trade-related need is also needed. Finally, it would be highly desirable to develop a strong monitoring and evaluation mechanism that is based on the guiding principles of the Paris Declaration. As these modalities and mechanisms for accessing AFT are yet to be developed, strong involvement of African countries is needed.

#### **D. The scope of the Aid for Trade**

7. The extent to which AFT is likely to address Africa's development needs depends on the congruence between the scope envisaged for the initiatives and the trade challenges facing countries in the region. The elements African countries expect to see in AFT are presented in box 1.

8. There are five broad categories defining the scope of AFT. First, the initiative is expected to deal with constraints related to trade policy and regulations in developing countries. This includes, among other things, training officials, helping governments implement trade agreements, and complying with rules and standards. Traditional trade-related capacity-building initiatives have, to a large extent, been addressing some of these issues but with insufficient and uneven degrees of success.

9. AFT is also expected to promote trade development, which includes providing support services for business, encouraging finance and investment, conducting market analysis and expanding e-commerce. As is the case of support to trade policy and regulations, the AFT focus on trade development is not new. Traditional technical assistance has been dealing with this. However, the support in this area has not been sufficient to overcome market-access barriers externally imposed on African exports.

10. AFT is also expected to help in the development of trade-related infrastructure building such as roads and ports. This represents deepened support for trade assistance, an AFT innovation to complement the normal aid for development. Stakeholders have already agreed that there will be additional funds for this AFT component, and it will not be merely a reallocation of already committed development assistance.

11. AFT also aims at providing support for building productive capacity, that is, improved national capacity to produce goods and services. This will enable African countries to deepen their diversification efforts through development of new products. AFT will therefore facilitate value chain analysis and support capacity-building for the development of products that help African countries exploit those segments of the value chain where they have comparative advantage.

12. Lastly, many studies have clearly shown that implementation of trade reforms is not costless. ECA's research on the impact of different options for agriculture and non-agriculture market access (NAMA) has shown that, beyond economic costs, one has to take into account

the social implications associated with de-industrialization and preference erosion. It is anticipated that AFT will provide financial assistance to help developing countries meet the adjustment costs associated with trade policy reform, including balance-of-payment problems resulting from loss of tariff revenues or erosion of preferential market access.

13. It is also worth pointing out that AFT is expected to help developing countries implement other trade agreements. While the Doha Round commitments will certainly present adjustment challenges, the same could be said of Africa's commitments under other regional integration agreements and the Economic Partnership Agreements (EPAs) under negotiations with the European Union (EU). In this regard, the AFT scope could also allow it to be used to support the implementation of trade aspects of the EPAs<sup>4</sup>.

**Box 1: Key AFT elements identified by African countries**

- Enhance productive capacities of African countries, through increased productivity, addressing the necessary regulatory reforms, human resource and physical infrastructure needed to make African economies competitive;
- Support investment in improving the competitiveness of African countries;
- Assist African countries to reduce the cost of doing business;
- Assist African countries to invest in infrastructure;
- Help African countries to deal effectively with the adjustment costs associated with trade liberalization, such as rising food prices for net food-importing countries, preference erosion, reduction in tariff revenues, and other economic and social costs;
- Assist African countries to integrate trade policy in their overall development strategies and create a strong public-private sector partnership;
- Help African countries to invest in human resource development; and
- Support regional integration initiatives.

14. The scope of AFT will to, a large extent, determine how much money is required. This means an objective estimation of AFT requirements at the country and regional level is needed. A major concern has been that AFT funds might not be sufficient, or might not materialize. Presently, it is not quite clear how much money is needed and from where it will come. Furthermore, since the commitments in the EPAs are a sub-set of the broader commitments at the WTO level, it is clear that substantial resources will have to be mobilized if AFT is to deal concretely and effectively with African trade challenges.

15. One country that has assessed its requirements under AFT is Mauritius. In 2006, as noted by the International Monetary Fund<sup>5</sup> (IMF), the Mauritius Government estimated that it would need \$US 4.5 billion over the next decade to deal with the adjustment challenges of reducing its economy's dependence on preferences. By many accounts, Mauritius is a more developed economy than most African countries. This means that the AFT financial needs of other African countries are likely to be substantial.

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<sup>4</sup> The EU has already indicated that a large proportion of its AFT pledge is going to be used for the implementation of EPAs by the ACP countries.

<sup>5</sup> IMF (2006), "Mauritius — Assessment Letter in the Context of the Aid for Trade Initiative", September.

## **E. Additionality of resources under AFT**

16. An important question and crucial issue for African countries to consider is whether AFT will deliver new and additional resources to support technical assistance programmes and projects. In this regard, it is important that AFT is not just “re-packaging” of existing technical assistance and projects<sup>6</sup>. AFT needs to be funded adequately with additional, predictable and sustainable resources. The position of African countries is very clear on the question of additionality of resources (see box 2 on the African position on AFT financing). Moreover, the additionality of resource flows must hinge on other specific issues as identified. These include the scope that will define the resources needed; the content and elements of the initiative, that define the programmes and projects to be supported, mechanisms for mobilizing resources, modalities for implementation, and an effective mechanism for monitoring and evaluating the initiative.

