

Aid for Trade and Development: Moving Towards Implementation

University College, Oxford, UK

April 11, 2008

Meeting Report

Introduction

As part of its on-going contribution to conceptualising and making operational Aid for Trade (AFT), ILEAP organised a successful one day meeting on 11th April 2008, which was co-hosted by the Global Economic Governance Programme at the University of Oxford. The meeting had three objectives. First, developing country/region representatives shared their experiences with the preparation of their AFT plans. Secondly, specific actions to advance the work on AFT networks and developing monitoring and impact assessment capacity were explored. Thirdly, providers of AFT resources exchanged views on their respective strategies, in particular with respect to implementation mechanisms for non-LDCs and regional programmes. The meeting brought together beneficiaries and donors of AFT particularly from international and regional institutions, civil society groups, and government agencies involved in AFT from both developed and developing countries. A full list of participants is attached to this report as Annex A.

Meeting Objectives

The meeting was designed to accomplish three very important objectives. The first objective was for developing country/region representatives to share their experiences with other stakeholders on the preparation of their AFT plans.

The second objective was to explore specific actions that would advance the work on AFT networks and develop monitoring and impact assessment capacity. Finally, the third objective was for providers of AFT resources to exchange views on their respective strategies in particular with respect to implementation mechanisms for non-LDCs and regional programmes. A copy of the meeting programme is attached for information as Annex B.

Opening

Opening the meeting, Ambassador Lingston Cumberbatch touched on the linkages between Aid for Trade (AFT) and adjustment assistance more

generally, stressing the need to move the discussion into more concrete details. He also noted the continuing need to assist developing countries assess the extent to which proposed trade provisions can provide benefits and/or the costs associated with their implementation. Co-host Professor Ngaire Woods also welcomed participants to Oxford and underscored the need to consider not only how the AFT debate should impact the trade agenda, but also how it should impact the overall aid agenda.

Chairperson of ILEAP's Board of Directors, Ambassador Ali Mchumo cited the widespread recognition that maximizing the potential benefits from market openings requires an intensive and targeted effort to address supply-side constraints and to put in place the complementary measures needed to augment 'good' trade rules. He highlighted ILEAP's long-standing role in supporting low-income country engagement on AFT, namely through the provision of analytical, institutional and advisory backstopping, including the recent Cambridge Press publication *Aid for Trade and Development*. Ambassador Mchumo noted that these inter-related issues speak to the need to address the issues under the AFT umbrella and pledged ILEAP's continued involvement in this area.

Susan Prowse contextualised the UK Department for International Development's (DFID) role on AFT. She highlighted the four prongs of the new UK AFT strategy, which seeks to continue work on mainstreaming trade in development processes, improve the contribution of trade to growth more generally, address continued gaps on regional and non-LDC issues and help the international community (including donors) realise their commitments on AFT. On AFT implementation she noted that it was essential to ensure the absorption of aid and non-aid capital inflows was supported by a good regulatory and policy environment.

Session 1 – AFT Implementation Plans

With the guidance of the Chair of the first Session, Gerald K. Helleiner, who reminded participants that the time was ripe for getting into the details of implementing AFT, presenters in this session shared their plans for AFT programmes. Mark Pearson led participants through a concrete example of a regional AFT project being undertaken in Eastern and Southern Africa, namely the North-South Corridor Pilot Programme¹. Mr. Pearson emphasized that aid for trade implementation be guided by a basic principle such as 'no production = no trade = no economic growth = no poverty reduction'; hence the centrality of specifically addressing supply bottlenecks. He offered the view that the difference between such an 'AFT' intervention, as compared to previous donor responses of a similar nature, was that it provided a more holistic opportunity to link specific project-based efforts within a recipient government/region's

¹ The programme aims to improve the efficiency of the transit and transport networks between the Zambian and DR Congo's Copperbelt, Dar es Salaam to the North and South Africa (via Zimbabwe, Botswana, Malawi and Mozambique) to the South.

policy and strategy. As such, a key AFT implementation issue was for beneficiaries to design (and/or link together) such projects.

