

Aid for Trade and Economic Partnership Agreements¹

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Introduction

1. The current Aid for Trade (AfT) is taking place mainly under a WTO multilateral framework, although there is also a place for Aid for Trade in the framework of Economic Partnership Agreement (EPA) negotiations. Aid for Trade can be a part of the development agenda of the EPA and can be a mechanism which links projects and programmes identified in the EPA process as necessary for the development of the region, and their financing.
2. The concept of Aid for Trade is not new – what is relatively new is the idea that trade, as a development tool, does not have a high enough profile on the development agendas of developing countries; that donor funds can be used to promote economic development by using trade as a development instrument; and the realisation of the donors and the recipients of the need to address a “broad” rather than a “narrow” set of Aid-for-Trade needs.
3. Aid for Trade was included in the WTO Ministerial Declaration of 2005 (Hong Kong). The Ministerial Declaration included two stand-alone paragraphs, one on the Integrated Framework (IF) and the other on AfT, thus separating the two. The Declaration concluded that 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. The Ministers also agreed that Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda, particularly on market access. However, it can be a valuable complement to the Doha Development Agenda.
4. After Hong Kong, the Director General of the WTO established an AfT Task Force in Geneva. They considered a number of papers, including contributions from Zambia (on the Value Chain Analysis process), Mauritius (on behalf of the ACP), a joint paper from Columbia, Ecuador and Peru, Brazil, and the EC. The agencies and some development banks have made contributions to the Task Force in the form of a response to a questionnaire. There have also been

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significant and important contributions to the AfT debate in papers produced by academics, research institutions and other interested persons.

5. The Task Force has now completed its work with a paper which provides recommendations on Aid for Trade. However, the AfT debate has not gathered much momentum in the WTO and, with the current suspension of the negotiations under the Doha Development Agenda, there are some who believe that little progress will be made on AfT by the WTO and that the debate should be continued in other fora, including the World Bank and IMF Development Committee.

Aid for Trade and EPAs

6. The framework which has governed economic relationships, including trade relationships, since 1975 between the European Union countries and the African-Caribbean-Pacific (ACP) countries has been first the Lomé Conventions and then the Cotonou Partnership Agreement. However, the current agreement, the Cotonou Agreement, is not considered to be WTO compatible as it provides preferential market access to the entire ACP Group of countries, comprising both developing and Least Developed Countries, into the EU. The Cotonou Agreement remains operational through a WTO derogation, agreed under the Doha Development Agenda, which expires at the end of 2007. It is for this reason that the European Commission is insisting that the Cotonou Agreement is replaced by a series of negotiated Economic Partnership Agreements, or EPAs. If these EPAs are not negotiated by the end of 2007, trade arrangements between the EC and the relevant ACP countries will be governed by the EC's Generalised System of Preferences, which, for LDCs is the Everything-But-Arms (EBA) agreement.

7. The ACP Group has configured itself into six negotiating groups, one in the Caribbean, one in the Pacific and four in Africa. These negotiating groups are tasked with negotiating EPAs with two components - trade and development. The six negotiating regions have agreed to negotiate some issues, such as Rules of Origin, at the all-ACP level but other issues, such as market access and development, are region-specific and so are negotiated at the regional level.

8. Both the EC and the ACP understand that ACP countries will incur costs, and possibly revenue losses, in implementing a negotiated EPA. The magnitude of the costs and losses will depend on the agreements but will include the costs of putting in place, and then implementing, legislation governing the EPAs and tariff revenue foregone by ACP states as a result of moving towards a free trade arrangement with the EU Member States, albeit an asymmetrical one.

9. Until recently, the development component of the EPA negotiations has focussed on additionality of resources. The Lomé and Cotonou Agreements have been financed through the European Development Fund, or EDF, which is separate from the EC budget and which is disbursed in grant form, apart from a portion which is disbursed as loans through the European Investment Bank. The six ACP negotiating regions have said that the resources needed to implement EPAs would be greater than the amount available under the EDF. The EC, on its part, has insisted that there would be no additional funds from it to implement EPAs.

10. The debate on resources has now progressed beyond a debate on funding needed and funding available. The EC has stated that if there is a need for additional funds these funds will need to come from the EU Member States as bilateral contributions. There is also a possibility of funds coming from other sources, such as the World Bank. To allow for this co-financing to take place the EC will, where possible, provide grants to ACP countries as budget support or to the regions through contribution agreements. For a country to receive budget support and a region to implement a contribution agreement, the country, or region, needs to be assessed as to whether it has the legislation and instruments in place, and the resources needed, to administer a budget support programme or contribution agreement.

Aid for Trade and EPAs – the ESA Region

The Eastern and Southern Africa (ESA) EPA negotiating region, comprising 15 COMESA countries, has, as COMESA, been promoting an “aid-for-trade” solution to development for a number of years through the Infrastructure Facility and the Adjustment Facility of the COMESA Fund. The COMESA Fund Protocol is now ratified by the appropriate number of COMESA Member States for it to become operational. The COMESA Secretariat prepared the first draft of the Financing Proposal for the Adjustment Facility in 2003 and this draft, after going through a series of modifications, is in the last stages of being presented to the EDF Committee for their consideration.

