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An African Perspective on Aid for Trade

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This paper has been prepared at the request of the African Union to serve as background in the development of African contributions to the WTO Task Force on Aid for Trade. The paper has been put together by a team led by Dominique Njinkeu and comprising Hugo Cameron, Emmanuel Douya, Prisca Koncy Fosso, Thomas Dakayi Kamga, Babatunde Lawal, Bede Lyimo, Francis Mangeni, Iba Mar Oularé, Ademola Oyejide, Amanda Sunassee, and Edward Sungula. The team met for a drafting session on 25-27 February 2006 in Douala, Cameroon. The work of the drafting team has been informed by the ILEAP work programme on Aid for Trade, particularly by background papers prepared by the Overseas Development Institute (ODI), Michael Finger, Ademola Oyejide, Amanda Sunassee, and Bede Lyimo / Edward Sungula. See the first page for a list of related ILEAP papers. The paper has benefited immensely from additional comments from Sheila Page, Dirk Willem te Velde, and Gerry Helleiner.

Related ILEAP papers

ILEAP (2005). “Aid for Trade: Why and How?” Prepared by Dominique Njinkeu and Hugo Cameron, ILEAP. Presented at a forum organized in parallel to the WTO Hong Kong Ministerial Conference.

ILEAP (2006a). “Aid for Trade: How We Got Here, Where We Might Go”. Prepared by Michael J. Finger.

ILEAP (2006d). “The Financial Architecture of Aid for Trade”. ILEAP. Prepared by Massimiliano Calì, Sven Grimm, Sheila Page, Lauren Phillips and Dirk Willem te Velde.

ILEAP (2006c). “Aid for Trade Facility: Lessons for the Tanzanian Experience on Trade Related Assistance”. Prepared by Bede Lyimo and Edward Sungula.

ILEAP (2006d). “Operational Modalities for the Aid for Trade Initiative”. Prepared by Ademola Oyejide.

ILEAP and German Marshall Fund (2006). “Aid for Trade After the Hong Kong Ministerial – An Introductory Text”. Prepared by Claire Healey, Dominique Njinkeu and Hugo Cameron.

These papers can be accessed on the ILEAP website, www.ileap-jeicp.org.

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Introduction and Context Setting

As the end-game of the World Trade Organization's Doha Development Agenda approaches, an increasing amount of attention is being raised around how to ensure that the Doha negotiations deliver a package that promotes development, particularly for the WTO's least advantaged members. There is now a consensus that for low-income countries, particularly the least-developed among them, the WTO's Doha round will promote development only if there is a balanced market access package in agriculture, industrial goods and services, complemented by adequate trade-related assistance – or 'Aid for Trade' (AFT). Such AFT, intended to enable low-income countries to take advantage of market access opportunities emerging from trade negotiations, requires a mix of policy reforms and significant investments in infrastructure, training, and institutional development.

At the December 2005 Hong Kong Ministerial, WTO Members agreed to move forward with an AFT initiative. Specifically, in paragraph 57 of the Hong Kong Ministerial Declaration, they mandated the creation of a task force to consult and provide recommendations on AFT.¹ As expected recipients of AFT funding and projects, African countries have a significant role to play in articulating how an AFT initiative could be structured, such that it builds the competitiveness of these countries to engage productively in regional and global markets. Towards this end, this paper presents an African perspective on AFT.

As a starting point, it is worthwhile noting the position of the African Group leading into the WTO Hong Kong Ministerial in December 2005:

We reiterate the centrality of adequate and predictable development assistance for trade capacity building for African countries. We emphasize the need for a firm commitment to expand development assistance for trade capacity building in all African countries. The proposed Aid for Trade Initiative should focus not only on the capacity to negotiate, adjust, produce and trade, but also lead to better market access, improved infrastructure and address supply-side constraints. Such aid should come in grant form without compromising on Members' negotiating positions.²

With the mandate to pursue the issue of AFT at Hong Kong and the subsequent creation of an AFT task force in February 2006, there is an opportunity for Africa's views in this area to be heard. The task force is comprised of key members, including representatives from the African, Caribbean and Pacific Group (ACP), the Least Developed Country (LDC) group, and the African group, among others. Its mandate is to consult widely and provide recommendations to the WTO General Council by July 2006. The AFT initiative is scheduled to become operational by

¹ Paragraph 57. We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA. We invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans. WT/MIN (05)/W/3/Rev.2.

² African Union Arusha Trade Ministers' statement, 22-24 November 2005.

December 2006. Concurrently, consultations are underway at the WTO to agree by December 2006 to an enhanced 'Integrated Framework for Trade-Related Technical Assistance for LDCs' (IF), a six-agency technical assistance delivery mechanism targeting the (mostly African) group of LDC WTO members. In the intervening period, ministers of trade, finance and development are scheduled to discuss the WTO's AFT package at the annual meetings of the IMF and World Bank in September/October 2006.

While a relatively new focus in donor assistance, aid for trade needs to be seen in the context of previous endorsements at the highest political levels, such as the New Partnership for Africa's Development (NEPAD),³ the Monterrey Consensus,⁴ the Report of the World Commission on the Social Dimension of Globalization,⁵ the report by the Commission for Africa,⁶ and the reports on the Mid-term Evaluation of the Millennium Development Goals (MDGs) and the Millennium Project Task Force.⁷

These issues are also being considered in the development cluster of Economic Partnership Agreement (EPA) negotiations between the EC and some African Regional Economic Communities (RECs) / geographical groupings. To ensure a coherent approach, it is crucial to maintain a constructive interface between the WTO and EPA negotiations. Opening up first at the regional level can be a useful learning ground for the eventual integration of African countries into the international trading system. As such, the aid for trade initiative should seek to build on RECs and strengthen trade links between them.

In the first section, this paper clarifies the concept of aid for trade within the broad spectrum of existing related activities. This clarification, based on a 3-pillar approach, seeks to highlight the range of issues that a holistic trade capacity building programme under aid for trade would encompass. The second section then reviews selected trade capacity building programmes, with a view to identifying gaps in current delivery mechanisms. In particular, we note that regional issues – whether in the context of negotiations or in the range of supply side constraints and competitiveness enhancement – have not received adequate attention. Further emphasis is also needed on private sector development. The third section explores delivery mechanisms. On this, we argue that the architecture of aid for trade needs to build on the experience of previous trade capacity building efforts that have benefited Africa. We further emphasise that adequate coordination and involvement of African WTO members should drive the entire process from the current design phase to its implementation, monitoring and evaluation.

1 Definition and Scope of Aid for Trade

For many potential aid for trade stakeholders, there is a great deal of confusion and some scepticism as to what AFT is, who it is for, how it might work and where the money will come from. The following section proposes a 'pillar'-based approach of defining how aid for trade might be categorized in order to help people better envision what this concept could include.

³ See <http://www.nepad.org>.

⁴ The International Conference on Financing for Development was held from 18-22 March 2002 in Monterrey, N.L., Mexico. At the meeting, countries adopted a plan which calls for the resources to meet the Millennium Development Goals and the conditions that will enable freer trade, more foreign investment, debt relief and efficient government.

⁵ See <http://www.ilo.org/public/english/fairglobalization/index.htm>.

⁶ See <http://www.commissionforafrica.org>.

⁷ See <http://www.un.org/millenniumgoals>.

However, it is important to note that there are many different ways of subdividing AFT, depending on the perspective being used.⁸ The pillar-based approach used here aims to structure discussions in a meaningful way for African officials.⁹

1.1 Pillar 1: Building supply-side capacity

African countries lack the necessary infrastructure, technology and knowledge to get goods to market in a competitive manner or meet product standards prevailing in the high-value markets of Europe or North America. This lack of supply capacity limits the opportunities offered by market access and hence acts as a barrier to trade. Aid for trade therefore becomes a necessary complement to the core market access issues pursued in agriculture, NAMA and trade in services. It does so by creating effective market access through the removal of internal barriers to trade, by promoting value-added exports, by diversifying export products and export markets, and by creating an environment conducive for increased investment. Given the central role of the private sector in these areas, a coherent trade development strategy must also include the development of infrastructure that facilitates such activity. The third AFT pillar therefore addresses the need to improve competitiveness and alleviate supply-side constraints.

