Chapter 7
Financing for Bringing the CFTA About

Bringing the Continental Free Trade Area CFTA about will require financing for its implementation. Getting the most out of it will also require financing for its flanking policies, including the Boosting Intra-African Trade (BIAT) Action Plan. Ensuring that the CFTA is win-win for all countries necessitates an approach that considers the different resource capacities of CFTA member states.

This chapter outlines the areas where support will be required and assesses the different means to secure financing. It looks at domestic resource mobilization, a proposed 0.2 per cent African Union (AU) levy and Aid-for-Trade (including what works and what doesn't under that initiative), after presenting an assessment framework for financing.

Framework for assessing the financing of the CFTA

In the short run, governments face implementation costs associated with the introduction of new reforms obliged by the agreement and with changes to tariff revenue. Throughout the medium term, the private sector will face costs linked to the structural readjustment of the economy as it reacts to new opportunities and competitive pressures. Governments will want to invest in flanking policies to help their economies adjust and take advantage of the agreement, as well as to support any groups that could be vulnerable to changes in trade. Long-run costs include the maintenance of the trade reform infrastructure, such as new institutions.

The CFTA implementation costs can be framed as those affecting the private sector and the public sector (Table 7.1). The private sector incurs structural adjustment costs while the public sector faces tariff revenue losses, implementation costs and flanking policy costs.

Structural adjustment of the private sector

The private sector bears the principal costs of structural adjustment—those entailed by reallocating factors of production, such as labour and capital, from their pre- to post-liberalization occupations.

The structural adjustment costs expected of the CFTA are likely to be relatively small because of the limited size of intra-African trade, the pre-existing coverage of regional economic community (REC) free trade areas, and the use of exclusion list provisions and safeguards. A gradual approach to liberalization and flanking policies should be used to ease these costs for especially sensitive or vulnerable groups. Still, these costs will be felt by certain private businesses and personnel.

In practical terms, businesses may need to repurpose capital and organization to reflect changes in business

Table 7.1

Framework for assessing CFTA adjustment costs

CFTA adjustment costs (aggregate)	Private sector	Labour	Obsolescence of skills Training costs Personnel costs
		Capital	Underutilized capital Obsolete machines or buildings Cost of shifting capital to other activities Investments to become an exporter
	Public sector	Lower tariff revenues	Reduced revenues on intra-African imports
		Implementation costs	CFTA institutional costs Implementing costs of trade reform
		Flanking policy costs	Social safety net spending Compensatory mechanisms CFTA flanking policies (BIAT)

Source: Adapted from Francois et al. (2011).

opportunities and competition. Workers may require reskilling and training to respond to these changes.

Public sector: Lower tariff revenues

At the foundation of any free trade area is a reduction in tariffs, and by implication, lower tariff revenues. This is a cost borne by governments, but one that affects the households and firms that are recipients of government spending. But tariff revenue losses are likely to be modest, amounting to 8 per cent of total tariff revenue on average in a scenario in which the CFTA amounted to full liberalization of all products (see Chapter 5). Again, this stems from the low value of intra-African trade and the fact that much of this is already covered by pre-existing REC FTAs. Exclusion list provisions will further limit revenue losses. A 1 per cent exclusion list could reduce average revenue losses from 8 per cent to 1 per cent of total tariff revenue, while a 5 per cent list could reduce losses to 0.3 per cent. Revenue losses will affect countries unevenly, and a flexible approach to exclusion lists should be used to smooth their impact more equitably. Nevertheless, as a free trade area, the CFTA will lower tariff revenues.

Public sector: Implementation costs

Trade agreements include obligations that can require countries to change domestic practices, initiate reforms or establish new entities, including revamping customs operations, establishing domestic institutions and setting up mechanisms for trade facilitation.

One example is with the obligations often contained within competition chapters of free trade agreements. Competition provisions aim at guaranteeing that liberalization will not be undermined by anti-competitive business practices within countries. To accomplish this, agreements may call for the establishment of legal institutions that can proscribe measures against anti-competitive practices, and for the development of competition policy and regulations within a country (Dawar and Mathis, 2007). Countries that do not already have such institutions may be called on to establish an authority to undertake this role and enforce these provisions.

Another example is seen with non-tariff barrier (NTB) provisions, which may oblige countries to abolish the technical, or sanitary and phytosanitary, trade barriers between member countries when they lack justifiable domestic policy purposes. In doing so, they typically oblige countries to establish mechanisms to facilitate coordination between member countries for identifying, monitoring and resolving NTBs (see Chapter 6).

The CFTA will require its own institutional structure, including a CFTA Secretariat and additional implementing structures. Costs may be minimized, however, by reliance where possible on pre-existing national, regional and continental structures (Chapter 8).

The CFTA is conceptualized as building on the established RECs of the AU. The provisions envisaged in the CFTA do not amount to wholly new trade ideas, but to expanding the achievements of the RECs to the continental level. In this way, the CFTA architecture can rest on and reinforce the institutions already required by the RECs. For instance, NTB institutions that currently address trade issues within RECs may simply expand their mandate to include inter-REC trade. There are probably costs associated with implementing CFTA provisions and reforms, but by using pre-existing structures, the CFTA may harness economies of scope.

Public sector: Flanking policies

Implementing the BIAT measures will incur costs, though the exact amount is not available. However, it is possible to gauge the funding gap for different components related to the BIAT clusters. The Programme for Infrastructure Development in Africa (PIDA) comprises projects focused on a more interconnected and integrated Africa that will require substantial improvements in power generation, transport logistics, information and communications technology infrastructure and water resources. The total estimated cost of implementing all the projects identified in PIDA to address projected infrastructure needs by 2040 is $360 billion. The PIDA Priority Action Plan includes 51 priority infrastructure "back-bone" projects and programmes requiring $68 billion in investments by 2020.