By making information available on specific projects as well as data on trade flows/bottlenecks via an interactive GIS database, the Corridor programme could thus help support informed decision-making on regional trade policy regulation and trade facilitation. In this respect, Mr. Pearson underscored the importance of the EAC-COMESA-SADC task force that had been collaborating to enable the required holistic approach to make the corridor functional. Based on such an approach, additional projects to address constraints would be developed, costed out and submitted to donors for funding under AFT.

Picking up on the theme of holistically addressing trade-related bottlenecks under AFT, Ambassador Federico Alberto Cuello-Camilo presented some of the key implementation priorities in the Caribbean, demonstrating the interconnectedness of the five WTO AFT categories.² On trade regulations, he stressed the need for assistance to advance both domestic and regional regulatory reforms towards export-orientation. In his opinion, the areas demanding the greatest attention include: improving firm- and country-level competitiveness; diversifying Caribbean economies away from traditional cash crops; developing trade-related infrastructure such as efficient airports and larger ports; lowering the costs of energy and telecommunication services; and reducing the costs of business, particularly financial services, to help build the productive capacities needed to respond to existing and potential demand for Caribbean goods and services.

In terms of trade development, Ambassador Cuello-Camilo emphasized the need for better market intelligence and more effective contacts between buyers and sellers to take advantage of market opportunities. Here AFT could support better synergies between trade and investment promotion agencies, as well as the development of longer-term partnerships between market actors (focussed on higher value-added products). Promoting a culture of innovation, R&D and education were essential for sustained long-term improvements in factor productivity and ultimately living standards.

From the West African region, Alain Faustin Bocco outlined the steps taken to-date towards developing a regional AFT programme. He stressed that all AFT programs will be conceived in the framework of the UEMOA Regional Economic Programme. Based on this, needs have been identified across the five WTO AFT task force categories. Emphasis was placed on local ownership of trade policies and rules, the development of intra-regional and international trade, strengthening sub-regional trade-related infrastructure, diversifying and enhancing productive capacities and undertaking necessary adjustments to respond to reforms.

In order to design specific projects that could feature within a more detailed and effective AFT implementation plan, the following would be needed:

² These are: trade policy and regulations; trade development; trade-related infrastructure; building productive capacity; and trade-related adjustment (WTO 2006).

resources and technical support to build the necessary skills at both the national and regional levels; harmonising efforts on AFT at the WTO, the EPA and elsewhere; and regional coordination, both within UEMOA and the wider ECOWAS.

Speaking from a national perspective, Beatrice Dove-Edwin drew attention to four connected themes – ownership, leadership, the nature of the agenda and implementation. The evolving PRSP process in Sierra Leone had demonstrated some clear lessons in terms of the importance of national ownership in such a process. Similarly, the IF process in Sierra Leone highlighted the need for one institution – in this case, the Ministry of Trade - to take leadership of the AFT process, while at the same time ensuring it was viewed as a broad-based national initiative.

In terms of the nature of the agenda, it was important to follow a comprehensive approach, properly linking related discussions such as those under AFT at the WTO and adjustment in EPAs. The concerns raised over the potential impact of the EPAs were underscored in her presentation, as she highlighted the need for delivery on the promises of AFT to match aspirations. Issues that were critical for implementation of AFT programmes to improve productive capacities in Africa were: a focus on science and technology, R&D, institutional capacities, hard and soft infrastructure, and especially regional integration.

The first discussant, Bernard Hoekman, stressed the complementary role that monitoring and evaluation should play. In particular, he noted the need for clarity in targets and data to enable impact assessment, on which there was currently a significant data gap. Key questions requiring answers included: how much additional money was being made available and where it was being directed. It seemed unclear whether there was adequate alignment between beneficiaries' priorities and implementation activities. This was attributable to both ownership and the nature of collective action, where challenges to fully internalise benefits often resulted in sub-optimal treatment. He cautioned against an exclusive focus on 'projects' under AFT, to the detriment of broader policy considerations, which were equally, if not more, important.

