AID-FOR-TRADE: CASE STORY

OVERSEAS DEVELOPMENT INSTITUTE

AfT and Trade Related Adjustment - Economic Partnership Agreements, West Africa

and

AfT and Trade Related Adjustment in the context of Climate Change

Response to call for Aid for Trade Case Stories

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Summary

This submission seeks to respond to the following questions asked in the call for Aid for Trade (AfT) case stories:

- How do donors respond to trade priorities identified at the national and regional levels?
- How are trade-related country policies and donor activities monitored and evaluated?

These are questions related to the governance of AfT. This submission focuses on these two areas and presents two case stories which highlight some key issues. The first introduces the experience of AfT linked to Economic Partnership Agreements in West Africa. The second area, based on Keane et al. (2009 and 2010), discusses how donor trade-related activities are monitored and evaluated with respect to new forms of trade-related adjustment, such as climate change. In both cases the conclusions of these case stories suggest improvements are needed in relation to how resources for trade-related adjustment are determined, as well as how resources disbursed are monitored.

Case Story One: AfT and Trade Related Adjustment - Economic Partnership Agreements, West Africa

Issues

The West Africa EPA Development Programme (PAPED), was developed in the context of the EPA negotiations and represents a framework through which resources for trade-related adjustment may channeled further to their identification.[1] The original estimates of the costs needed for PAPED to adjust to the EPA implementation process were in the region of €8.5bn.[2] The region put most emphasis on infrastructure in terms of funding priorities; in comparison, the European Commission estimated costs to be in the region of €6.5bn,[3] with a reduced emphasis on infrastructure.[4] Some have argued that the distribution of AfT resources between recipients in West Africa shows a clear divide between AfT "darlings" and "orphans".[5] For example, €875million was estimated as necessary in Cape Verde compared to €373million in Liberia, despite the clear differences in economic structures between these two economies and therefore trade-related adjustment needs.[6]

Concerns have also been raised as to the extent to which existing donor commitments alongside EPAs may have been repackaged as new and additional aid for trade resources. Although some donors have pledged new and additional AfT resources the breakdown of these resources are not currently clear. PAPED will continue without the signing of EPAs, but one of the main categories of the project is EPA implementation. Given that most resources for PAPED are coming from EDF, this suggests that non-signatory countries could receive less EDF, as well as AfT, unless the monitoring of resources disbursed suggests otherwise.

Problems Encountered

Currently the monitoring of AfT is undertaken by the WTO based on information collected by the OECD-DAC's Creditor Reporting System (CRS) for all aid. Some monitoring is also undertaken through the Trade Policy Review process of the WTO, although these take place only every two years for the major donors and every six years for the poorest countries. Even though these mechanisms are in place, there is currently no way to ensure that the purposes of AfT are the priorities determined by the international trading system, which includes in relation to EPAs.

Table 1 presents the total AfT commitments allocated for 'trade related adjustment' over the period 2002-8, and the estimated total adjustment costs of EPAs. Not only is there a clear difference in the

[1] See ECDPM (2010a) for an overview.
[2] Although some studies estimate the cost of EPA Development Program in West Africa to be higher, €9.525billion (Untied and Zeba 2009).
[3] See: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/554&format=HTML&aged=0&language=EN&guiLanguage=en
[4] Presentation made by Aurelien C. Atidegla (GRAPAD), Benin, at a one day workshop on EPAs and Aid for Trade, Creating Coherence on Trade and Development, 20th October 2010, Brussels.
[5] See Bilal (2010b).
[6] *Ibid*.

amounts of AfT allocated to different regions for 'trade related adjustment', but also across countries (See Figures 1-5 Appendix).

Table 1: Total AfT commitments for trade related adjustment by EPA region (2002-2008)

Region	Total adjustment costs (mil Euros)	Total AfT Commitments 2002-8 for trade related adjustment (US$mill)
Central Africa	1,085	0
West Africa	2,713	0.92
East South Africa	2,482	3.7
Southern Africa	1,073	0
Note: Commitments to EAC and ESA IEPA countries has been included in East and South Africa. Central Africa includes CEMAC IEPA countries. West Africa includes ECOWAS. Southen Africa includes SADC IEPA countries.		

Source: Milner (2006); OECD DAC AfT: www.oecd.org/dac/aft

Note: The estimates of Milner (2006) are based not on formal modeling but on approximate adjustment costs across the ACP groupings, calculated by matching up project costs from the implementation of earlier policy reform programmes with the expected implementation of EPA reform programmes, in order to provide guidance as to the scale of adjustment costs involved.