The capacity gap of course extends beyond infrastructure. Reviewing Africa's skills shortage, the African Capacity Building Foundation estimates Africa to have a gap of as many as 4.3 million engineers and 1.6 million agricultural scientists and researchers with the number needed to implement the AU's first 10-year plan of Agenda 2063. Alongside these are gaps in effective institutions for development.

These costs are not obliged by the CFTA, but relate to programmes and activities important for leveraging its opportunities.

Financing the CFTA and BIAT Action Plan

Financing in Africa has to be increasingly based on domestic public and private resources (ECA and AU, 2012, 2013). At the United Nations conference on Financing for Development, Addis Ababa, Ethiopia, in July 2015, it was agreed that that domestic resources represent the largest untapped source of funds for financing development goals.

Improved self-financing also mitigates the political economy issues discussed in Chapter 3. An overreliance on development assistance risks perpetuating donor-driven, rather than Africa-led, initiatives, and fostering donor "signalling," where actions are taken superficially to satisfy donor obligations rather than to drive development. Such moves reduce ownership and responsibility for projects, which in turn stifle implementation, which can be particularly sensitive in international trade where donor countries may have alternative trade policy priorities.

Unpredictability of aid is a further challenge for budgetary planning and staffing, especially as much of Africa's integration agenda is dependent on donor financing (Table 7.2). Such financing can be fragmented when provided as project aid, not budget support, and when amounts and timing are unpredictable. Different accountability relations can also raise transaction costs.

African governments must commit to enhancing domestic revenue collection; making tax systems fairer, more transparent and effective; and strengthening development aid for building the capacities of its tax administrations. Doing so will require tackling corruption, weak institutional capacities, a narrow tax base and pervasive tax avoidance and evasion by wealthy individuals and multinational corporations. Even minor improvements in domestic resource mobilization can contribute to the costs of implementing the CFTA and its measures.

The African Union's 0.2 per cent levy

An important proposal for Africa's self-financing is the "0.2 per cent levy on all eligible imported goods into the continent to finance the AU Operational, Program and Peace Support Operations Budgets" (AU, 2016a). This proposal was adopted by the AU Assembly at its July 2016 Summit in Kigali and aims to ensure that the AU "is financed in a predictable, sustainable, equitable and accountable manner with the full ownership by its member states" (AU, 2016a). The intention is for this funding mechanism to be introduced before the end of 2017 (AU, 2016b).

The AU total budget in 2016 amounted to $417 million, of which only 44 per cent was provided by member states, with the remainder from international donors, including China, the European Union (EU), the United Kingdom, the United States and the World Bank (AU, 2015). The 0.2 per cent levy proposal is intended to raise $1.2 billion to fully fund the AU operational budget, finance 75 per cent of the AU programme budget, 25 per cent of its peace and security operations budget, and the peace fund as determined annually (AU, 2016b). Included within the programme budget will be the CFTA and other flagship projects.

Table 7.2

Degree of donor dependency by REC and the AU (%)

Entity	Percentage of budget (for available budgets)
IGAD	90
SADC	79
COMESA	78
EAC	65
ECOWAS	N/A—though largely self-funded by 0.5% ECOWAS levy on imports into ECOWAS
AU	44

Source: ECDPM (2016).

However, questions have been raised as to the whether the levy would be compliant with Africa's existing international obligations. Principally this concerns compatibility with World Trade Organization (WTO) law and with regional trade agreements (RTAs).

Compatibility with WTO law: Challenges and solutions

At the 7 December 2016 meeting of the General Council of the WTO, the issue of the AU 0.2 per cent levy was raised by the United States, which expressed expectations that implementation of the levy would be consistent with WTO agreements, including the most-favoured nation (MFN) principle (WTO, 2017). The EU and Japan both welcomed the initiative but also expressly reaffirmed the statement of the United States and the need for WTO compliance. Compatibility issues with the AU levy and WTO law are threefold.

First, the proposal intends to apply the levy on goods imported "into the continent," which implies discrimination among WTO members: African WTO members would not face the levy, while those outside Africa would. The proposal would therefore be incompatible with Article I of the General Agreement on Tariffs and Trade (GATT) on MFN treatment, which requires that all WTO members be treated equally. MFN treatment is the most important foundational principle of the GATT.

Second, tariff-binding schedules under Article II of the GATT could be affected. Such schedules are commitments not to increase rates of duty beyond specified and agreed levels. Some African countries could either have certain tariffs bound at zero per cent or have their applied rates already equal to their bound rates, and would therefore be unable to raise these without breaking their bound-tariff commitments at the WTO.

Products covered by the schedules under Article II are also bound from the imposition of new "other duties or charges." The date that "other duties or charges" were bound, for the purposes of Article II, is 15 April 1994. Thus the levy cannot be applied as a new duty or charge beyond what would constitute a normal customs tariff.

Third, Article II of the GATT permits the imposition of "fees or other charges commensurate with the cost of services rendered." Article VIII on Fees and Formalities connected with Importation and Exportation further clarifies that any fee or charge connected to the import of goods must "be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes." The AU levy is not applied for any related import service, which for example, would include fees for import inspection and the operation of digital customs systems. And so the AU levy would not be permitted as an acceptable fee or other charge.

