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Aid for Trade: Progress on the Initiative and Report on Mandate to ECA

Introduction

The Aid for Trade initiative constitutes one of major development-oriented outcomes to date of the Doha Round of WTO negotiations. African Trade Ministers played a major role in the adoption of the initiative by the 6th WTO Ministerial Conference that was held in Hong Kong in December 2005. The AU Ministers of Trade adopted at the 4th Ordinary Session of their Conference that was held in Nairobi, Kenya, in April 2006, a common African position on the Aid for Trade initiative. This position was transmitted to the WTO Task Force on Aid for Trade and many of the elements of the position were incorporated into the recommendations of the Task Force. African Ministers of Trade have underscored the importance of collaboration and cooperation with their counterparts in other Ministries, especially the Ministers of Finance and Economic Development, for the effective operationalization of the Aid for Trade initiative.

The African Ministers of Finance, Planning and Economic Development during the Fortieth Session of the Commission welcomed the Aid for Trade (AFT) initiative and applauded its focus on strengthening African countries' supply capacities, building trade-related infrastructure and dealing with adjustment costs related to trade liberalization. The Ministers endorsed the AFT initiative and saw it as a critical component within the whole architecture of the global partnership for development. Consequently, they noted the urgency of expediting the work on AFT to make it operational while at the same time ensuring that it receives adequate funding on a predictable basis.

The Ministers mandated the ECA to work with the African Union Commission (AUC) and the African Development Bank (AfDB) to support African governments in implementing this initiative. The scope of the mandate included supporting African countries in defining new mechanisms through national and regional AFT programmes for addressing Africa's trade-related challenges. In addition, the mandate encompassed the requirement for the three institutions to be active in the follow-up and evaluation mechanisms for the national and regional programmes.

This paper discusses the progress so far made on the AFT initiative. It also highlights the role the ECA and its partners have played in moving the agenda of the initiative forward for the benefit of African countries. A key highlight on developments in 2007 was the African and Global Reviews of the Aid for Trade. The ECA with the support of the Canadian Government to the African Trade Policy Centre (ATPC), Royal Danish Government, and the UNDP, and in collaboration with the WTO and the AfDB brought together African Ministers (Finance and Trade portfolios), private sector, Regional Economic Communities (RECs) and international development partners to chart out the priorities for the continent on Aid for Trade. The paper concludes by providing the strategic framework that the ECA has defined with respect to the on-going and future implementation and monitoring of the AFT initiative.

Progress in 2007 on the Aid for Trade Initiative

The Aid for Trade initiative witnessed some very useful developments towards making it a reality in 2007. The progress in the AFT initiative was more towards its operationalization. This is considered to be a major prerequisite for the AFT to be able to play a major role in assuring the development dimensions of trade reforms at the global and regional level. In this section, the report gives the summary of the key developments on the AFT initiative that took place in 2007, the most important being the global review of the AFT that was preceded by three regional review meetings that were held in Latin America, Asia and Africa in September and October of 2007.

The African review meeting was organized jointly by the ECA, WTO and ADB and took place in Dar-es-Salaam, Tanzania, on 1-2 October 2007. The following were the key objectives of the meeting:

- (a) Underline trade's central importance to the achievement of Africa's development goals;
- (b) Identify the key priorities for strengthening capacity and increasing trade;
- (c) Emphasize the importance of comprehensive trade strategies (regional as well as national);
- (d) Highlight the need for increased and effective financing; and
- (e) Secure political commitment on the way forward.

Key issues and recommendations of the African regional review of the Aid for Trade

The Dar-Es-Salaam conference broke new ground in bringing together key actors – African Trade and Finance Ministries, donors agencies, international financial institutions, multilateral and regional organizations, and the private sector – to focus on mobilizing increased and effective financing for building trade capacity and infrastructure across Africa. Several key points can be summarized from the discussions that took place between the African policy makers, the private sector, regional development banks and the international partners.

First, there is now consensus that that AFT matters for Africa. The African review meeting concluded that for the continent to be able to compete and succeed in the global market place, the AFT is necessary, as it would help the countries to diversify and address the cost of production factors. The regional dimension of the AFT programmes would however be critical as this would both help African countries optimize their regional integration processes, but at the same time exploit economies of scale through larger competitiveness-building markets. For this to happen, new instruments by the development banks to finance regional competitiveness-enhancing strategies will have to be developed. And for this to be successful, the competitiveness-enhancing strategies must at the same time address specific needs of each country and must have the private sector as the key anchor.

