

# Aid for Trade and Regional Integration in West Africa

**T. Ademola Oyejide**

**Abiodun S. Bankole**

Trade Policy Research and Training Programme  
(TPRTP),

Department of Economics, University of Ibadan,  
Ibadan, Nigeria.

Email: [adeoyejide@yahoo.co.uk](mailto:adeoyejide@yahoo.co.uk); [asbanky@yahoo.com](mailto:asbanky@yahoo.com)



# Coverage of the Paper

- Introduction
- Process and Impact of Regional Integration in West Africa
- AfT Initiatives, Trends and Characterisation
- Theoretical and Methodological Literature Review
- Analytical Framework and Methodology: Assessment of Impact and effectiveness of AfT in support of regional integration in WA
- Data Analysis: Trend and Correlation
- Summary and Conclusion

# Introduction

- Aid for Trade (AfT)
  - initiative originally conceived to assist LDCs & Developing countries to benefit from multilateral trade agreements through
    - grants-based assistance to meet immediate agreement-induced implementation and adjustment costs
    - long-term capacity enhancement costs
- Evolution of AfT in 2004 via World Trade Organisation's document WT/L/579 which states that 'developing countries would be entitled to request for assistance to implement trade facilitation'
- various discussions arose in terms of
  - dimension -bilateral and regional agreements
  - size, coverage, utilisation, impact and effectiveness e.g. short-term AfT (for preference erosion, terms of trade losses, and implementation and compliance costs) and long-term (infrastructure development and alleviation of supply-side constraints)

# Introduction

- West Africa has a long history of integration efforts (35 years)
- But achievement has been slow
  - ECOWAS trade liberalisation scheme (ETLS),
  - partial customs union through the adoption of common external tariffs (CET) sequentially by UEMOA and non-UEMOA member countries.
- Several constraints adduced
  - low level of intra-regional trade,
    - low level of productivity and growth
  - lack of political will to enforce integration protocols
    - divided amalgamation interests due to multiple and overlapping membership
    - multiple objectives eg. harmonisation of sector policies;
    - inadequate negotiations of distributive and equity issues

# Introduction

- **West Africa – EU EPA Negotiations introduced in 2003/04**
- **An EPA between the ‘developed’ EU side and mostly least-developed countries of West Africa will likely lead to both short term and long term costs when finally agreed**
- **AfT viewed as a relevant instrument to alleviate these costs**
- **AfT in West Africa-EU negotiations is the EPA development programme (EPADP or PAPED)**
- **For West Africa, EPADP should be an integral part of the EPA negotiations to ensure long-term security of the promise of development assistance or aid.**

## Background Issues: Trends of Regional Integration and AFT

- **Slow momentum of West African integration no doubt affected intra-West African exports (Figure 1):**
  - **total intra-regional export trend between 1996 and 2000 was decreasing until 2001 when it rose consecutively before falling back in 2006 after which it recovered.**
  - **Trend replicated by Ghana, Mali and more by Nigeria.**
  - **Benin, Senegal and Togo recorded consistently rising exports to the ECOWAS region**
  - **Burkina Faso, Cote d'Ivoire, Ghana and Togo recorded occasional export decrease,**
  - **Cape Verde, Nigeria, Sierra Leone had initial continuous decrease in exports followed by a consistent rise during most of the later part of the period**
  - **Niger, Guinea, Guinea Bissau, Gambia and Mali have shifting regional export trends**

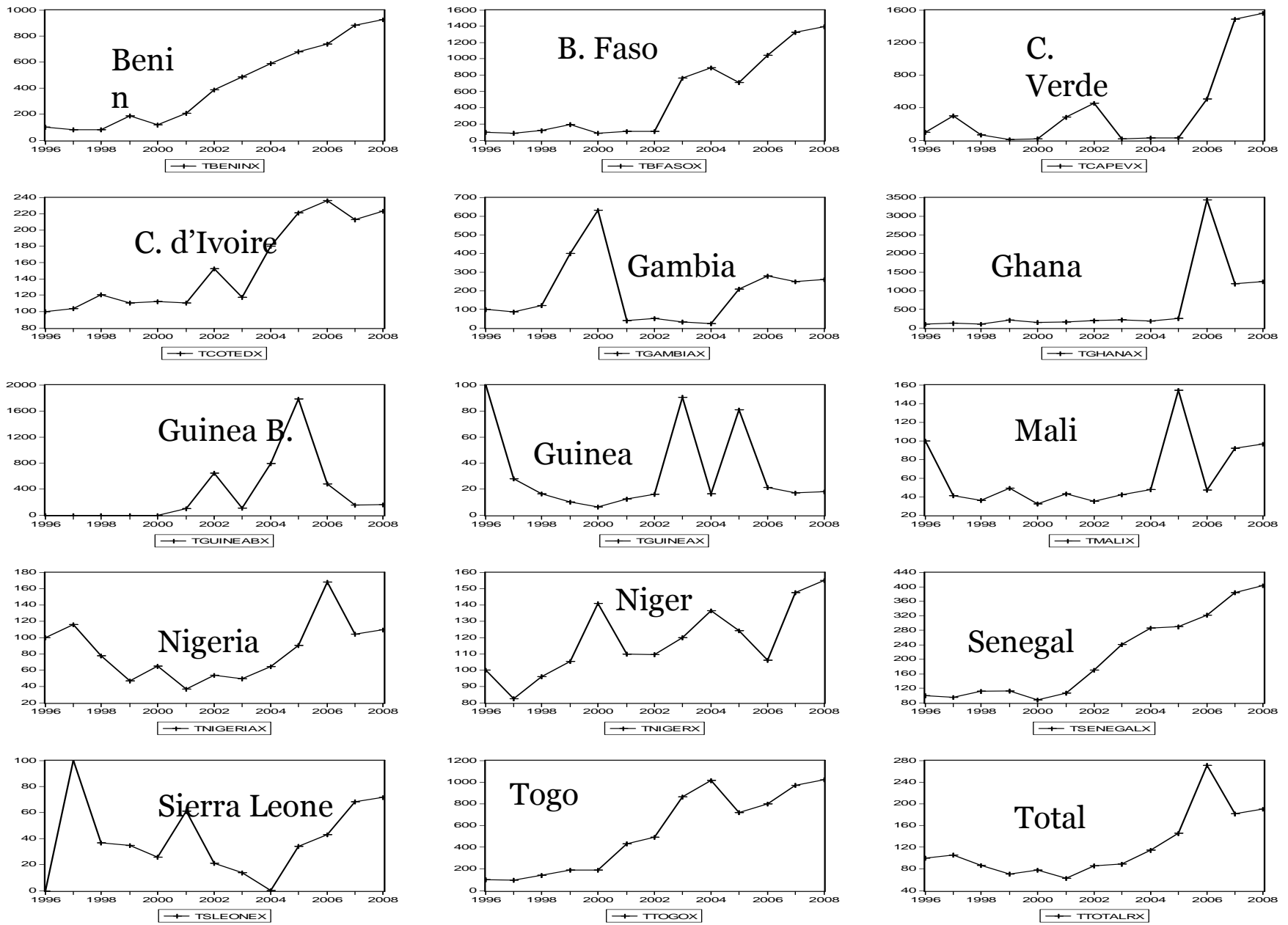
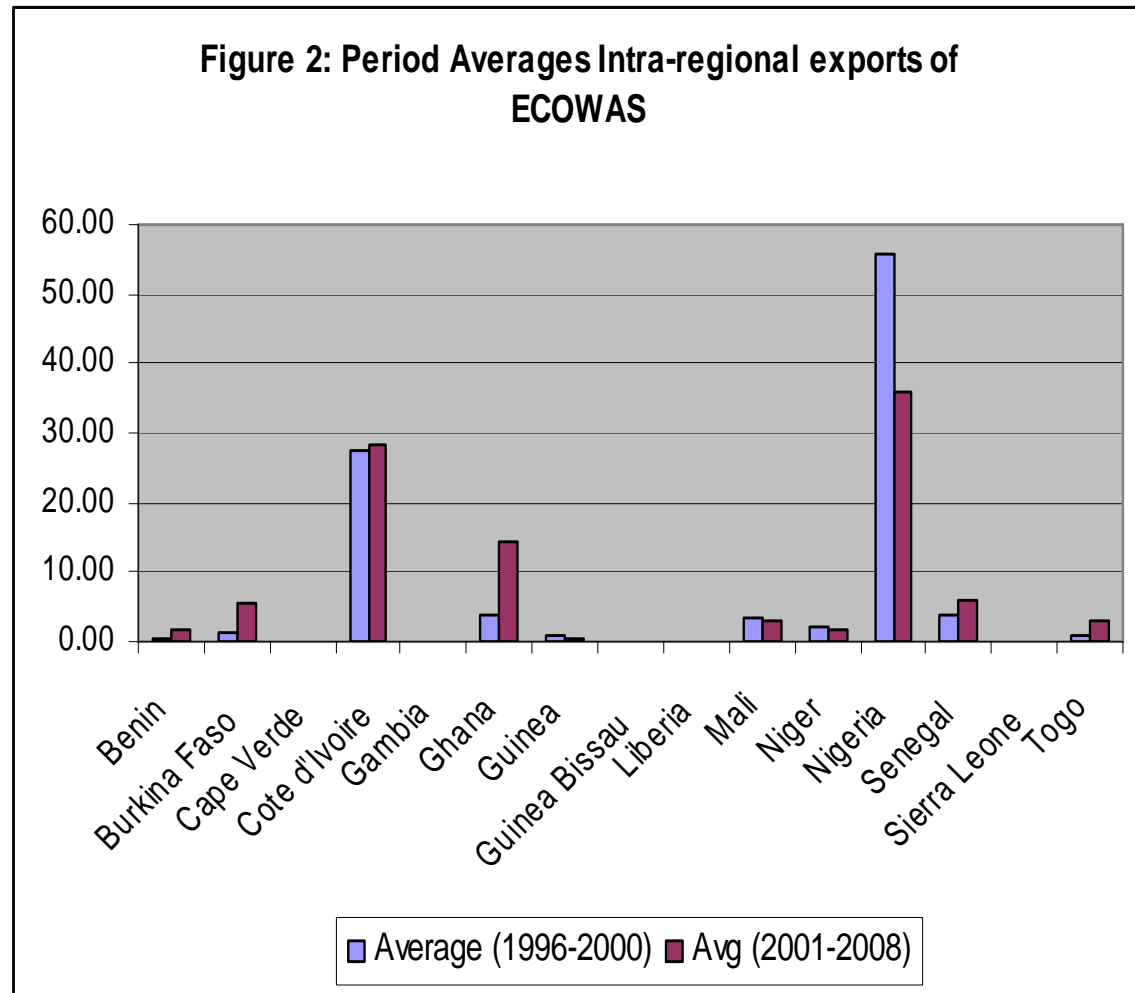


Figure 1: Trend of Member Countries exports to ECOWAS region

## Contribution of Member states to Intra-regional Exports

Contribution of member states to total intra-regional exports during 1996-2000 & 2001-2008

- Negligible Contribution : Cape Verde, Gambia, Guinea Bissau, and Sierra Leone
- Nigeria contributed the most followed by Cote d'Ivoire, Ghana and Senegal
- contribution of Nigeria, Guinea, Mali and Niger dwindled in the second period
- Contribution of Cote d'Ivoire, Ghana, Senegal, and Togo increased in the second period



Source: Computed from ECOWAS database accessed at <http://www.ecowas.int>

# AfT Initiatives and Trends

- AfT covers *technical assistance* (the provision of technical assistance, advice, and expertise to assist countries confronted with the complexities of modern trade);
- *capacity building* (building the capacity of developing countries to deal with trade issues, for example, through the training of government officials);
- *institutional reform* (helping to create a framework of sound and well-functioning institutions for trade—in customs, quality assurance, and other areas);
- *infrastructure* (improving roads and ports to link the poor and the goods they produce to markets through investment in infrastructure);
- *assistance with adjustment costs*: fiscal support and policy advice to help countries cope with any transitional adjustment costs from liberalization.
- Analysed above, AfT in the perspective of West Africa has to do more with relieving production and supply capacity constraints even though the short term adjustment costs is also quite relevant to defray with AfT

# AfT Initiatives and Trends

- EC's disbursements against its commitments are in the range of 36% and 123%, indicating certain donor preferences or recipient absorptive capacity.
- Inadequate absorptive capacity could not be justified as there is coexistence of AfT disbursements overshooting commitments in certain periods while underperforming in others
- the disbursements of 'all donors' averaged 66.5% in the 2002-2008 period, outperforming EC's 63.9%.
- Given the trend of the EC's disbursements, it only improved from as low as 36% in recent times to over 60%, thereby moving towards the trend indicated by 'all donors'

EC's contribution to total AfT in Africa

- Commitments: btw 6% and 26% & fluctuated widely

- Disbursements: btw 10% and 22% & moderate fluctuation (2005 and 2008)

- EC's disbursements against own commitments: btw 36% and 123%

- indicate donor preferences or recipient absorptive capacity.

- not be justified: disbursements overshooting commitments

All donors disbursements averaged 66.5% vs EC's 63.9%.

