Mobilizing Aid for Trade: *Focus Africa*

Report and Recommendations

Prepared by the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB), and the World Trade Organization (WTO).

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INTRODUCTION

The Africa regional Aid-for-Trade review – co-hosted by the World Trade Organization (WTO), the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB) and the Tanzanian Government – was held in Dar es Salaam, Tanzania on 1-2 October 2007. The conference was the first of its kind in Africa. It brought together trade and finance ministers, key donors, international agencies, and the private sector to discuss how to mobilize the resources required to expand Africa's trade capacity and connect with the global economy.

The growing openness and integration of the global economy is changing the development dynamic in important ways, creating new opportunities for African countries to harness trade for growth and poverty reduction, but also creating new pressures to strengthen competitiveness and improve "connectivity" to global markets. The conference focused on these opportunities and challenges. Its aim was to raise awareness about the importance of trade to development, to identify capacity and infrastructure priorities, to highlight the need for increased and effective financing, and to find agreement on the way forward. By launching a high-level dialogue on these issues – between the trade and development communities, partner and donor countries, and the public and private sector – the meeting sought to shed light on Africa's trade priorities and what can be done to address them.

Dar es Salaam was the largest of three high-level regional reviews held as part of the World Trade Organization's Aid-for-Trade initiative – following on the Lima conference on 12-13 September, for Latin America and the Caribbean, and the Manila conference on 20-21 October, for Asia and the Pacific. Over 450 participants took part in the discussions, including 34 ministers of finance and trade, key donors, international agencies, and the private sector. Over the day-and-a-half meeting, participants discussed the relevance of Aid for Trade to Africa, the importance of regional or cross-border challenges, the role of regional development banks, the need to strengthen public-private partnerships, and a roadmap for future action. Side meetings examined the central role of the private sector, the importance of monitoring and evaluation, and the challenges involved in meeting international standards.

The following report is a brief summary of these discussions. It identifies main themes that emerged, suggests broad objectives for future action, and offers recommendations on how these objectives can be met. It provided an action plan to move the initiative forward in the medium term, while laying the foundation for a longer-term strategy. As such, it serves as an important contribution to the WTO Global Aid-for-Trade Review to be held in Geneva on 20-21 November 2007.

1. PLENARY DISCUSSIONS

Africa's integration into the global economy was seen as a central objective for the continent. While increased trade, investment, and economic growth is not the only answer to Africa's development challenge, it is an indispensable part of the solution if countries are to generate the resources they need to raise living standards, reduce poverty, and advance their social priorities. The recent economic success of key African countries – many of which have been growing by over 6% in the last decade – has shown the importance of putting outward-oriented trade and investment policies at the centre of national development strategies. The small size of national and even sub-regional markets make African countries particularly dependent on international trade for economic growth. The growing openness and interconnection of the global economy – and the intensification of global competition – has created additional pressure to strengthen country competitiveness and increase scale economies though regional integration. The successful conclusion of the Doha Round – with development as a central pillar – was seen as critical to opening up new trade opportunities in Africa and abroad.

But while trade opening is indispensable to Africa's development, it is not sufficient. Globalized production networks, expanded supply chains, just-in-time delivery models, and rising international standards place a new premium on strengthening supply-side capacity, reducing trade "costs", and improving connectivity to markets, as well as liberalizing trade. The point was made that while Africa's firms can be internationally competitive, Africa's economic systems often are not, making it harder to export reliably, efficiently, and competitively into global markets. Adverse geography is often compounded by fragmented infrastructure, inefficient institutions, over regulation, unreliable supply chains, and a weak services sector. Studies have shown that these "internal barriers" are more significant obstacles to export growth in Africa than "external barriers", such as tariffs.

It was clear that African countries need access to the modern "trade infrastructure" that increasingly drives globalization: transport corridors and information systems to connect exporters to world markets; modern customs facilities to move products rapidly and efficiently across borders; testing labs to ensure that exports meet international standards; financial "safety nets" to ease concerns about economic adjustment; and the expertise and institutions needed to manage a complex global trading system. Just as important is the need to ensure that individual capacity-building projects form parts of an integrated, comprehensive strategy. Improvements to infrastructure, communications, and regulations need to be properly coordinated and sequenced, to maximize synergies and to ensure that advances in one area are not cancelled by bottlenecks in another. Regional approaches are particularly important in the African context given the geographic and structural barriers that exporters have to overcome – i.e., the impact of transport infrastructure improvements in Rwanda hinge on improvements across East Africa as a whole. The challenge is to link multilateral, regional, and bilateral trade opening initiatives with comprehensive trade capacity-building strategies, using Aid for Trade as a catalyst.