The second discussant, Rohinton Medhora, focused on the topic of networks and AFT stressing the importance of design and membership issues in developing networks. Key attributes of such a network included the need for a diverse and fluid membership, coming together around a set of defined issues, while at the same time remaining sufficiently responsive to an evolving agenda.

In terms of the potential for such a network, he cited the consolidation of data and information, tailoring it to the needs of that network (and/or country and region), and bringing new issues to the table. This would require tapping into national research and data collection services to provide locally-contextualised perspectives. In his opinion, ILEAP was well positioned to play a key role as the idea of AFT networks evolved.

Summary of Session 1 Discussions

The following issues were raised and discussed during this Session:

- Specific linkages between AFT and poverty/the poor (including the informal private sector).
- Issues surrounding the types of institutions required to help ensure the success of AFT.
- The appropriate modalities for delivering AFT to meet beneficiary needs would require a flexible approach to develop responses based on the precise situation, which could either be project-based or delivered via budgetary support. Both donors and beneficiaries have individual responsibilities to develop and implement such responses.
- There is a tendency for donors to assist those who are relatively more capable to make use of such assistance, while leaving those with the greatest capacity constraints at an even greater disadvantage. The right balance would need to be struck in assisting beneficiaries in designing bankable projects for support under AFT.
- What emerged from the discussions at the African review meeting in Dar es Salaam in October 2007 and the first global annual review in November 2007 in Geneva, is that although the priorities and the level of preparation across regions differ, there is similarity in the nature of the problems encountered by the various AFT beneficiaries in Africa, Caribbean and the Pacific.

The Session concluded that:

- Countries are likely to undertake various regulatory commitments in the negotiations. The full implications of such commitments need to be taken into account, including how to implement them to countries' advantage.
- The AFT debate should be seen as part of the overall aid discourse, which must bring trade and aid specialists together. OECD-DAC and non-DAC member such as Brazil, India, China or South Africa should also be brought into the debate.
- AFT should be viewed as part of an overall growth and poverty reduction agenda. Process-oriented support should be provided for beneficiaries that do not have the capacity to prepare their strategies.
- The EAC-COMESA-SADC program is built on the North-South corridor and has focused on 3 of the 5 areas of the AFT task force. The importance of trade facilitation for other regions such as ECOWAS/UEMOA, ECCAS/CEMAC and SADC means that the corridor project has relevance for them.
- Urgent attention needs to be given in the Caribbean to building a consensus on an overall outward oriented approach to regional integration, institutional building and ultimately, developing an AFT strategy.

- At the national level, particularly in those countries with significant capacity deficits, four connected themes comprising ownership, leadership, nature of the agenda, and implementation will be critical in ensuring the viability of AFT programmes.
- In government circles as well as in civil society (private sector, academics, NGO) there are deep-seated concerns about the potential impact of EPAs.
- Monitoring and impact assessment should be an essential part of any AFT programme. More attention needs to be given to this at the regional and national level, to match the international level.

Session 2 – Donor Response

In this session, which was chaired by Kwesi Botchwey, donors responded to the needs set out in session 1. Presentations were made by the African Development Bank (AfDB) which is collaborating with the United Nations Economic Commission for Africa (UNECA) on the design and implementation of programmes; the African Capacity Building Foundation (ACBF); the UK's Department for International Development; the German government, which also touched on the European Commission's strategy; and France.

Henry Minnaar from the AfDB opened by reviewing selected themes emanating from the African AFT Review in October 2007, as well as outlining key African recommendations on the way forward. He emphasized the need to ensure broad-based ownership and understanding of AFT implementation and the importance of an African AFT network. Action plans, at the continental, regional and national level would also be essential, which could feed into a progress report in autumn 2008. Tonia Kandiero followed by outlining the joint AfDB-UNECA's envisaged AFT Action Plan, which includes establishing a web-based portal to act as an information clearinghouse on AFT and the establishment of sub-regional AFT networks. On the plan for AFT implementation she highlighted the need to identify programmes and projects within the AfDB, as well as at the RECs level. Activities related to trade facilitation would figure prominently, as would assistance to source needed funds, design appropriate funding instruments and monitor and evaluate implementation.