EC's disbursements only improved to over 60% recently

Year	EC Com. as a % of Total	EC Disb as a % of All Donors	EC Dis/ Comm	All Donors Dis/ Comm
1995	10.4	..	..	..
1996	6.5	..	..	..
1997	8.0	..	..	..
1998	24.1	..	..	..
1999	26.4	..	..	..
2000	13.2	..	..	..
2001	15.2	..	..	..
2002	19.2	10.5	36.1	66.3
2003	22.5	13.6	36.3	60.1
2004	15.2	14.3	61.8	65.6
2005	24.6	21.8	64.0	72.1
2006	25.5	20.7	55.8	68.9
2007	12.0	21.4	123.8	69.3
2008	18.7	20.5	69.6	63.4

Sector(s)	EC Disbursement/ Commitment (%)	All Donors Disbursement/ Commitment (%)
Transport & Storage	72.7	61.9
Communications	119.1	90.0
Energy	27.9	55.8
Banking & Financial Services	80.5	88.8
Business & Other Services	40.8	76.3
Agriculture	81.6	67.8
Forestry	107.2	88.7
Fishing	78.4	71.4
Industry	39.4	68.0
Mineral Resources & Mining	69.2	86.5
Trade Policies & Regulations	63.3	72.3
Tourism	94.1	21.2

## Sectoral distribution of AfT in Africa

Least important sectors in Africa

EC: energy, business and other services, and industry

All donors: tourism and energy

The trend of EC's AfT disbursement against commitments to West Africa

	EC West Africa/Africa Disbursement	EC Disbursement/Commitment (%)
2002	48.1	77.5
2003	46.6	63.0
2004	35.2	67.3
2005	22.5	45.0
2006	21.6	85.7
2007	31.9	136.2
2008	27.2	66.9

**More superior than the trend to Africa**

**average EC Dis/Com for WA = 77.4%**

**However, WA AfT as % of Total EC AfT to Africa consistently fell since 2002**

**Trend runs counter to EC's claim of providing adequate development funds for West African countries**

**the instability of the trend is an indication that the legal security sought by West Africa is needed for stability, predictability and planning**

Proportion of disbursement to each sector in total disbursement

Sector(s)	EC Disbursement/ Commitments (%)	Sector Importance In total Disbursement (%)
II.1. Transport & Storage	72.1	73.25
II.2. Communications	153.5	0.15
II.3. Energy	54.9	3.83
II.4. Banking & Financial Services	10.2	0.22
II.5. Business & Other Services	26.6	1.06
III.1.a. Agriculture	53.8	9.23
III.1.b. Forestry	79.3	0.32
III.1.c. Fishing	41.0	1.07
III.2.a. Industry	1.8	0.19
III.2.b. Mineral Resources & Mining	54.5	8.31
III.3.a. Trade Policies & Regulations	180.1	2.35
III.3.b. Tourism	115.0	0.01

**More important sectors to the EC in West Africa:**

**transport and storage followed at a distance by agriculture, mineral resources and mining, and energy.**

**All the other sectors do not have a share of total AfT disbursement of up to 1%.**

**disproportionate share of transport and storage (73.3%) in EC's AfT is arguably designed to stimulate and facilitate its exports into West Africa.**

**For AfT to assist WA respond to market access in the EC, AfT redesign and Reorientation required**

**To channel more funds to industrial development, infrastructure, as well as business services generally.**

# Literature Review

- Two approaches are advanced in the literature to illuminate the underlying reasons for AfT:
  - **minimisation of the cost of trade liberalisation,**
    - aid should be given to net losers from the Doha Round
    - developing countries should be compensated for losses arising from specific elements of the agreement, regardless of their benefits from other areas in the deal;
    - since developed countries are likely to gain more from free trade, AfT is a mechanism for redistribution.
  - **maximisation of benefits of trade liberalisation**
    - developing economies should be able to take advantage of new trade opportunities due to their limited supply-side capacity
- First view → Short term AfT
- Second View → Long term AfT

# Literature Review

- AfT is different development aid in general (i.e. finance AfT through new funds)
- AfT should be met through grants, not loans, from the benefiting countries separate from traditional official development assistance (ODA) budgets, and allocated using criteria that should not be subject to normal aid
- Addresses the IMF's Trade Integration Mechanism (TIM) to assist countries to meet bop difficulties induced by trade liberalisation and conceived as AfT.

# Literature Review: AfT and AtT

- Both deal with influence of Aid on Trade but
- AfT emphasizes exports from recipients' countries
- AtT focus on exports from donors' country to recipient countries
  - AfT concentrates on how aid from the donor countries can be used to remove supply-constraints in the recipient country so that the latter can export more and thus integrate further into the world trading system.
  - AtT is concerned with how the donors use aid to increase the recipient demand for donors' exports.
- AfT thus appears to be more pro-recipient while AtT is more pro-donor.
- Any given aid can lead to both exports and imports simultaneously, which type of aid it is becomes an empirical question to the extent that the aid which leads to more exports from developing countries is classified as AfT.

# Literature Review: Theory

- The basic theory to evaluate the impact of AfT is the gravity-type theory augmented with the recognition of tariff and membership of trade agreements variables endogeneity of prices, aid variable
- Identification of both the direct and indirect channels by which aid affects trade.
  - Direct channel : *aid-tying*, where the provision of aid is dependent upon the recipient country purchasing goods from the donor; commodities procured in the donor country; export subsidy given to donor's companies seeking contracts in developing countries; projects in which their own industries have comparative advantage

# Literature Review: Costs to Recipients


- Costs of Aid to Recipient countries
- Distortions to the Recipients economy
  - aid-tying distort the process of economic growth –no opportunity to determine their own projects and technology and buy at the world prices
  - goods offered the recipients by donors are at low priority to the recipient and are excessively capital-intensive
  - distortion of domestic consumption pattern which leads to continued dependence on donor countries
  - the crowding of out public investment and raising the price of investment goods
  - counterpart funding requirement of aid leads to increased taxes and public borrowing
  - increasing disincentives to mobilise domestic resources
  - obligation to liberalise their economies
  - likely occurrence of Dutch disease as AfT flows possess a high probability to cause currency appreciation and lower export competitiveness in recipient countries.

## Literature Review: Methodology

- In terms of the methodology that has been employed so far:
- ordinary least squares
- panel regressions have been deployed to estimate gravity models in which the aid variable is introduced (within group and generalised least squares (GLS) techniques)

## Literature Review: Results of Impact of Aid

- Most empirical works on the link between aid and trade concentrate on the AtT which focus on how aid influences recipients' demand for donors' exports
- Empirical studies on AfT are still rare
- several studies established that trade is aid-dependent
  - Morrissey (1993b) found that both France and UK used aid to increase their exports to 36 African recipient countries in the period 1969-1992
  - Nilsson (1997) found that a \$100 increase in EU bilateral aid is associated with a \$260 increase in EU exports to African recipients
  - Wagner (2003) estimated that \$100 of aid generates \$185 exports from the donor to the recipient country
  - Nelson and Silva (2008) which modifies the Anderson and vanWincoop (2003) gravity model however found a much lower trade created by aid, as \$100 of aid generates \$1.2 of trade.

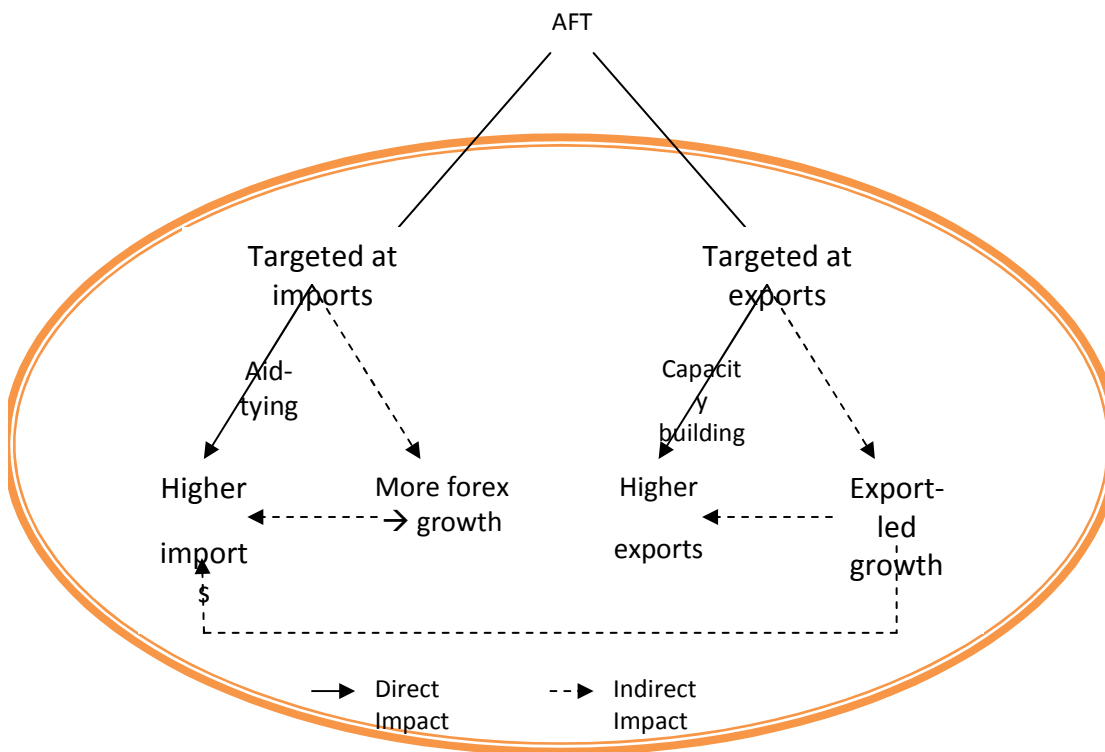
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- Osei et al (2004) found that the sample of donor-recipient pairs for which aid is found to Granger-cause trade performs better
  - indirect relationship between aid and trade was evaluated by Gomanee et al (2002) who identified investment and imports as the main transmission mechanisms through which aid affect growth in 24 SSA countries
  - The major lessons learnt from the AtT literature so far are two-fold
  - Aid creates trade while the nature of relationship between the two may be bi-directional
  - economies that receive aid are likely to give back more in terms of imports from donors as they import more.
  - Therefore it is almost certain that the way that AfT is currently structured will lead to increased imports as recipients need to import resources needed to build local capacity from donor countries.

# Effectiveness of AfT

- Paris Declaration on Aid Effectiveness provides a standard global framework with respect to how to make aid effective
- *i) Ownership. (Donor to respect the right and responsibility of recipient to determine development policies and strategies, and coordinate development actions)*
- *ii) Alignment* - Donors will align their development assistance with the development priorities and results-oriented strategies set out by the partner country.
- *iii) Harmonisation* - Donors will implement good practice principles in development assistance delivery.
- *iv) Managing for Results* – **Recipients** will embrace the principles of managing for results
- *v) Mutual accountability* - Donors and recipients to enhance mutual accountability and transparency in the use of development resources.
- Effectiveness issue not studied as impact of Aid

# Analytical Framework

Figure 3: Analytical Framework of AfT in Recipient country



AfT is both short term and long term

short run AfT flows address short term compensational activities

long run AfT flows are targeted at increasing export supply response capacity.

AfT emphasizes trade, hence its direct and indirect impacts are expected to unequivocally manifest on trade but the impact on other macroeconomic variables may also matter; these are held constant in this framework.

Hence, AfT flows are targeted at both raising imports in the short run into, and export in the long term from, developing countries.

Short term compensational AfT flows targeted at imports through AfT-tying

long-term AfT flows directly target increasing the recipient developing countries' exports through supply response capacity building which will eventually lead to increased market access to donor countries and hence increased export growth

This AfT thus indirectly leads to an export-led growth, increased foreign exchange earnings, and also a rise in imports in the long run

AfT has a double impact on imports, the short run and long run impacts whereas it has a once-for-all initial long run impact on recipient country exports which translates into an export-led growth in the longer term.

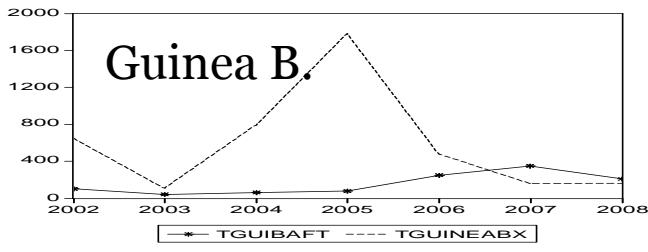
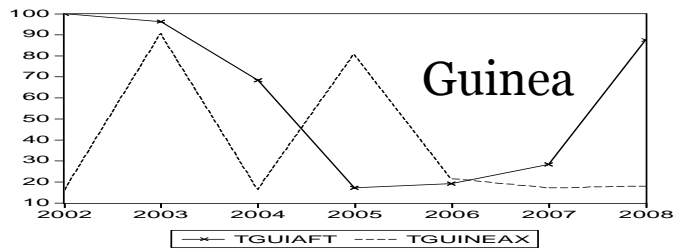
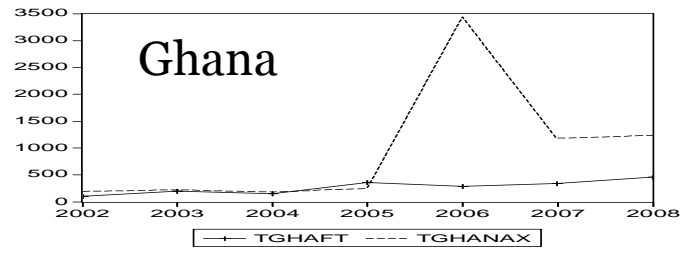
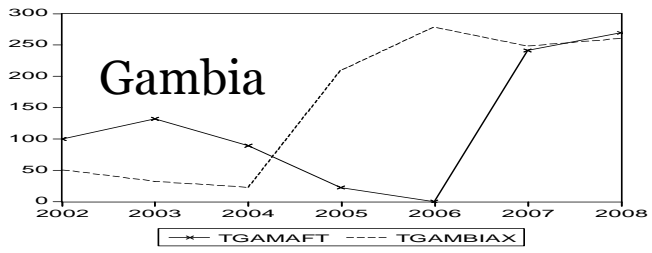
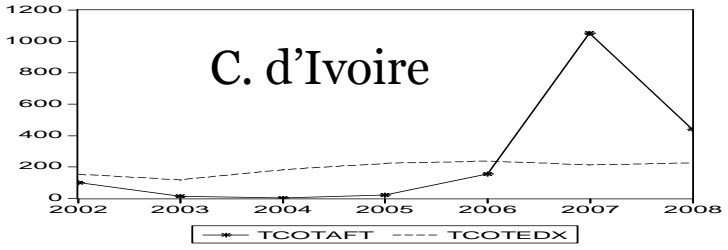
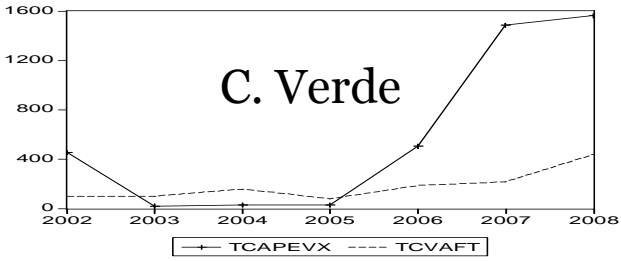
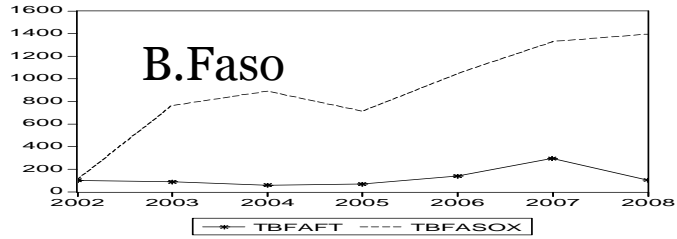
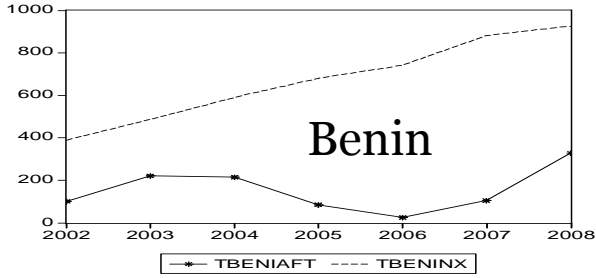
# Analytical Framework cont'd

- How might the short- and long-term impacts of AfT flows affect regional integration?
- To the extent that imports from donor country will rise in the short run, intra-regional trade will likely fall as recipients import more from donors.
- Because imports from the donor will also rise (may be at a slower rate) in the long term, intra-regional trade will also likely fall.
- However long term fall in intraregional trade is likely to be moderated by the increase in the export of recipient country long term through enhanced export supply capacity.
- Part of the increased exports will be directed towards the region given that the region is a free trade area or a customs union, since the cost of exporting to countries within the region should be lower than that of exporting to countries outside it
- Thus, it is expected that intra-regional exports will fall in the short run and increase moderately in the long run.