Paragraph 57 of the Hong Kong Declaration explicitly requires aid for trade to “help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.” This pillar is crucial for African countries and regions if they are to expect meaningful benefits from participation in international trade. At its heart, this pillar is about building productive capacities by enhancing the regulatory, human resource and physical infrastructure that businesses need to produce goods competitively and to move and export these goods efficiently. It can be broadly grouped into two categories: the first deals with private sector development, while the second includes investment in infrastructure more broadly. It should be noted that there is scope for some crossover between these two categories.¹⁰

Private sector development¹¹

For many African exporters, the costs imposed on them by tariffs, quotas or rules of origin are relatively small compared to the transaction costs associated with a hostile business environment and inadequate local financial resources. Support for private sector development in this sense would encompass activities to help expand exports by enabling domestic firms to exploit opportunities existing in export markets. Areas covered would include export promotion activities aimed at improving competitiveness, and thus expanding the volume of exportable goods and services. It would further include support for market intelligence, such as requirements for accessing new export goods or new markets and niche markets, and networking with international business communities. These would lead to the removal of impediments to business that drive up costs for exporters, such as costly and inefficient transit and border crossings, customs delays,

⁸ See ILEAP (2006) for further details, in particular a distinction based on how ‘WTO-related’ the component is.

⁹ See ILEAP & GMF (2006).

¹⁰ See (ILEAP 2006a) “Aid-for-Trade: How We Got Here, Where We Might Go”. See www.ileap-jeicp.org and reports of Nairobi GATS workshop of March 2-3 and Zanzibar (March 6-7 Eastern Africa post Hong Kong workshop).

¹¹ Listed as ‘Trade Development’ under the WTO OECD Doha Development Agenda Trade Capacity Building Database (TCBDB - <http://tcbdb.wto.org/>), this category includes a wide range of activities intended to help traders identify markets and develop attractive products, communicate with other businesses and generally become a part of the international business network.

delivery uncertainty, lack of export and market analysis skills, weak institutional support, standards compliance, excessive business regulations, and lack of access to capital and finance.

Assistance towards helping countries diversify away from primary products would also fall into this category. Value chain analysis is one mechanism that could be used to help prioritize strategies to remove constraints encountered in production, marketing, distribution and transport chains.

If they are to be effective, improvements to the business environment in African countries must be coupled with sound policy frameworks and regulations. Implementation of a regional telecommunications policy, for instance, could help the competitiveness of the sector within African regions. Conversely, the value of investment in private sector development is easily eroded by inefficient and corrupt customs services.

Infrastructure

Inadequate infrastructure is a major impediment to trade in sub-Saharan African countries. Poor trade-related infrastructure such as dysfunctional ports, roads and telecommunications can add up to 40 percent to the cost of overseas-bound products in some African countries. Costs related to improvements in transport, communications, and energy infrastructure all fall under this category. Investments in infrastructure can serve directly or indirectly to facilitate trade. Improved roadways, for example, may be intended to support rural development, but will also increase the likelihood that products will reach distribution centres that are connected with international trade.

Large cash investments are needed to build appropriate infrastructure, but over the past two decades, public spending on this area in many low-income countries has declined due to fiscal requirements under structural adjustment programs.¹² Some sources suggest that public investment in infrastructure has fallen to less than one percent of GDP in many African countries, whereas in order to service their infrastructure needs these countries must spend at least five to six percent of GDP. The situation has been exacerbated by the fact that anticipated private-sector participation in improving infrastructure has for the most part failed to materialize.

The winds have recently shifted back towards multilateral interest in funding for infrastructure. However, much of this is being forwarded as low-interest loans rather than grants, a consideration that has serious implications for debt sustainability in already highly-indebted low income countries. For instance, in January 2006, the World Bank issued a package of loans and grants of US\$199 million to improve trade and transport services in East Africa. Only US\$15 million of this was given in the form of grants, which means US\$184 million sits as debt.

Support for infrastructure can be divided into three sub-categories.¹³ The first covers assistance for infrastructure planning. This subsumes a range of primarily administrative activities, such as project identification, the preparation of programmes, plans, and projects for funding, feasibility studies, and project design. The second category covers technical assistance in setting up systems for the efficient operation of infrastructure, such as the legal and regulatory framework in priority sectors such as transportation or public utilities. The third category is support for the actual hard infrastructure itself, such as financing, construction, rehabilitation, or upgrading of transport,

¹² See Stiglitz and Charlton (2006).

¹³ See Brewster, Havelock (2006). "Challenges Faced by the Private Sector in Taking Advantage of the New Trading Opportunities under the International Trading System". Paper presented at the UNCTAD/COMSEC/South Centre Seminar, Geneva 21-22 March 2006.

communications, and energy facilities.¹⁴

1.2 Pillar 2: Trade system costs: adjustment and implementation

The second pillar of AFT refers to the alleviation of costs incurred as a result of trade reforms, including those undertaken as a means of implementation of international trade agreements. While trade reforms may bring long-term benefits, they typically generate winners and losers in the short-run. Developing countries generally lack sufficient resources to provide the necessary safety nets, retraining and other programmes necessary to compensate those negatively affected by liberalization undertaken at the national, regional and multilateral levels. Grouped under this category are costs incurred from implementation of trade rules; food price increases to net food-importers; preference erosion; reductions in tariff revenues; and other economic and social costs related to adjustment in specific sectors.

Implementation costs are of central concern for Africa. The costs of implementing multilateral commitments are twofold: (1) macroeconomic adjustment costs; and (2) technical requirements, obligations to accept new standards, rules systems, and reporting obligations which governments must comply with in order to implement their new commitments. Implementing these commitments may require the creation of new institutions and the employment or redeployment of scarce skilled personnel, all of which can be costly to governments.¹⁵

Short term difficulties could also arise from food price increases to net food-importers. Liberalization of agricultural trade through phasing out of export subsidies and the substantial reduction of domestic support in food-exporting countries would lead to an increase in the price of food for those who import it. Developing countries that rely heavily on imports of one or two products could suffer disproportionately from threats to food security in the event of price increases related to trade policy reform.

Deteriorating terms of trade are also a concern for those countries that have relied on preferential access to markets. If the Doha Round succeeds in its aspirations for the non-discriminatory reduction of tariffs in developed countries, a number of African countries will suffer losses from the erosion of preferences they previously enjoyed. Major African exporters of bananas and sugar are expected to suffer the most significant impacts.

1.3 Pillar 3: Trade policy development and participation in rule making

The third pillar outlines assistance needed to address the human resource capacity gap in trade policy making and implementation. If African governments are adequately to formulate trade policy and trade negotiations positions that promote development and poverty reduction, they require a range of expertise at many different levels.

First and foremost, there is a need for a versatile core of trade officials with prior advanced-level training and long-term experience on the job. Such a cadre allows for assessment of domestic and regional priorities and provides informed negotiators at the regional and multilateral levels. There must be a sufficient quantity and quality of these analysts to allow negotiation of winning outcomes and strategic alliances on a needs or issue basis. They must further be able to update

¹⁴ Brewster (2006) argues that this third component is best noted in the aid for trade debate and addressed separately, particularly by development banks. See Brewster, Havelock (2006). Ibid.

¹⁵ This is further elaborated in the background paper (ILEAP 2006a) "Aid-for-Trade: How We Got Here, Where We Might Go". See www.ileap-jeicp.org.

capitals promptly, request specific policy guidance, and understand instructions from capitals when provided. These officials need to be supported by a domestic private sector that is able to articulate commercial interests that shape market access concessions. Dynamic research and civil society communities in turn can help to combine business interests and long-term development objectives based on robust evidence, and feed this into the policy-making process. To enable the effective integration of these diverse perspectives, there must be an overall decision-making infrastructure to consolidate and identify the trade-offs that would overall be in the interests of the particular country.

Unfortunately, African countries and regional economic communities lack the staff, finance, and the depth of skills that enable them to formulate their own development-supportive trade policies or represent their interests adequately in trade negotiations. Existing aid for trade programmes tend to focus narrowly on enhancing participation in negotiations and implementing trade agreements that may not necessarily be aligned with countries' own development objectives. There is a limited supply of aid programmes that promote independent thinking about trade policy and negotiations or that take a holistic and long-term perspective. Most current programmes are funded on an ad-hoc basis over a short time span and are subject to changing priorities from donor agencies.

Well-coordinated assistance in this area would include training of trade negotiators and experts, together with capital-based officials and staff in relevant regional bodies. It also would involve establishing a policy dialogue and consensus-building framework to facilitate the consolidation of trade policy and identification of negotiating positions that would overall be in the interest of beneficiary countries. Examples include training of trade negotiators (capital, Geneva and Brussels-based), support for institutions such as research centres or universities, and programmes to increase the quantity and enhance the quality of trade professionals. There is also a need for secure long-term funding to keep salaries of such officials at a competitive level to ensure that they remain in post. To ensure overall long-term impacts, the training of future generations of trade diplomats and other stakeholders should adequately integrate trade issues and address how these can best promote African interests.

