



Can Aid fix trade? The 'Aid for Trade' Agenda

3rd Brussels Development Briefing
5th December 2007

<p>On 5th December 2007, CTA and other partners convened the third 'Brussels Development Briefing' - part of a series of bimonthly Development Briefings on ACP-EU rural development issues. Around 85 participants gathered in Brussels to discuss various Aid for Trade (AfT) initiatives and the outlook for ACP countries.</p>	<p>Partners in the Briefings:</p> <ul style="list-style-type: none"> - CTA - European Commission - EU Presidency - ACP Group - Euforic - Concord - IPS Europe
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AfT - improving ACP trade, achieving MDGs

Welcoming participants to the 3rd Brussels Development Briefing, H.E. Ferdinand Nyabenda - Deputy Secretary General of the ACP Secretariat - and Prof. Lluís Riera - director of DG Development at the European Commission (EC) set the context of the debate.

Mr. Nyabenda stressed that Aid for Trade (AfT) is a real need for African, Caribbean and Pacific (ACP) countries for it has the potential to bring concrete benefits, especially in agriculture in the Doha round and the EPA negotiations.



Pointing out that AfT is a good illustration of the interconnected WTO and EPAs trade negotiations, he called for a more proactive role of ACP countries. In particular, the further development and implementation of AfT needs to be in line with regional integration efforts, and not linked to the signing of the EPAs. Technical assistance, capacity building and infrastructure are key areas of the AfT. Additionality, predictability and effectiveness of support are fundamental elements of the initiative.

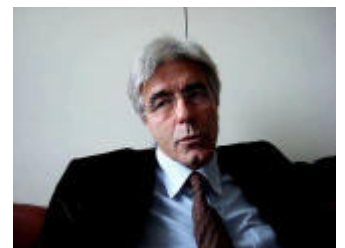
The AfT implementations should consider four main issues: (i) AfT should reflect ACP countries' needs and priorities and improve their supply-side capacities to expand market access opportunities; (ii) a broad, inclusive consultation process needs to involve at first the private sector should be pursued from the start; (iii) ACP countries' institutional capacity weaknesses need to be overcome through long-term support, taking into account any adjustment and implementation costs that may arise from trade reforms; and finally (iv) coordination and harmonization of donor assistance is desirable to improve the effectiveness of AfT funding.

It is Mr. Nyabenda's wish that AfT should not be a hollow phrase but an effective means to bring improvements in ACP trade and agricultural sector development, and to achieve the MDGs.

Coordination is key

For Mr Riera/EC the AfT agenda has a clear added value. It focuses on requirements that allow developing countries to benefit from trade opportunities within the WTO and EPA negotiations. Furthermore, AfT is essential to foster regional integration and agriculture, which is one of the sectors that would benefit most from regional integration processes - as the European Commission's 'Advancing African Agriculture' (AAA) initiative points out.

In his words, AfT offers a "new momentum" for joint efforts in EU-ACP relations in the domain of agricultural commodities, and a means to add more value and increase synergies with existing Programmes.



He also recalled that the EU AfT strategy provides for financial commitments on a regular basis from 2010, and not just on a "one go" basis: what is needed now is a joint effort in order for all ACP actors to be involved in the process and to reach widespread benefits. Coordination between donors and recipient countries is a key element: if good strategies are drawn up and beneficiaries show capacity of absorption, EU member states will be keen to improve their commitments and AfT will effectively foster ACP countries economic growth.

More funding needed

Glenys Kinnock, MEP and co-President of the ACP-EU Joint Parliamentary Assembly, injected a note of caution and provided substantial food for thought.

According to Mrs. Kinnock, trade certainly offers a huge potential for developing economies to integrate in the global economic system, to alleviate poverty, and achieve the MDGs. However, most developing countries face economic constraints that require urgent



assistance.