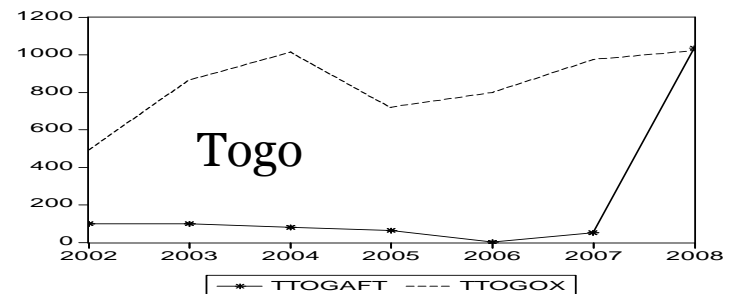
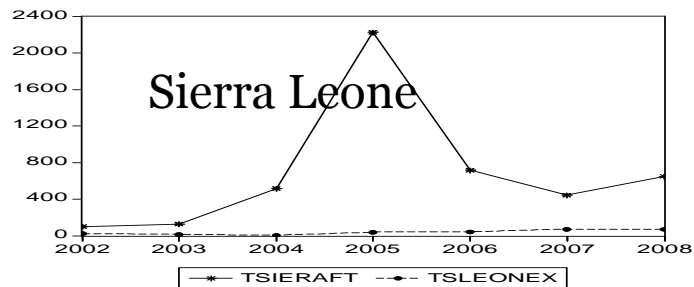
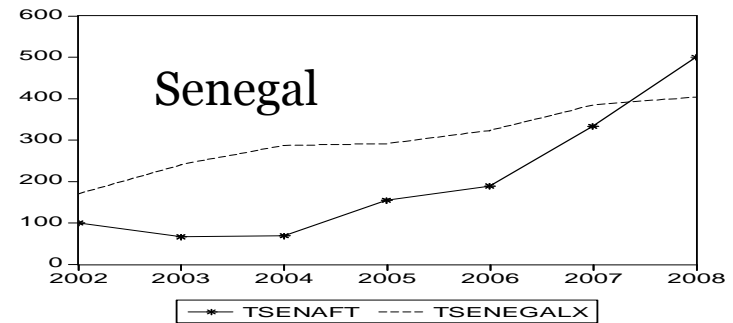
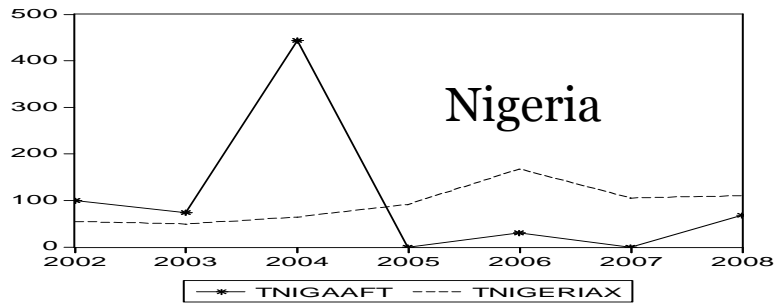
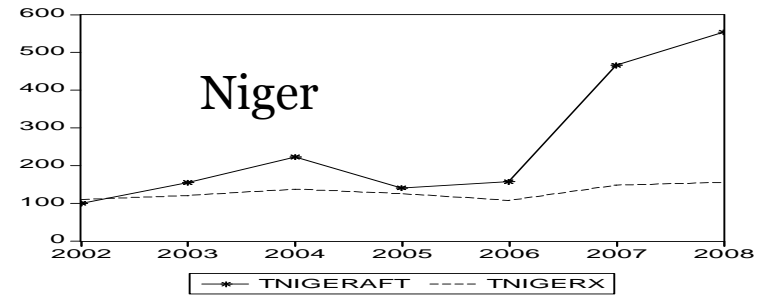
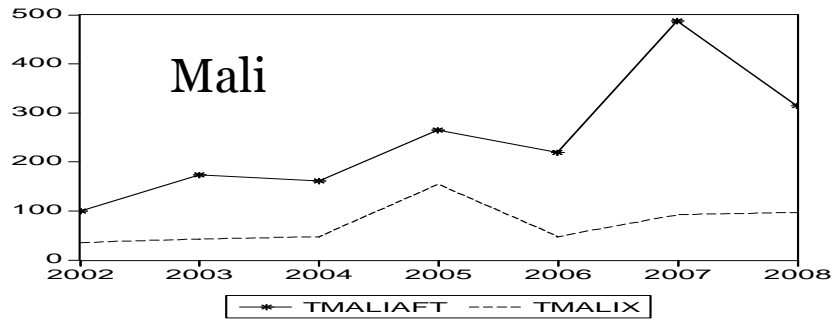
# Data Analysis: AfT and Intra-regional Exports

- In the analysis of association between AfT flows and intra-regional exports conducted, three groups of countries are distinguished.
- Burkina Faso, Cape Verde, Guinea and Sierra Leone which have opposing trends between AfT flows received and their exports in the short term.
- Benin, Ghana, Gambia, Niger and Nigeria, Cote d'Ivoire, Guinea Bissau, Senegal and Togo which record ambiguous trends between AfT flows received and exports in the short term.
- Mali features similar trends of AfT flows and exports in the short period.
- Benin, Ghana, Gambia, Niger and Nigeria, Burkina Faso, Cape Verde, Mali Senegal and Togo record similar trends between their AfT inflows and exports in the long term
- Cote d'Ivoire, Guinea, Guinea Bissau and Sierra Leone do not have similar trends in these two variables in the long term.
- The correlation coefficients confirm these short and long term trends of AfT and intra-regional exports. In the discussion relating to the issue of effectiveness, it was shown that in part, much depends on the objectives for which AfT is provided by the donors, and their political will and commitments; and also on the willingness of beneficiary countries to remove their the required governance-related constraints through reforms to make the use of AfT undergo planning, implementation, monitoring and evaluation.

# Data Analysis: AfT and Intra-regional Exports



# Data Analysis: AfT and Intra-regional Exports



## Simple correlation coefficients between AfT and Intra-regional Exports

	Short term	Long term
Benin	-0.07	0.2
Burkina Faso	-0.84	0.5
Cape Verde	-0.17	0.8
Cote d'Ivoire	-0.19	0.4
Gambia	-0.91	0.2
Ghana	0.92	0.4
Guinea Bissau	-0.33	-0.4
Guinea	0.42	-0.02
Mali	0.91	0.6
Niger	0.96	0.9
Nigeria	-0.21	-0.4
Senegal	0.19	0.8
Sierra Leone	0.67	0.1
Togo	-0.26	0.4

### Short term:

8 countries have negative correlation (Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Guinea Bissau, Nigeria and Togo)  
6 have positive association

### Long term

11 countries record a positive association  
3 countries: Guinea, Guinea Bissau, and Nigeria record negative association

For 8 of the countries with positive correlation, the coefficient can be considered low, offering an indication that even in the long term, AfT would induce some imports as it generates more exports.

These results indicate that building production, supply and export capacities of West African firms and farms through AfT is likely to increase their exports in the long run as posited, while in the short run, it is imports that are likely to increase.

These are expected to hold also in econometric work that should be conducted when real AfT data are more available.

# Concluding Remarks

- There are several policy implications of the findings for West Africa.
  - The first relates to the issue of data.
  - West Africa should be assisted as a way forward in this area to set up mechanism to collect, collate and publish AfT data to reduce dependence on OECD data which are collected to serve particular purposes of the constituent countries.
  - Efforts directed at this by collaboration of African institutions such as ECA, AfDB and African Union should strengthen the capacity to increase analysis in this area particularly given the importance of development funding in the EPAs.
- Second, the assessment of the relationship between AfT and trade has so far been conducted from the perspective of developed countries' analysts and as such gives little recognition to the needs and perception of West Africa.
  - inadequate data and capacity to do such analysis thus requiring capacity building assistance to build a cohort of West African analysts for future AfT analyses, monitoring and evaluation.

# Concluding Remarks

- Analyses will need to employ more scientific approach to discern the relationship between EC AfT and intra regional trade.
- West Africa need not depend too heavily on EC AfT to alleviate supply capacity in the short term as this objective may only be achieved in the long run with EC AfT.
  - As such, it may be necessary to dilute the short term impact of EC AfT in the short run by seeking AfT from other sources such as from richer member countries in West Africa
- The instability of the AfT from the EC buttresses the need for legal security of the EPADP sought by West Africa otherwise the instability and unpredictability of AfT may be more injurious than the volume of the flows
- The disproportionate share of transport and storage in total EC's AfT to West Africa appears to have been designed to stimulate and facilitate its exports into West Africa
  - AfT to henceforth assist West Africa to respond to market access in the EC, it needs to be redesigned along that line by providing more funds to industrial development, infrastructure, as well as business services generally

# Aid for Trade and Regional Integration in West Africa

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**T. Ademola Oyejide<sup>1</sup>**

**Abiodun S. Bankole**

Trade Policy Research and Training Programme (TPRTP),  
Department of Economics, University of Ibadan, Ibadan, Nigeria.

Email: [adeoyejide@yahoo.co.uk](mailto:adeoyejide@yahoo.co.uk); [asbanky@yahoo.com](mailto:asbanky@yahoo.com)

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## **Aid for Trade and Regional Integration in West Africa**

### **1. Introduction**

Aid for Trade (AfT) constitutes an initiative originally conceived to assist least developed and developing countries to benefit from multilateral trade agreements by providing grants-based assistance to meet the immediate agreement-induced implementation and adjustment costs as well as the long-term capacity enhancement costs. In contrast, according to the standard definition of the Development Assistance Committee (DAC) of the OECD, foreign aid is made up of the financial flows, technical assistance, and commodities that are designed to promote economic development and welfare and are provided as either grants or subsidized loans. From the time when AfT evolved as a multilateral phenomenon in 2004 through the World Trade Organisation (WTO) document WT/L/579, which states that developing countries would be entitled to request for assistance to implement trade facilitation, being the new element of the Doha Development Round (DDR), the dimension in the context of being extended to bilateral and regional agreements, size, coverage, utilisation, impact and effectiveness of AfT have attracted extensive analysis by trade economists and other interested stakeholders. For example, short-term AfT is considered a grant to meet such costs as preference erosion, terms of trade losses, and implementation and compliance costs while long-term AfT should encompass grants for infrastructure development and alleviation of supply-side constraints to increase countries abilities to respond to new market access opportunities that might arise from new trade agreements. Thus AfT tends to be tangential to normal foreign aid only in the area of long term development of infrastructure and supply capacities.

West Africa despite the long history of integration efforts in the sub-region has slowly progressed on the path of regional integration, moving wobbly first towards regional trade liberalisation through the instrumentality of the ECOWAS trade liberalisation scheme (ETLS), and secondly, into what can be regarded as a partial customs union through the adoption of common external tariffs (CET) sequentially by UEMOA and non-UEMOA member countries. The slow pace of regional integration in the West African sub-region has been identified to be induced by several constraints, among which are the low level of intra-regional trade, itself an offshoot of the low level of productivity and growth of the constituent economies, lack of political will to enforce integration protocols, and divided amalgamation interests due to multiple and overlapping membership which also leads to conflicting objectives, efforts duplication and spreading thin the available financial resources. In

addition, multiple objectives such as the harmonisation of agricultural, industrial, transportation, energy, fiscal and monetary policies; inadequate negotiations among the West African countries about distributive and equity issues which creates lack of interest and political commitment and obligation to implement; trade liberalisation and integration measures (MacCarthy 1996, Bundu, 1997); and inadequate and rigid compensation mechanisms due to unclear methodologies (MacCarthy 1996) are other constraints to regional integration. While the considerable reform capacity required to surmount these constraints appear to be acutely lacking in the sub-region, the policy environment needed to implement both political and economic reforms would not only entail a radical transformation of institutional and economic circumstances but would also involve external technical support to assist production, trade and welfare improvement, providing window of opportunity for AfT.

Within the context of this sluggish pace of self-designed economic integration has been implanted the framework of the ongoing regional trade negotiations between the European Union and West Africa expected to produce an economic partnership agreement (EPA) between the two regions which will, over a twelve year period, by design of the Cotonou Partnership Agreement (CPA) of 2000, bring tariffs down to zero in an asymmetrical manner. In view of the fact that these negotiations between the ‘developed’ EU side and the mostly least-developed countries of West Africa will likely lead to both short term and long term costs when finally agreed, AfT has been viewed as a relevant instrument to alleviate both foreseen and unpredictable consequences of EPA on the West African countries as well as assist the sub-region to address the challenges of regional integration. AfT in the context of the West Africa-EU negotiations is conceived as the EPA development programme (EPADP) which West Africa insists should be an integral part of the EPA negotiations to ensure long-term security of the promise of development assistance or aid. The EU perceived West Africa’s demand as strange, and its negotiators have insistently argued that the demand cannot be accommodated in the EPA due to the claim that European countries’ budgetary process disallows long term legally binding aid commitments. The EU further equates the conclusion of Part IV of the EPA text by the EC and West Africa on “development cooperation” to the legal security of EPADP requested by West Africa.

This paper seeks to investigate whether and the extent to which AfT will assist regional integration in West Africa. It does this by conducting an assessment of the impact and effectiveness of AfT in support of regional integration with special emphasis on WA and by attempting to predict the nature of the AfT-integration nexus of the EPA era given the association of AfT flows with West African intra-regional exports. Some analysis of AfT has

been done previously (e.g. Oyejide 2006) but most focused on cases studies and description of likely AfT modalities, financial architecture and reasons for AfT and not on impact. The impact and regionally focused analysis constitutes the paper's value addition to the AfT debate. In effect, the rest of the paper is arranged as follows. Section 2 provides background information regarding the regional integration process in West Africa and the AfT initiatives developed. In section 3, the paper explores the theoretical, methodological and empirical literature on the impact and effectiveness of AfT. The analytical framework and methodology of the paper is contained in section 4 while the next section presents and interpretes the results of the data analysis. Section 6 concludes the paper.