The Infrastructure Facility component of the COMESA Fund is a leveraged fund which is flexible enough to use both grant funds, concessional loans and private sector funds. It is in the process of becoming operational and it is envisaged that most EDF10 funds allocated to the ESA region will be channelled through the COMESA Fund.

11. The EC has directly linked the allocation of regional grants under the EDF10 to the EPA negotiations. Allocation of EDF9 regional funds was based on the size of the Regional Integration Organisation which was to administer the funds. EDF10 funds, which will be disbursed during the period from 2008 to 2013, will be allocated according to the configurations of the EPA negotiating regions.

12. EDF funds are programmed through the Regional and National Strategy Papers and Indicative Programmes and the programming process is on-going. The Regional Strategy Paper (RSP) sets the scene and makes the case for interventions while the Regional Indicative Programme (RIP) programmes the monies allocated to the region. Each RIP is programmed according to a set of two or three pre-agreed focal sectors. A common theme in all RIPs is that the first focal sector deals with regional economic integration and trade.

Allocations of EDF10 funds to EPA Negotiating Regions in Africa

The European Commission has announced the amounts it will be allocating to the six ACP regions negotiating EPAs under EDF10. The allocations will be done in two tranches and, at present, only the initial tranche amounts are known. The initial tranche amount is based on the EPA configuration while the value of the second tranche will be calculated on, amongst other factors, governance issues. The second tranche amounts will be known by the ACP negotiating regions prior to the start of the period covered by the RIP, this being 2008 to 2013.

First tranche allocations for Africa total €1.2 billion as follows:

SADC-7	€135 million
Central Africa	€93 million
West Africa	€478 million
Eastern and Southern Africa	€465 million

Although the amounts allocated are based on EPA configurations, the programming of these amounts are done by the Regional Integration Organisations which, in Africa, are SADC, CEMAC, ECOWAS, and, for the ESA region, a combination of COMESA, EAC, IGAD and IOC, with co-ordination of these four Organisations being done by the Inter-Regional Co-ordination Committee (IRCC) which also includes SADC and the EC as full members so as to avoid duplication and overlap between the various Regional Organisations.

13. Given the strong link between EDF funds and the EPA process, it is important that the EDF programming process takes account of the negotiating regions’ Aid-for-Trade needs. It is important that the EDF programming exercise also takes account of other initiatives being undertaken by ACP countries in the area of trade, including the negotiations at the WTO, poverty reduction strategies as outlined in PRSPs and the Integrated Framework process.

14. Preparation of the Regional Indicative Programmes for EDF10 could even be viewed as a pilot programme for a larger, perhaps multilateral, AfT programme. All the ingredients for an AfT programme are included in the programming process in that the development framework is outlined in the Cotonou Agreement, the EPA negotiations are about trade and development and the money to allow ACP countries to take advantage of a more liberal trading environment has already been allocated to the ACP, through EDF10, in a fully grant form.

Coverage of Aid for Trade

15. The coverage of Aid for Trade in the EPA negotiations should be addressed from two angles:
- (i) country coverage – which should be all countries in the EPA negotiating group; and
 - (ii) sectoral coverage – which should be all sectors as long as they meet pre-agreed and transparent criteria which show that the aid provided under the AfT umbrella will result in, or is aimed at, increasing trade in a manner which improves economic growth and reduces poverty. This is not to suggest the need for a set of restrictive conditionalities but, rather, to allow ACP countries to demonstrate that the assistance requested is trade-related (so avoid overlapping with other aid or assistance programmes) and the EC and its Member States to demonstrate additionality of resources.

Scope of Aid for Trade

16. Aid for Trade activities, when being programmed under the RIP, could cover the following:
- (i) Trade Related Technical Assistance and Capacity Building which would include assisting countries to both develop and implement legislation required to implement an EPA as well as to use trade as a tool for development.
 - (ii) Adjustment Facility to enable ACP countries to continue with trade liberalisation by removing short-term budgetary constraints brought about by either a reduction in their own tariffs or by changes in terms of trade caused by implementation of the EPA agreement, including erosion of preferences and higher costs of importing food. The Adjustment Facility should not be designed as a compensatory programme but should be made available to countries negotiating and EPA that are constrained from undertaking further trade reform owing to budgetary constraints. The aid provided should be in addition to existing resources being made available rather than replacing these existing resources. To qualify for the Adjustment Facility, which would take the form of untied budgetary support, countries would need to demonstrate that their public expenditure management is transparent, accountable and effective and that the country is following a well defined trade reform or tariff reduction programme. They would also need to demonstrate what measures are being taken to adjust to the situation which caused the budget short-fall in the first place so that the assistance provided is temporary.
 - (iii) Removal of Trade-Related Supply-Side constraints. For ACP countries to successfully use trade to reduce poverty levels they will need to lower costs of production, which is dependent on both making better use of available infrastructure and transport systems and, usually, making significant improvements in these countries', and the region's, trade-related infrastructure. The facility to assist ACP countries to remove supply-side constraints should aim to finance, or partly finance, infrastructural development and rehabilitation that can be shown to contribute to the removal of supply-side constraints, with a subsequent lowering of trade costs.