Second, it was clear from presentations by the African RECs and interventions from the African Ministers that important initiatives at national and regional level aimed at enhancing competitiveness exist. Many of these projects and programmes already identified have been geared towards strengthening of production capacities for trade. A key issue that the review meeting identified was the need to resolve the lack of coordination in the existing strategies. In particular, bilateral and multilateral development partners have separate and uncoordinated programmes with individual countries and regional groupings, and this would have to be addressed to enable seamless super-imposition of the AFT on these existing strategies.

Third, the African review noted the broad array of areas where AFT support is required especially among the RECs, which then calls for clear prioritization. But most significantly, it was evident that the RECs priorities narrow for now to just three key priority areas, albeit with different ranking for each REC. Moreover, the existing strategies are at different stages of

implementation and financing gaps are a major constraint. The African review meeting therefore concluded that it was important that the concrete implementation of the AFT for Africa focus on the following: *infrastructure, trade facilitation, and standards*. AFT resources that are targeted at the three areas would help address the paradox of African products, which are competitive at the factory and farm-gate, but uncompetitive at the global markets.

Fourth, the success in implementation of competitiveness-enhancing strategies is contingent upon the AFT also strengthening the human capital development in the continent. This should go hand-in-hand with the deepening of the private sector involvement. Only then can the AFT provide the catalytic effect for economic change as it fills the financing gaps of existing and new strategic areas.

Lastly, AFT initiative will have a better chance of succeeding if there is leadership at the national level including on the choices that countries have to make. A pertinent aspect of this leadership relates to clear political decisions that underpin trade and development as an idea upon which countries' future could be built upon. A secondary aspect is the need to build the agenda for trade and development on strengthening national and regional capacity once the political choice is made, and this must be reflected in the national development plans.

In summary, the following crosscutting issues were prominent with respect to moving the agenda for AFT in Africa forward, and would need to be integrated in future strategies aimed at realizing positive results for Africa. These include:

(a) *Need for strengthened private sector:* The weakness of the private sector in Africa emerged as a major constraint to the success of the Aid for Trade. There is therefore need for strengthening of the human resource capacity of the private sector. Peer learning, sharing of knowledge and documentation of best practices are potential ways through which this could be done;

(b) *Harnessing the synergies and strengths of public-private partnerships:* A priority area where Aid for Trade could have immediate and long-lasting positive impacts is in Africa's infrastructure development. This is due to the realization that the state of infrastructure in the region is weak compared to world standards, and this reduces the competitiveness of Africa's trade. As a result, the development of Africa's infrastructure requires an enormous level of domestic and external financial resource, higher than the support that could be provided by the traditional sources such as the World Bank and the EU. In this regard, the private sector must be encouraged to fill in the financing gap by engaging in public-private partnership arrangements with governments to develop the continent's infrastructure needs, particularly roads, and energy among others. In fact, the private sector is on the one hand a player from demand side but also an actor in the supply of AFT. Furthermore, for Africa, in the context of the private sector, the SMEs were identified, as a crucial component/segment given that it is the SMEs that suffer most with the indirect and direct trading costs, and as a result AFT measures must aim to strengthen their competitiveness. All in all, there is consensus that public-private partnerships hold important leverage for the success of the AFT in Africa;

(c) *Mainstreaming of trade in the national development strategies, especially the poverty reduction strategies:* Noting the role of trade in boosting a country's economic growth, mainstreaming trade at the national level into the PRS and MDGs strategies need to be deepened. To achieve significant reductions in poverty, improvements would need to be made to trade-related infrastructure. At the same time, it is important that African economies be diversified,

focusing on high value products. For an effective diversification, there is a need for elaborate industrialization strategies and policies for Africa at the national, regional and continental levels, in which trade should be mainstreamed into;

(d) *Leveraging of regional development banks:* The potential for regional development banks to fill in financing gaps should be exploited. However, they can only be able to play this role if their asset base was strengthened. As a medium to long-term strategy for maintaining the Aid for Trade related projects, African countries were encouraged to invest more in the regional banks and also to encourage private capital in these banks. The regional development banks would then be able to invest in the development of Africa's infrastructure;

(e) *Prioritization of Aid for Trade interventions:* The need for prioritization emerged as a key recommendation from the meeting. As indicated above, a priority that came up which the AFT must immediately tackle relates to the infrastructure constraints and also the maintenance of the infrastructure. The other important obstacle to private sector competitiveness is the trade facilitation issue including at the border that AFT must target. In both of the above priorities, the regional integration, hence regional dimension is a crucial factor towards competitiveness building. Therefore, capacity for the RECs emerged as a priority area for Africa's AFT;

(f) *Maximizing results through regional approaches:* Aid for Trade would have optimal results if the efforts aimed at deepening the regional integration processes already under way, by building on the projects and programmes were executed. In other words, regional dimension is a crucial factor towards competitiveness building. This reinforces the urgent need to strengthen the capacity for the RECs as part of ensuring success of AFT in Africa; and

(g) *Strengthening of donor partnerships:* Donor countries—including non-DAC members such as Brazil and China—stressed their commitment to Africa's development. They emphasized their commitment to the Aid for Trade initiative, while agreeing that it could not be considered an alternative to a successful Doha Round, in particular in terms of improved market access for developing countries. Donors also concurred on the need to remain committed to the Paris Declaration on aid effectiveness.