## **2. Regional integration processes in West Africa**

### **2.1 Intra-WA Trade integration**

West Africa's long history of integration efforts commenced with the ECOWAS Trade Liberalisation Scheme (ETLS) which finally took off in 1990 AfTer two missed dates in 1979 and 1989. It comprised two phases namely the consolidation of customs duties and NTBs phase and total trade liberalization phase. In the first, there would be a gradual removal of tariffs in the first two years with plans not to introduce new tariff barriers while those in existence should not be increased. The second phase which entailed total liberalization of trade in three product types: unprocessed goods (animal, mineral and plant products), traditional handicrafts, and industrial products produced within the community. The time table for the elimination of duties and taxes for the third product group was based on the criteria of level of development, importance of customs receipts in member states' revenues, and problems traceable to access difficulty by landlocked member states. The initially planned implementation period corresponded with the annual rate of reduction in duties and taxes of between 10 and 16.6 per cent, in addition to variation among country categories. The most advanced of the countries had to complete tariff liberalisation in six years, while the middle and least advanced countries were to complete in 8 and 10 years respectively. Similarly, the gradual removal of NTBs was to cover a 4-year period between 1990 and 1993; its commencement coinciding with the liberalization of unprocessed goods and traditional handicrafts.

The total implementation of the ETLS expected to complete by the end of 1999 did not materialize. Nigeria in conjunction with Ghana introduced a fast-track approach for the

elimination of all trade barriers by April 15, 2000 and the establishment of common external tariffs (CET) by January 1, 2001. The decision to adopt a CET by all ECOWAS member states was taken at a mini summit in Abuja in May 2000 and the eventual establishment of a customs union of the whole of ECOWAS by 31 December 2007, though eight countries of the Union Economique Monetaire de l'Ouest Africaine (UEMOA) had adopted a CET in 1997. The UEMOA CET came into force on 1 January 2000 with 4 tariff bands of 0% (for essential social goods), 5% (for basic goods, basic materials, equipment goods, specific inputs), 10% (for intermediate products) and 20% (for final consumption goods). Two exceptions lists were allowed during the transition period of two years to enable countries which are not members of UEMOA to adapt to the new tariff policy (type A exceptions) and to agree on the re-classification of some products (type B exceptions).

The dates for the establishment of the CET and customs union were also missed as Nigeria itself became the last to establish a modified CET (with the 4<sup>th</sup> band of 50% instead of 20%) in 2005, while the numerous non-tariff barriers between West African countries remain in the process of being dismantled. Hence, the initially multi-step approach to the integration process eventually became hurriedly collapsed, with a loss of benefit of experience from gradual liberalisation helping to shape subsequent advancement of integration, by hastily shifting from an incomplete TLS into a customs union, this imposed by the need to 'catch up' with the UEMOA countries which commenced the implementation of the CET since 2001, and the reality of the impending economic partnership agreement (EPA). Simultaneously, through protocols, there were efforts to promote co-operation and development in industry, transport, telecommunications and energy, agriculture, natural resources, commerce, monetary and financial matters, as well as social and cultural affairs (Aryetee, 2001).

The slow momentum of West African integration process no doubt affected intra-West African exports as depicted by the trend in Figure 1. First, total intra-regional export trend between 1996 and 2000 was decreasing until 2001 when it rose consecutively before falling back in 2006 After which it recovered. This trend was replicated to an extent by the trend of exports of Ghana, Mali and more of Nigeria. In addition, the trends indicate that some member countries recorded consistently rising exports to the ECOWAS region (e.g. Benin, Senegal and Togo), some recorded occasional export decrease during the 1996-2008 period (Burkina Faso, Cote d'Ivoire, Ghana and Togo), some had initial continuous decrease in exports followed by a consistent rise during most of the later part of the period (e.g. Cape Verde, Nigeria, Sierra Leone). The rest of the countries have shifting regional export trends

(Niger, Guinea, Guinea Bissau, Gambia and Mali). For most countries, sustained increase of intra-regional exports commenced between 2000 and 2002.

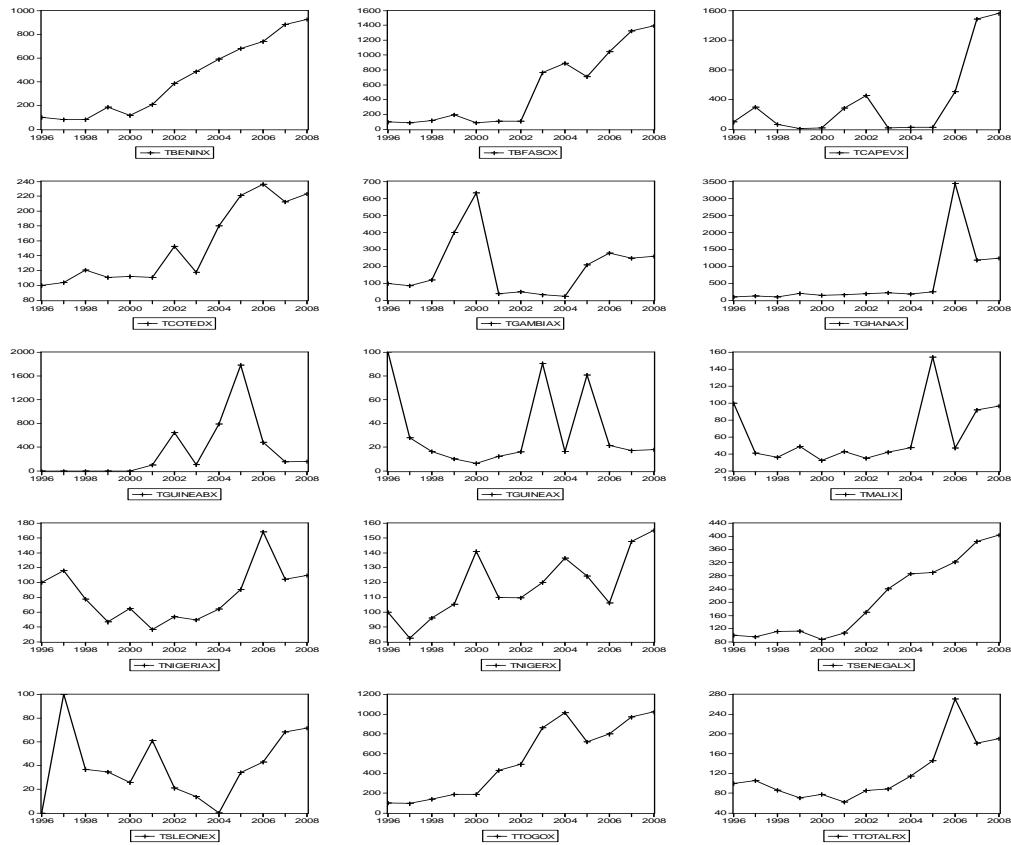
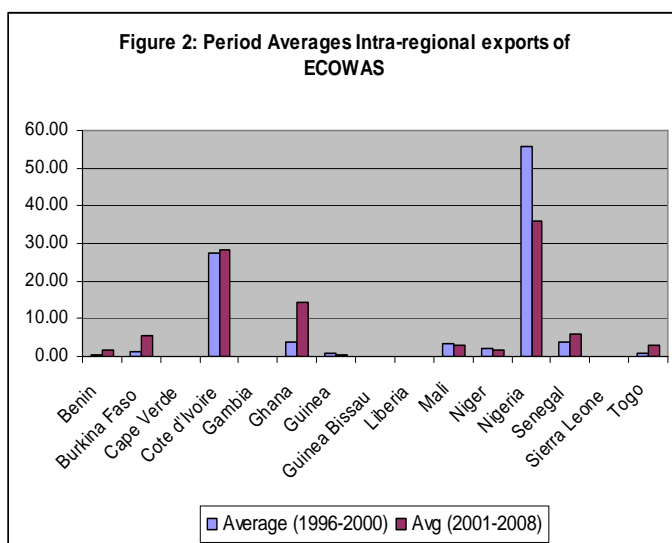


Figure 1: Trend of Member Countries exports to ECOWAS region

Figure 2 shows the period averages of the contribution of member states to total intra-regional exports in the 1996-2000 and 2001-2008 periods. The contribution of four countries (Cape Verde, Gambia, Guinea Bissau, and Sierra Leone) was quite negligible. Nigeria contributed the most to intra-regional exports followed by Cote d'Ivoire, Ghana and Senegal. However, Nigeria's contribution and those of Guinea, Mali and Niger dwindled in the second period while those of Cote d'Ivoire, Ghana Senegal and Togo increased.



Source: Computed from ECOWAS database accessed at <http://www.ecowas.int>

## 2.2 Monetary integration in WA

The planned convertibility of West African countries' currencies and the creation of a single currency by the year 2000 also failed to materialise despite the creation of West African Monetary Agency (WAMA) and the introduction of Credit Guarantee Fund for the region's clearing and payments system as well as the West African travellers' cheques. In 1999, a set of convergence criteria and the year 2004 were set for the establishment of a single currency. The associated indicators of the criteria are: a ratio of budget deficit (excluding grants) to GDP lower than 4 per cent by the year 2002; an inflation rate no higher than 5 per cent by 2003; Central bank financing of budget deficit limited to 10 per cent of previous year's tax revenue by 2003; and gross external reserves representing not less than six months of imports by 2003 (Aryetee, 2001). There are also a secondary set of criteria which includes the prohibition of new domestic arrears and liquidation of all existing arrears; tax revenue/GDP ratio equal to or more than 20 per cent; wage bill/tax revenue equal to or less than 35 per cent; real exchange rate stability; positive real interest rates; and public capital expenditure/tax revenue ratio of at least 20 per cent.

These convergence criteria, alongside other efforts directed at harmonisation and surveillance of macroeconomic policies through the creation of the Convergence Council, made up of Ministers of Finance and Governors of Central Banks in the region, the technical Monitoring Committee and the Nigeria-Ghana fast-track approach to regional integration were the recent initiatives to speedily arrive at the CET and the set single currency objective

for West Africa. However, the second currency zone for non-UEMOA ECOWAS countries introduced in 2001 by the Nigeria-Ghana fast-track initiative has also not occurred.

### **2.3 West Africa-European Union Economic Partnership Agreement (WA – EU EPA)**

The WA-EU EPA negotiations which was as a result of the mandate of the 21st session of the Authority of Heads of State and Government of ECOWAS given to the ECOWAS and UEMOA Commissions to negotiate, on behalf of the States of the region, an economic partnership agreement with the European Union in conformity with the provisions of Article 2 of Decision A/DEC./11/12/01 of 21 January 2001. The specific objectives of the mandate which have formed the basis of the WA-EU EPA negotiations are the gradual establishment, in line with WTO rules, of a free trade area between ECOWAS and the European Community with effect from January 2008; the need for priority to be accorded to development and poverty reduction; cooperation on trade-related issues; deepening of the integration process in West Africa; improvement of competitiveness: capacity building and upgrading of enterprises; and the enhancement of market access for West Africa's exports. After the launch of the regional negotiations between West Africa and the European Union in Cotonou in October 2003, West Africa agreed to negotiate the EPA as a single regional bloc comprising ECOWAS and Mauritania and thereafter formulated and adopted a roadmap in August 2004 outlining the various phases of the negotiation process and the main themes on which the agreement should be focused.

The EPA negotiations was planned to be concluded in December 2007 and to come into force in January 2008. This date was missed but Cote d'Ivoire and Ghana initialled interim EPAs with the European Union, leading to the declaration of the Authority of Heads of State and Government of ECOWAS, at its 33rd Summit held on 18 January 2008 that Member States desire to conclude EPA as a single custom territory within the WA region. Earlier the Ministerial Monitoring Committee, at its 17 December 2007 Ouagadougou meeting, took note of the interim EPAs by its member states and called on both countries to ensure that the agreements were consistent with the commitments they had taken within the framework of the regional integration process, while the ECOWAS and UEMOA Commissions were directed to monitor and support the two countries and to harmonize, as much as possible, the agreements in order to avoid differences in treatment within the region.

At the commencement of preparation for the EPA by the ECOWAS Commission and the EC, the thematic negotiation areas identified include free trade zone, customs union and trade facilitation; standardisation, quality control and related services, SPS and TBT

measures; competition; intellectual property; investment; agriculture; fisheries; non-agricultural products and crafts; services; and development issues. Many of these areas have been streamlined during negotiations, culminating in fewer issues for negotiations while others have been pushed forward to a later date due to inadequate negotiating capacity on the part of West Africa. Indeed, most of the *Singapore issues* (environment, investment and competition), already rejected at the WTO Seattle Ministerial, which the EU introduced into the negotiations have been rejected by the West African region because WA is not ready to negotiate these issues as they have been removed from the WTO Doha round. In addition, the authority of the Heads of State and Government of WA directed negotiators not to include them in the EPA. In the case of services, WA agreed to commence negotiations, if at least three years is provided to strengthen related regulatory framework in the services sector and harmonise the regional position, though the EC believes the pace and direction of WTO Doha round negotiations need not prevent negotiations on all these trade-related issues as they are quite important for development. Since early 2008, it was agreed that these issues be negotiated after the signing of a regional EPA in goods and development containing some other trade-related areas.

It was important to focus on the development and market access negotiations because even agreeing to these two main issues has been quite problematic. Commencing with the joint definition of EPA support programmes and their funding by the EC, preparation of time-tables for access to the markets of both sides, and preparation of the text of the agreement; the identification, specification and negotiations regarding each side's positions have created a situation of overstretched negotiating capacity, mutual distrust as the initial interim agreement created doubts about the real reason for the EPA negotiations, and many missed dates, not to add the explicit and implicit cost of the negotiations, most of which is funded by the EU. For example, during the negotiations, issues that have cropped up include identification of sensitive products, adoption of the regional list of such products, completion of the classification of products and determination of the rates of the common external tariff (ECOWAS CET), and preparation of the time-table for the dismantling of tariffs.

Other related activities include the validation of the study on the computable general equilibrium model, establishment of modalities for the absorption of the net fiscal impact of the implementation of the EPA, adoption of the study report on the establishment of the EPA Regional Fund, and establishment of modalities for its operation; classification of products according to their levels of sensitivity into Group D (sensitive products excluded from liberalization), Group C (products to be liberalized with effect from 2018 over a period of 15

years), Group B (Products to be liberalized with effect from 2013 over a period of 15 years), and Group A (Products to be liberalized immediately, that is, as from 2011).