The EPAs contain a bewildering array of new legal, procedural and administrative requirements, the implications of which will take some time fully to assess. Needs assessments for these more qualitative aspects are still work in progress for some regions, even though first round needs, such as revenue losses - if tariff reductions are implemented - need urgent financing. The new rules included in the agreements means in some cases, increased costs of compliance, as well as changes in policy (e.g. through restricting the use of quantitative restrictions). There are also continued costs of negotiation for those countries yet to sign an interim agreement; no comprehensive EPA has yet been signed in sub-Saharan Africa. As the example of West Africa has highlighted, it is currently unclear how AfT allocations relate to regional as well as country specific priorities, as well as costs.

Conclusion

There are limitations on how AfT commitments and disbursements are currently monitored, but also in relation to how decisions on AfT allocations are made. What could be the criteria used to assess allocations across countries, sectors and activities? What are the most efficient ways to allocate resources across countries? How should the required resources for trade-related adjustment which is brought about by the priorities of the international trading system be determined, and monitored? And who could do this? These are all governance issues currently outstanding.

Case Story Two: AfT and Trade Related Adjustment in the context of Climate Change

Issues

Changes in the climate, and in related agreements, will affect the demand for and the supply of financing for trade capacity building. Climate change induced trade-related adjustment needs, include not only a need for investment in infrastructure so as to 'climate proof' existing investments but also includes providing assistance to those countries most likely to be affected by climate change in accessing carbon markets, in addition, designing and adhering to new carbon standards, as well as adjusting to potential punitive measures such as border tax adjustments.[7]

Objectives

Some agencies involved in supporting trade have already recognised the need to include climate change issues in their programs. Most climate-related funds, including the growing number under the World Bank and those proposed by bilateral aid agencies (including EC, UK, Spain, Japan, Germany, Norway, Australia, and Germany) are targeted at adaptation to environmental change, including changes in trade, rather than at the regulatory requirements of the international conventions. A more general aim is, "what the Bank calls 'climate-proofing' development projects, which it estimates will require a few billion U.S. dollars annually" (Porter et al. 2008:14). Some of these programmes are also trade-related.

Lessons Learned

As a recent review suggests, there is scope for Aid for Trade and new sources of climate change finance to work together to help meet some of the expected costs of climate change (Keane et al., 2009). Many donors programming Aid for Trade are also providing mitigation and adaptation finance. But there is an urgent need for standardised checks to ensure compatibility. This is necessary in order to avoid competing demands between the priorities of the international system in mitigating climate change, with country priorities, and so that trade-related country policies and donor activities may be better monitored and evaluated. At the same time, better coordination between institutions and programmes could reduce potential conflicts between competing demands and agendas.

As summarised by Ancharaz and Sultan (2009), both climate change and trade-related objectives could be addressed in a coherent way but a number of challenges would need to be addressed, which includes governance issues related to current and future financial instruments: funds' 'additionality', predictability, monitoring, and donors' conditionality, among others. Co-financing provides a way to harness AfT an effective means of securing the additional funding needed to implement projects that integrate components of climate change adaptation and trade competitiveness; a complementary and reinforcing approach between the two funds is likely to bring additional benefits and greater effectiveness in tackling both climate change and trade-related issues (*Ibid*).[8] However, these authors also urge caution, since for this to be effective, it is crucial that additional resources be mobilized for AfT. And there is no way of currently knowing whether or not this is the actually the case.

[7] See Keane et al. (2010).

[8] Their study includes a case study in Senegal, as well as other regional economic communities, in order to demonstrate their points.

Conclusion

New demands that may result for additional AfT resources for climate-related adjustment, and the potential for these resources to be coupled with climate change finance, suggests an urgent need to delineate the role of standalone financing mechanisms. Some of the governance issues highlighted could to some extent be resolved through the establishment of standalone financing mechanisms for AfT, as opposed to reliance on traditional donor-recipient relations.