The results of the African review fed into the global review meeting in Geneva in November 2007 with specific recommendations, including:

(a) *Broad based ownership in understanding and implementation of Aid for Trade:* The ECA and ADB in collaboration with the WTO should continue to play a dynamic role in sensitization as well as in the implementation of the initiative in Africa. This will ensure that all actors and the specific characteristics of countries and sub-regions in Africa are not lost in the operationalization of the initiative;

(b) *Complete the mapping out of African trade constraints eligible for Aid for Trade:* Africa's challenges in trade are well known. But there is a need to go to the next level to complete the needs assessment that the RECs started before the Dar-Es-Salaam conference. The same will have to be done at the country level where national level actions are necessary. In this regard, as a way forward, there is need to map out main structural bottlenecks or binding constraints at the regional level within the next eight months, building on existing studies and assessments;

(c) *African Aid for Trade Action plan:* The Dar-Es-Salaam conference was able to establish that the regional economic communities do have some projects and programmes that fit within the scope of the Aid for Trade. These need to be informed with the continental agenda on trade and integration. This will provide the platform for the development of both medium and long-term aid for trade action plan for Africa;

(d) *African Aid for Trade network:* The African review showed that already trade capacity building is taking place. But it needs to be scaled up in the framework of the Aid for Trade. Efforts currently are being implemented at national and regional level, with important actors such as the private sector not being fully involved. The synergies from a regional dimension are also not being exploited since donors acting at national level do not necessarily have the regional advantages in mind. There is need therefore to create a regional Aid for Trade network founded on maximizing benefits of a regional approach. The network should involve lead donors, recipient countries and RECs. The international and regional agencies should be part of the planning and implementation in the network with the regional development banks playing a catalytic role;

(e) *Development of national and regional plans:* The mapping out of the constraints to trade in the sub-regions and country level and the completion of an African Aid for Trade action plan should naturally lead to the next step. That is, the development of national and regional plans—integrated with country priorities—to address the mapped out Aid for Trade priorities. This should be completed within a year in order to have a full and comprehensive package that would guide implementation-taking account of the African long-term plan, the regional and national priorities; and

(f) *Progress report in Autumn 2008:* In order to keep the momentum, and to ensure that benefits of on-going and/or new trade reforms are exploited, it will be necessary to hold a regional stocktaking in the autumn of 2008. ECA and ADB are designated to report periodically on the initiative.

ECA's Strategy for Aid for Trade in Africa

Given the progress in 2007, actions need to be undertaken urgently in order to continue to move forward the process of the Aid for Trade in Africa. ECA considers it necessary as part of advancing the Aid for Trade implementation in Africa the need to identify clear “clusters of activities”. These Clusters of Activities could be created, in line with the broad priorities identified by African countries during the “Aid for Trade Regional Review: Focus on Africa”, held in Dar-es-Salaam (Tanzania); and endorsed by the “Global Review on Aid for Trade”. These clusters include:

(a) Capacity building for trade focusing on issues such as mainstreaming trade in national development strategies; trade policy formulation; promoting public/private sector partnerships; and development of the private sector;

(b) Infrastructure development;

(c) Trade facilitation focusing on key aspects of trade facilitation in Africa;

(d) International trade standards; and

- (e) **Monitoring and evaluation** (which is a cross cutting issue).

The ECA has therefore identified the following roles as means to advancing the Aid for Trade agenda and implementation of the recommendations of African countries:

(a) **Coordination:** Working closely with the WTO, the African Development Bank, and the AUC, the ECA aims to jointly provide the lead for overall coordination and cooperation among all implementing agencies. It is through this coordination that it hopes together with the AfDB to assist in the creation of the proposed "African Aid for Trade Network" –including countries, donors, regional and multilateral agencies, and private-sector representatives – to assist countries and sub-regions in mapping out priorities – in developing action plans – in mobilizing resources and in monitoring and evaluation of progress;