In the area of development, the February 2008 Nouakchott meeting of the MMC recommended to the ECOWAS and UEMOA Commissions to take all necessary measures to prepare the three categories of development programmes required under the EPA. These are (i) the improvement of the competitiveness of the production sectors; (ii) the payment of adjustment, and (iii) the fulfillment of obligations arising from the agreement. The first category has to do with the issues of capacity constraints which beset production and export supply capacities. These binding supply side constraints in WA restrict the ability of its farms and firms to respond to new market access that will be provided by the EU through the EPA and which have made these economic agents unable to fully utilise preferences provided by the EU in the past. These are considered by the EU as largely internal problems to be dealt with by WA governments while non-state actors should be demanding the effective delivery of public infrastructure services and more business friendly policies. In addition, the EU views the development support already being provided to the region as already helping Governments to address these constraints independent of EPA. About 90% of the total of the EPA Development Plan (EPADP/PAPED) deals with the developing of the productive capacity of West Africa. According to the EC, however, EU is only a part of the factors that determine production, regional exports, and international exports and hence funding this proportion is beyond its ability alone to address, but would in any case assist in the mobilization of considerable funding through bilateral country and regional programs, as well as through multilateral funds. The EC also indicated that the EDF10 of about 400million euros is available to address this development aspect.

The second category of the development programme that involves the compensation for adjustment costs is in three parts. The first is in terms of the loss of government revenue particularly for those countries dependent on customs duties. The EC has agreed to help fund the net fiscal impact of the EPA, to ensure continued funding of important government programmes, while fiscal reforms are put in place to broaden governments' revenue basis. The second has to do with loss of market share by domestic producers to EC firms and the sufficiency of EU funding to help with the costs of both adjustment and making use of the opportunities provided by access to the EU markets. The EPADP/PAPED, is designed to address these through providing assistance for the direct adjustment costs (fiscal losses, adjustments to increased competition, applying the rules and regulations for exporting to the EU market), which the EC estimated would constitute about 10% of the total EPADP.

The legal security of the EPA Development Programme, including its financing beyond the end of the Cotonou Agreement in 2020, remains a concern given the EPA will continue well beyond. EU recognizes this and confirms its commitment to support the development aspects of the EPA beyond the Cotonou provisions and to endeavour to secure support of EU member states. Member states plan to continue their long term support to WA, however, their budget process disallow long term legally binding aid commitments. Efforts continue to find a viable formulation. Discussions also continue on how the EPADP/PAPED will be used.

#### **2.4 AFT initiatives**

Conceptually, AfT covers grants-based assistance to meet agreement-induced adjustment costs such as preference erosion, terms of trade losses, and implementation and compliance costs. It also includes grants meant to defray the costs of building infrastructure for long term productive capacity development meant to alleviate the supply-side constraints of recipient countries in order to respond to new market access opportunities that might arise from new trade agreements. AfT therefore, is a mechanism to enhance the flow of development finance from the rich to poor countries so as to improve the world trading system (Stiglitz and Charlton, 2006). Though these are conceptually categorised into the benefit-maximisation and loss minimisation of trade liberalisation, AfT covers, in practical terms, according to Nielson (2005), *technical assistance* (the provision of technical assistance, advice, and expertise to assist countries confronted with the complexities of modern trade); *capacity building* (building the capacity of developing countries to deal with trade issues, for example, through the training of government officials); *institutional reform* (helping to create a framework of sound and well-functioning institutions for trade—in customs, quality assurance, and other areas); *infrastructure* (improving roads and ports to link the poor and the goods they produce to markets through investment in infrastructure); and *assistance with adjustment costs*: fiscal support and policy advice to help countries cope with any transitional adjustment costs from liberalization. Analysed above, AfT in the perspective of West Africa has to do more with relieving production and supply capacity constraints even though the short term adjustment costs is also quite relevant to defray with AfT.

In terms of measurement, though the OECD aid data on AfT, which is a database covering around 90% of all ODA, uses the WTO Task Force definition and composition of aid for trade, it does not exactly match the Task Force definition of aid-for-trade categories which include (a) technical assistance for trade policy and regulations (e.g. helping countries

to develop trade strategies, negotiate trade agreements, and implement their outcomes); (b) trade-related infrastructure (e.g. building roads, ports, and telecommunications networks to connect domestic markets to the global economy); (c) productive capacity building, including trade development (e.g. supporting the private sector to exploit their comparative advantages and diversify their exports); (d) trade-related adjustment (e.g. helping developing countries with the costs associated with trade liberalisation, such as tariff reductions, preference erosion, or declining terms of trade); and, (e) other trade-related needs, if identified as trade-related development priorities in partner countries' national development strategies. Rather, the Creditor Reporting System (CRS) provides proxies broadly defined as: i) technical assistance for trade policy and regulations (trade policy and administrative management, trade facilitation, regional trade agreements, multilateral trade negotiations, and, trade education/training); ii) economic infrastructure (communications, energy, transport and storage); iii) productive capacity building (these are production activities deemed to contribute "principally" or "significantly" to trade development); and iv) trade-related adjustment (*budget* contributions to assist the implementation of trade reforms, adjustments to trade policy measures by other countries, and balance-of-payments shortfalls arising from increased trade). The CRS data are a reclassification of normal aid into AfT and are analysed in what follows.

Tables 1 and 2 shows the trends of AfT commitments and disbursement to Africa by the EC and all donors. From Table 1, four types of trends are discernible. One, EC's contribution to total AfT commitments in Africa ranged between 6% and 26% and has fluctuated widely. Two, EC's contribution to total AfT disbursements in Africa ranged between 10% and 22% with moderate fluctuation between 2002 and 2004 as well as between 2005 and 2008 pointing to a better planned and delivered AfT in this latter period. Three, EC's disbursements against its commitments are in the range of 36% and 123%, indicating certain donor preferences or recipient absorptive capacity. The latter could not be justified since there is coexistence of AfT disbursements overshooting commitments in certain periods while underperforming in others. Four, the disbursements of all donors averaged 66.5% in the 2002-2008 period, outperforming EC's 63.9%. In view of the fact that there is no global threshold of AfT volume against which judgement can be made regarding its adequacy, the more important issue is the rate at which promises in terms of commitments are kept through disbursements. Given the trend of the EC's disbursements, it only improved from as low as 36% in recent times to over 60%, thereby moving towards the trend indicated by all donors.

Table 2, which shows the areas to which AfT has been targeted since 2002, it is obvious that the least important sectors to the EC are energy, business and other services, and industry while for all donors, the least important sectors consist of tourism and energy. This indication is provided by the proportion of disbursement to commitments in both the EC and all donors AfT flows. Sadly, the energy and business and other services sectors are two of the infrastructure-related sectors that hamper production and supply capacity of industry. Associated with this type of trend is whether AfT is directed to sectors which recipient countries wanted to develop or directed to those that benefit donor countries' firms exporting to recipient countries.

Table 1: Trends of AfT Commitments and Disbursement to Africa (1995-2008) US\$ million

Year	Total EC Commitment	Total All Donors Commitment	EC as a proportion of Total	Total EC Disbursement	Total All Donors Disbursement	EC as a proportion of All Donors	EC Disbursement/ Commitment	All Donors Disbursement/ Commitment
1995	469.29	4512.93	10.4	..	..	..	..	..
1996	314.59	4827.95	6.5	..	..	..	..	..
1997	319.85	4007.33	8.0	..	..	..	..	..
1998	1272.32	5271	24.1	..	..	..	..	..
1999	1222.79	4639.14	26.4	..	..	..	..	..
2000	660.92	5022.3	13.2	..	..	..	..	..
2001	773.83	5079.7	15.2	..	..	..	..	..
2002	1028.4	5351.95	19.2	371.51	3547.31	10.5	36.1	66.3
2003	1372.15	6104.55	22.5	497.89	3669.15	13.6	36.3	60.1
2004	1018.26	6690.32	15.2	628.99	4391.42	14.3	61.8	65.6
2005	1782.2	7254.59	24.6	1141.17	5228.42	21.8	64.0	72.1
2006	2046.85	8018.5	25.5	1142.76	5521.23	20.7	55.8	68.9
2007	1296.35	10813.93	12.0	1605.5	7492.01	21.4	123.8	69.3
2008	2705.36	14497.15	18.7	1883.3	9196.72	20.5	69.6	63.4

Source: computed from OECD statistical website: <http://stats.oecd.org/qwids>

Table 2: Trends of AfT Commitments and Disbursement to Africa by Components (2002-2008) US\$ million

Sector(s)	EC Commitment	EC Disbursement	All Donors Commitment	All donors Disbursement	EC Disbursement/ Commitment (%)	All Donors Disbursement/ Commitment (%)
II.1. Transport & Storage	6397.99	4652.81	20124.13	12447.36	72.7	61.9
II.2. Communications	71.28	84.91	935.3	841.43	119.1	90.0
II.3. Energy	1021.74	285.02	9603.35	5359.3	27.9	55.8
II.4. Banking & Financial Services	102.54	82.55	3808.49	3381.46	80.5	88.8
II.5. Business & Other Services	681.46	277.84	3480.34	2653.96	40.8	76.3
III.1.a. Agriculture	818.45	668.11	12166.19	8252.08	81.6	67.8
III.1.b. Forestry	59.24	63.49	725.93	643.93	107.2	88.7
III.1.c. Fishing	149.86	117.51	863.23	616.37	78.4	71.4
III.2.a. Industry	954.52	376.47	3069.92	2086.34	39.4	68.0
III.2.b. Mineral Resources & Mining	377.23	260.98	1028.24	889.04	69.2	86.5
III.3.a. Trade Policies & Regulations	577.21	365.64	2457.5	1775.9	63.3	72.3
III.3.b. Tourism	38.05	35.79	468.37	99.09	94.1	21.2

Source: computed from OECD statistical website: <http://stats.oecd.org/qwids>

The trend of EC's AfT disbursement against commitments to West Africa between 2002 and 2008 appears more superior than the trend to Africa in the same period (Table 3). While EC's average amounts to 63.9% in the case of fulfilling its promise to Africa as a whole, the average for West Africa is higher at 77.4%, in addition to the fact that it was only in 2005 that the proportion of disbursement in total AfT commitments was less than 50%. In spite of this somewhat superior performance, the trend of the total AfT flows going to West Africa as a proportion of total EC's AfT flows to Africa has consistently fallen since 2002 from around 48% to 21.6% in 2006 before rebounding to 27.2% in 2008. This trend runs counter to EC's claim that it is already providing adequate development funds for West African countries to assist them in developing their productive capacity and the EPA will not require a legal security. Indeed, the instability of the trend is an indication that the legal security sought by West Africa is needed for stability, predictability and planning apart from AfT performing its adjustment cost-defraying and development-enhancement functions.

**Table 3: Trends of EC AfT Commitments and Disbursement to West Africa (1995-2008) US\$ million**

	Total EC Commitments	Total EC Disbursement	EC West Africa/Africa Disbursement	EC Disbursement/Commitment (%)
1995	174.55	..	..	..
1996	103.32	..	..	..
1997	136.41	..	..	..
1998	189.68	..	..	..
1999	411.88	..	..	..
2000	129.48	..	..	..
2001	118.79	..	..	..
2002	230.34	178.5	48.1	77.5
2003	368.53	232.1	46.6	63.0
2004	328.82	221.4	35.2	67.3
2005	571.43	257.1	22.5	45.0
2006	288.53	247.4	21.6	85.7
2007	375.91	511.9	31.9	136.2
2008	764.74	511.5	27.2	66.9

Source: computed from OECD statistical website: <http://stats.oecd.org/qwids>

Two measures of importance are explored with respect to EC's AfT to West Africa's sectors. The first views importance in terms of the level of disbursement against commitment in each sector. Using this measure, the sectors in West Africa which appears to be of least significance to the EC are industry, fishing, business and other services as well as banking and financial services. While the energy sector appears to be more important to the EC in West Africa than in Africa as a whole, given the proportion of disbursements in

commitments, the EC over-performed by disbursing more than its commitments in the communications, trade policies and regulations as well as the tourism sectors. Unlike in tourism which is a services export sector, it is extremely difficult to discern whether the AfT in communication and trade policies and regulations sectors was provided for the purpose of enhancing production and exports or relieving supply capacity. The second measure estimates the proportion of disbursement to each sector in total disbursement shown in column 5 of Table 4. The more important sectors to the EC in West Africa, based on this measure, are transport and storage followed at a distance by agriculture, mineral resources and mining, and energy. All the other sectors do not have a share of total AfT disbursement of up to 1%. This measure reveals the fact that the disproportionate share of transport and storage (73.3%) in EC's AfT is arguably designed to stimulate and facilitate its exports into West Africa. The implication of this is that for AfT to henceforth assist West Africa to respond to market access in the EC, it needs to be redesigned along that line by providing more funds to industrial development, infrastructure, as well as business services generally.

**Table 4:** Trends of EC AfT Commitments and Disbursement to West Africa by components (2002-2008)  
US\$ million

Sector(s)	Total EC Commitment	Total EC Disbursement	EC Disbursement/Commitments (%)	Sector Importance In total Disbursement (%)
II.1. Transport & Storage	2194.96	1582.24	72.1	73.25
II.2. Communications	2.13	3.27	153.5	0.15
II.3. Energy	150.57	82.71	54.9	3.83
II.4. Banking & Financial Services	46.64	4.75	10.2	0.22
II.5. Business & Other Services	85.75	22.82	26.6	1.06
III.1.a. Agriculture	370.59	199.37	53.8	9.23
III.1.b. Forestry	8.78	6.96	79.3	0.32
III.1.c. Fishing	56.38	23.09	41.0	1.07
III.2.a. Industry	228.38	4.12	1.8	0.19
III.2.b. Mineral Resources & Mining	329.64	179.58	54.5	8.31
III.3.a. Trade Policies & Regulations	28.2	50.79	180.1	2.35
III.3.b. Tourism	0.2	0.23	115.0	0.01

Source: computed from OECD statistical website: <http://stats.oecd.org/qwids>

### 3. Literature Review

#### 3.1 Aid for Trade (AfT) or Aid to Trade (AtT): Concepts and Coverage

In view of the fact that the gains from trade liberalisation may not be realised immediately, in contrast to the instantaneous impact of trade liberalisation related adjustment costs, the gains from trade liberalisation for developing economies that lack the required

exporting infrastructure, technology and knowledge of standards required abroad, may be delayed further. AFT is therefore an instrument to enhance the flow of development finance from the rich to poor countries so as to improve the world trading system (Stiglitz and Charlton, 2006). It is usually difficult to accurately measure the gains and pains of trade liberalisation, some estimates done by Anderson (2004) established that the benefits far outweigh the cost (with a benefit/cost ratio of 24.3%) particularly if the subsidies and trade barriers reduced by half. It is partly due to this perception of the magnitude of the benefit-cost ratio that several studies attempted to assess how and the extent to which developing countries can obtain their fair share of the benefits. It has however been established that the extent to which some of these benefits can be realised by developing economies depends to a very large extent on the complementary policy actions taken to improve the investment climate, trade-related capacity building and the need to meet adjustment costs (Prowse 2005), all of which are some of the main elements of AfT. AfT can be said to encompass five major activities Nielson (2005). These are *technical assistance* (the provision of technical assistance, advice, and expertise to assist countries confronted with the complexities of modern trade); *capacity building* (building the capacity of developing countries to deal with trade issues, for example, through the training of government officials); *institutional reform* (helping to create a framework of sound and well-functioning institutions for trade—in customs, quality assurance, and other areas); *infrastructure* (improving roads and ports to link the poor and the goods they produce to markets through investment in infrastructure); and *assistance with adjustment costs*: fiscal support and policy advice to help countries cope with any transitional adjustment costs from liberalization.