### **Box 2: AFT Financing – the African position**

African countries have emphasized the following key aspects during discussions on AFT implementation:

- AFT should be carefully designed, adequately funded, efficiently managed and effectively implemented;
- AFT should play a catalytic role and be an engine for accelerated growth, development and poverty reduction in Africa;
- Funds provided under AFT should be additional, predictable and sustainable;
- Funding of AFT should be provided in grant form;
- There should be wide stakeholder involvement in the design and implementation of AFT programmes at the national and regional levels;
- AFT should also be supportive of regional integration initiatives;
- AFT should be used to strengthen and develop trade policy and enhance trade negotiation capacity at national, subregional and regional levels; and
- AFT should be a complement, and not a substitute, for the development promises of the Doha Development Agenda (DDA).

## **F. The role of ECA in delivering AFT to African countries**

17. ECA’s diagnosis of the failure of African countries to exploit their potential fully led to the thinking that besides low productive capacities and poor infrastructure, trade development in African countries, particularly in LDCs, has been hampered by weak trade policy capacity. This lack of capacity has prevented African countries from fully reaping the benefits of trade in

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<sup>6</sup> There is concern that half of the pledge by the EU is already committed development assistance that will be reallocated to AFT, raising the important issue of additionality of resources. Of the Euro 2 billion pledged by EU for AFT, Euro 1 billion is expected to be from EU member States and the rest from the Commission. However, for the members’ contribution, two-thirds is additional, while in the case of the Commission, only 30 per cent is additional resources.

moving forward their development agenda.<sup>7</sup> Dupasquier and Osakwe (2007) have identified five types of capacity constraints facing African countries, which include the lack of the capacity to:

- Negotiate effectively on trade issues of interest to Africa;
- Influence and set the agenda or pace of multilateral negotiations;
- Fulfil commitments to the multilateral trading system, without undermining African development goals;
- Formulate effective trade policies; and
- Exploit trading opportunities.

18. Against this background and given its engagement with African countries on trade issues, ECA as a regional institution plays a crucial role in AFT operationalization. Effectively, since the establishment of the African Trade Policy Centre (ATPC) in May 2003, ECA's support to building African trade capacities has increased significantly. The core ATPC objective is to strengthen the human, institutional and policy capacity of African governments to formulate and implement sound trade policies and participate more effectively in international trade negotiations. ATPC also supports and facilitates the involvement of other relevant stakeholders such as the private sector, civil society, and academia in the international trade negotiation process.

19. Building on ECA's achievement in trade research, mainstreaming trade in development policies, promoting intra-African trade, providing trade-related advisory services, and facilitating consensus building on trade issues, the *ECA Business Plan 2007-2009* sets a framework for tackling the development challenges facing Africa.<sup>8</sup> Two of these development challenges directly relate to what AFT is geared to achieve. First, ECA is strategically positioned to help African countries deal with the challenge of integrating for development. This is to be achieved through the deepening of regional integration, a necessary condition to overcome the limitations of Africa's small and fragmented economies and give the continent a greater voice in the management of international economic processes. Second, ECA is also strategically positioned to help ensure that Africa benefits from globalization. ECA could therefore build on its expertise in these areas in the context of AFT support to regional integration processes to help implement the necessary policies and institutional frameworks.

20. An important component of regional integration is trade facilitation, an area where AFT is expected to pay particular emphasis. For instance, immediate assistance is needed to harmonize customs procedures so as to minimize delays at African borders. Moreover, the removal of many roadblocks along major transport corridors, most of which connect landlocked countries to the sea, is also needed so as to improve trade flows. In addition, assistance is needed to upgrade maritime ports. ECA has been a major voice for infrastructure

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<sup>7</sup> See Dupasquier C. and P.N. Osakwe, 2007, "Trade Capacity Building in Sub-Saharan Africa: Emerging Issues and Challenges". In N. Dinello and E. Aryeetey (eds). *Testing Global Interdependence: Issues on Trade, Aid, Migration and Development*. Cheltenham, UK: Edward Elgar Publishing.

<sup>8</sup> Economic Commission for Africa, 2006, *ECA Business Plan: 2007-2009*, Addis Ababa.

development in Africa and could therefore play a key role in the AFT components that target trade facilitation. ECA's experience in this area could notably help to fast-track the delivery of required financial assistance. In addition, through consensus building, ECA could also continue to work with African countries so that they fully commit to promoting and improving trade facilitation within concrete timeframes.

21. Besides strong advisory and convening mandates to promote regional integration, ECA has also built capacity in the area of international trade. Thus, as a fulcrum of trade capacity-building in Africa, it is in a position to play a major role in providing the necessary technical advisory support required under AFT for African countries. Through its new trade negotiations unit, ECA will also be able to build a sustainable infrastructure for trade policy analysis. This will assist African countries in the ownership and effectiveness of the policies deriving from trade reforms.

## **G. Conclusion**

22. This note has discussed the scope of the AFT initiative and how it is likely to help African countries deal with their trade challenges. It has also shown that there is similarity and complementarity in the activities foreseen in the implementation of AFT and some of the ongoing ECA activities, stressing the fact that ECA is set to play an important role in ensuring that the implementation of this initiative achieves its expected outcomes in the region.

### ***Issues for consideration:***

- African Ministers of Finance, Planning and Economic Development to support implementation of the AFT initiative in African countries and elaborate country-level policies and programmes in close collaboration with the Trade Ministers; and
- African Ministers of Finance, Planning and Economic Development to support full ECA involvement in implementation of the AFT initiative, the institutional arrangements of which are being established under WTO leadership.