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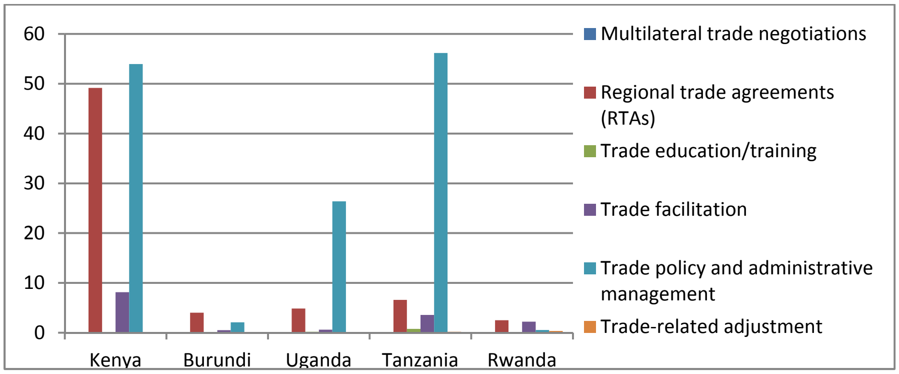
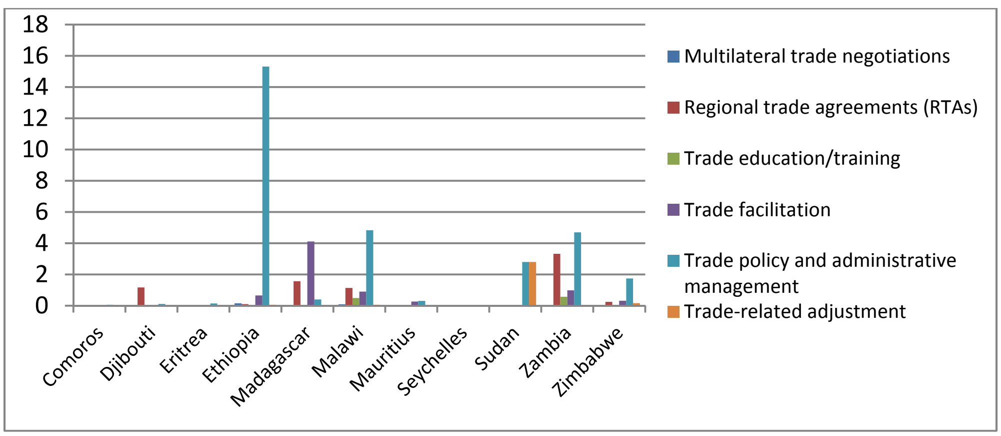
Appendix

Figure 1: AfT Commitments for Trade Policy and Regulations (2002-2008), East African Community (US$mil)



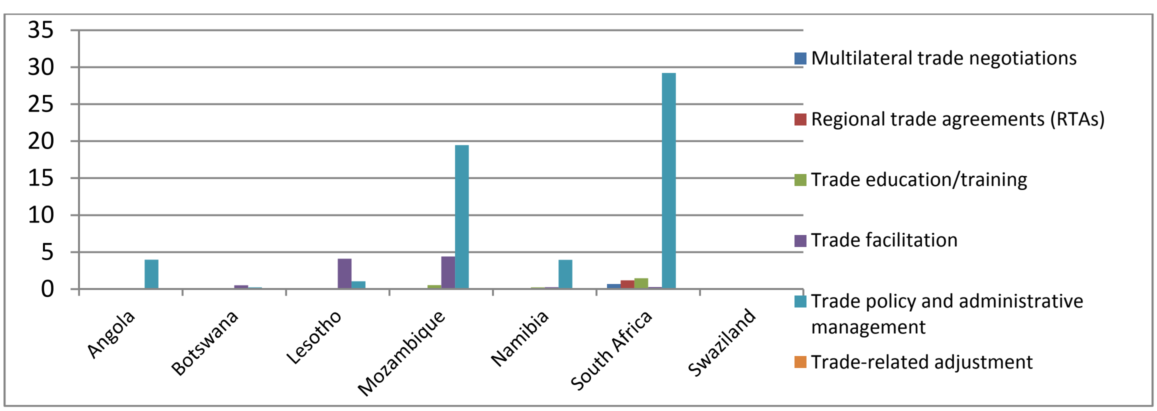
Source: OECD DAC AfT: www.oecd.org/dac/aft

Figure 2: AfT Commitments for Trade Policy and Regulations (2002-2008), Eastern and Southern Africa (US$mil)