Two approaches are advanced in the literature to illuminate the underlying reasons for AFT. The first considers the minimisation of the cost of trade liberalisation, which according to Stiglitz and Charlton (2006), is based on the following three arguments; aid should be given to countries that would be net losers from the Doha Round and have incentive to block its progress; developing countries should be compensated for losses arising from specific elements of the agreement, regardless of their benefits from other areas in the deal; and since developed countries are likely to gain more from free trade, AfT is a mechanism for redistribution. The second approach, however, considers the maximisation of benefits of trade liberalisation. This tries to remove the barriers to liberalisation because developing economies are often unable to take advantage of new trade opportunities due to their limited supply-side capacity (Hatsuse, 2008).

An on-going debate in the literature rages over which of these two approaches should take primacy over the other. While both approaches should be of significant interests in economic development debate, some authors view AfT more as a means of removing the current supply capacity barriers limiting developing economies' access to developed markets (Stiglitz and Charlton 2006) rather than as a compensational scheme of the cost minimisation approach. In other words, AfT should be used to promote future exports and not compensation for the loss of past exports. From long-term economic development perspective, the tendency is to ignore the short-term aspect as argued by Hatsuse (2008) and overly focus on the increased integration and liberalisation aspect. Hatsuse (ibid.) further contended that in view of the lessons of SAP which overestimated the market mechanism (benefits) at the expense of the social consequences (cost), both views are required. The author evaluated the AfT spending by Japan, EU and US and concluded that these are often directed to the benefit maximisation aspect, at the expense of the cost minimisation aspect. Worse still, there exist arbitrariness in the content and scope of AfT. For instance, USA includes aid on environment and labour issues as part of its AfT, thereby making comparisons of AfT among donors difficult. In other words, this introduces a difficulty in differentiating general aid for development from AfT. Another implication of this is that, countries can start using AfT as a mechanism for protecting their domestic industries, for example, US can ban imports on the ground of environmental and labour concerns so long as it claims to have provided aid to that regards (Hatsuse ibid.).

Another crucial issue in the literature is the idea that AfT constitutes a different initiative from development aid in general. In other words, rather than financing AfT through the cutting of existing development aid, new funds should be made available (Stiglitz and Charlton, 2006; Raihan, 2007). Since AfT arises from the need to keep trade negotiations on track and to eventually smoothen the implementation of agreement derived from such negotiations, there are arguments that the implementation costs, terms of trade losses and preference erosion suffered by vulnerable countries should be met through grants, not loans, from the benefiting countries separate from traditional official development assistance (ODA) budgets, and allocated using criteria that should not be subject to normal aid (Philips, Page and Willem te Velde 2005). This issue attempts to address the Trade Integration Mechanism (TIM) introduced by the IMF to assist member countries to meet balance of payments difficulties induced by trade liberalisation imposed by other countries which was conceived in the context of AfT.

Two closely related but different concepts that are discussed in the literature are AfT and AtT. Both deal with how aid influences trade whereas a fundamental distinction exists in how both define trade. While AfT emphasizes exports from recipients' countries, analyses of AtT focus on exports from donors' country to recipient countries. Specifically, AfT concentrates on how aid from the donor countries can be used to remove supply-constraints in the recipient country so that the latter can export more and thus integrate further into the world trading system. The reverse is the case with respect to AtT which is concerned with how the donors use aid to increase the recipient demand for donors' exports<sup>2</sup>. Since both concepts are concerned with aid and trade, the differential emphasis on the origin of export will definitely have implications on the nature of the conceptualisations of the interrelationships between aid and trade and the results obtained from exploring such relationship. It is important to state at this juncture that much of the empirical literature review is dominated by that of AtT.

### **3.2. Theoretical and Methodological Literature**

The basic theory deployed to evaluate the impact of AfT is the gravity-type theory which in its basic form uses only distance as a measure of resistance to trade. This shortcoming was later corrected with the recognition of some economic and political factors like tariff and membership of trade agreements as barriers to trade. The Anderson and vonWincoop (2003) version of the gravity model incorporates the endogeneity of prices but relied on the assumption of symmetry among countries and required a non-linear method to estimate the model. Nelson and Silva's (2008) version of gravity model relaxes these two restrictions. In the gravity model, a measure of aid is often introduced among the economic and political influences that affect the bilateral resistance to trade.

In the attempt to theoretically discern the impact of aid on trade, the literature identified both the direct and indirect channels by which aid translates to trade. The indirect channel is usually in the form of *aid-tying*, where the provision of aid is dependent upon the recipient country purchasing goods from the donor. Often, the aid is provided in the form of commodities procured in the donor country (Lloyd et al, 1998); or as export subsidy given to donor's companies seeking contracts in developing countries, or donors may direct aid towards projects in which their own industries have comparative advantage (Morrissey, 1991). Indirectly, aid may lead to economic growth in the recipient country, and this in turn

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<sup>2</sup> AfT thus appears to be more pro-recipient while AtT is more pro-donor. Since any given aid can lead to both exports and imports simultaneously, which type of aid it is becomes an empirical question to the extent that the aid which leads to more exports from developing countries is classified as AfT.

may engender increased import, including imports from donors' country (White, 1992). Moreover, in situations where aid is linked to the implementation of certain reforms, like trade liberalisation, the donors' access to the recipient's market is also enhanced (Morrissey, 1995).

All types of aid have their costs to the recipient economies through distortions. First, aid-tying can distort the process of economic growth in the recipient economy. This is because the recipients often are not given the opportunity to determine their own projects and technology and buy at the world prices and even sometimes, inefficient industries are supported (Morrissey, 1993b and Morrissey et al, 1992). Jepma (1989, 1991) documented that goods offered the recipients by donors are at low priority to the recipient and are excessively capital-intensive; depending on Western technology; and overpriced in the range of 10-40%. Secondly, aid introduces some other distortions into the recipients' economy such as distortion of domestic consumption pattern which leads to continued dependence on donor countries for aid (Llyod et al 1998); the crowding of out public investment and raising the price of investment goods (Mosley et al, 1987); and in case the donors require counterpart funds, aid leads to increased taxes and public borrowing, which can raise interest rate and crowd-out private sector investment (White and McGillivray, 1992). It is within this context that Garcia (2006) stated that given the fact that AfT is likely to rise, LDCs will face challenges in the form of how to maintain a stable macroeconomic framework when an increasing share of their economies are financed by multiple and volatile sources of external assistance.

Thirdly, increasing disincentives to mobilise domestic resources is also expected, making it necessary to pay attention to the absorption capacity of LDCs to aid as studies have shown that increased aid can be counterproductive if the aid-GDP ratio exceeds certain level (Collier and Dollar, 2002). AfT recipients should also recognise that they are under obligation to liberalise their economies, a situation which can make aid alter their long run development goal away from their development priorities unrelated to trade liberalisation (Raihan, 2007). Finally, Rajan and Subramanian (2005) and Page (2007) identified the likely occurrence of Dutch disease as AfT flows possess a high probability to cause currency appreciation and lower export competitiveness in recipient countries.

In terms of the methodology that has been employed so far, both ordinary least squares and panel regressions have been deployed to estimate gravity models in which the aid variable has been introduced. The need for panel regression is justified by the shortness of the

time series data available for many developing countries. Worse still is the possibility of scanty data if the panel regression is set up to evaluate pair-wise aid flows between countries. Osei et. al (2004) use the within group and generalised least squares (GLS) techniques of panel regressions while Nelson and Silva (2008) use the OLS regression technique.

### **3.3 Impact of aid on trade**

It is necessary to mention upfront that, so far, most empirical works on the link between aid and trade concentrate on the AfT which focus on how aid influences recipients' demand for donors' exports. Empirical studies on AfT are still rare perhaps because AfT discussion is at its infancy and available data is not robust yet to carry out needed empirical evaluations. Notwithstanding this shortcoming, it is possible to learn and borrow ideas from the AfT literature for future impact assessments of AfT flows. That said, several studies has established that trade is aid-dependent. Morrissey (1993b), using pair-wise data for France, Germany and the UK as donors, found that both France and UK used aid to increase their exports to 36 African recipient countries in the period 1969-1992.

Furthermore, Nilsson (1997) tested for an aid-trade link between the EU as donor and all recipients, by estimating a gravity trade model containing aid variable and found that a \$100 increase in EU bilateral aid is associated with a \$260 increase in EU exports. A similar study by Wagner (2003) estimated that \$100 of aid generates \$185 exports from the donor to the recipient country. The study by Nelson and Silva (2008) which modifies the Anderson and vanWincoop (2003) gravity model found a much lower trade created by aid, as \$100 of aid generates \$1.2 of trade. The recognition of the role of multilateral trade resistance variable, introduced by Anderson and vonWincoop (2003), which is absent from standard gravity model is key to explaining this lower export response to aid.

Osei et al (2004) dealt with the issue of pooling countries with different time series properties together in the econometric work which affects the nature of relationship between aid and trade. Using pairwise data (donor-recipient pair) from a sample comprising four European donors and 26 African recipient over the period 1969 to 1995, where trade Granger-causes aid to test the aid allocation hypothesis and use cases where aid Granger-causes trade to test impact of aid on trade hypothesis, they found that the sample of donor-recipient pairs for which aid is found to Granger-cause trade performs better than the pooled sample. This is done from the perspective that the relationship between aid and trade may be

bilateral, that is, aid affecting trade and/or trade affecting trade, such that in a given panel, the observed aggregate relationship will depend on which of these effects dominates. From their results, there is a general tendency for imports volumes to increase as aid declines. A likely explanation is that imports decline and aid increases as the economy is stagnant. The indirect relationship between aid and trade was evaluated by Gomanee et al (2002) who identified investment and imports as the main transmission mechanisms through which aid affect growth in 24 SSA countries in the period 1970-1997.

The major lessons learnt from the AfT literature so far are two-fold. One, aid creates trade while the nature of relationship between the two may be bi-directional. Two, economies that receive aid are likely to give back more in terms of imports from donors as they import more. It is almost certain that the way that AfT is currently structured will lead to increased imports as recipients need to import resources needed to build local capacity from donor countries.

### **3.4. Effectiveness of AfT**

The Paris Declaration on Aid Effectiveness provides a standard global framework with respect to how to make aid effective. Two papers, OECD (2005a) and Marti and Rampa (2007), provide some principles and lessons from existing Trade-Related Assistance facilities. Garcia (2006) summarises the Paris Declaration on Aid Effectiveness in five points as follows:

*i) Ownership.* The development community will respect the right and responsibility of the partner country to exercise effective leadership over its development policies and strategies, and coordinate development actions.

*ii) Alignment.* Donors will align their development assistance with the development priorities and results-oriented strategies set out by the partner country. In delivering this assistance, donors will progressively depend on partner countries' own systems, providing capacity-building support to improve these systems, rather than establishing parallel systems of their own. Partner countries will undertake the necessary reforms that would enable donors to rely on their country systems.

*iii) Harmonisation.* Donors will implement good practice principles in development assistance delivery. They will streamline and harmonise their policies, procedures, and practices; intensify delegated cooperation; increase the flexibility of country-based staff to

manage country programmes and projects more effectively; and develop incentives within their agencies to foster management and staff recognition of the benefits of harmonisation.

iv) *Managing for Results*. Partner countries will embrace the principles of managing for results, starting with their own results-oriented strategies and continuing to focus on results at all stages of the development cycle – from planning through implementation to evaluation. Donors will rely on and support partner countries’ own priorities, objectives, and results, and work in coordination with other donors to strengthen partner countries’ institutions, systems, and capabilities to plan and implement projects and programmes, report on results, and evaluate their development processes and outcomes (avoiding parallel donor-driven mechanisms).

v) *Mutual accountability*. Donors and partners are committed to enhance mutual accountability and transparency in the use of development resources. Partner countries will reinforce participatory processes by systematically involving a broad range of development partners when formulating and assessing progress in the implementation of national development strategies. Donors will provide timely, transparent and comprehensive information on aid flows.

Marti and Rampa (2007) provide twenty principles based on lessons from existing Trade-Related Assistance facilities so as to make AfT effective. These are shown in Table 5 under three broad categories; underlying principles of AfT, improving the demand and supply of AfT during design phases, and, improving the management of delivery of AfT.

<b>Underlying principles of AfT</b>	1. AfT should be based on a partnership approach whereby the parties choose aid and trade as instruments to achieve common objectives and do not consider aid as donor compensation (or conditionality) for trade liberalisation by the recipient country.
	2. AfT should be aligned to the trade priorities endogenously set by developing countries and rooted within their overall national development plans.
	3. Any AfT initiative should concretely reflect full ownership of the interventions by all relevant stakeholders in the beneficiary countries.
	4. Capacity building in the context of AfT should include both long-term and short-term interventions with a focus on participation and endogenous change.
<b>Improving demand &amp; supply of AfT during design phases</b>	5. Multi-stakeholder involvement towards a large consensus around the projects to be implemented, with adequate balance between inclusiveness and efficiency, can boost the credibility of the AfT initiative.
	6. AfT objectives must match existing delivery instruments and actually available resources; donors should avoid re-labelling existing aid and raising unrealistic expectations.
	7. Recognition that trade can make a vital contribution to development should be matched by a broad scope of AfT programmes and the policy decision by donors to support trade reforms in developing countries with substantial levels of predictable funding.
	8. The broader the scope of interventions the more important the proper articulation, definition, timing and reporting of AfT initiatives.
	9. AfT interventions should integrate regional priorities without losing focus on national-level interventions.
	10. AfT country and regional interventions should be designed through thorough diagnostic analyses.

Improving the management & delivery of AFT	11. Given the possibly large amounts disbursed and numbers of donors, beneficiaries and projects, AFT should be subject to regular evaluation and improvement through formal monitoring and review processes.
	12. A solid institutional architecture is fundamentally important, especially with regard to the wide scope of activities carried out under the AFT initiative.
	13. Several different types of stakeholders need to be closely involved in the programming, delivery and evaluation of AFT.
	14. Country-level and sub-regional- level management plays as important a role as global-level governing bodies.
	15. With regard to the multi-actor and multi-level dimension of the AFT initiative, effective coordination has to be ensured (going beyond solely the exchange of information).
	16. Complementarity and coherence of AFT interventions should be guaranteed through joint programming and each donor's role defined on the basis of expertise and comparative advantages.
	17. AFT resources must be commensurate with objectives and made predictable as well as timely and effectively available.
	18. Support under the AFT initiative should not lead to indebtedness in the recipient countries.
	19. Modalities for AFT disbursement must be flexible and user-friendly to ensure the timely and effective delivery of aid (e.g. use of budget support and locally owned management procedures).
	20. Adequate procedures for timely and efficient delivery of AFT may require improvements both on the donor side and on the recipient side.