In response, the first issue is one that can conceivably be addressed by the CFTA. Article XXIV of the GATT permits a group of countries to derogate from their commitment to MFN treatment and discriminate against other WTO members if they enter into regional FTAs or customs unions. By forming such a free trade area, the CFTA can circumvent the MFN treatment required by Article I.

However, note must be taken of Article XXIV 5.b requiring that the formation of a free-trade area not result in duties to other countries being higher or more restrictive than those existing prior to the formation of the free-trade area. The AU levy may be permissible in that it constitutes a separate parallel initiative, rather than a levy resulting from the formation of the CFTA. The AU levy is a different and separate issue, and it should not be mixed with the CFTA.

There may also be an issue of sequencing. It is intended that the AU levy be implemented before the end of 2017. While it is also the intention that the CFTA negotiations be concluded by this point, it may take member states longer to begin implementing the Agreement. Even if the CFTA permits a derogation from MFN treatment through Article XXIV, there may be an interim period during which the CFTA has yet to be constituted to afford this derogation.

Finally, some African countries may be members of the WTO and the AU, but not party to the CFTA. In this case the CFTA cannot provide them with the legal cover to discriminate between WTO member countries.

The second issue may be harder to address. In theory, tariff binding commitments can be exceeded with the agreement of other WTO members. However, WTO members that are "suppliers with a substantial interest" of a product affected by an increase in a tariff above its

bound rate may apply for compensation. Compensation is calculated on the basis of the difference in the tariff rates and trade flows.

The third issue implies that the AU levy cannot bypass the former issues by considering itself a "fee or other charge," in the sense of Article II.2c).

Four solutions are possible.

Option 1 – Apply for a WTO waiver: African countries may apply for a WTO waiver in accordance with Article IX of the Marrakesh Agreement. Waivers grant permission for WTO members to not comply with normal commitments. Indeed, the above statement on the AU levy by the United States at the 7 December 2016 meeting alludes to the possible need for a WTO waiver.

The terms and conditions governing the application of a waiver, and the date on which a waiver would terminate, are determined by the WTO Ministerial Conference. Any waiver granted for more than one year is reviewed annually. At each review it could be extended, modified or terminated. A waiver cannot therefore permit an indefinite derogation from WTO law, but it may enable African countries to apply such a levy as a reasonable means of self-financing until replacement through domestic resource mobilization is possible.

Furthermore the waiving of a WTO obligation is expressly afforded only in "exceptional circumstances." This can require due legal justification and possibly the exchange of other concessions. African countries would need to spend political capital on this issue and balance it against other important issues on the WTO Ministerial Conference agenda.

Still, Africa's status as the world's least-developed region and the part-allocation of the levy towards financing peace and security are reasonable grounds on which to assume that, with sufficient political diplomacy, such a waiver could be secured.

If it is decided that Africa's WTO members should seek a WTO waiver, sequencing should be considered. The request for a waiver would have to be submitted to the WTO Ministerial Conference for consideration. Ministerial Conferences are usually held every two years, with the next meeting scheduled for December 2017.

Option 2 – Ring-fence existing tariff revenue: The AU levy could be designed to avoid violating WTO law. The above compatibility issues concern the application of an AU levy as an additional charge on imports into the continent. Were the levy to be expressed not as an additional charge but as a share of existing tariff revenue collected on these imports, it would not contravene WTO law. In such a formulation, the levy would not collect new revenue but ring-fence existing tariff revenue for the purposes of the AU. This is reportedly the approach to be taken by Kenya, which is to carve out the 0.2 per cent levy from a pre-existing import charge.

Option 3 – Ad hoc measures to address the binding schedules of Article II of the GATT: Were the CFTA or a waiver to provide legal cover against contravention of MFN treatment, the application of ad hoc measures could address the violation of the binding schedules of Article II of the GATT. In such an approach, the AU levy would be designed so that African countries would be permitted to forgo the requirement to apply the levy on tariff lines already at the bound rate. In such circumstances, the AU levy might require African countries to provide instead the equivalent amount from an alternative source.

Option 4 – Consider WTO law: Across Africa, levies have been in place for many years, including the Economic Community of West African States (ECOWAS) 0.5 per cent levy and the East African Community (EAC) 1.4 per cent joint infrastructure levy—as well as national levies, such as Ghana's 0.5 per cent Export Development and Agriculture Investment Fund levy. The legal certainty of these is not always clear.

Most developed countries have, throughout the history of the WTO, been hesitant to resort to litigating against less-developed African countries. Nevertheless, as seen in the US statement on the levy and in the comments from the EU and Japan, these economies appear to be of the opinion that any AU levy should be WTO compliant. Other developing country members of the WTO may also be less hesitant to litigate than previously.

Aversion to such a contravention of WTO law need not concern the actual amount of trade involved, nor the burden of the levy. What may be of foremost concern is

the perception of precedence set by violation of these rules. Moreover, these are rules that African countries benefit from in the great share of trade conducted outside the continent. In the interest of Africa itself, it might be imprudent to contribute to the violation of important WTO laws.

Compatibility with regional trade agreements: Challenges and solutions

The second important concern is compatibility between the AU levy and Africa's regional trade agreements (RTAs). Several African countries are negotiating, or are planning to negotiate, trade agreements with third countries. It must be assured that within these agreements there is also legal cover for the imposition of the AU levy. Without expressly exempting the AU levy from these agreements, its elimination would be required on imports originating from the countries party to those agreements.