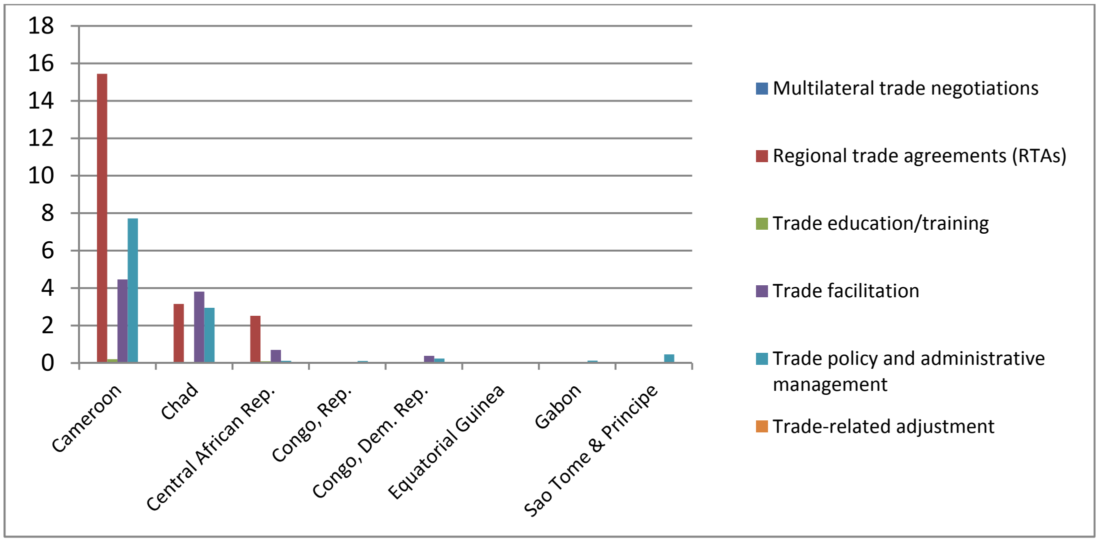
Source: OECD DAC AfT: www.oecd.org/dac/aft

Figure 3: AfT Commitments Trade Policy and Regulations (2002-2008), Southern African Development Community (US$mil)



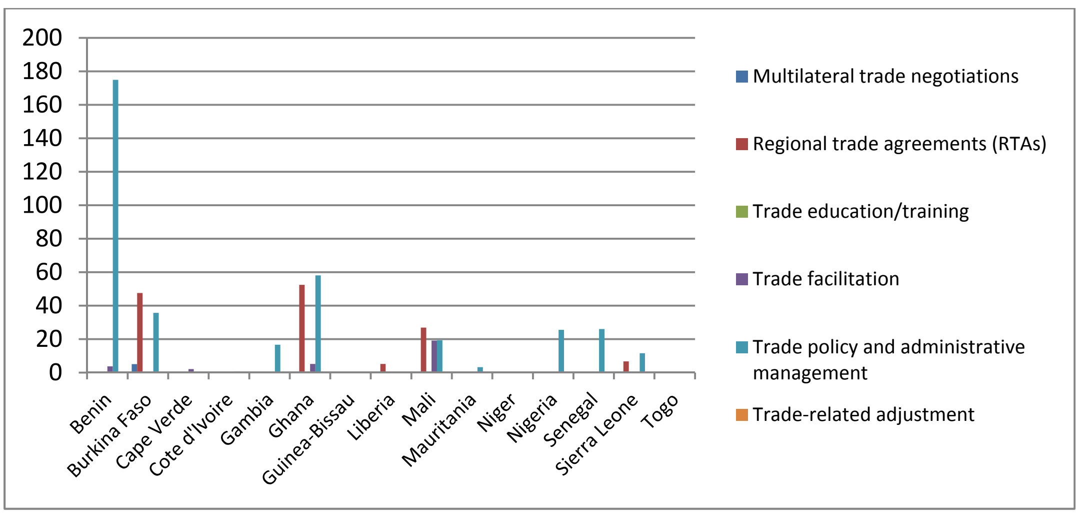
Source: OECD DAC AfT: www.oecd.org/dac/aft

Figure 4: AfT Commitments Trade Policy and Regulations (2002-2008), Economic Community of Central African States (US$mil)



Source: OECD DAC AfT: [www.*oecd*.org/*dac*/aft](www.oecd.org/dac/aft)

Figure 5: AfT Commitments Trade Policy and Regulations (2002-2008), Economic Community of West African States (US$mil)



Source: OECD DAC AfT: [www.*oecd*.org/*dac*/aft](www.oecd.org/dac/aft)