Source: Marti and Rampa (2007)

Future empirical research on the impact and effectiveness of AfT must recognise that the nature of results obtained will largely depend on the reason for which the AfT is provided (whether for compensational or capacity building) and the realisation that while AfT funds may be for export expansion, a spillover to import expansion (AtT) is inevitable. This is induced by the fact that the short term dimension of aid for trade may really be related more to expanding donor countries' exports to the recipient countries, buttressed by the fact that what is currently regarded as AfT is masquerading existing normal aid data into AfT data. For developing countries, the net benefit should be in the context of increasing exports and helping to improve supply capacities.

Given that the required total shift in paradigm from AtT to AfT is not likely to occur, Table 6 predicts one of the many relationships that may exist between AfT and AtT. Column 1 and 2 indicate when AfT is compensational or targeted at capacity building. Row A reveals how AfT flows directly affects recipients' imports, and row B shows that these flows influence imports into recipients' country indirectly. Row A additionally shows the conditions under which AfT may directly find its way back into the donors' economy while row B depicts how donors' countries will indirectly gain from AfT given to developing economies. The final payoffs to the AfT recipient depend on whether the donors are satisfied with the indirect benefits accrued to them from AfT or they will take a more proactive stand by manipulating where the AfT is targeted (i.e. playing in row A). Since every cell in the table has its respective costs and benefits to both the donor and recipient, the final impact and effectiveness of AfT will depend upon the probability of elements in each cell occurring. The

principles given in the Paris Declaration on Aid Effectiveness (OECD, 2005a) and Marti and Rampa (2007) on Table 5 can be said to target reducing the probability of the donor country playing in row A.

**Table 6: The future of AtT and AfT**

		AfT	
		1. Compensational	2. Capacity Building
AtT	A. Direct	a. Donors prefer to compensate developing countries that also purchase their own exports. b. Compensation made in the form of commodities produced in donors' country c. Compensation given to sectors that are dominated by donors' companies	a. Donors prefer to build the capacity of developing countries that also purchase their own exports. b. Capacity building made in the form of commodities produced in donors' country c. Capacity building in sectors that are dominated by donors' companies
	B. Indirect	a. Compensation raises national income which in turn raises imports generally, including those from donors' country	a. Aid on capacity building frees some resources which were hitherto used locally for that purpose. Part of these resources can now be used to increase imports. b. Capacity building raises exports and export-led growth occurs. Imports can generally increase.

Source: Authors' compilation

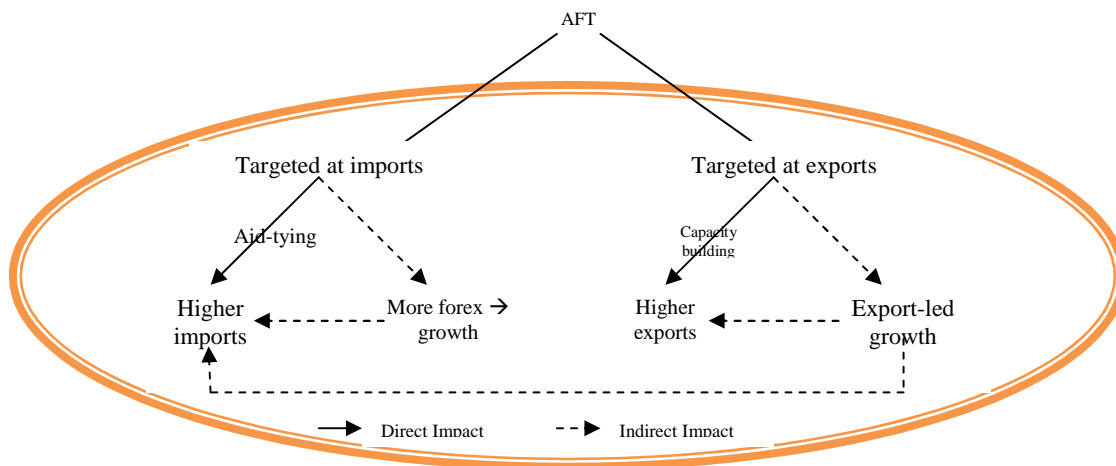
#### 4. Analytical Framework and Methodology: Assessment of Impact and effectiveness of AFT in support of regional integration in WA

In order to analyse the impact and effectiveness of AfT, it is conceived to be different from general development aid. Therefore, AfT is concerned with how developed countries can assist developing countries to be more convinced about the global benefits of trade liberalisation in particular and in the current international trading system and therefore engage in more trade. This increased engagement is defined as increasing both exports and imports, most likely raising imports in the short run and exports in the long run because short run AfT flows address short term compensational activities while long run AfT flows are targeted at increasing export supply response capacity. AfT emphasizes trade, hence its direct and indirect impacts are expected to unequivocally manifest on trade but the impact on other macroeconomic variables may also matter; these are held constant in this framework. Figure 3 shows the relationships, with the oval representing the case where AfT flows are targeted at both raising imports in the short run into, and export in the long term from, developing countries.

Short term compensational AfT flows are targeted at imports with the expectations that through AfT-tying, it will directly lead to increased imports by the recipient country from the donor country. In contrast, long-term AfT flows directly target increasing the recipient developing countries' exports through supply response capacity building which will eventually lead to increased market access to donor countries and hence increased export

growth. This AfT thus indirectly leads to an export-led growth, increased foreign exchange earnings, and also a rise in imports in the long run. Hence, AfT has a double impact on imports, the short run and long run impacts whereas it has a once-for-all initial long run impact on recipient country exports which translates into an export-led growth in the longer term.

Figure 3: Analytical Framework of AfT in Recipient country



How might the short- and long-term impacts of AfT flows affect regional integration, which is the focus of this paper? To the extent that imports from donor country will rise in the short run, intra-regional trade will likely fall as recipients import more from donors. Because imports from the donor will also rise (may be at a slower rate) in the long term, intra-regional trade will also likely fall. This however, is likely to be moderated by the long term increase in the export of recipient country through enhanced export supply capacity. Part of the increased exports will be directed towards the region given that the region is a free trade area or a customs union, since the cost of exporting to countries within the region should be lower than that of exporting to countries outside it. Thus, it is expected that intra-regional exports will fall in the short run and increase moderately in the long run.

The above analytical framework should be articulated in a gravity equation that introduces AfT flows from the EU as one of the explanatory variables and estimated through a panel data regression. The particular estimation technique will depend on the frequency of observed data and the number of years for which the data is available. The AfT disbursement data is available from 2002 to 2008 but there are many empty cells in each West African country's data set. This rules out analysis based on donor-recipient pair of AfT flows, while

the short span of period for which data is available limits the type of analysis that can be done. For example, an error correction specification and estimation may be required to tie the short run effect of AfT to its long term impact on exports. Given these observed limitation of the data, this paper restricts its analysis to correlation between AfT and trade flows.

In terms of the expected results, in the case of regional trade, AfT should be negatively correlated with intra-regional exports in the short run and be positively correlated with regional exports in the long run at a moderately high correlation coefficient. This regional integration impact of AfT flows is a derivation of the primary impact of AfT flows on exports and imports generally depicted in Figure 3. Primarily, AfT flows are expected to be highly positively correlated with regional imports from the EU in the short and long run but at a lower correlation coefficient in the long run. Also, AfT flows are expected to be negatively correlated with regional exports to the EU in the short term and positively correlated with exports in the long run but with a lower correlation coefficient. The expected results with respect to AfT and regional integration are assessed in what follows.

## **5. Data Analysis**

### **5.1 Trend and Correlation**

Two approaches are adopted in the data analysis section. The first relates to the impact of AfT on regional integration through the examination of the association of the trend of regional exports with that of AfT. Secondly, the issue of AfT effectiveness is evaluated by analysing whether the effectiveness principles are reflected in the process and framework of the EPA Development programme, done through effecting a content analysis of the EPADP template. Figure 4 shows trends of EC AfT flows and West African intra-regional exports over 2002-2008 period. Three groups of countries are distinguished from the observed association of the trends. The first group comprise of those countries with opposing trends between AfT flows received and exports in the short term defined to cover 2002-2005 period. These are Burkina Faso, Cape Verde, Guinea and Sierra Leone. The second group is made up of those countries with ambiguous trends between AfT flows received and exports in the short term namely, Benin, Ghana, Gambia, Niger and Nigeria, Cote d'Ivoire, Guinea Bissau, Senegal and Togo. Mali is the only country which features similar trends of AfT flows and exports in the short period. Many of the West African countries record similar trends between

their AfT inflows and exports in the long term defined to cover the period 2005-2008. These countries are Benin, Ghana, Gambia, Niger and Nigeria, Burkina Faso, Cape Verde, Mali Senegal and Togo. Only Cote d'Ivoire, Guinea, Guinea Bissau and Sierra Leone do not have similar trends in two these variables in the long term. These trends almost correspond with expected association between AfT flows and intra-regional export posited above. In the presence of limited data, simple correlation analysis was done to support the observed trends in Figure 4.