There is a precedent for this approach. Article 11 of Annex 1 of the ECOWAS-EU Economic Partnership Agreement (EPA) provides a carve-out for the ECOWAS 0.5 per cent levy by permitting the maintenance of the "autonomous financing arrangement of the West African Organizations responsible for regional integration [...] until a new financing method has been set up." However, no existing RTA to which an African country is party includes provision for the AU levy.
Three solutions are possible here.

Option 1 – Include carve-outs for the AU Levy in future RTAs: Provisions permitting the AU levy to be maintained on imports can be included in all future RTAs. Negotiating for such permissions may, however, require the offering of compensating concessions to the partners of such RTAs.

Option 2 – Renegotiate pre-existing RTAs to introduce carve-outs for the AU Levy: In addition to Option 1, African countries may renegotiate pre-existing RTAs and, through such negotiations, introduce provisions that permit the AU levy to be maintained on imports originating in the other countries party to these agreements. This may involve difficult renegotiations and require compensating concessions to the partners in these RTAs.

Option 3 – Refrain from applying the AU Levy on countries party to existing RTAs with Africa: The AU levy may be designed so that African countries party to existing RTAs are permitted to forgo the requirement to apply the levy on trade with these partners. In such circumstances, the AU levy might require African countries to provide, instead, the equivalent amount from an alternative source. If desired, the AU levy could also permit African countries to forgo the levy in *future* RTAs if the equivalent funds are supplied from an alternative source.

New approaches to resourcing

Innovative means of financing are needed (ECA and AU, 2013). Strategies include leveraging pension funds, insurance funds, private equity, the diaspora market and public–private partnerships and stemming illicit financial flows.

Pension funds have considerable potential. Africa's pension market is underdeveloped in all but a few countries and is dominated by state-owned schemes (ECA, 2014). Learning from successes in countries such as Botswana, Kenya, Mauritius and South Africa could open up new sources of capital (ECA and NPCA, 2013).

Insurance funds are an underdeveloped source for long-term financing. Most of Africa's insurance companies are small and provide short-term non-life products, rather than long-term life and savings products. The infancy of Africa's insurance markets means that they are not risk free and reforms will be required to improve regulations. But the market is growing rapidly and could exceed $15 billion by 2022 (Kurt, 2012).

Private equity has grown rapidly in several African countries, but remains concentrated in a few countries and sectors. Private equity is dominated by the extractive industries, which account for some 46 per cent of all cross-border mergers and acquisitions by private firms in Africa (UNCTAD, 2013).

The **African diaspora** is another source of funds: 120 million Africans save up to $53 billion in destination countries every year (AfDB, 2010). African governments can capture some of these savings through sovereign bonds, such as Eurobonds. Ethiopia was the first African country to issue a diaspora bond in 2011, which it used to help finance its Renaissance Dam project. Sound sovereign-bond issues require forward-looking and comprehensive debt management structures (ECA and AU, 2014).

Public–private partnerships have proved an important source, particularly for financing infrastructure development. Beyond infrastructure, public–private partnerships have been extended to other sectors, such as agriculture in Tanzania. Issues remain, however, with high up-front costs, redistributive factors in output pricing, long pay-back periods and foreign exchange risks.

Illicit financial outflows are a considerable drain on Africa's ability to self-finance but—illicit by definition—are difficult to estimate. The Economic Commission for Africa (ECA) estimates that Africa loses as much as $50 billion annually from them, roughly twice what it receives in official development assistance (ODA) (ECA and AU, 2015). Counter-measures include improving the international exchange of tax information, fighting corruption and abuse of entrusted power, requiring multinational companies to publicly disclose their operations country by country, and addressing abusive transfer pricing, trade mis-invoicing, tax evasion and aggressive tax avoidance (ECA and AU, 2015).

Aid-for-Trade

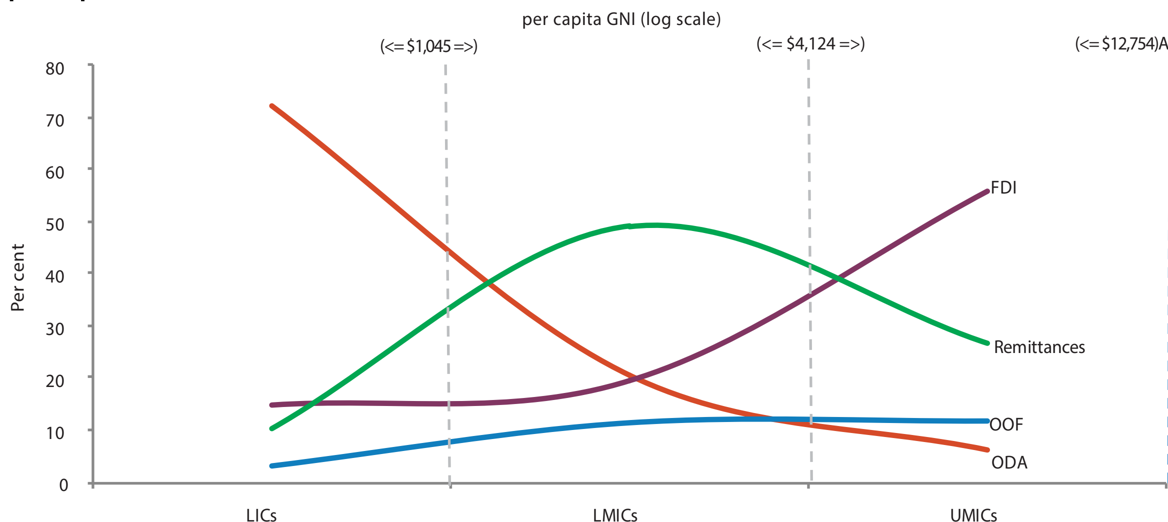
For Africa's lower-income countries, ODA remains important. The distribution and objectives of ODA differ from other international financial flows. Given its primary mandate to directly target development, improve welfare and reduce poverty, ODA remains essential in supporting many developing countries, especially the poorest with little access to private finance and low levels of domestic resources. In fact, ODA remains the largest international resource for countries with a gross national income (GNI) of less than around $2,000 per capita (Development finance flows by OECD/DAC members and international financial institutions: Share in per capita GNI). Thirty-seven African countries have per capita GNI below this amount.