2 Building on Existing Trade Related Assistance Delivery Mechanisms

Most trade-related assistance (TRA) tends to be disbursed through national and regional projects, and through two initiatives implemented at a broader level – the Joint Integrated Technical Assistance Programme (JITAP) and the Integrated Framework (IF). The AFT initiative needs to be looked at in the context of these existing projects and programmes. In Africa, it would be best to build on them for reasons of efficiency and convenience. The following section reviews existing TRA delivery mechanisms, highlighting some of their strengths and weaknesses, with a view to recommending what would be the most effective means of providing AFT, and what elements would constitute a strong and effective AFT architecture. We then look at which instruments currently serve the three aforementioned pillars most effectively, while attempting to identify the main gaps which the AFT initiative would best fill.

2.1 Multilateral level

2.1.1 JITAP

JITAP, established in 1998, is a trade capacity building (TCB) programme for selected least

developed and other African countries.¹⁶ It channels TCB support from various donors into one programme to help African country partners benefit from the multilateral trading system (MTS). In a first phase, eight countries participated in JITAP: Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Tunisia, Uganda, and the United Republic of Tanzania. A group of eight new countries has been added for the second phase: Botswana, Cameroon, Malawi, Mali, Mauritania, Mozambique, Senegal and Zambia.

JITAP is built on 5 modules:

- Module 1: Institutional Support for the multilateral trading system, Compliance, Policies and Negotiations
- Module 2: Strengthening MTS Reference Centres, and National Enquiry Points (NEPs) on TBT and SPS
- Module 3: Enhancing MTS Knowledge and Networks
- Module 4: Product and Services Sector Strategies
- Module 5: Networking and Programme Synergy

These modules have been implemented in different countries with varying degrees of success. Modules 1, 2 and 5 have been the least effectively implemented. For example, while NEPs have been set up in a number of countries, many are not being used, while in some cases Module 5 has not been set up at all. The JITAP programme has tended to focus on five sets of activities, namely: (i) setting up Inter-Institutional Technical Committees (IITCs); (ii) workshops to build national capacity on the MTS negotiations; (iii) studies and export promotion strategies; (iv) setting up reference centres; and (v) participation of national experts in negotiation processes in Geneva.

Strengths and weaknesses of JITAP

An evaluation of JITAP undertaken in 2002 points to a number of strengths and weaknesses of the programme.¹⁷ Three of its key strengths are its innovative design; its high profile – which raised awareness on WTO trade negotiations at a time where most countries' technical capacity for the MTS was very low; and its successful development of governmental human resources in trade capacity.

However, JITAP has also suffered from at least four shortcomings. In general, the programme's weaknesses stem from the fact that it aimed to address a portfolio beyond its financial and managerial means – evidenced by the less than full implementation of its five modules. First, because of its narrow focus on trade policy, the programme provides only a limited approach to TRA. As such, a number of key TRA programmes, notably those related to supply-side constraints, have received little coverage under JITAP.

Second, a recent evaluation of JITAP for Burkina Faso and Tanzania undertaken by the

¹⁶ JITAP is implemented by three multilateral trade agencies: the International Trade Centre (ITC), the UN Conference on Trade and Development (UNCTAD) and the WTO. It relies on Inter-Institutional Committees (IITCs) that act as platforms for analyzing negotiating strategies, preparing and supporting trade negotiations, and coordinating and undertaking consensus-building among governmental institutions. It posits itself between governments and the private sector, academia and other stakeholders. JITAP is funded through a Common Trust Fund (CTF) supported by a number of donor countries.

¹⁷ De Silva, Leelananda and Weston, Ann. "Report of the Summative Evaluation of the Joint Integrated Technical Assistance Programme (JITAP)" (Geneva: ITC, 2002).

Netherlands Ministry of Foreign Affairs¹⁸ shows that, after nearly seven years of operation, there are clear signs of poor sustainability and anchoring of institutional memory within beneficiary country ministries of trade. This finding is also common to other country evaluations. Due to the lack of longer-term planning, when the first group of countries was to be phased out from the first phase of JITAP, nothing had been designed to ensure continuity of programme activities.

Third, according to JITAP country evaluations, IITCs did not function effectively due to budgetary constraints.¹⁹ In Tanzania, for instance, it was noted that mobilizing resources for regular JITAP activities, such as holding workshops, was often a very lengthy process. This can result in postponed actions, and forces recipients to seek out alternative funding sources. However, in some countries, such as Uganda, national trade negotiations structures have been highly successful. This is due to strong government commitment and the ability of governments to continue funding such structures in the absence of ongoing JITAP funding.

A fourth shortcoming relates to JITAP's insufficient linkages with participating countries. The programme is highly centralised in Geneva and poorly connected to country governance and decision-making systems, as well as to in-country development partners. It tends to be dominated by the UNDP in-country, and there has been poor coordination at the country level with other donors involved with trade-related assistance at the bilateral level.

How can JITAP be used in the context of Aid for Trade?

When assessing the lessons of JITAP for AFT to African countries, there are a number of issues to bear in mind. First, the fact that JITAP is an instrument which could be available to all African (developing and least developed) countries makes it a tool which could be adapted to channel part of an AFT package to countries in the region. This also makes it suitable for regional programmes, which are likely to address problems of both LDCs and other countries. Its focus on building capacity for countries to engage with the multilateral trading system makes it a useful model for addressing government-level aspects of the third pillar proposed in this paper – ‘Trade policy development and participation in rule making’ (though it would not help in addressing capacity building in trade policy research centres, for instance). Building on the modules of the JITAP, and assuming the Doha negotiations will be successfully concluded, the focus of a ‘New JITAP’ programme could be expected to be on compliance and implementation of WTO rules as well as on notifications. However, despite the potential of such a model to meet some (but not all) of the Pillar 3 requirements, JITAP would not be the most appropriate tool to handle the AFT package in its entirety, particularly not in the areas involving infrastructure or more complex adjustment funding mechanisms.

It is important to bear in mind that the volumes of funds that have been handled by JITAP in the past have been quite modest. On average, beneficiary countries have received approximately \$1.5 million USD over five to eight years. The flows of aid required under the AFT initiative, however, are much larger, especially given the focus on addressing supply-side constraints and infrastructure.

¹⁸ Lanser, Piet and Wijmenga, Paul. “Evaluation of the Joint Integrated Technical Assistance Programme Country Report of Burkina Faso and Tanzania” (The Hague: Ministry of Foreign Affairs – The Netherlands, 2004).

¹⁹ Abugattas, L. Negotiating Strategies for the East African Community Countries in Multilateral Trade Negotiations: Including Implementation Aspects of the WTO Agreements and Implications of the Transitional Periods and Special and Differential Treatment, Consultancy Final Report, elaborated for UNCTAD-JITAP Project UNCTAD/ITC/WTO, May 2001.

2.1.2 Integrated Framework

The Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries (IF), established in 1997, is supported by six agencies – ITC, IMF, UNCTAD, UNDP, World Bank and WTO. When the IF was launched, its main objective was to increase the benefits LDCs derive from trade by coordinating technical assistance provided by the six agencies. The IF aimed at enhancing LDCs' trade capacities to better respond to market opportunities and to work towards full integration into the multilateral trading system.²⁰ After three years of only modest results, the IF was re-launched as the 'Revamped IF', which focused on using trade as a catalyst for growth. The revamped IF hinges on two major objectives: (i) mainstream trade into national development plans, notably the Poverty Reduction Strategy Papers (PRSPs); and (ii) assist and coordinate technical assistance addressing the needs identified by LDCs. The programme now consists of three phases: (i) a preparatory phase, in which a country's request to participate is reviewed, a national IF steering committee is established and a lead donor identified; (ii) a diagnostic phase, in which a Diagnostic Trade Integration Study (DTIS) for the LDC concerned is undertaken; and (iii) a follow-up phase, in which action plans (though not actual spending commitments) are made for the delivery of trade-related technical assistance on the basis of the DTIS.

The IF is built on in-country and international structures. The in-country structure goes further than JITAP by placing stronger emphasis on being embedded in existing national institutions and by ensuring wider and stronger participation of other donors. Unlike JITAP, which only maintains an in-country focal point, IF secretariats are in principle set up within ministries of trade. The IF's emphasis on mainstreaming trade in PRSPs further helps to embed it within host governments. IF stakeholders are also expected to set up a Local Project Appraisal Committee that includes the government and donors to vet TRA deliverables.

The IF has two main funding windows – Window I, which is used to fund the DTIS (\$300,000 USD per country), and Window II, which is used to fund projects (up to \$1 million USD per country). As of January 31, 2004, \$21.1 million USD had been pledged, of which \$13.1 million USD was earmarked for Window I and \$8 million USD for Window II projects.