It was also clear that political leadership - and a long-term commitment to export-led growth – is essential to making this happen. Harnessing globalization for development ultimately depends on African countries themselves. Trade needs to be a central pillar of economic and development planning, which in turn requires setting out national goals, establishing priorities, and ensuring that these goals and priorities are mainstreamed across government (especially trade and finance ministries), as well as society as a whole. Because of the cross-border nature of infrastructure and trade facilitation needs, these strategies increasingly need to be regional in scope, requiring close cooperation among neighbouring economies

At the same time, the international community could – and should – play a supporting role in helping African countries achieve their trade objectives. Donors need to follow through on commitments made at Monterrey, Gleneagles, Hong Kong, and elsewhere to significantly scale-up development assistance and to delivering it more effectively, as agreed in the Paris Declaration. But even with progress on this front, the shear scale of Africa's trade capacity needs easily outstrips the assistance available. The World Bank estimates that Africa's unmet infrastructure needs alone are $22 billion a year, plus another $17 billion for maintenance and operation. Incentives to expand public-private partnerships – especially using development assistance and multilateral lending to better leverage private investment (domestic and foreign) – clearly need to be strengthened and enhanced. Although there was recognition that trade, investment, and domestic reform – not overseas aid alone – would be the main drivers of Africa's economic development in the future, Aid-for-Trade, strategically invested, could provide an important catalyst for export growth and country competitiveness.

2. REGIONAL BREAKOUT SESSIONS

A central theme of the conference was that regional integration and capacity building is critical to Africa's trade growth. These sessions looked at the unique challenges facing three sub-regions – East and Southern Africa, West and Central Africa, and North Africa – with a particular focus on the specific regional and transnational dimension of trade capacity building. Discussion centred on "case studies" prepared and presented by the relevant Regional Economic Communities (RECs) – COMESA, SADC, EAC, ECOWAS, ECCAS, and UMA – which had been developed in close consultation with relevant stakeholders.

The discussion underscored the extent to which supply-side constraints in Africa are regional or cross-border in nature, not least because of the continent's many small, fragmented, and landlocked economies. It highlighted the benefits of regional infrastructure and capacity projects, the importance of focussing on key structural constraints and policy bottlenecks, and the need to improve regional planning, coordination, and financing mechanisms. While there has been some progress in regional infrastructure building in recent years, e.g., regional power pools in West and Southern Africa, and customs unions in West, East and Southern Africa, further advances are being slowed by the technical complexity of multi-country projects and the time delays associated with multi-government decision-making. The RECs are a critically important part of the solution to these problems, and efforts to strengthen, finance and (in certain cases) rationalize these institutions were urged.

West and Central Africa

The difficulty of linking to world markets in much of West and Central Africa was highlighted by several participants who cited high trade costs, weak institutions, and fragmented infrastructure as key obstacles. A main theme was that existing liberalization and integration initiatives, including plans to move towards effective free trade areas or customs unions, need to be complemented by capacity building at the national and regional level, building upon programmes already being designed by the RECs. For example, ECOWAS, WAEMU, CEMAC and ECCAS have already developed detailed infrastructure programs, including in the context of NEPAD, from which Aid-for-Trade projects could be developed. The point was also made that the relationship between Aid for Trade, the European Development Fund (EDF), and envisaged Economic Partnership Agreement (EPA) financial support needs to be clarified so that recipient countries could determine the amount and predictability of the financing available for capacity building in the region.

Key priorities are institutional capacity building and infrastructure development (especially transport and utilities). Assistance with adjustment costs, especially the loss of fiscal revenue from tariff liberalization, is also important if regional and multilateral trade liberalization is to advance. Another broad objective is the creation of a more "business friendly" environment in West and Central Africa, including through the development of national and regional competition policies, legal and regulatory reform, conformity with standards, increased trade financing, and better trade and investment promotion. In this regard, participants highlighted the fundamental need for an open and sustained dialogue between governments and the private sector.