Figure 4: Trends of EC AfT flows and West African Intra-regional exports

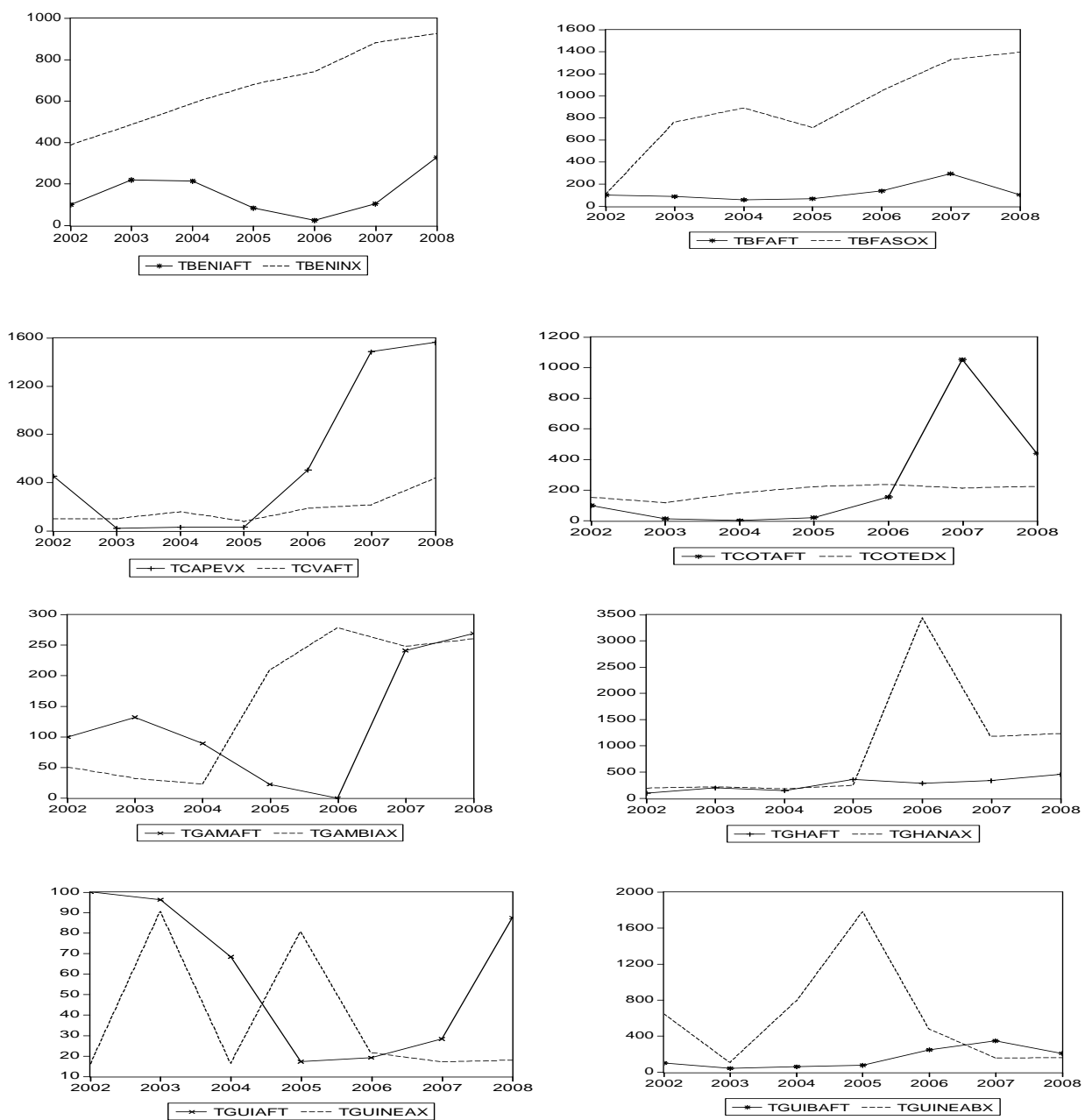


Figure 4 Cont'd: Trends of EC AfT flows and West African Intra-regional exports

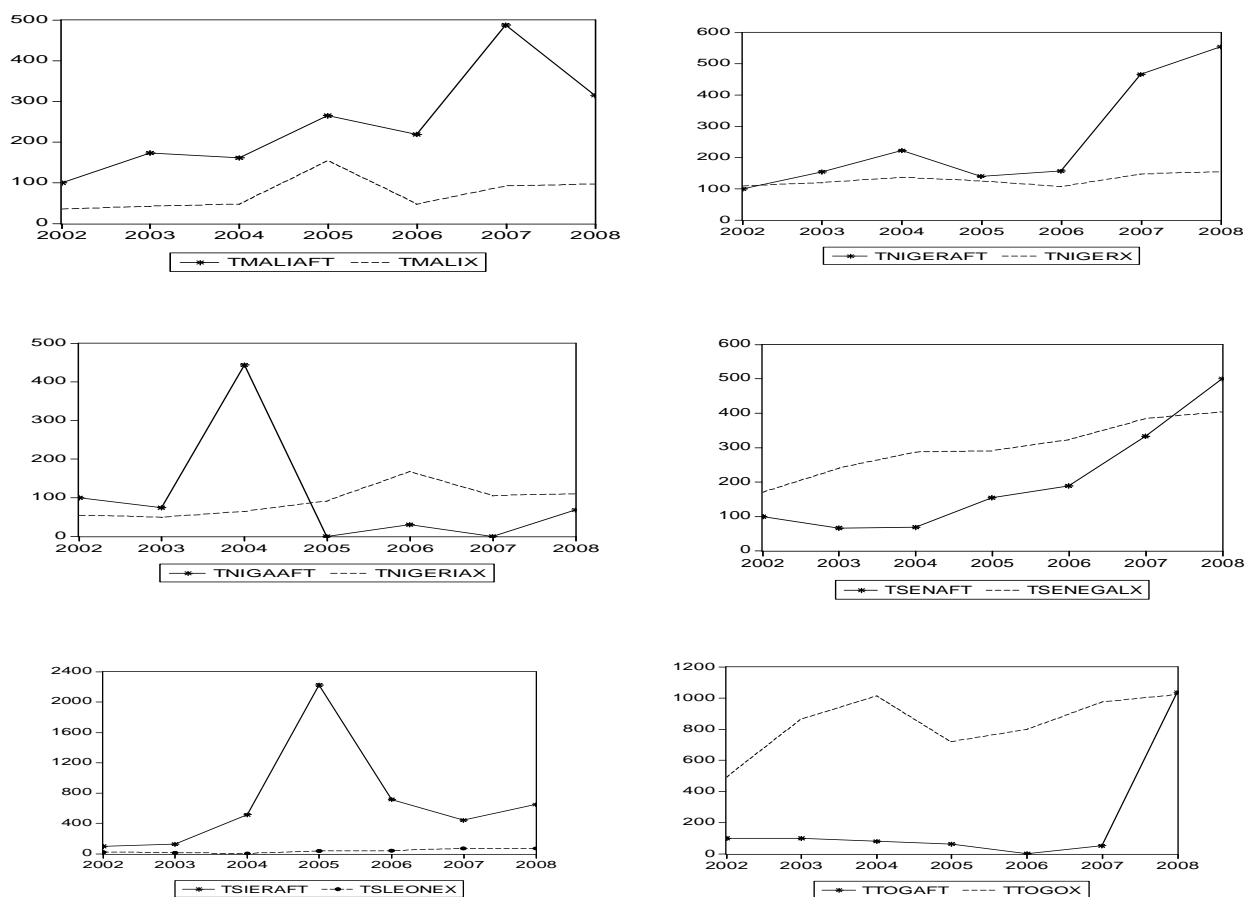


Table 7 shows that eight countries have negative correlation between AfT inflow and exports (Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Guinea Bissau, Nigeria and Togo) while six have positive association between the two variables in the short term. In contrast, positive association between AfT inflow and exports was computed with respect to six countries (Ghana, Guinea, Mali, Niger, Senegal and Sierra Leone). The results of the exercise for the long term shows that eleven countries record a positive relationship between AfT inflows and exports while the remaining three countries, Guinea, Guinea Bissau, and Nigeria record negative association for the two variables. For eight of the countries with positive correlation, the coefficient can be considered low, offering an indication that even in the long term, AfT would induce some imports as it generates more exports. These results indicate that building production, supply and export capacities of West African firms

and farms through AfT is likely to increase their exports in the long run as posited, while in the short run, it is imports that are likely to increase. These are expected to hold also in econometric work that should be conducted when real AfT data are more available.

**Table 7: Correlation between AfT flows and intra-regional Exports**

	Short term	Long term
Benin	-0.07	0.2
Burkina Faso	-0.84	0.5
Cape Verde	-0.17	0.8
Cote d'Ivoire	-0.19	0.4
Gambia	-0.91	0.2
Ghana	0.92	0.4
Guinea Bissau	-0.33	-0.4
Guinea	0.42	-0.02
Mali	0.91	0.6
Niger	0.96	0.9
Nigeria	-0.21	-0.4
Senegal	0.19	0.8
Sierra Leone	0.67	0.1
Togo	-0.26	0.4

Source: computed by authors

## 5.2 AfT Effectiveness towards West African Integration

The effectiveness of AfT may not totally be separated from its impacts as it is expected that positive effects should be of high value or usefulness to recipient economies. In other words, whether AfT is effective or not is a function of its impacts, such that the efficacy of AfT may be derived from the nature of aid on the economy. Nonetheless, a separate treatment of effectiveness of AfT is required to first assess whether and the degree to which AfT aligns with the enunciated principles of normal ODA flows and to secondly ensure that these flows achieve the set objectives designed for them in terms of meeting their target of assisting in the areas of short term compensation of losses and long term economic development through infrastructure enhancement and capacity building for exports.

The EPADP which is designed to ensure that the EPA assuredly becomes a development-oriented agreement that seeks to enable the region to take advantage of the opportunities offered by the Economic Partnership Agreement (EPA) and to mitigate the potential adverse effects remains in contention. Negotiations continue with respect to the magnitude of required funding and its financing between the EC and West Africa. For instance, due to its perspective on the security of the EPADP, WA has included in the EPA text an article "to link the implementation of its commitments within the framework of liberalization and

progress achieved in improving competitiveness and the region's productive capacities on the one hand, and the support of program costs by the EC, on the other". The EC is of the view that making such a link is impossible and has proposed a replacement "to examine the synergy between the implementation of WA commitments and improving competitiveness". Regarding the specific issue of funding and financing through additional resources, which the EC is opposed to, WA proposed a new formulation that "the EC and its Member States undertake to provide necessary funding (instead of additional funding) to implement the development dimension of the EPA". At a regional workshop in Abuja on 15 and 16 October 2009, organised to discuss deepening WA's integration process and the financing of the EPADP, attended by the ECOWAS, UEMOA and European Commissions as well as National Authorising Officers of the European Development Fund (EDF), both parties reiterated their mutual commitments to conform with national and regional cooperation strategies, the Millennium Development Goal Declaration and the Paris Declaration on Aid Efficiency. The EPADP presents a coherent framework for implementation of priority activities in different sectors covering many issues or axis. Preliminary calculations undertaken by the European Commission Departments suggests that the level of likely support is in excess of 3 billion Euros, compared to current EU pledges whereas the proposed commitments on AfT from European Union donors may reach 8.5 billion Euros for the first five years.

The process involved in the evolution of the EPADP appears to respect the first two indicators of aid effectiveness, *ownership and alignment*. This is due to the fact that WA countries are solely responsible for the formulation of projects and programmes in the EPADP which are tapped from the countries' various national development plans and medium term sector strategies (Bankole 2009). The problem related to this is whether the budgeting system which will derive estimates for the country projects are consistent with best practice such as employing zero-based budgeting instead of incremental budgeting. The next criterion, *harmonisation* is the responsibility of the donors and will depend on the objectives for which AfT is provided while implementation is fully dependent on donors' political will and commitments. If donors mindset regarding AfT is to substantially create market for donor country firms, this will affect AfT delivery in an environment that seek to assist developing countries to increase exports. *Managing for results*, the next effectiveness criterion, is the responsibility of AfT beneficiary countries, the success of which is a function of the socioeconomic and political environment and governance problems as well as the willingness to remove the constraints through reforms to make the use of AfT undergo planning, implementation, monitoring and evaluation. The fifth criterion, *mutual accountability* is related to the fourth as it emphasises accountability and transparency as well as participatory processes in the use of development resources.

With regard to the content analysis of the EPADP, Table 8 shows the broad proposed intervention areas of the programme which we categorise as either attracting AfT flows for short term compensational projects and programmes or for long term systemic capacity building designed for the alleviation of production and supply constraints. A substantial portion of the broad areas are those related to short term compensational projects (17 line items) in contrast to long term capacity building projects (11line items). The nature of projects that will receive funding from the EPADP pool depends to a large extent on country priorities and the management structure of the fund. It is suspected that if normal ODA is simply channelled into AfT and judging by the fact that the EC is not inclined to increase traditional aid but to re-categorised it into AfT, more of the short term compensational projects will be focused at the expense of long term infrastructure and capacity building projects. The implication of this is that the observed trend in AfT flows will continue in the future while fully beneficial regional integration happening in the short term is jeopardised.

**Table 8: Broad Intervention Areas of EPADP**

Code Component	Code Activity	Component/Activity	Short term Compensational	Long term Capacity building
<b>AXE 1: Diversification and enhancement of productive capacities</b>				
R1C1		Structuring and upgrading the industry and related services		X
R1C2		Promotion and development of the agricultural sectors, farms and water supply facilities for the production		X
R1C3		Support for the development of cottage industry		X
R1C4		Support the development of priority services		X
R1C5		Promotion of private investment and business development		X
R1C6		Development of the capacities of the services and institutions to support companies and promote partnership		X
R1C7		Support scientific research, innovation and the development of technologies		X
R1C8		Support the training and strengthening of human resources		X
<b>AXE 2 Development of intra-regional trade and facilitation of access to international markets</b>				
R2C1		Implementation of the customs union which is operational, trade facilitation	X	
R2 C2		Support to the application of (OTC/SPS) standards conformity	X	
R2C3		Backing up the promotion of exportations	X	
R2C4		Strengthening of trade capacities in order to approve and control trade policies and regulations	X	
R2C5		Support for the improvement of the performance of the logistical chain in West Africa's trade	X	
<b>AXE 3 : Development and strengthening of trade related infrastructure of nationals and the region</b>				
R3C1		Building production capacities, transmission and reliable quality energy distribution at low price		X
R3C2		Rehabilitating and developing road network for a better access to markets		X
R3C3		Rehabilitating and developing railway network for a better access to markets		X
R3C4		Supporting to improve telecommunications systems to strengthen the relation of economic and market agents	X	
<b>AXE 4 : Making the required adjustment and taking into account other trade related needs</b>				
R4C1		Reinforcing macro-economic stability including the multilateral system of surveillance	X	
R4C2		Reinforcing regional statistical systems	X	
R4C3		Support the tax transition and compensations	X	
R4C4		Support for public service reforms	X	
R4C5		Support for social reforms (Implementation of a project for the management of EPA social transition)	X	
R4C6		Capacity building in the area of competition	X	
R4C7		Capacity building in the domain of intellectual property	X	

R4C8		Establishment of trade defence instruments	X	
Axe 5 : Implementation and monitoring and evaluation of the EPA by the West Africa region				
R5C1		Good governance partnerships supported by civil society are developed	X	
R5C2		Institutional and technical support for the implementation of the agreement made by WA regional	X	
R5C3		Creating and operationalizing the Competiveness Observatory	X	
		Total Count	17	11

Source: ECOWAS EPADP Template

## 6. Summary and Conclusion

This paper investigated whether and the extent to which AfT will assist regional integration in West Africa which has had a long history of efforts to increase trade and cross-border monetary activities within the region, through the ETLS, CET, customs union, and establishing criteria for macroeconomic convergence toward the single and second currency zones. In effect, it conducted trend analysis of intra-West African exports as well as of AfT from the EC to West African countries over a period covering 1996 to 2008. The paper predicted that West African intra-regional exports will fall with increasing AfT in the short term while intra-regional exports will moderately increase in the long term. The findings from the paper's analysis show that total intra-regional export trends between 1996 and 2000 decreased until 2001 when it rose consecutively before falling back in 2006 after which it recovered. This trend was replicated to an extent by the trend of exports of Ghana, Mali and more by Nigeria. Benin, Senegal and Togo recorded consistently rising exports to the ECOWAS region while Burkina Faso, Cote d'Ivoire, Ghana and Togo recorded occasional export decrease during the period. For most countries, sustained increase of intra-regional exports commenced between 2000 and 2002. Despite this almost encouraging trend later in the period of analysis, the contribution of Cape Verde, Gambia, Guinea Bissau, and Sierra Leone to total regional exports was quite negligible. Nigeria contributed the most to intra-regional exports followed by Cote d'Ivoire, Ghana and Senegal. However, Nigeria's contribution and those of Guinea, Mali and Niger dwindled in the second period while those of Cote d'Ivoire, Ghana Senegal and Togo increased.

Analysed CRS data which appear to be a reclassification of normal aid data into AfT indicate that EC's AfT disbursement against commitments to West Africa between 2002 and 2008 appears more superior than that to Africa in the same period. But, despite this somewhat superior performance, the total AfT flows going to West Africa as a proportion of total EC's AfT flows to Africa consistently fell from around 48% in 2002. This trend runs counter to EC's claim that it is already providing adequate development funds to West African countries to assist them in developing their productive capacity and that the EPA funding will not require a legal security. Analysis also shows that transport and storage followed at a distance

by agriculture, mineral resources and mining, and energy are the important sectors to the EC in West Africa where it has targeted most AfT funds.

In the analysis of association between AfT flows and intra-regional exports conducted, three groups of countries are distinguished. The first group comprise of Burkina Faso, Cape Verde, Guinea and Sierra Leone which have opposing trends between AfT flows received and their exports in the short term. In the second group are Benin, Ghana, Gambia, Niger and Nigeria, Cote d'Ivoire, Guinea Bissau, Senegal and Togo which record ambiguous trends between AfT flows received and exports in the short term. Only Mali features similar trends of AfT flows and exports in the short period. Benin, Ghana, Gambia, Niger and Nigeria, Burkina Faso, Cape Verde, Mali Senegal and Togo record similar trends between their AfT inflows and exports in the long term, while Cote d'Ivoire, Guinea, Guinea Bissau and Sierra Leone do not have similar trends in two these variables in the long term. The correlation coefficients confirm these short and long term trends of AfT and intra-regional exports. In the discussion relating to the issue of effectiveness, it was shown that in part, much depends on the objectives for which AfT is provided by the donors, and their political will and commitments; and also on the willingness of beneficiary countries to remove their the required governance-related constraints through reforms to make the use of AfT undergo planning, implementation, monitoring and evaluation.

There are several policy implications of the findings for West Africa. The first relates to the issue of data. West Africa should be assisted as a way forward in this area to set up mechanism to collect, collate and publish AfT data to reduce dependence on OECD data which are collected to serve particular purposes of the constituent countries. Efforts directed at this by collaboration of African institutions such as ECA, AfDB and African Union should strengthen the capacity to increase analysis in this area particularly given the importance of development funding in the EPAs. Second, the assessment of the relationship between AfT and trade has so far been conducted from the perspective of developed countries' analysts and as such gives little recognition to the needs and perception of West Africa. This may be as a result of inadequate data and capacity to do such analysis thus requiring capacity building assistance to build a cohort of West African analysts for future AfT analyses, monitoring and evaluation. These analyses will need to employ more scientific approach to discern the relationship between EC AfT and intra regional trade. Third, West Africa need not depend too heavily on EC AfT to alleviate supply capacity in the short term as this objective may only be achieved in the long run with EC AfT. As such, it may be necessary to dilute the short term impact of EC AfT in the short run by seeking AfT from other sources such as from

richer member countries in West Africa. Fourth, the instability of the AfT from the EC buttresses the need for legal security of the EPADP sought by West Africa otherwise the instability and unpredictability of AfT may be more injurious than the volume of the flows. Finally, the disproportionate share of transport and storage in total EC's AfT to West Africa appears to have been designed to stimulate and facilitate its exports into West Africa with the implication that for AfT to henceforth assist West Africa to respond to market access in the EC, it needs to be redesigned along that line by providing more funds to industrial development, infrastructure, as well as business services generally.

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