The importance of ODA relative to private investments, remittances and other official flows is decreasing in lower-middle-income countries (LMICs) and upper-middle-income countries (UMICs). Yet it can still contribute to their development through mobilizing private flows, leveraging private investment and facilitating trade. If developing countries want to attract resources for building trade capacities, they need think innovatively and consider how ODA grants can leverage other resources, such as private loans or other finance.

ODA will remain an important source of funding to help ensure that Africa's less-developed countries can implement the CFTA and its flanking policies. It may also remain important for Africa's lower-middle-income countries over the short run as they mobilize further their domestic resources. Aid-for-Trade, an initiative launched in 2006, is the particular vehicle of choice for leveraging ODA for the CFTA. Regional Aid-for-Trade is especially relevant.

Figure 7.1

Development finance flows by OECD/DAC members and international financial institutions: Share in per capita GNI



Note: OECD/DAC is the Development Assistance Committee of the Organisation for Economic Co-operation and Development.

Source: OECD Development finance statistics.

Levels of regional Aid-for-Trade

Aid-for-Trade is well suited to the CFTA flanking policies, especially to the BIAT Action Plan, which has projects with targets for ODA. Aid-for-Trade has been adopted as an African policy priority by the AU Heads of State and Government. Since 2011, Africa has been the main recipient of Aid-for-Trade.

In 2015, the continent received 35 per cent of total disbursements, totalling over $14 billion, more than three times the average amount during the 2002–05 baseline period. Although only a small portion of this targets regional programmes directly, all national programmes are aimed at building trade capacities. At the sectoral level, there are substantial differences in regional and subregional disbursements compared with overall flows.

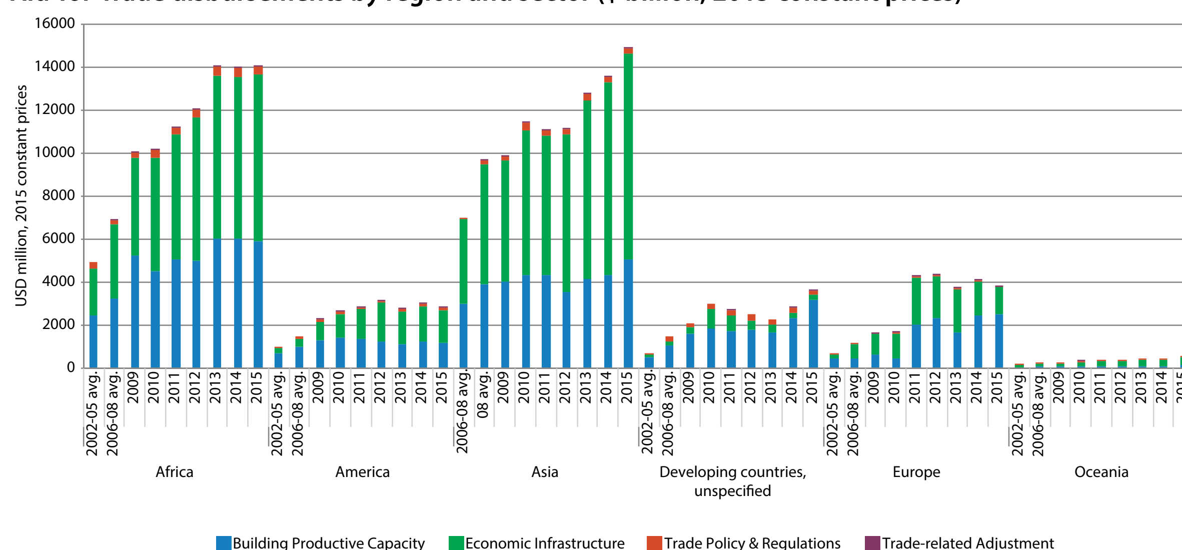
Since 2002, economic infrastructure has on average accounted for more than 50 per cent of total Aid-for-Trade disbursements, while building productive capacity has consistently been the most important component of disbursements for regional and subregional programmes. The share of total disbursements to building productive capacities dropped 11 basis points since the 2006–08 average of 53 per cent to 42 per cent in 2015, whereas building productive capacity represented 70 per cent of the regional Aid-for-Trade figure (figure 7.2 and 7.3).

Regional and subregional Aid-for-Trade, as defined in the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting System (CRS), constitutes a small share of total Aid-for-Trade flows, but has been rising steadily since the start of the Aid-for-Trade Initiative in 2006. In 2002–05, total regional and subregional Aid-for-Trade disbursements averaged around $1.2 billion. It reached $6.2 billion in 2015. Multi-regional programmes constitute the largest category, with 58 per cent of regional Aid-for-Trade disbursements in 2015 (average). Total multi-regional disbursements since 2002 reached $21 billion. Almost 40 per cent is associated with German funding for the Climate Investment Fund, an $8.3 billion programme providing 72 developing and middle-income countries with much needed resources to manage the challenges of climate change and reduce their greenhouse gas emissions. At the regional and subregional level, the share of Aid-for-Trade disbursed to Africa is, on average, four times higher than that those disbursed to Asia. No doubt this reflects the high priority African leaders place on regional integration.