Assisting countries and sub-regions to move trade to the centre of their development strategies is an over-arching objective. Although the Enhanced Integrated Framework (EIF) provide an important tool for identifying and mainstreaming trade capacity priorities for most (but not all) LDCs in the region, a comparable mechanism is needed urgently for non-LDCs, especially as they are often lead trade actors in the region. The need for national and regional Aid-for-Trade committees – to help define priorities, develop implementation plans, enhance donor cooperation, and provide a consultative framework for public private partnerships – was also highlighted. Of particular importance, is the need to adequately support and finance the RECs, which provided crucial vehicles for operationalizing regional integration plans. Given that strong institutions are a prerequisite to developing and implementing effective trade strategies, human and institutional capacity building assistance should be "fast-tracked" by donors.

Eastern and Southern Africa

Regional integration is a key policy objective in East and Southern Africa assisted by strong and expanding cooperation among the three key RECs – COMESA, SADC and the EAC. The RECs have comprehensive programmes in place to address key trade capacity challenges in the region, i.e., trade policy capacity-building, trade facilitation, connectivity infrastructure, and adjustment assistance. The main challenge is to mobilize adequate resources to implement these programme.

Another key point is the importance of comprehensive approaches to trade capacity building. An impressive model for other regional capacity building projects is the North-South Corridor Initiative, which has been approved by the COMESA-SADC-EAC Task Force and is now entering a pilot project phase. The programme brings together all the ongoing initiatives taking place along the North-South corridor, Africa's busiest in terms of freight volumes, under one umbrella, to ensure that reforms to customs, border management, infrastructure, and transport regulation are mutually reinforcing and properly sequenced. The aim is to maximize synergies and to ensure that improvements in one area are not nullified by bottlenecks in another.

Above all there is a need to mainstream trade in national – as well as regional – strategies, and to better synchronize national and regional programmes. The private sector, in particular, has to be a key partner in priority setting and programme design because ultimately it was exporters, not governments, who pay the price for customs delays, unreliable supply chains, or inadequate infrastructure. The relatively small size of domestic markets means that export growth, regionally as well as globally, is essential to East and Southern Africa's development. The fact that so many countries in the region are landlocked also means that efforts to reduce the cost of cross-border trade – through trade facilitation and transport infrastructure, as well as regional integration – are essential. These are the priority areas where Aid for Trade could deliver the biggest return on investment and provide a needed catalyst for attracting private financing.

North Africa

Trade is already centrally important to North African economies, but much more progress was needed on regional integration. Trade between UMA countries amounts to just 4% of the region's total, whereas trade with the EU is 65% (even higher for Morocco and Tunisia). One study suggests that deep integration among Maghreb countries, combined with open regionalism, could increase GDP by 50% over ten years. Participants suggested that a main objective of Aid for Trade should be to help drive regional integration. For example, a road network between Benghazi and Nouakchott would provide an essential artery for intra-regional trade and integration.

The session's main recommendation was to consolidate and build up current integration initiatives, not only between UMA countries but also between North African and sub-Sahara countries (i.e., south-south programmes). Existing needs assessments should be followed up with efforts to identify priority projects at the regional level and to establish detailed implementation plans (including chronograms, mandated institutions, and financing), reflecting regional experiences and best practices. The key priorities are trade facilitation, optimising energy resources, improving telecommunication and transport infrastructure, and reducing the costs of production. Because UMA are key to advancing regional integration, coordinating cross-border projects and monitoring progress, efforts should be made to strengthen its human and institutional capacity, making it a credible partner for other implementing agencies.

3. CROSS-CUTTING THEMES

A number of cross-cutting themes emerged from the discussions in the break out and plenary session:

Country leadership and mainstreaming. Strong leadership at the national and regional level is needed to make trade and competitiveness a priority, and to mainstream trade issues in national development strategies. Improving trade's contribution to growth – and ensuring that its benefits are equitably shared – needs to be the goal of government as a whole, not just the trade ministry. Cross-cutting and far-reaching trade reforms will only advance if they are supported at the highest level of government and by a broad domestic constituency.