(b) **Capacity building for trade:** Given its extensive experience in this area, the ECA is in a position to provide the lead on the cluster on capacity building for trade. But more importantly, its main goal here will be to encourage countries and regional economic communities to map out the priority structural bottlenecks or binding constraints to trade at the national – and especially at the regional – level, by building on existing studies and assessments. It will also encourage countries and sub-regions to develop Aid-for-Trade action plans, mainstreamed with country priorities, to address the key priorities identified in the review, including the identification of actors and activities, financing needs and an implementation schedule; and

(c) **Monitoring and evaluation:** Already, the ECA and OECD are collaborating in undertaking and preparing "Reports on Mutual Accountability" in Africa on aid flows. It therefore has crucial experience upon which the monitoring and evaluation of the Aid for Trade could be built upon. In this respect, together with the AfDB, and in collaboration with the AUC, the ECA intends to prepare the progress report for the region and also hold a stocktaking conference in 2008;

(d) **Trade infrastructure and facilitation:** Although African countries have acknowledged the importance of trade facilitation and the gains that could arise from it as reflected by the numerous agreements signed at bilateral, sub-regional and regional levels as well as efforts made at country level, most of these trade facilitation initiatives so far have yielded very limited positive outcomes. This is mainly attributed to several factors such as non-compliance to the agreements, poor programme implementation, lack of coordination among and between countries, lack of coordination among relevant agencies within countries, inadequate skilled manpower and most importantly lack of a multi-sectoral approach to trade facilitation.

The consequence is persistence of high transport and communication costs; high charges and delays at numerous roadblocks; long customs and administrative delays at ports and border posts; and inefficient international payment and insurance mechanisms on the continent. This hampers business leading to the region's dismal performance in international trade and undermines the integration of African economies into the global economy.

Although progress has been made in some countries, customs administrations are still generally characterized by, excessive documentary requirements; outdated procedures; lack of automation and insignificant use of information technology; lack of transparency, predictability and consistency; as well as lack of cooperation with other government agencies. This results in the waste of enormous amount of time and money. Delays at the customs as long as 10-30 days

and over are very common in the region. Waiting for up to 24 hours to pass through borders appears to be the norm rather than the exception in Africa. Telecommunications services are inadequate, inefficient with frequent interruptions and very expensive in Africa compare to the rest of the world.

These problems are compounded by inefficient payment and credit arrangements on the continent, and difficulties in meeting the multiplicity of international trade standards introduced by developed countries.

As part of concrete actions in implementing Aid for Trade in this area, the ECA will build on its extensive experience on trade infrastructure and facilitation issues to do the following:

- (a) Create national and regional trade facilitation committees and forums;
- (b) Prepare strategic plan for trade facilitation awareness raising;
- (c) Set-up regional competence center for efficient trade documents;
- (d) Support the development of joint border posts;
- (e) Foster implementation of NEPAD's infrastructure initiative; and
- (f) Review coherence between the Almaty Programme of Action and other transport programmes such as the Sub-Saharan Africa Transport Programme.

(e) International Trade Standards: As attested by the discussions in the African Review, there is concern in meeting by African countries the increasing mass of standards and technical regulations governing the admissibility of imported goods into an economy has emerged. In principle, the purpose of such standards is to ensure that the products available on markets meet minimum requirements, whatever their origin is. Such requirements may refer to the safety of consumers (as for instance in the case of food products), or the protection of the environment (as for instance in the case of trade in manufactured goods), or other quality-related characteristics. In this sense, standards would serve the purpose of providing the society at large with a sufficient amount of a "public good", which would be otherwise undersupplied. Yet, it is often argued that industrial countries tend to use standards and regulations as a substitute for tariffs and quantitative restrictions. That is, while the process of trade liberalization has imposed the removal of most of classical trade barriers, developed economies continue protecting some sectors by using standards as constraints to imports from lower-cost developing countries.

Standards and regulations certainly impose higher production costs on firms seeking to export from developing countries. This follows from both technological and preferences gaps vis-à-vis industrial economies. Continued advances in scientific knowledge about health and environmental hazards, implies that standards tend to change frequently and to become more and more stringent over time. In this respect, they obviously reduce the ability of developing countries to access international product markets.

An issue of particular concern to African countries is the multiplicity of standards for agricultural products imposed by the European Union (EU), and the unilateral approach in developing these standards, which do not often conform to corresponding WTO standards. The

high dependency of African exports on European Markets makes them more susceptible to European regulatory reforms.

As part of ECA's input to the Aid for Trade activities in this area, it is proposed to undertake the following studies to:

- (a) Review African certification centers;
- (b) Establish conformity of EU standards with WTO rules; and
- (c) Establish linkages between environmental protection measures and trade barriers and identify the products for which African countries are most vulnerable.