While the EU has agreed to provide some 2 billion euros per year on AfT from 2010, much more is needed to build capacities and create infrastructures. The African Union Commission, for example, estimates it needs 20 billion euros per year just for infrastructure development. The key challenges are therefore to define new sources of support that match the specific needs of recipient countries, and not the donor's priorities; to put in place effective mechanisms for broader consultation, country ownership and priority setting. Moreover, she raised the issue of the link between AfT and EPAs and questioned the EU on the absence of recovery plans to mitigate the potential negative effects that the trade agreements will have on ACP countries. As pointed out by the IMF, there is clear evidence that EPAs will generate a shock in several countries, some of which are likely to lose around 10% of Government revenues.

In conclusion, she called on the EU to look into budgetary arrangements, to define where the money will come from and what would happen if EPAs are not signed. More money needs to be put on the table to avoid the "system breaking down" and discrediting the Doha round and the EU. Finally, she mentioned the recently issued JPA Kigali Declaration urging for more attention to women in the EPAs negotiations.

Reviewing the aid for trade process

Michael Roberts from the WTO recalled the process that led to the establishment of an AfT agenda in order "to assist developing countries in accessing global markets and in using trade as an engine for growth." The AfT initiative, launched at the WTO's Hong Kong Ministerial Conference in 2005, aims to help developing countries take better advantage of trade opportunities. WTO Task Force recommendations aim at operationalising AfT, strengthening demand and donors' response and monitoring. WTO is bridging the gap between demand and supply, encouraging partners to fulfil their commitments and provide a forum for dialogue between beneficiaries, donors and international organisations. Three regional reviews were held in Peru, Tanzania and the Philippines over the past months. These highlighted common needs for trade-related infrastructure, trade finance for SMEs, trade facilitation



and standards (SPS), export promotion and diversification. For Africa, priority setting and private sector mobilisation are key issues.

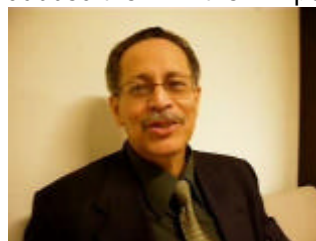
Although it didn't explicitly come out from the regional Reviews, AfT has implications for agriculture. In November 2007, WTO organised a global review of the AfT agenda in Geneva to summarize the priority areas that need to be addressed, while clarifying that AfT is not a substitute for the successful conclusion of the Doha Round but a valuable complement. However, WTO and other partners need still to do additional work to reach an agreement on the AfT definition and scope and to look more closely at sector-specific needs. In conclusion, he suggested to concentrate efforts in "trying to bring developing countries needs into balance with the supply of technical assistance by donor and international organizations."

The EU AfT strategy

Liselotte Isaksson from the EC presented the recently adopted EU strategy on AfT, focusing on its link with agricultural development. In this context, important issues are to be addressed, notably: trade policy and regulation to build regional markets and compliance with standards; trade development by strengthening agricultural sector governance; building productive capacities to improve agricultural productivity; providing trade-related infrastructure to facilitate access to regional and international markets, and trade-related adjustment to accommodate falls in tariff revenues which may result from trade liberalisation. The EU AfT strategy is built on 5 pillars: Quantitative ambitions (volume), pro-poor and quality focus, EU capacity, ACP-specific perspective, monitoring and reporting. The EU will encourage partner countries to identify their own AfT priorities, will improve joint policy dialogue and will pay special attention to countries with little or no trade. Priorities should be incorporated in national and regional development strategies and donors should encourage governments to include poverty and environment sustainability between them, as well as tools to measure it. For its part, EU has to fully apply aid effectiveness principles, joint approaches and joint delivery.

The Emperor's New Clothes

Ambassador Patrick Gomes of Guyana provided a quite different perspective. He focused his intervention on achieving results and avoiding known past mistakes. He dubbed the AfT the 'Emperor's new clothes' and



expressed his concern that too much talk on definitions may lead us to lose track of the context of delivering MDGs and reduce hunger. Improved clarity of terms is needed. Also that lessons learned from "best practices" or monitoring procedures should be 'packaged' and disseminated to enhance productivity and competitiveness in ACP countries.