Between the 2002–05 baseline average and 2015, regional aid for trade to Africa increased from $357 million to $1.6 billion, with 60 per cent of the increase due to a $700 million allocation to the African Development Fund for those defined by the AfDB as fragile states. Building productive capacity is the dominant sector with $1.1 billlion, followed by

Figure 7.2

Aid-for-Trade disbursements by region and sector ($ billion, 2015 constant prices)

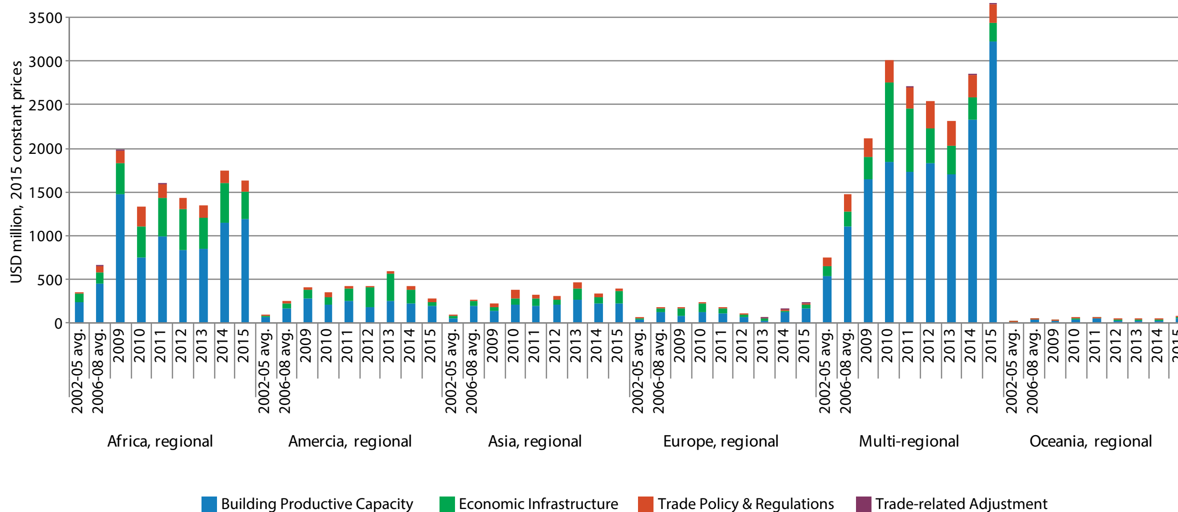


Note: Data extracted 17 August 2017.

Source: OECD/DAC CRS.

Figure 7.3

Regional and subregional Aid-for-Trade disbursements by region and sector

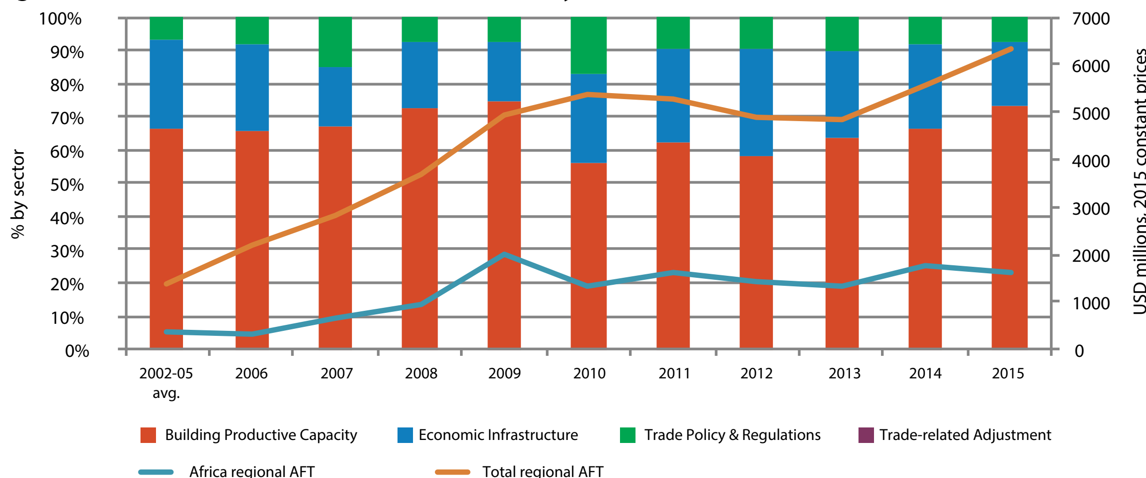


Note: Data extracted 17 August 2016.

Source: OECD/DAC CRS.

Figure 7.4

Regional Aid-for-Trade to Africa, disbursements by sector



Note: Data extracted 17 August 2017.

Source: OECD/DAC CRS.

trade-related infrastructure with $300 million (Figure 7.4). Although the shares have fluctuated, building productive capacity and economic infrastructure have consistently dominated regional Aid-for-Trade flows. The literature on binding constraints to trade suggests that this focus is well merited, and case studies reviewed below display a number of successful projects.

Regional Aid-for-Trade successes: What works and what doesn't

Regional Aid-for-Trade initiatives have generated considerable successes in certain areas. Highlights include addressing NTBs, investing in regional soft and hard infrastructure, fostering regional cooperation, reducing investment-related costs, harmonizing regional trade arrangements, furthering institutional and human development, and supporting operations of the RECs. Challenges include engaging stakeholders and prioritizing the needs of poor and vulnerable groups.