Strengths and weaknesses of the Integrated Framework²¹

Like the JITAP, the IF has features that could be built upon or emulated in designing an AFT delivery framework. Indeed, as a key part of the Aid for Trade initiative, at Hong Kong the WTO also endorsed the establishment of an 'enhanced' IF, which Members are considering alongside the wider AFT initiative. First, the most important strength of the existing IF framework is the implementation structure which links countries' PRSP and DTIS matrices with existing government/donor coordination mechanisms (consultative groups and round tables) and the budgetary process. The existing setup offers the potential to use in-country instruments such as

²⁰ UNCTAD "Integrated Framework (IF) for Trade-Related Technical Assistance for Least Developed Countries: An IMF Manual: Integrating LDCs into the International Trading System" (New York and Geneva: United Nations, 2005).

²¹ Observations based mainly on the World Bank Operation Evaluation Department (OED). Agarwal, Manmohan and Jozefina Cutura "Integrated Framework for Trade-Related Technical Assistance – Addressing Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs," (Washington: The World Bank, 2004).

budget support, sector wide approaches (SWAPs), and bilateral projects.²² A second useful feature is the degree of increased awareness of trade policy potential for growth and development. The IF may have heightened national, international, and donor awareness of the role played by trade in growth and development, although attribution of this to IF is difficult. Third, the IF has enhanced coordination not only among agencies providing TRA, but also among ministries or others receiving it, for instance between the Ministries of Trade, Finance and Planning and between the public and private sectors. Fourth, the IF structures are strongly embedded in country structures and the DTIS. Although criticized by some countries as not bringing any new element into the identification of national trade related priorities, the IF does have the power to mobilize both governments and donors behind a consolidated matrix and action plan.

Set against these are four key weaknesses. First, by focusing largely on public expenditures and social sectors, PRSPs have not explored the full range of policy options to achieve growth and development. While donors have improved the PRSP process, they have not changed the content of their assistance. Second, the IF focuses mainly on studies, and provides only a small amount of follow-up technical assistance as bridging finance until other funding materializes. Window II bridging funding of \$1 million USD per country is dwarfed by the needs identified by the IF studies themselves and by the demands prompted from recipient countries. Third, there is limited evidence on the mobilization of additional investment resources based on the DTIS. Fourth, NIPS, Country Support Strategies, and PRSPs still largely do not address trade issues.

How can the IF be used in the context of Aid for Trade?

At the September 2005 IMF and World Bank Development Committee meeting, a proposal was made for setting up an enhanced IF, as mentioned above. The main aim of the enhanced IF is to help mitigate some of the identified weaknesses of the current IF by: (i) supporting the creation of strong country leadership on trade; (ii) promoting the development of a coherent strategy for trade and competitiveness; (iii) sustaining this push via a multiyear rolling programme of capacity building; and (iv) promoting increased donor coordination on AFT via both multilateral and bilateral channels.²³ It is also envisioned that an enhanced IF would entail a window for regional issues.

The IF – and more specifically the enhanced IF, should it materialize – represents a potentially strong aid delivery mechanism, given its emphasis on country leadership, its planned link to countries' national development plans and PRSPs, and its promised sustainability. The IF's robust government/donor coordination mechanism and the fact that it is already deeply embedded in country systems is a further benefit. The structure of the IF and its past track record are such that it could provide a useful basis for addressing certain elements of Pillar 1 'Building supply-side capacity'

However, since the current IF is not set up to transfer large amounts of money, in its current form it lacks the structures to transfer large amounts of money to recipients. This is a key concern in using the IF as a mechanism for delivering aid under Pillar 2 'Trade system costs - adjustment

²² Donors are increasingly using SWAPs and budget support programmes (for instance in Mozambique, Tanzania, Uganda, and Ethiopia) particularly for the social sectors. These programmes are characterized by direct donor support for government-executed activities, and donor funding is directly transferred into the government budget. They are usually linked to certain conditions (for example with regard to the public finance management system) and performance indicators. In most cases, donors are jointly involved in providing budget support. Source: UNCTAD, *supra* note 19.

²³ World Bank and IMF Development Committee, September 2005.

and implementation.’ Negotiations around an enhanced IF could be useful in addressing this challenge.

The IF may be less suited for supporting macroeconomic adjustment, which has to date been mainly undertaken in African countries via the IMF and the European Development Fund (EDF). However, the IF suffers from one key limitation: it is restricted to LDCs; presumably this would apply to an enhanced IF as well. Because of this, alternative or parallel structures will need to be established for non-LDCs. When creating these structures, the IF and the enhanced IF could be used as models for part of this work.

Standards and Trade Development Facility

The Standards and Trade Development Facility (STDF) is a World Bank mechanism set up in 2004 to assist countries to conform to SPS regulations and other standards requirements. It is centrally managed by the IF Secretariat as a separate fund and programme, and is organized in the form of quarterly calls for proposals. The project is not yet widely used by WTO members. The key reasons are two-fold. One is due to the central management structure and low visibility and awareness of the project, even though the WTO has written to countries informing them of the fund and how to apply. Second is the difficulty which countries face in assessing their required adjustments and standards conformity.

The STDF was in part a response to a donor shortfall in addressing SPS issues. The World Bank estimates that in 2002 the total funds spent by donors on SPS standards compliance support was \$53 million USD. This is dwarfed by the estimated \$1.75 billion USD of exports from developing countries disrupted by SPS standards in the same year. In addition, ACP countries face an estimated \$140-700m USD of annual investment to meet the current level of SPS regulations.²⁴

The EC has initiated two related programmes on SPS for ACP countries – one for agricultural goods (Pesticide Initiative Programme) and another for fisheries (Strengthening Fishery Products Health Conditions Programme).

How can the STDF be used in the context of Aid for Trade?

Given the heavy adjustment costs associated with compliance and implementation of standards and SPS regulations, this facility potentially has the scope to address part of Pillar 2, i.e. the cost of implementing technical requirements, and also the private sector development element of Pillar 3. However, given the sheer size of the funding required to assist Africa adequately in the area of SPS, additional specific focus on SPS under Pillars 2 and 3 should be included in any further AFT package.

2.2 Bilateral and Regional Projects

The Importance of the EC

The European Commission (EC) has been one of the driving forces of TCB programmes at both the global and regional levels. TCB support is featured throughout the EC’s development cooperation agenda, and over the past three years some \$2 billion USD has been spent on TCB or

²⁴ CTA. “Study of the consequences of the application of sanitary and phytosanitary (SPS) measures on ACP countries”, 2003.

related programmes. For the last 15 years, the EC has been implementing in parallel to the National Indicative Programmes (NIPs) what is commonly known as Regional Indicative Programmes (RIPs). These RIPs are managed by the six regional integration secretariats in the ACP regions. These projects have focused strongly in assisting each region with its market integration agenda (i.e. setting up free trade agreements and / or customs unions), pooling resources in the area of regional standard-setting, and heavy infrastructure development. There are also a number of regional EPA negotiations projects.

A number of EPA negotiations projects being delivered at the regional level (see Annex 2- Overview of EDF programmes in the area of TRA and Private Sector development), as well as EPA-focused projects implemented under the RIPs. These include:

- PAIRAC – ‘Support Programme for Regional Integration in Central Africa.’ This programme is implemented by the Secretariat of CEMAC and comprises five major activities: support to EPA negotiations, macroeconomic convergence / multilateral monitoring, customs union, common market and strengthening of regional institutional capacities (€16 million).
- SADC EPA Negotiations Support Facility (€7.5 million).
- ‘COMESA - Regional Integration Support Programme’ (€30 million) and ‘Support for EPA Negotiations’ (€2 million).
- ECOWAS Economic integration and trade support (€18 million).²⁵ In this framework, two projects have already been decided in 2005: the ‘RIP follow-up mechanism’ (€6 million) and ‘Support to regional integration and EPA negotiations’ (€7 million).

Looking at AFT in the context of the EDF is particularly relevant for Africa, given the ongoing programming exercise for the 10th EDF National and Regional Indicative Programmes. The ongoing EPA negotiations are also critical in the current debate on AFT. The EPA negotiations will open up discussions on (a) how to prioritize TRA in the context of the EDF; and (b) the appropriate level of funding to be allocated to TRA. The EPAs and EDF also present an important window of opportunity to help African countries address erosion of preferences, particularly those associated with sugar and bananas.

In the context of the EPAs, it is worth noting that Regional Preparatory Task Forces (RPTFs), which are joint EC-ACP bodies, have been set up in each of the EPA regions with the aim of bringing together the key decisions on EDF programming and to ensure the linkage between the negotiations process and the programming of development cooperation. Together, the 10th EDF programming, the ongoing EPA negotiations and the newly-established RPTFs offer ACP countries and the African Group a formidable window of opportunity to leverage changes and improve the current management and implementation of the EDF and particularly AFT.