Focus on regional projects and integration. Regional programmes and projects – and strengthening regional mechanisms – should be a central focus of Aid for Trade, and help guide funding priorities. Trans-border infrastructure, customs, communications, and regulatory reforms could play a central role in helping to consolidate regional markets, integrate landlocked countries, realize economies of scale, and spur competitiveness. Success depends on advancing along both tracks - regional integration and regional capacity building.

Identify key priorities. The need to focus on key priorities was a recurring theme. Having a hundred priorities means having no priorities. It is important for countries and sub-regions to identify the main structural or policy constraints to trade, and to concentrate on interventions that could deliver the biggest return on investment.

Reduce the costs of trade. The need to connect African economies with each other and the world – though better ports, roads, waterways, and other infrastructure – was emphasized repeatedly. Another major theme was the need to help speed and ease the movement of good across borders through modernized and simplified customs procedures. It is important to address the trade logistics agenda in a sequenced and integrated way, through multi-sectoral and multi-modal solutions, if Africa's high costs of trade are to be reduced significantly.

Mobilize the private sector. The success of export-led development strategies depend fundamentally on the capacity and competitiveness of private sector actors, i.e., exporters, suppliers, and service providers. Many African countries are making progress in creating a more business-friendly environment, and these reforms need to continue and accelerate. The importance of strengthening private sector capacity, encouraging export diversification, and moving up the value chain – by focusing on improved supply chains, financing, and information sharing – was repeatedly emphasized. Particularly critical is the availability of efficient and competitive private-service suppliers in areas ranging from trade finance and risk insurance, to trucking, airfreight, and warehousing.

Harness public private partnerships. Development assistance and multilateral lending alone cannot address Africa's infrastructure needs, which require enormous and sustained investments, both domestic and foreign. However, private investment in African infrastructure – especially energy and telecommunications – has been increasing steadily from $4 billion in 2004 to $6 billion in 2006. Expanding the scope of public-private partnerships, including using Aid for Trade as a catalyst to encourage and leverage private investment, is an important objective.

Leverage regional development banks. The potential for regional development banks to fill financing gaps – and to provide a focal point for regional capacity building and infrastructure projects – was recognized. In order to play this catalytic role, the RDBs need to strengthen their asset base through assistance from countries, donors, and private capital markets. The RDBs themselves also need to scale-up significantly their trade expertise and capacity.

Increase and improve financing. It was clear that scaling up financial assistance – in line with Gleneagles and Hong Kong commitments – is a central priority, as are delivery mechanisms that are transparent, efficient, accountable, and predictable. Close adherence to the Paris Declaration was urged. South-South cooperation is increasingly important, not only because of the developing world's growing financial resources, but also because of shared experiences and challenges.

Coherence and Cooperation. A common theme was the need for greater cooperation, coordination, and coherence among all Aid-for-Trade actors. The challenge is not to create a new mechanism, but to get all of the existing mechanisms to work together more effectively.

4. CONCLUSION AND RECOMMENDATIONS

Building on these themes, the following recommendations are being put forward by the ECA, the AfDB and the WTO, for consideration at the Global Review of Aid for Trade on 20-21 November. These recommendations should be seen as a roadmap for developing concrete Aid-for-Trade strategies for Africa:

- Awareness and understanding of Aid for Trade. The ECA and ADB, in collaboration with the WTO, should continue to play a dynamic role in raising awareness about – and helping to advance – the Aid-for-Trade initiative in Africa.

- Identify trade priorities. Africa's trade needs are well known. It is important to go to the next level by encouraging countries and sub-regions to map out the priority structural bottlenecks or binding constraints to trade at the national – and especially at the regional – level, building on existing studies and assessments.

- Aid-for-Trade action plans. Encourage countries and sub-regions to develop Aid-for-Trade action plans, mainstreamed with country priorities, to address key priorities identified in the first stage, including the identification of actors and activities, financing needs and an implementation schedule. At sub-regional level, where possible projects and programmes identified and develop by the REC's should form a basis of these plans.

- African Aid-for-Trade network. Create an "African Aid for Trade Network" – led by the ECA and the AfDB, including countries, donors, regional and multilateral agencies, and private-sector representatives – to assist countries and sub-regions in mapping out priorities – in developing action plans – in mobilizing resources and in monitoring and evaluation of progress.

- Progress report in Autumn 2008. Task the ECA and AfDB to report regularly on progress. Hold a regional stocktaking conference in the autumn of 2008.