



**ECONOMIC COMMISSION FOR AFRICA**

*Aid for Trade*

*Moving the Agenda of the Initiative Forward for Benefit of  
African Countries*

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Conference**

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Aid for Trade: Regional Perspectives**

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### **The consensus on openness and what Africa must do to benefit**

In my welcoming remarks, I have touched on the importance of the Aid for Trade initiative and the urgent need for us to move the initiative to the next level. That is to move from the awareness phase to actual implementation. That is why in this presentation, I wish to touch on the consensus in the region on the initiative and conclude by a call to the member states and the regional economic communities to urgently prepare specific projects for AFT. But at the same time, the international partners should also specify what resources are available for the AFT priorities. Let me now turn to the outline of the presentation, which is as follows:

- Highlight first the importance of Africa's global integration and existing consensus that trade openness is not enough.
- Why AFT is important for Africa's integration.
- How the AFT responds to Africa's trade challenges.
- Africa's AFT priorities.
- How to assure success of AFT in Africa.
- ECA's strategy for AFT in Africa and its activity clusters.
- ECA's action plan for 2008, indicating areas where RECs and member states could seek support.
- Conclusion with an emphasis of how to make AFT real and tangible in Africa.

### **The consensus on openness and what Africa must do to benefit**

There is consensus that the process of globalisation is bound to continue and deepen further. As this takes place, there is real danger that Africa will remain in the periphery unless there are concerted efforts to make sure that this marginalisation does not continue.

In deed, Africa's integration to the global economy remains a central objective of countries in the continent. There are several reasons why this is important. First, deeper integration in the global economy will lead to more trade and investments. This will help generate necessary resources for investment in social priorities. Second, the small size of national and even sub-regional markets mean that countries do not have the required condition for exploiting economies of scale, necessary to build competitive industries. Integration to the global economy will provide this larger economic and market space upon which competitive African production and exports can be build.

The integration through trade also means that African economies will have to continue with the openness policy. This means they will have to continue with

trade reforms even as they aim to exploit market access in the rest of the world. Yet, while trade reforms leading to a more open trading system are indispensable given the globalisation process, openness is not sufficient. African countries will need to strengthen their supply side capacities, reduce trading costs and improve connectivity to regional and international markets. Moreover, they will need to address internal barriers such as those caused by poor infrastructure, inefficient customs, unreliable supply chains and other costs that hinder competitiveness.

### **Why Aid for Trade is imperative for Africa's integration in the global economy**

AFT matters for Africa because the region's integration is critical to the realisation of the benefits of globalisation. Aid for Trade is supposed to be a complementary catalyst for this integration. There are two key reasons I can highlight to demonstrate why we must make AFT to work:

First, our continent has registered improved growth rates and the African economy is projected to grow by at least 6% this year. But despite these impressive growth rates, Africa still lags behind other regions in realising the benefits of globalisation. The concerns about growth collapse or a relapse to weak economic growth are founded and it is for this reason why AFT must play the role of strengthening the trade pillar in Africa's development process. This is linked to the second reason, which is, African countries consider trade to be of central importance to achievement of Africa's development goals. But for trade to play this role of being a development pillar, countries must be able to address the challenges they face in production and trading with each other and with the rest of the world.

There are many trade challenges that face Africa. And we like categorising them as internal and external challenges. Through the multilateral trade negotiations for instance, we address the external trade challenges, which try to achieve more equitable and fair trading rules in addition to improved market access. Aid for Trade on the other hand is crucial to tackling the external trade challenges, examples of which I address below.

### **How does AFT respond to Africa trade challenges?**

An important aspect of the AFT and which makes it attractive if we can make it work is the scope of the trade challenges in developing countries that it seeks to address. Let me highlight some of the challenges, which if it addresses as given in its scope will have a positive impact on Africa's trade prospects:

- **Constraints to trade policy and regulations:** Many African countries have been making efforts to ensure that trade policies and regulations are mainstreamed in their development strategies. AFT promises to deepen this process.