New trends in EC-ACP relations

Over the past five years, EC-ACP relations have undergone a critical transformation, resulting in the EC reviewing its mode of operation in the ACP regions. This transformation was spurred on by the evolving nature of EC development policy; the changing nature of its external trade relations, particularly in the case of the ACP regions; and the lessons it learned from its overall

²⁵ Its objectives are the consolidation of the ECOWAS and WAEMU customs unions, the elimination of barriers to the free movement of goods, services and capital and the creation of a common market in the region; the reinforcement of economic stability and of the institutional framework of ECOWAS and WAEMU; reinforced participation of the citizens in the integration process; support to the private sector and the preparation of multilateral negotiations in the framework of EPAs and the WTO.

development cooperation. Based on these key changes and the internal restructuring undertaken by the Commission, a number of pan-African initiatives are under consideration, such as basket funds and regional compensatory mechanisms. We also note a dramatic increase in TRA within Regional Indicative Programmes. While such projects are likely to become more prominent under the 10th EDF, there remains much scope for greater focus on trade in the NIPs, where trade content under the 9th EDF was only 0.1%.

At the regional level, there are a number of trade adjustment mechanisms being developed, such as the Regional Trade Integration Budget Support (RTIBS) facility, which will act as a mechanism for regional budget support. Also in line with the revamped spirit of donor coordination and harmonization, captured in the 2005 Paris Declaration on Aid Effectiveness, the EC and major development partners such as the World Bank and the African Development Bank (ADB) are pooling resources for the setup of a *Basket Partnership Fund* for the East African Community (EAC) region.

There has been an emergence of 'New Generation' project/programme funding, in the form of trade compensation mechanisms and sectoral adjustment and market restructuring projects. One prominent example is the EC ACP Sugar Action Plan. It was launched in July 2005, with an initial accompanying financial package of €40 million, to assist the ACP sugar sector to diversify for the year 2006. This is to be increased to approximately €170 million per year for the following eight years. However, the EC has resisted qualifying this money specifically as compensation, saying it is rather for 'adapting to new situations'. The critical issue will be to ensure that these funds are directed to structural reforms in the sector, including to R&D. This fund has emerged as a direct response to the EC sugar reform and its associated erosion of preferences for ACP sugar exporting countries. Notably, the Sugar Action Plan has been allocated a separate line in the EU budget and is thus additional to existing EDF monies. It can be concluded that there are important windows of opportunity to address preference erosion and adjustment costs under EDF funding or funding from the EC budget.

By 2008, EPA negotiations may transform EC ACP trade relations. As part of adjusting to and implementing the new EPAs, ACP countries would have to undertake a number of critical reforms. But if these countries are to benefit from the EPA negotiations, substantial investments in infrastructure and productive capacity will be needed. Although a number of these costs may be attributable to other ongoing trade liberalization processes such as the WTO and other regional and bilateral agreements, there will be certain associated costs which are directly attributable to the EPA negotiations. This is most apparent in the case of LDCs, who under the WTO Doha round are required to make few commitments, yet must comply with reciprocity requirements under EPAs.

How can African countries maximize the effectiveness of bilateral and regional projects / programmes in the context of AFT?

To date, most TRA and TCB has been provided through bilateral and regional projects. Given the potential for increased AFT, it is imperative that bilateral and regional projects and programmes be structured in a manner that maximizes the effectiveness of this new funding.

Using regional channels for delivering AFT creates a number of advantages for African countries. Most importantly, regional integration initiatives have real potential to strengthen and deepen regional integration processes, and by doing so prepare regions and their member states for integration into the multilateral trading system. Another important advantage to a regional approach is its positive effect on building competitiveness. The following points are some of the

strategic and operational steps African countries can take to maximize the effectiveness of bilateral and regional projects and programmes in the context of AFT. While it would be problematic to use the current IF for this due to its exclusive focus on LDCs, there is potential to consider a ‘regional window’ under the enhanced IF that could include both LDCs and non-LDCs.

It is important that projects are anchored in national development strategies, with priority given to growth enhancing and productive activities, to ensure that TRA, particularly in the area of overcoming supply-side constraints and increasing capacity to produce, is funded as a priority or focal area. There is need for greater coherence from the EC with respect to their demands from ACP group under the EPA and WTO negotiations. The African group needs to make a substantiated request for additional AFT funds to cover EPA associated-adjustment costs. Where feasible, budget support or basket funds should be the preferred means of aid delivery, paying particular attention to establishing a balance between projects and programmes.

Operational Response

At the operational level, there are critical steps that African countries and regions could consider. First, there is a need for coordination at the continental level as part of an overall ACP-wide coordination. The African Union Commission, for instance, could help coordinate training for African countries on EDF procedures. This should also be extended to other ACP beneficiaries. EDF procedures are known to be a formidable hurdle for ACP countries trying to access EC funds. This is particularly a problem in the area of project implementation, and this needs to be addressed as a priority under countries’ respective Joint Regional Preparatory Task Force (RPTF).

The second key operational response is the need for development partners to honour commitments to improve aid delivery systems, harmonize donor policies and procedures, and implement principles of good practice in development cooperation. The African group should make several concrete recommendations in this area. First is the establishment of an EC road map depicting the key goals to be achieved in the area of harmonisation and coordination of aid. This should be based on the March 2005 OECD Paris Declaration on Aid Effectiveness, which lays out a roadmap to improve the quality of aid and its impact on development (see www.oecd.org).

Second, the EC and its respective delegations in-country, together with EC Member States, should establish a joint financial agreement favouring the harmonization of procedures around the country system. The EC should be encouraged to move swiftly towards joint programming with Member States and ensure that an EC roadmap is established in every country.

The third response is to create a beneficiary-led review of development partner assistance. This could be done through the creation of a Joint Assistance Strategy (JAS). African countries need to prioritize the setup of the JAS, laying out clear indicators for assessment of donor effectiveness and harmonisation efforts, through which development partner assistance would be jointly reviewed. Global and pan-African initiatives should be anchored in in-country aid delivery mechanisms, in order to minimize the possible inefficiencies common in such instruments. ACP countries themselves need to proactively strengthen their public finance management systems in order to prepare for channelling the scaled up AFT funds through national budgets.

3 Aid for Trade Architecture

3.1 Costing and funding an AFT Package

After years of historic declines in official development assistance (ODA), there has gradually been a pick-up in foreign aid, though the level remains far from the 0.7% GDP target pledged by developed countries nearly 50 years ago in the first UN Development Decade.²⁶ The recent boost in aid emerges from the 2002 Monterrey Consensus,²⁷ and has picked up strength as the deadline for meeting the UN Millennium Development Goals (MDGs) in 2015 closes in. Based on the joint WTO/OECD Trade Capacity Building Database (TCBDB), from 2001 to 2006 more than 40 bilateral donors and multilateral agencies have funded close to 15,000 activities. According to a joint report by the WTO and the Organization for Economic Co-operation and Development (OECD), aid for TCB has grown to 4.4% of total aid commitments.²⁸ The OECD Development Assistance Committee (DAC) Secretariat has projected that following commitments by the G8 and the EC at the UN 2005 Summit, total ODA is projected to increase from USD 80 billion in 2004 to USD 130 billion in 2010, i.e. an increase of USD 50 billion, of which half is destined for Africa.²⁹

Having a sense of the scale of required assistance will help determine the extent to which committed AFT funds meet the needs of the continent and of individual countries. Getting the right mix of grants and loans is particularly relevant for Africa, given that the majority of the supply-side constraints faced by these countries lie in the area of heavy infrastructure, which tends to be funded via loans and public-private partnerships.

There are several key elements which could guide African countries in estimating their AFT requirements:

- An AFT package should not be designed as a one-off initiative. Instead, it must be provided in the context of a recurrent cycle, preferably multiples of four-to-five-years, with an inbuilt mid-term review mechanism.
- At the national level, trade must be anchored in countries' Poverty Reduction Strategies / National Development Plans, and linked to the budgetary process. Where possible, direct budgetary supports or basket funds should be encouraged. This will assist countries in their needs assessment and budget estimation exercise at a later stage, and is critical in building ownership in, and sustainability of, the process.
- Any estimation needs to be carried out based on a common set of agreed criteria. It will have to be credible, verifiable and justifiable.
- AFT should avoid the crowding-out effect which a scaled-up AFT scheme could have on other sources of grants and loans.
- Particular attention should also be paid to the mix of loans and grants used to fund AFT.

3.2 Architecture and operational modalities

In addition to estimating AFT requirements, it is essential that African countries focus on how an AFT package can be delivered in a way that benefits their economies to the greatest extent possible. Several guiding principles could be kept in mind when undertaking this task:³⁰

²⁶ The ODA target of 0.7% of developed country GDP was established by the United Nations in 1969.