World Bank Group

The World Bank's strategy for regional integration in Sub-Saharan Africa is implemented with the RECs and the AU. It is based on four pillars: building regional

hard and soft infrastructure, promoting international cooperation for economic integration, providing regional public goods, and improving alignment between regional and national planning (World Bank, 2011). An evaluation found good performance related to regional infrastructure development, institutional cooperation for economic integration, and management of regional public goods (IEG, 2011).

United Kingdom

A 2016 Inquiry into the UK–African Free Trade Initiative found that the different programmes funded by UKAID made progress in cutting tariffs, harmonizing regional trade arrangements, improving hard and soft trade infrastructure and cutting red tape through modernizing customs systems, procedures and facilities. The initiative also helped to facilitate coordination and reduce investment-related costs between governments and stakeholders across borders and leveraged private sector investment funding from Development Finance Institutions. Nevertheless, the inquiry found that more work is needed to further reduce tariffs and NTBs, and negotiate a credible and wide-ranging CFTA (APPG-TOP, 2016).

Germany

Germany fosters regional cooperation and integration through the provision of technical and institutional support to different RECs. The results in each REC are found to be supportive of the overall strategy to create a multi-regional FTA. The German approach focuses on the EAC Secretariat and combines institutional and human development. For instance, the EAC Secretariat received assistance to develop a template for mutual recognition of professional qualifications to facilitate the free movement of labour and services in EAC.

One area in which EAC has been successful is assisting trade in services (Chapter 6). Germany also supported a project in East Africa to create a WTO-compatible legal framework for regional quality assessments. However, stakeholder engagement was found insufficient to create a sense of ownership among private sector operators (OECD and WTO, 2015a).

Sweden

The Swedish Government has engaged with TRALAC—a capacity-building organization for trade-related capacity in Africa—to improve regional trade integration. TRALAC supports the concurrent negotiation of trade in goods and services by producing and disseminating studies and research to inform the development of several key messages for trade policy makers, negotiators and other trade policy stakeholders on the continent. In particular, TRALAC became involved in the CFTA negotiation process by engaging with key stakeholders and delivering messages in a timely and non-technical manner. It also contributed to well-formulated CFTA provisions on services for investment generation, industrial development and regional integration.

Given the preliminary phase of the CFTA, it is too early to assess how TRALAC messages have influenced the negotiating agenda. However, it is safe to say that TRALAC has generated debate and stimulated further engagement.

United States

The US Agency for International Development (USAID) has been funding regional trade hubs in West, East, and Southern Africa since 2002. The hubs provide regional platforms to deliver trade-related technical assistance on issues that benefit from multi-country approaches. In particular, support is directed to implementing RECs' protocols and improve custom procedures to facilitate trade and further regional integration. A multi-stakeholder approach is used in creating the regional platforms to strengthen the legitimacy of regional arrangements at national and local levels. Many activities are directed to engage the private sector. The Borderless Alliance is a good example of this approach. The Alliance is a platform of private sector operators (traders, transporters, producers) working with public institutions to advocate for greater regional trade integration in West Africa. It identifies barriers inhibiting regional trade and uses data to drive decision making. The West Africa Trade Hub provides financial resources and technical expertise to boost the impact of the Alliance's advocacy.

USAID found that private sector involvement helps in building stronger political will for tackling vested interests, but it could also create asymmetric incentives. Thus ex-ante analysis and understanding of the incentive structure is fundamental for planning trade-related activities and may help avoid complications in implementation.

China

China is supporting regional integration through the China-Africa Cooperation Forum, in operation since 2000. Among South–South providers, China is arguably the highest profile supporter of regional integration in Africa. The engagement of other South–South providers consists of creating links between their trade, investment and development aid interventions. Apart from China,[1] there is no institutionalized emerging-economy approach to regional integration in Africa (Dube, 2016).

Multi-donor

One multi-donor programme is TradeMark East Africa (TMEA), supported by Belgium, Canada, Denmark, Finland, the Netherlands, Sweden, the United Kingdom and the United States. Since 2010, TMEA investors have contributed $560 million towards the delivery of around 150 projects in Burundi, Rwanda, South Sudan, Uganda and Tanzania. TMEA estimates that for every $1 spent, there will be a return of $30 over 10 years. An example is the Customs Business Systems Enhancement Project to increase the efficiency of the Uganda Revenue Authority. In March 2014, this programme combined with the reforms introduced under the Single Customs Territory to yield results. The time to clear and transport goods from port arrival to goods clearance fell from an average of 18 days to four days, for an estimated annual savings of $373 million.

The Infrastructure Consortium for Africa addresses regional infrastructure integration. It serves as a platform to broker donor financing of infrastructure projects. Similarly, PIDA promotes regional economic integration by bridging Africa's infrastructure gap. PIDA aims to accelerate the delivery of regional and continental infrastructure projects in transport, energy, information and communications technology, and trans-boundary water.

The Enhanced Integrated Framework is a multi-donor fund supporting least-developed countries (LDCs), based at the WTO. It provides financial and technical support to build trade capacity in 48 LDCs and three "graduated" countries. It is designed for the trade challenges faced by LDCs and helps them to address trade constraints and become integrated with global markets. In its first phase, from 1997 to 2006, the Framework provided support for 134 projects with a total allocation of $200 million.