Operational Modalities

17. Aid for Trade financing should be done on a demand driven basis and needs should be assessed in a transparent and timely way. The emphasis in providing aid for trade should not be on WHAT to finance but, rather, HOW to finance. In this way an AfT mechanism may be able to avoid having to decide on whether to finance, for example, port facilities but not irrigation systems, because the project or programme should be determined according to the requirements of the specific country or region making the application.

18. In addition, deciding on how to finance a programme rather than what programmes or projects to finance will allow the ACP countries and the EC to decide on whether there should be a unique AfT funding mechanism or whether existing financing mechanisms can be used, or whether an AfT Facility should be a combination of both existing facilities and new facilities. The decision will depend on the flexibilities of the EC's existing mechanisms and whether there is a perceived and obvious need for further instruments to take account of requirements highlighted through the AfT needs assessments. There may be scope to having both an AfT regional fund, which will finance activities which cannot be financed through existing EC funding mechanisms. There could also be scope to have not only grant funding but financing through concessional loans provided by the EIB. Finally, there could also be scope to use the financing provided through AfT to leverage additional finances from private sector institutions in the form of Public-Private-Partnerships or Special Purpose Vehicles or Build-Operate-Own or Build-Operate-Transfer or using other financing architectures.

19. AfT requirements may be determined and monitored in different ways, depending on the category being financed. If, for example, AfT is in the form of trade-related technical assistance or capacity building, there are a number of mechanisms in place which determine needs (although, with all systems, there is probably scope to improve and refine existing systems) and provide delivery. The EC has significant experience in implementing and managing adjustment facilities in the form of untied budget support, although one important difference for an AfT Adjustment Facility would be that the criteria which are used to determine eligibility, and the operational mechanisms, should not be those of the Bretton Woods institutions.

20. It should be recognised that the development needs of ACP countries, even in the rather limited area of the removal of trade-related supply-side constraints, are significantly greater than the amounts that will be made available by the EC under the EDF. It should also be recognised that there will be a number of infrastructural projects in ACP countries that will have a positive, and attractive, rate of return and which may constitute an investment opportunity for the private sector. In such instances the private sector could be encouraged to make the necessary investments if the potential investors are aware that their investments are going to be either underwritten or supplemented, or both, by funds from an EC AfT Facility.

Additionality and Availability of Resources

21. Additionality of resources is taken to mean additional resources provided to aid programmes which are aimed at making trade a more efficient instrument for development. It does not mean that the EC should divert resources from other non-trade sectors to the trade sector.

22. In practice, it is extremely difficult to measure additionality of resources. However, what is as important as additionality of resources is ensuring the resources are made available to ACP countries in a simple, efficient, and timely manner, without sacrificing transparency or accountability. Although there has been an improvement with the introduction of the Contribution Agreements, getting access to EDF funds is both extremely difficult to manage, and extremely

bureaucratic, and funds only become available in tranches long after the justified application has been submitted and approved. If the public sector is to work with the private sector it is important to be able to guarantee the availability of a sum of money in a short space of time, with minimum bureaucracy involved. This will mean a change in financing mechanisms of the EDF.

Conclusion

23. The programming process of the EDF10-financed Regional Indicative Programmes could be used as a pilot Aid-for-Trade programme. The main focal sector for all RIPs is regional economic integration and trade, the objectives of which can best be addressed through an Aid-for-Trade programme. The RIP programming process is also an opportunity to develop an Aid-for-Trade pilot programme because the momentum for such a programme at the WTO level, with the suspension of the Doha negotiations, is being lost; because the disbursement criteria for regional grants (Contribution Agreements) being used by the EC is a lot more flexible than was the case in under past EDFs, and because the RIPs can be used to directly support other trade-related development programmes such as those in the PRSPs and the IF.

24. An EC AfT Facility could be financed through Regional Indicative Programmes using a combination of existing instruments and, if necessary, new instruments. What is necessary is to ensure that whatever funding instruments are used, they should be flexible enough to allow co-financing from other sources. Additionality of resources, and a simple set of funding mechanisms, are essential pre-requisites of an EC AfT Facility. The AfT Facility could be used to finance Trade Related Technical Assistance and Capacity Building, an Adjustment Facility and removal of trade-related supply-side constraints and should not make any pre-determined assessments of what sectors of projects and programmes to finance should be in. Finances should be made available on the basis of required needs and on a transparent assessment as to whether the project or programme is trade-related.

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