²⁷ 2002 International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002.

²⁸ WTO/OECD. "2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building". See www.oecd.org.

²⁹ WTO. Press Release "Aid for trade capacity in poorer countries up by 50 per cent since Doha" (12 December 2005). See www.wto.org/english/news_e/pres05_e/pr427_e.htm.

³⁰ See ILEAP (2006d) for more elaboration of ideas presented in this section.

- AFT based on the needs and priorities of African countries, and rooted in these countries' own development strategies.
- Where feasible, AFT needs to be embedded in existing aid delivery systems. There should also be reliance on government mechanisms (i.e. direct budgetary support), where these provide reasonable assurance that resources will be used for agreed purposes and where it is likely to enhance achievement of sustainable improvements in government performance.
- To ensure additionality of resources, there is a need for a vertical fund³¹ which could channel funds through SWAPs, for example through sector budget support.
- Weaknesses in institutional capacity or other constraints in existing aid delivery mechanisms need to be addressed so as to ensure effective use of the AFT package. However, it is important to note that the development of appropriate systems will often be a medium term process. Until donors can rely on these systems, they should simplify and harmonize their own procedures to reduce the burden placed on partner countries.
- AFT cannot be managed by a single donor or institution; no single approach is suitable for all countries. The manner in which harmonization is implemented needs to be adapted to local circumstances and institutional capacities.

The different purposes and the large scale of what falls under aid for trade, as well as the unwillingness of both donors and recipients to rely on a single existing institution, suggest a need to find a way of reconciling multiple funds from multiple donors each covering some countries/regions or some types of spending addressing specific purposes. Furthermore, there is a need to ensure secure mechanisms based on the legal structures of each funding scheme. One option would be for the WTO secretariat to monitor the implementation over a medium term period. Reports on both overall results and individual countries could go from all implementing agencies to the WTO, perhaps through the Committee on Trade and Development (to monitor total implementation) and the Trade Policy Review Mechanism (to cover individual countries).

Vertical funds may help countries build up a level of expertise and specialization and benefit from economies of scale. They tend to be easier to coordinate at a global level than horizontal funds that address a range of cross-cutting issues. Against this is the possible lack of 'ownership' by the receiving country, the difficulties of aligning vertical funds with country programmes, and the risk of shocks due to changes in donor priorities. A survey of 23 funds, some horizontal, others vertical, both trade and non-trade, suggests that there are a number of funds that include diagnostics of what trade measures are required (IF, part of EC TRA, JITAP, the PMU, etc.). However, far fewer programmes address supply-side constraints directly or the implementation costs of trade agreements. Thus new funds will be needed for supply-side and implementation, which are two critical areas for Africa.

The examination of existing programmes and the discussion of how trade-related aid has increased in recent years demonstrate that there is no need to design aid for trade from scratch. Existing mechanisms have been able to sustain an increase of \$6 billion in trade-related aid. But the analysis suggests that some types of needs are not being well-met. While there is reasonable capacity to determine new types of needs, the means for translating these assessments into new financing are less satisfactory. It also suggests that there are very different types of needs, and, on the basis of both analysis of institutions and the precedents in aid, these are likely to require different types of organizations and programmes to meet them. Some needs are small and easily

³¹ "Vertical funds" are those that focus on a particular issue or a small number of related issues, typically financing programmes and projects encompassing all aspects of the issue. Also see background paper ILEAP (2006b) "The Financial Architecture of Aid for Trade" at www.ileap-jeicp.org.

defined. These require an organization able to offer quick disbursement, probably with a minimum of conditionality or planning. Others require longer term and more considered programmes, to ensure that building the supply capacity to trade is well integrated into a country's (and perhaps a region's) development programme.

Alternative components of aid for trade have very different implications for the design of an aid for trade mechanism. There may be a need for new funds, with new criteria, either as designated parts of individual donors' programmes (the EU Action Plan for Sugar, for example) or in a new multilateral form. In addition, or possibly as an alternative, there may be a need for a new assessment process to provide an agreed definition and calculation of macroeconomic adjustment needs. This could take the form, for instance, of the IF for trade in PRSPs, the IMF's Trade Integration Mechanism (TIM) for balance of payments costs, or the EU-ACP assessment of the costs of EPAs. The IF experience suggests that an assessment process divorced from any commitment to provide finance can be inadequate and disappointing.

There is an additional reason for a special fund or special terms within normal funds. Some forms of assistance are justified under concessional terms, others under a loan scheme, and cases of combinations of both loans and grants cannot be ruled out.

3.3 Delivery mechanisms

Since trade capacity building deals with a multiplicity of problems and objectives, it tends to be provided through a patchwork of different mechanisms and agencies. AFT should operate under the full ownership of the recipient countries, and its activities should be demand-driven and aim at promoting local development priorities.

An ideal approach is for a comprehensive AFT package which supports all relevant aspects using more efficient assistance mechanisms that recognize individual recipient-country characteristics and ownership and target priority trade areas defined in development plans and strategies. In addition, there is a need for coordination and harmonization of different trade-related assistance arrangements and appropriate alignment of the management and implementation with the policies and programmes of individual recipient countries.

The mobilization of the resources for a comprehensive AFT initiative raises several important questions: what sources and through which mechanisms would the additional funds be mobilized? What impact would the funding of enlarged trade-related assistance schemes have on the availability of resources for more general development assistance?

For analytical convenience, it is useful to decompose the elements of AFT assistance by type and source of problem in relation to the financing of the corresponding compensation. In the case of negative impacts of countries' own trade liberalization, for instance, the adopted approach would have to meet the urgent needs of countries both to adjust to trade reforms which are already happening and to build up their infrastructure.

For compensation for losses incurred as a result of developed country trade policies, it is preferable to build from the principle that those imposing the costs should bear the burden of offsetting them. As such, there should be bound commitments in the WTO by preference-granting countries to provide adequate compensation funds related to benefits withdrawn. A similar line of argument could provide the basis for mobilizing compensation funds in respect of losses imposed by developed-country domestic support and export subsidies in agriculture on both low-income country exporters and net food-importers.

With respect to allocation among the eligible low-income countries, African countries should bear in mind that allocation of any “free” fund tends to generate a “race for aid” which could threaten the solidarity of the group of recipients. To avoid such a situation, the following considerations should be taken into account:

- Access to assistance for relaxing supply response capacity constraints should be open to all low-income countries, rather than being restricted only to the LDCs.
- Recipients of AFT funds in respect of adjustment costs related to countries’ own trade liberalization will, by and large, be self-selected.
- Compensation for preference erosion, export revenue losses and increased food import bills will be for countries which suffer from these specific problems. What they receive is not aid but entitlement.

3.4 Governance issues

Multiple funds from multiple donors characterize current TRA delivery; each initiative covers some countries and/or some types of spending in order to secure adequate funding for all relevant countries and purposes. There is a need to harmonize the funds themselves as well as the procedures of each separate fund, and ensure ownership and accountability. A first step will be to establish coherence between aid and trade agencies and practitioners.

There is a potential conflict between country programmes and a vertical approach to aid. Vertical funds for health, education, and other needs show that trade is not the only area where those outside the aid process have identified a need for more aid, and show both the advantages and the disadvantages of solving the problem by providing finance ‘tied’ to a particular subject. The fact that trade-related aid has increased in recent years suggests that traditional donors agree that there is a need to spend more on trade, but the commitment in the WTO Declaration and the identification of increased costs that countries will face because of new WTO commitments suggest that some formal way of guaranteeing a continued priority for trade needs to be found.

An attractive feature of dedicated funds is the guarantee that the problem identified will be addressed. One option to consider for an AFT delivery mechanism would be to consolidate the main features of the IF and JITAP into a special facility with its own governance structure. Africa could ensure representation proportionate to the level of aid that is likely to be earmarked to the continent.

There are two elements of aid for trade that could require some form of guarantee or legal commitment that would be additional to existing donor commitments. The first is that some countries will face exceptionally high costs, and may need assurance that their efforts to build capacity would be supported in the longer term. Experience since the Uruguay Round shows that while small costs, particularly those easily tied to specific spending (i.e. reform of customs procedures) have attracted additional aid, those which require a macroeconomic approach both to calculate them and to find a way of meeting them (i.e. adjustment needs following on the terms of trade change in agriculture) have been left to one side. The second element relates to announcements by some countries to support further growth in aid for trade – it may be of benefit to establish rules that guarantee such commitments such that they carry forward the trend that has occurred in the last five years. Ongoing monitoring could also be worked into this process.