Other notable Aid-for-Trade initiatives in Africa

The AfDB supports regional economic integration through its regional infrastructure and trade development programmes. The AfDB is also providing support for trade facilitation measures, including before-and-after border issues, one-stop border posts, coordinated border management and customs reform and modernization. In conjunction with these programmes, it is tackling non-tariff measures along transport corridors and advocating reforms within RECs and regional member countries (AfDB, 2015).

The Africa Trade Fund—financed with seed money from Canada and hosted at the AfDB—facilitates consultations to remove bottlenecks at borders, reduce waiting times and improve safety and security. The Fund works with border agencies to streamline border processes, modernize customs, upgrade logistics and reduce trader costs.

Canadian Aid-for-Trade funding also contributes to the African Trade Policy Centre (ATPC), in ECA. The main objective of ATPC is to contribute to increased, inclusive intra-African trade flows. In doing so it prioritizes enhanced formulation, implementation and monitoring of inclusive trade related reforms, action plans and frameworks by the RECs and national governments for reducing barriers to trade within Africa. It targets the increased integration of gender, including women enterpreneurs, and youth into trade policy design at AU and REC levels. And it aims to increase the participation of private sector operators and civil society organizations in regional and continental dialogues on the AU's trade agenda. ATPC has been closely involved in supporting the CFTA negotiations.

Japan's support for regional integration in Africa consists of capacity building for RECs and regional development banks to better plan, finance and execute infrastructure programmes. Japan's International Cooperation Agency has also dispatched technical experts to support regional bodies in harmonizing policies and regulation, such as those related to vehicle overload controls and procedures (OECD and WTO, 2015b).

Support from the EU to CFTA is channelled through the third AU Support Programme, which covers all the priorities of the Joint Africa–EU Strategy, such as

sustainable and inclusive development and growth and continental integration, as well as private investment, infrastructure and continental integration. Cooperation with the AU under these priority areas serves a double purpose of enhancing EU–Africa dialogue on key policy areas of mutual interest, and of supporting the AU's role in steering the implementation of continental strategies. EU support includes the provision of technical expertise to the AU as well as expert studies on CFTA negotiations and the establishment of a private sector consultation mechanism. Support is also under consideration to implement the BIAT Action Plan (with a focus on trade facilitation and productive capacities) and to strengthen the AU's role in implementing the WTO Trade Facilitation Agreement.

France, like most other bilateral donors, has not formulated a specific strategy to promote regional economic cooperation in Africa. On the basis of sector strategies, regional integration is considered a tool to achieve the overall objectives of French development assistance. This is particularly the case for building infrastructure and creating a vibrant private sector. The focus is on West and Central Africa (AfDB, 2012).

Why are regional projects difficult?

Despite the undeniable positive impact of a regional approach to tackling trade-related constraints, the share of regional projects in Aid-for-Trade to Africa appears sub-optimally low. Initiatives such as the Enhanced Integrated Framework that is aimed at supporting LDCs' trade capacity development have virtually no footprint in regional initiatives. Several challenges can make regional Aid-for-Trade difficult.

- **Stakeholder engagement**: Regional Aid-for-Trade is still insufficiently understood and appreciated in national line ministries and among stakeholders. This is a problem for mainstreaming regional Aid-for-Trade into national development plans.

- **National ownership and commitment**: Insufficient attention is devoted to building strong national ownership and commitment before establishing regional institutions.

- **Uneven distribution of costs and benefits across countries**: Regional programmes may affect countries differently. This complicates the prioritization of regional approaches to multi-country trade-related barriers.

- **Overlapping processes of regional integration**: Countries are involved in different processes of integration, making it more difficult to align national policy with different regional frameworks.

- **Donor support for regional institutions rather than projects**: Donors tend to focus on supporting regional institutions rather than tackling regional trade-related constraints directly. These institutions display varying human, legal and institutional capacities, which can constrain their capacity to implement projects.

- **Coordination challenges**: There is often a lack of coordination between national and regional development programmes even when these are funded by the same donor. Coordination is also often weak when several donors are involved in the same regional integration programme. Coordination becomes even more complicated when the private sector and civil society become involved as development actors in regional programmes.

- **Technical challenges**: For multi-country and regional Aid-for-Trade to be effective, regulatory equivalence, in which the standards of regulation are "equivalent" in each country, is often required. This is problematic for regional Aid-for-Trade and for its potential to boost regional integration.

More widely, it is hard to assess the impact of regional Aid-for-Trade. Many of the key results are dependent on the enabling policies and regional economic integration agenda pursued in an imperfect policy, economic and social environment.

How can Regional Aid-for-Trade programmes be improved to support the CFTA?

Despite the challenges, regional economic integration programmes have been one of the success stories of the Aid-for-Trade initiative. Funding for such programmes has increased fourfold since 2002 with developing countries and their development partners devoting both political and financial capital to regional public

goods issues. Nevertheless, regional Aid-for-Trade programmes may be improved to support the CFTA in four ways:

- There must be better mainstreaming of regional initiatives within national planning. This remains a challenge, given the national focus to most aid programming and the various obstacles to aligning national priorities with regional programmes.

- Regional Aid-for-Trade projects must be better aligned with Africa policy frameworks, such as the BIAT Action Plan. In this way, projects can foster improved ownership on the part of stakeholders, which in turn is necessary to ensure the success of regional projects.

- The private sector needs to be more closely involved in regional Aid-for-Trade projects than it has been previously.

- Institutional mechanisms need to be developed to ensure smooth in-country coordination for regional and subregional programmes.

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Endnotes

1 And as distinct from the vehicles created and employed by traditional partners to foster African regional integration.