- **Constraints to trade development:** Enterprises in Africa continue to face difficulties related to lack of business development support. AFT promises to help in business services areas such as in trade finance and investment.
- **Weak trade-related infrastructure:** We all understand and appreciate the significance of this challenge. In deed, infrastructure constraints continue to be the key hindrance to Africa being able to exploit its trade potential. Be it the ports, roads, rail networks, and ICT infrastructure among others, African trade potential is limited by weak and inefficient infrastructure. AFT promises to finance development of this trade-related infrastructure.
- **Lack of production and export diversification:** The refrain over the last four decades has been the concern by policy makers on the lack of diversification in African economies. That the AFT promises to help countries and sub-regions build productive capacity for diversification is a much welcome development element of the initiative.
- **High adjustment costs to trade reforms:** Even as African countries recognise the centrality of trade in sustained economic growth, many have experienced situations where economic and social costs of trade reforms are high for small economies. As a matter of fact, many countries realise the beneficial impacts of more trade, but they are hesitant to go deep enough in the context of undertaking trade reforms because some of the costs, which range from loss of fiscal revenues to job losses when existing industries are unable to compete are seen to be prohibitive. AFT includes in its scope the support to countries to help them deal with some of these adjustment costs.

### **The AFT priorities for Africa**

As the challenges enumerated above suggest, there are many challenging areas where AFT, if it was infinite could be helpful. But as experience has shown us when it comes to issues requiring heavy financial flows, it is good to have a few areas that would create the highest impact. The African countries have through a consultative process narrowed their priority areas to three. This is not to say that other areas requiring AFT resources should be shunted out, but the following three areas will have the greatest impact in Africa in terms of realising the trade potential:

- **Development of modern “infrastructure” for transport:** Interconnectivity within and across borders is the key here.
- **Trade facilitation:** Beyond the hard infrastructure for interconnectivity, African countries have identified the facilitation of movement of goods and people as critical to deepening of trade. This in deed fits well with the regional approach to AFT, that the region endorsed. Just to demonstrate the catalytic role that trade facilitation could have, some studies suggest that African exports could increase by as much as 17 per cent from a 10 percent improvement in customs procedures.

- **Standards testing laboratories:** There is general consensus that one of the reasons why the utilisation of preferential market access was not 100 per cent; it is a result of stringent non-tariff related requirements for African goods. Therefore, if Africa is to make full use of the opportunities provided by the duty-free quota-free market access, or those arising from special and differential treatment in commitments from trade negotiations, their products must meet the required standards. For example, fish harvest from Lake Victoria three years ago was worth more than US\$ 400 million. But unless the fish meets specific standards in its destined market, such as in the EU, then even the duty-free quota-free market access would not count as the three East African countries of Kenya, Tanzania and Uganda would not be able to export. African countries therefore consider standards as a priority area for their AFT activities.

### **Principles to underpin success of AFT in Africa**

Beyond identifying the priority areas of focus for AFT, success will depend on a few critical elements when it comes to implementation. These principles are likely to vary from region to region, or at least their ranking in terms of importance is bound to vary. The following are the crucial ones in the context of Africa:

- **Political leadership and commitment:** Essentially, even as countries recognise trade as an important anchor for sustainable development, the leadership in terms of setting priorities in the AFT must come from the decision makers. They must also be committed to going the full distance in terms of implementation of the strategies and programmes under the AFT.
- **Regional approaches to ensure optimal results:** While focus at the national level is important, given the overall objective in Africa for deeper economic integration, regional approach to AFT implementation becomes indispensable. The interconnectivity challenge and the utilisation of trans-border resources can only be fully exploited if countries pursue action plans that have a regional development function.
- **Appropriate delivery mechanisms:** As experience in delivering external support to developing countries, particularly in Africa has shown, making pledges is one thing, and achieving expected outcomes another. There are usually the middle issues that somehow ensure that the resources are either never disbursed and if they are disbursed, the utilisation is limited by many factors including absorptive capacities. Yet many countries and regional economic communities in Africa will readily share their development strategies, including the financing gaps. Appropriate delivery mechanisms are therefore crucial to the success of the AFT. Some sub-regions have already created regional funds as in the case of COMESA and agreed on the institutional issues when it comes to receiving support for

regional programmes and projects. These experiences need to be replicated across the region where appropriate.