There is a need for a new way to monitor both the overall supply of funds and how they are allocated to ensure that new country needs are appropriately met and that the overall allocation to

trade remains high and growing. Now that the WTO has accepted that meeting the costs of adjustment and providing what countries ‘need to assist them to implement and benefit from WTO Agreements’ are legitimate concerns, members will need to take responsibility for identifying what procedures are needed and ensuring that they are implemented. The WTO could check that Members have committed (‘bound’ in trade terms) the funds which they have announced. In subsequent years, the WTO will need to monitor that the commitments are kept, for instance through the TPR mechanism.

3.5 Role of specialized agencies

Building on the experience of the Integrated Framework and JITAP, all the institutions involved in these programmes should provide advisory and technical assistance support to the aid for trade initiative. To properly address the AFT priorities, at least three new agencies need to be included: the African Development Bank, the UN Food and Agriculture Organization (FAO) and the World Customs Organization (WCO). In the case of the ADB, given the centrality of supply side constraints and the competitiveness agenda of aid for trade in Africa, it could play a role drawing on its close links with the global trade and finance community. Its operational expertise with African policy issues and global competitiveness is another attribute. With respect to the FAO, given the high priority placed on agriculture by African countries in the area of trade, the institution could help to build competitiveness and assist countries meet product standards for agricultural exports. Similar arguments hold for the WCO on helping countries implement initiatives in trade facilitation.

4 Conclusion

Building on the experience with and lessons from existing trade capacity building, the aid for trade initiative at the WTO should be in the form of a comprehensive new mechanism that could have the following components:

- Existing multilateral aid for trade structures consolidated under a new Global Aid for Trade Facility (GTF).
- Specialized agencies, including those participating in the Integrated Framework, would operate in an advisory capacity.
- The facility would receive a stream of funding (additional to existing aid commitments) agreed to as part of binding Doha Round agreements.
- These commitments would be subsequently enforceable within the WTO.
- The facility would have a broad mandate to finance technical assistance, trade related capacity building, enterprise development, and infrastructure projects through a combination of grants and concessional loans.

On balance, while there have been some constructive examples of TRA for African countries, major gaps remain. JITAP and the IF have proven useful for increasing participation of African countries in the trading system and in helping to define trade-related priorities. The EDF provides some elements for addressing preference erosion, adjustment costs and infrastructure. However, major gaps still exist in funding for trade-related infrastructure and private-sector development (Pillar 1). At the same time, African countries face further challenges in meeting regulatory requirements (both in export markets and domestically), in implementation of WTO Agreements, and in dialogue, negotiations and skill enhancement at the regional level.

African countries should pursue their hard infrastructure issues in a programme led by the African

Development Bank, the World Bank, and relevant bilateral programmes (EU, Japan...) and the private sector. Funding will come as a mixture of grant and loans.

Preference erosion is important but should be included in AFT in a way that does not crowd-out the core priority issues above. Adjustment costs associated with preference erosion could be borne by the former preference granters, preferably in a binding fashion. Bilateral programmes such as the EDF or US Millennium Challenge Account (MCA) could be useful existing mechanisms for this.

Annex 1 – Overview of EDF funding in TRA and Private Sector development

The EDF has over the last 50 years been disbursed through National Indicative Programmes (NIPs) at country level, organised in complex project set-ups, focused largely on the EC agenda, with a number of parallel management structures put in place to oversee the implementation of projects, often referred to as Project Management Units (PMU). A large volume of funds has also been channelled through ‘All ACP/intra ACP’ Projects, with central PMUs, based in Brussels. EDF funds are also channelled through Regional Indicative Programmes (RIPs), which come with its own set of complex regional projects, which are not always coordinated with EDF national projects. In addition to this maze of projects, there are the EC budget line projects, SYSMIN and STABEX (now replaced by the FLEX), and projects managed by specialised institutions such as CDE, which focuses on Private Sector development. The European Development Bank (EIB) also operated in the ACP regions providing loans and other forms of financial instruments. Under the 9th EDF a total of approximate 2.50 bn euro have been allocated to TRA, CB and Private Sector Development, all of which are to be channelled via the instruments and institutions such as:

- ProInvest (CDE) 101M €
- Centre for Development & enterprise 90M €
- Private Sector Enabling Environment Facility 20 M €
- Micro finance Framework contract 15 M €
- Investment Facility EIB 2.2 B €
- EPA PMU 20M€, WTO PMU 10M€, Trade.Com 50 M

The picture as depicted above presents a very complex aid delivery mechanism, used to deliver approximately 56 Bn euros (53 EDF +3EIB) to 79³² ACP countries over a 30 year period (rough average of 23 million euros per country per year). It is not surprising that beneficiaries have often described the overall EDF aid delivery as ‘poorly coordinated with an overly complex management structure’. On a positive note, the woes of the past are gradually being teased out by the EC, the reforms, which were undertaken in 2000, are slowly baring their fruits. The 2005 Annual report on the European Community’s development policy, states that the European Court of Auditors have reported signs of improved speed and quality of project management at delegation level.

EDF – TRA and CB and its associated Regional Programmes

With respect to TRA and CB, the EC through the EDF, finances a number of projects via NIPs, RIPs and increasingly at the ‘all ACP’ level. Under both the 8th and 9th EDF, very few ACP countries have included trade as a focal area of intervention in their National Indicative Programmes.³³ As the EPA and WTO negotiations have progressed, a number of ACP countries responding to the pressures of the ongoing trade negotiations, have reallocated funds from other areas of their NIP to address trade issues.³⁴ In fact a number of ‘all ACP’ projects such as the Trade.Com (50 million euro), EPA and the WTO Project Management Unit (20 and 10 million euros respectively) were set up by the EC with a view of complementing the National Indicative

³² The initial EDF did not comprise 79 countries. These figures are used to show an overall trend and are in no way an exact representation of the volumes which have been disbursed over time, but it conveys an idea of volumes being channelled via the EDF mechanism

³³ National Indicative Programmes is a five-year programme under which the EC and the ACP country set out the key areas of intervention.

³⁴ ACP countries have either used funds allocated to non focal sectors of intervention or at the mid term review of their Country Strategy paper to reallocated funds to TRA and CB

Programmes, which were deficient in trade related activities. In the last couple of years there has been a marked improvement in the EC's focus on TRA and CB. The latest EC Annual report on external aid, reveals that the EC is one of the major contributors in TRA, with almost 700 million euros of new commitments in 2004, of which the ACP region accounted for around 25%. *However it is worth noting that at the regional level trade has usually figured more prominently*, given the strong trade element of any regional integration initiative. Under the 9th EDF SADC Regional Indicative Programme, 45% of the financial envelope was allocated to TRA. This trend is on the rise, especially given the EU's focus on EPAs and the regional dimension of the ongoing EPA negotiations.

At a **regional level** several programmes assist the SADC region in the area of trade. The overall envelope available to SADC Regional Indicative Programme is **€171 Million**. 45% of the SADC RIP has been allocated to **Regional** programmes support regional trade and economic integration, participation of the region in the EPA process, Agricultural-Food Security, and capacity building. The main programmes are the following:

- SADC EPA Negotiations Support Facility. (€7,5 M).
- Support to SADC Regional Integration and Multilateral Trading System (1,09M). Development of SQAM Infrastructures in SADC Region (€14,2M). Standards, Quality Assurance, Accreditation & Metrology. Under Preparation.
- ESIP Programme (18,3M) To encourage Private investments in the Region.

The most recent programme under the SADC 9th EDF RIP is the SADC EPA Negotiations Support Facility, which had been under discussion since late 2003, and was approved in mid 2005 (after 1 ½ years). These funds come in late into the EPA process, given that there is hardly 18 months left for the conclusion of the negotiations and that critical studies at regional level should have already been undertaken. This reflects the constraints faced at regional level, with respect to project identification, formulation, and implementation, which can take a very long time to complete. On the other hand the COMESA Secretariat had by 2003 set up a project of 30 Million-Euro 'Regional Integration Support Programme' and 1.9 Million Euros for support for EPA negotiations. This shows that there are bottlenecks, which can be overcome in programming and that these need to be addressed if EC aid to ACP countries is to be effective. Often the bottlenecks are simply a result of poor understanding of procedures, which can be overly complex from a beneficiary standpoint. However an inherent weakness of the NIP and RIP has been the disconnect which exists between EDF funds channelled at national level and those channelled at regional level. Another important factor lie in the programming cycle of NIP and RIP, which often does not coincide, resulting in the various national and regional programmes being conceived in isolation. Under the 10th EDF programming exercise, which is currently underway, it is now mandatory that both NIP and RIP programming takes place concurrently.