George Kararach highlighted how the African Capacity Building Foundation (ACBF) was attempting to respond to some of the key challenges to AFT implementation, including limited capacity in government ministries and missions. In particular, he emphasised their work to strengthen national ownership of capacity building activities, as well as strengthening national and regional institutions (including RECs) to work more effectively on trade policy issues and undertake economic policy analysis and design. Future work, which would be results-oriented, would continue to build long-term capacity, assist with institutional development, strengthen the private sector and improve donor coordination.

Susan Prowse (DFID) revisited the new four-pronged UK AFT strategy, with an emphasis on the need for further work on embedding a broad-based trade agenda within country development processes. To help facilitate this, specific interventions would be required to meet the often high expectations for increased growth and exports as found in most development planning documents. She underscored the need to focus on the contribution of trade to inclusive growth and poverty reduction, and thus the need to better take account of distributional and re-distributional impacts (for example, the impact of preference erosion).

A key element to the UK strategy with regard to regional AFT issues, would be special attention to those topics where important gaps remained. Advancing work on a non-LDC implementation mechanism for AFT (similar to the IF/EIF) was a clear contender, as were broader cross-border reform issues that might be overlooked in otherwise nationally-focused discussions. Work at both the national and international levels would also be required to help ensure commitments on AFT were realized – something for which DFID was keen to provide leadership.

In closing, Mrs. Prowse touched on the need to consider the comparative advantage amongst donors, both traditional and emerging bilateral donors, as well as multilateral ones. She noted the large increase in infrastructure spending by some donors, whereas others may be better suited to help with the complementary institutional support needed to help manage such increases (i.e. the ‘software’).

Providing the German context, Regine Qualmann explained the approach of working through Germany’s traditional focal areas as opposed to developing a separate strategy document. This would then be housed largely under the theme of economic development, which includes activities such as building productive capacities, private sector development, business development services, mainstreaming trade, etc. New initiatives were now under way to bolster such efforts, which included supporting a number of RECs (e.g. ECOWAS and EAC), providing assistance on intellectual property rights issues, and additional support for EPAs (in particular on the political dimension as well as ex-post monitoring). One drawback to not having an explicit AFT strategy was that much of this work received little visibility as ‘AFT’ per se.

A number of challenges facing the German government in this area were also highlighted. One such challenge was the broader competition between AFT and other cross-cutting priority assistance areas. Troublesome internal capacity issues in this domain needed to be addressed. Conversely, the important input from beneficiaries that would help identify where spending might be directed was not consistently and immediately forthcoming.

Dr. Qualmann discussed the European aid for trade strategy, with particular attention to regional issues. She suggested that the EC was better placed to take the lead on regional considerations for AFT since the Regional Indicative Programme (RIP) is a tested mechanism that is not only receiving a large amount of funds but also covers most activities such as infrastructure. The EDF would also be a useful conduit for AFT, however Member States were

being asked to go beyond this. Therefore, there was a clear need to ensure a link between national efforts and regional work; something that was perhaps not being adequately addressed in EDF 10.

Offering the French perspective, Marie-Cecile Thirion noted the similarity with Germany in terms of approach and challenges faced. While France was devising an AFT strategy document, it was intended more as an internal coordinating mechanism for the numerous AFT activities that are currently underway (though not necessarily defined as such). There was also a sense that the link between AFT and poverty reduction – as discussed in Session 1 – needed much more elaboration. Similarly, by viewing AFT strictly in the sense of ODA, there was a risk of missing other potential instruments (and beneficiaries, such as non-ODA eligible countries and private sector actors).