With regard to infrastructures, it is important to view them in the broader context and to consider elements such as water and irrigation, or social capital, such as organizational capacities of farmers' associations. Concerning resources, his key question are: "Are we

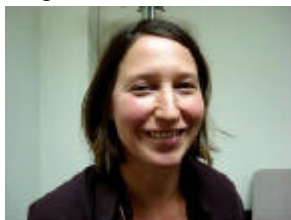
using what we have now? Are we overcoming inefficiencies in aid delivery?" It is not a matter of more money; the point is to use what we have more effectively. In this regard, the support to bananas is an interesting example as only 17% of the funds could be channelled. These situations need to be analysed in a "clinical" way and lessons shared and we need urgent action at national and regional levels. Finally, Ambassador Gomes recalled that the key issue to be addressed in "Aid for Investment for Trade" is trade preferences erosion and revenue losses, that require "compensations, adjustment, assistance."

Learning from the past

Bringing a civil society perspective, Karin Ulmer from Concord focused on the challenge to learn from the past and to move on to design appropriate AfT mechanisms. In her view, local decision making is critical, and the importance of country ownership of aid programmes should not be neglected but enhanced. At the same time, when considering the impact of trade reforms on the local context, AfT needs to be linked to trade deals in a more integrated approach.

She argued that there is no one right answer, but that each situation, each country or region has its own

specificities and requires a tailor-made approach - not standard recipes. Finally, it is important to remember that "partnership is a two way street." Donors have to be accountable to

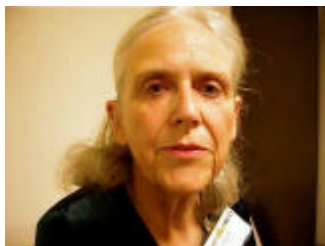


beneficiaries. Trade deals aimed at integrating developing countries in the global economy need "to go hand in hand with delivery of aid and supply capacity". AfT priorities as identified by the WTO have been significantly influenced by international agencies while they should be defined by recipient countries in consultation with all affected stakeholders.

The costs of Aid for Trade

Sheila Page of the ODI gave an appropriate estimate of AfT needs. Only for Africa, implementation costs might be on the order of \$0.4 billion; preference erosion \$0.6 billion; costs of agricultural liberalisation, at most around \$0.3 billion, cost to cotton

exporters of cotton subsidies, perhaps \$1 billion. All in all a total of about \$2 billion. On infrastructure needs, the World Bank and Commission for Africa estimates show that



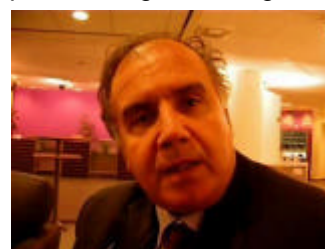
Africa needs about \$20 billion a year to grow at 7% and approach the MDGs. Skills development would require another \$2 billion. While the WTO Task Force called for additional sustainable and effective financing, there is no agreed definition for AfT and we may have different interpretations from OECD, donors and recipients.

Supply of AfT is difficult to estimate because of the lack of an agreed definition and of the method that the OECD has devised. On the OECD definition, the average AfT committed (not disbursements) in 2001-2005 was \$21 billion, of which \$11 was for infrastructure, \$9 billion for

productive capacity. But of this only 30% went to Africa. The OECD hopes for a rise of \$8 billion, and if Africa maintains its 30% share, it will get an extra \$2.4 billion, so even on the most optimistic estimates, it might get \$8.4 billion by 2010 which is less than half of the estimate of needs. According to Page, AfT remains a priority as long as there is a negotiating interest, which is no longer the case at the WTO with the failure of the Doha Round; ACP countries might have some leverage on the EU within the ongoing EPAs negotiations, although it is unlikely that we will get the amount pledged.

Ingredients for success

Uri Dadush, Director of International Trade at the World Bank, highlighted two priorities: the need for ACP countries to place trade and competitiveness at the heart of their national development strategies and the need for the international community to support them with programs of AfT. The ACP should develop comprehensive strategies encompassing: (i) incentives to private investors - including lower tariffs, and tax and investment policies- to keep exports competitive, raise attractiveness for global production networks and promote regional integration; (ii) effective and efficient



services as critical inputs both for the domestic economy and the export sector, and important elements in attracting FDI. (iii) an active role by governments in providing information about export markets, helping meet and

verify standards, or with export development programs.