The Key Bottlenecks

EDF projects and its associated procedures have for a long time been a subject of contention in ACP countries. Commitments and disbursement rates of EDF have been plague with low performance. The overall EDF funding has experienced low commitment and disbursement rates amounting to €9.5 billion uncommitted funds from the previous 8th EDF. This is particularly so in the context of SADC Regional Indicative Programme. The EAC Secretariat in the context of the Eastern and Southern African RIP has also faced a number of constraints in programming funds from the 9th EDF. The financial control section, at the EAC Secretariat states that due to

various donor procedures, they currently hold close to 40 different bank accounts, each with its own reporting format and requirements.³⁵ The EAC Secretariat and development partners are currently discussing the set up of a development partner funding mechanism under the leadership of the EC Delegation in Tanzania, which will work as a pooled development fund. These are positive signs, which are indicative of the will, which both development partners and beneficiaries share in their effort to set up more coherent and coordinated approach to donor funding.

Positive Signs in the Horizon

The weaknesses identified in the context of the EDF are not exclusive to the EC, but are often common to other bilateral and multilateral development partners' funding practices. These shared problems have prompted the donor community to review their way of doing business. This has led to the focus of development aid on a number of key principles such as i) anchoring development aid in beneficiary's National Development Policy i.e. PRSP ii) ensuring that PRSPs are build along the lines of the MDG and that growth is included as a main cluster e.g. Mkukuta in Tanzania (iii) ensuring that trade is mainstreamed into PRSPs and (iv) ensuring that aid delivery systems are in line with the Paris Declaration on Aid Effectives, which has prompted a move towards General Budget Support and Sectoral Budget Support. The EC's new development policy and its 10th EDF guidelines on programming of Aid to ACP countries are faithful to the above principles, which today constitute the key benchmark of good practices in development cooperation. The EC reforms both at Headquarter levels (creation of EuropeAid) and the devolution process at country level³⁶ have begun to show some signs of improvement in EDF management. The latest Annual Report 2005, on EC development policy and the implementation of external assistance in 2004, point to some important findings namely that:

- At national level the EC continues to devote a large share of its aid to ACP countries in the form of Budget Support (30% of programmes approved in 2004) and Sector programmes.³⁷
- Disbursements and commitments, although still not at the level of other regions (MEDA, ALA) has been improving, reflecting a better performance of EDF. Nevertheless the ACP countries missed their commitment targets in 2004.
- The first sign of efficiency gains due to the devolution have been confirmed however the ACP region scores less highly than other regions.
- Education, health and other social welfare programmes received by far the highest proportion of EC commitments and payments to ACP countries, reflecting the importance the EC attaches to helping achieve the UN's Millennium Development Goals. The EC also continued to devote considerable resources to infrastructure programmes, in which it has many years' experience and expertise, and to budget support to fund government-led initiatives to tackle poverty and promote growth.

³⁵ Based on an interview carried out with the EAC secretariat in the context of project monitoring exercise.

³⁶ Devolution of responsibilities and resources to the Commission's office in the fields (delegations). Devolution increased the role of the Delegations in matters such as the policy dialogue with the authorities on complex public service and governance-related reforms, and in coordination with other donors.

³⁷ In 2004 alone the Commission approved new macroeconomic budget support programmes in 10 countries, and eight new sector policy support programmes (SPSPs). Four of the latter – for education, health, rural growth and infrastructure – will be funded using budget support, while the remaining four will finance projects.

- The European Union has been at the forefront of international efforts to harmonize donor practices and that an EU pilot initiative was launched in 2002 in Mozambique, Morocco, Vietnam and Nicaragua.

How can ACP Maximize the Effectiveness of the EDF?

- EDF needs to be anchored in project and programmes in the National Development Strategy/PRSPs.
- Priority needs to be given to growth enhancing activities. This can be achieved by focusing activities around PRSP activity matrices and DTIS matrices and ensuring that TRA, particularly in the area of supply side constraints and capacity to produce are funded as priority focal areas.
- NIP and RIP programming have to be undertaken in parallel and their needs to be stronger coordination mechanisms in place between the beneficiaries at national and regional levels.
- EDF procedures are known to be an important hurdle for ACP countries when accessing EU funds. This, it is a major weak link in the effectiveness of EU Aid to ACP countries. This is particularly a problem in the area of project implementation and this needs to be addressed as a priority issues under the countries respective RPTF.
- Some strides have been made in simplifying tendering process though the use of framework contracts, however there are still far too many impediments with EDF procedures, which reduces the reach and effectiveness of the 25 billion euro of aid allocated to ACP countries under the 9th EDF. In the spirit of Joint Assistance Strategy and OECD DAC working group on aid effectiveness, the EC and other key development partners need to follow through their commitments to align development assistance and improve systems, harmonise donors' policies and procedures, and implement principles of good practice in development cooperation. Some concrete recommendations which could be requested from the EC Delegations are:
 - Establishment of the EC road map
 - Request that EC and Member States to establish a joint Financial Agreement favouring harmonisation of procedures around the country system.
 - Request that the EC develops a real operational strategy on complementarity between EU member states and that this be part of the 10th EDF Country Strategy Paper.
- ACP governments and Development partners need to put in place Joint Assistance Strategy. ACP countries need to prioritise the set up of JAS, laying out clear indicators for assessment of donor effectiveness and harmonisation efforts. These need to be jointly reviewed i.e. beneficiary led review of Development Partners assistance.
- One of EC priorities is to provide direct budget support wherever the conditions allow. ACP countries should carry out proactive assessment of their public financial management systems, rules and procedures, using the World Bank initiative on Public Expenditure and Financial Accountability (PEFA) to improve transparency and efficiency in public financial management, so as to be eligible to GBS. This would allow for a gradual reduction in projects and a greater focus on using beneficiaries' own systems for aid delivery via budget support.
- African countries are confronted with the age-old problem of accessing development funding. Under the 8th EDF 9.5 billion euros remain un-used during the period 1995-2000. The main weakness seems to be in accessing and using these funds. This is a problem for both - donors (coordination and procedures) and beneficiary (private sector and government ministries) ability to disburse and 'take up' funds. It is not sufficient to make funds available, but more

importantly, it is critical to ensure that the administrative and procedural requirements, which accompany these funds, are adapted to recipient's capacity to 'take up funds'. Absorptive capacity as is currently being discussed in the main literature on Aid for Trade is not solely a recipient problem, but often lies in inappropriate design of projects and schemes which do not match the capacity of beneficiary countries. It is imperative that African countries address the issue from both perspectives. Some of the major African problems which are encountered at government level could be addressed by:

- Improving the Institutional linkages between Ministries
- Reviewing Management Systems – Information, Human resources and Training, Salaries and Reward systems linked with staff performance review
- Fostering strong project management skills in house - with respect to project formulation, implementation, monitoring and evaluation.

Annex 2 – EDF Regional Infrastructure Projects

CEMAC - The "Transport Facilitation Programme" (€12.5 million), includes activities in the areas of technical assistance, establishment of a study fund, interconnection of customs administrations through the ASYCUDA system, and finally the construction and equipment of juxtaposed border posts.

As regards telecommunications, a study has been launched within the framework of a regional programme for the development of new information and communication technologies in Central Africa.

COMESA - currently has an Infrastructure Project in the areas of roads and railway, linking different countries as part of regionally significant corridors for a total of €68.3 million. There is also an Information and Communications Technologies programme (€1 million) which is in the first stage of implementation and which aims at contributing to an effective and efficient ICT environment within the regions, and development of a coherent strategy for transport and investment (the Regional Transport & Communications Strategy and Priority Investment Plan). All infrastructure programmes work in close cooperation with the NEPAD programme and, where relevant, with programmes of other regional organisations like SADC.

SADC – The SADC secretariat is running a number of trade related regional projects, namely:

- Capacity building for multilateral negotiations support to SADC Regional Integration and its Participation in the Multilateral Trading System,
- A Technical cooperation Facility and the Facility to support the SADC-EC EPA negotiations;
- Technical barriers to trade - support to SADC Member States in Standards, Quality Assurance, Accreditation and Metrology (SQAM) and Capacity Building on Maximum Residue Levels of Pesticides and Veterinary Drugs;
- Trade facilitation - Customs Modernisation Programme;
- Investment environment –Support for the SADC Finance and Investment Protocol.

ECOWAS – Under the EDF RIP there are a number of key infrastructures projects namely an €82 million, Transport Facilitation with the overall objectives of elimination of non tariff barriers, facilitation of customs transit procedures, improvement of the maintenance of priority regional infrastructures and harmonisation of technical and safety regulations, as well as actions regarding air safety and the realization of infrastructure works. In this sector, four projects have already been approved:

- ASECNA (air safety) of €14.2 million,
- Technical assistance to ECOWAS (€2 million),
- A contribution of technical assistance for the Senegal-Gambia road (€2 million)
- Transport Facilitation project (€63.8 million – EDF Committee October 2005).

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