- **Participation and involvement of the private sector:** The private sector in Africa is still developing. In which case the AFT is seen also in terms of its endeavour to develop the capacity of the private sector. But for the success of the initiative, the involvement of the private sector in preparing the action plans that map out the priorities and even in the implementation is likely to lead to more successful outcomes than when the sector is only engaged passively rather than in an active manner.

### **How can the ECA help and what is its strategy**

In the context of the ECA strategy to support the AFT implementation in Africa, the following are three focal elements.

1. Defining clear “clusters of activities” that are in line with Africa’s broad priorities on AFT. There are three clusters where the Commission has a comparative advantage and which member states should take full advantage of:
  - a. Coordination – at this stage of the implementation of AFT, the Commission, working with WTO, AfDB and AUC will assist in the creation of the proposed “Aid for Trade Network”.
  - b. Development of national and regional AFT Action Plans: The ECA through the African Trade Policy Centre (ATPC) has strong experience in capacity building for trade. The ECA will therefore through the ATPC provide expertise in the preparation of the AFT Action Plans.
  - c. Monitoring and evaluation: It is recognised that a common methodology is to be agreed by all actors in terms of monitoring the implementation of the AFT and also determining the effectiveness. Given its presence in the African region, including at the sub-regional level, the ECA is preparing to play a key role in the implementation of the monitoring and evaluation mechanisms.
2. Establishing strong and deep partnerships: The ECA believes that its best chance of helping African countries and RECs realise their expected outcomes from the AFT Action Plans is when it leverages on the comparative advantages of other actors. Therefore, the African Union and the AfDB, the WTO, OECD and the African countries and RECs will be partners, recognising that success cannot be assured where there is no collaboration.
3. Respect for national and sub-regional ownership: The ECA will anchor its interventions on the back of nationally and sub-regionally owned action plans and mapped out priorities. Where ownership comes from the

countries themselves, then the political leadership and commitment is much more likely to be assured.

**What parts of the Global Action Plan for 2008 can African countries seek ECA support through the ATPC?**

1. Establishment of the Regional AFT Network in collaboration with the AfDB.
2. Auditing of existing RECs AFT Action Plans to identify which projects are eligible and meet the priority criteria under AFT. The African Review meeting of AFT in Dar-es-Salaam in 2007 pointed to the existence of development strategies at the RECs level. But it is possible that not all the programmes and/or projects are eligible for AFT support. The ECA is in a position to assist in this auditing process.
3. Alignment of national and regional AFT Action Plans. There are a few countries that have already developed their AFT Action Plans. The key question is how such plans dovetail in the Regional Action Plans where they exist. The ECA is able to provide support in the alignment of the plans at the two levels in order to ensure good results.
4. Preparation of AFT plans at national and regional level where such plans do not exist.
5. Monitoring and evaluation of the implementation of the AFT and also assessment of results in Africa. The partnership with AUC and AfDB, WTO and OECD is critical here for best results.

**Conclusion: Making AFT real and tangible in Africa**

Some of the key development partners in the context of the AFT have expressed concerns that since they made their pledges on AFT, they still have not seen specific bankable AFT projects. On the other hand, the expected beneficiaries of AFT still remain sceptical and would like to see an expeditious release of the AFT resources. These two contradicting views are surprising given that in 2007 there was a global review, priorities identified as I have indicated in my presentation. It is clear what needs to be done to make the implementation of AFT real and tangible. RECs and member states need to move quickly to prepare their plans and where they exist translate them to bankable projects. The development partners should also be clear on what are the specific AFT resources.

At ECA, we are ready through the ATPC (our Canadian funded technical cooperation arm) to help countries and RECs upon their request in the preparation of action plans and mapping out of AFT eligible priority projects. It does not help for us to come to the end of this year without having moved from the situation we were in when we did the review last year. The impetus must come from the RECs and member states and while at ECA we will remain pro-

active, results can only be achieved if the pro-activeness was also to be seen from the countries/RECs side.