Summary of Session 2 Discussions

Discussions focused on three main themes:

The first related to concern that donors may be designing their AFT strategies independent of the WTO's AFT Task Force recommendations. For example, the EC and Member States had undertaken commitments before the recommendations were finalised, and these focused primarily on support for trade policy and regulations, as well as trade development (only 2 of 5 categories). It was also noted that there was a need to raise greater awareness as to the relevance of the AFT Task Force recommendations for different countries and regions. A particular case in point was the parallel debate in the EPA context.

A second theme of the discussions revolved around the issue of a regional fund. Such a mechanism could help to address the issue of aid/AFT orphans, who were not necessarily captured under bilateral programmes (e.g. the Pacific). While there was agreement in principle on the need for a mechanism to address regional issues, there was a clear sense from the donor community that further work was required to think through how this might operate. Concerns were raised in particular regarding management, institutional structure and complementarity with existing national programmes.

The third theme discussed was the issue of local donor office capacity and information flows to enable adequate attention to beneficiary needs. This relates closely to the issue of ownership and demand-driven programmes. It was acknowledged by donors that local office capacity was an ongoing issue, and bolstering such capacity (on trade and otherwise) was another competing cross-cutting priority that would have to be addressed in the medium to long term. This is particularly so as donors attempt to direct any increased allocations to the beneficiaries themselves. The sequencing of efforts in implementing AFT – whether guidance should flow from donor headquarters to local office or vice-versa – was cited as an essential pre-consideration to commence such discussions.

In summary the following issues were in need of attention:

- Ensure donor AFT strategies aim at implementing the task force recommendations.
- Ensure proper guidance is given to donor organization's field offices. There may be a need to have a two-way approach, enabling field offices to also inform the HQ design and approach to AFT. There is urgent need to enhance the capacity of donor agency field officers.
- Clarify the status of pledges made prior to the task force recommendations. In particular how much funds are expected to ensure additional and predictable flow of resources to AFT.
- Undertake a stocktaking exercise to identify the "aid orphans" comprising beneficiaries that fall outside priority lists.

Session 3 – Way Forward

The final session was opened by Chair Ngaire Woods, who posed a fundamental question that was still outstanding –Is the issue of AFT an increase in aid or rather a shift in the modality of aid? If it is only the latter, then it raises concerns over the predictability and security of such a trend. Dominique Njinkeu offered a summary presentation on the two sessions and a way forward. There was general consensus that the meeting's objectives were met, through the sharing of information among stakeholders in the AFT debate and the identification of specific actions necessary to move AFT from conception to implementation. A summary of the evaluations from stakeholders is attached to this report as Annex C.

The following points were highlighted and debated in the final session:

Firstly, there is still a need for further work to consider how to effectively embed AFT into the multilateral trading system and ensure it operates as a link between the pursuit of the best trade rules and complementary actions to ensure benefits could be captured, especially by developing and least developed countries. Such thinking also needs to address the role for the WTO and other multilateral agencies to connect these actions. This also includes the need for an international network to mobilize intellectual and lobbying resources within the system.

Secondly, there is need to continue the work on preparing national and regional AFT strategies, and to ensure that the views and needs of various stakeholders are adequately accounted for. Capacity building efforts need to address both short-term analytical needs, as well as longer-term needs on training. The latter is required to bolster the supply of experts who can assist regions in implementing these strategies, including in the identification and design of bankable projects.

Thirdly, there is an urgent need for the AfDB and UNECA to expedite their work in mobilizing AFT networks, which includes inviting other stakeholders to participate. On the use of networks, further reflection is

necessary to determine what types of networks are required (all encompassing vs. issue-specific) and how these could be managed.

Fourthly, on the donor side, there is a need to raise awareness of beneficiary needs and to build capacity (at headquarters and local offices) to ensure the intended results are achieved. It is also incumbent upon the beneficiaries to find effective avenues to contribute in the development of donor AFT strategies. On funding and delivery mechanisms, there is a clear need to tackle outstanding issues, including the treatment of non-LDCs and cross-border issues.