From its part, the Bank provided \$3.1 billion per year in AfT to low income countries over 2002-2005. And specifically for ACP countries, the Bank is providing a range of assistance, from capacity building to infrastructure. But some important gaps in AfT still remain: (i) non-LDC low-income countries have been overlooked in the effort to mobilize concessional aid for trade; (ii) some middle-income countries, particularly small island states or landlocked countries face particular problems in investing in infrastructure or in managing transitional adjustment costs from their own or others' trade reforms; (iii) potential benefits of regional projects can be large, but individual countries may lack the incentives to initiate projects and coordination remains a challenge. Another key issue to be taken into account is the lack of calls from developing countries.

What happens in regions?

James Musonda, senior trade specialist from COMESA, identified the poor state of infrastructure as one of the major constraints that has significantly raised the cost of doing business in Africa: road and railway networks, waterways, air and sea port facilities, energy generation and distribution facilities, and harnessing of water, all require attention. Another challenge arises from adjusting to regional integration itself. Economic liberalisation and streamlining of tax structures have led to negative results in the economies of most COMESA countries. It is, therefore, essential that donors provide

adjustment support to these countries if they are to continue with further integration into the global economy.

To address productive capacity, infrastructure needs and adjustment costs, COMESA has established a Fund as a vehicle to mobilise resources. This comprises two windows: (i) an Adjustment Facility to address costs that may arise from implementing regional integration measures, including trade reform and being part of the FTA and the Customs Union; (ii) an Infrastructure Window to mobilise resources for the construction and maintenance of infrastructure, and to address some of the limited productive capacity.

Mr Musonda illustrated the North-South Corridor (Durban-Lubumbashi road and rail network) as a first candidate for AfT resources to address trade-related infrastructure. Once adequately financed, the Adjustment Facility of the COMESA Fund will encourage many more countries to further integrate into the regional and global economy.

Getting farmers organised

Philip Kiriro, President of the Eastern Africa Farmers Federation (EAFF) recalled that agriculture is the key sector, contributing about 32% to GDP, while governments and ODA only provide around 4%. Nevertheless, he recognized the positive change in support of agriculture arising from the CAADP/NEPAD (small farmers work especially within its pillar on infrastructure and trade), the EU's AAA strategy, the World Development Report 2008 of the World Bank and the recognition of the role of small-holder farmers in all of these.

He noted that the private sector was not consulted on AfT and, in his view, no concrete benefits came from existing programmes due to weak ownership, bad governance and weak linkages of these initiatives to poverty alleviation. Current AfT initiatives should therefore look at the failure of current initiatives.

Organising farmers to strengthen their productive and negotiating capacities should be viewed as infrastructure support. Other priority areas include: infrastructure for rural areas, storage facilities, information systems, fast tracking of regional integration and the achievement by governments of free movement of goods and services. Another key area is the need to improve and harmonise food safety standards to serve regional processes since AfT has to support intra and inter regional trade, regional markets and regional integration.

The way forward

Cornelius Mwalwanda, head of the UNECA Geneva Office and chair of the first panel, summarised the discussions with the audience and the challenges ahead, emphasizing the need to transform goodwill into concrete actions.

If AfT is to contribute to development needs and poverty alleviation, we need (i) to reach a common understanding on the definition and scope of AfT; (ii) to address insufficiency of resources and to foresee guidelines for accessing funds defined by recipients on the basis of ownership and proper consultations; (iii) to support priorities as set by beneficiaries; (iv) to set up effective monitoring and evaluation mechanisms; (v) to coordinate the activities of the different organisations and to integrate gender issues into AfT. Moreover, follow-up activities need to take place at national and regional levels.



Kathleen Van Hove from ECDPM called for innovation and action, while maintaining dialogue, and for thinking outside the box. The need to share lessons learnt should be a priority in this exercise.

Hansjörg Neun, Director of CTA, stressed the key role of communication and the need for information and communication infrastructure to improve market access, capacity building and to disseminate lessons learnt. We also need to monitor the changes on agriculture such as biofuels and climate change that are likely to pose new challenges in the future.

Next briefing

The next Briefing will take place in February 2008 and will be on **climate change**.

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