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AU COMMISSION'S PROPOSAL ON
THE WTO "AID FOR TRADE" INITIATIVE

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I. Introduction

1. The role of trade as an engine of economic growth and instrument for reduction of poverty has increased in the current era of globalization. However, the potential benefits of trade and globalization for African countries have been severely limited by the existing structure of multilateral trading system, which is characterized by unfair trade rules and imbalances against developing countries. To achieve a more development-friendly global trade regime, in which trade can serve as a more effective instrument of economic growth and human development, African countries, under the coordination of the African Union, have been participating actively in the current Round of WTO Negotiations on the Doha Work Programme.

2. The major issues of interest and concern to Africa in the WTO negotiations, as elaborated in the Cairo Declaration and the Cairo Roadmap on the Doha Work Programme and the Arusha Development Benchmarks, include:

- The enhancement of trade-related technical assistance and capacity building for the elimination of the supply-side constraints that hinder Africa's trade and growth performance.
- The enhancement of market access for African agricultural and industrial products, through the elimination of agricultural export subsidies and trade-distorting domestic support as well as high agricultural and industrial tariffs;
- The achievement of balanced and fair trade rules that take due account of the level of African countries and provide adequate policy space and sufficient flexibility to determine their trade policies; and
- The expeditious review of the Special and Treatment (S&D) treatment provisions of WTO Agreements, with a view to strengthening them, and making them to be more precise, effective and operational.

3. The progress achieved so far on these major issues of interest to Africa has been limited. However, with regard to Africa's demand for the enhancement of technical assistance and capacity building support, the 6th WTO Ministerial Conference, that was held in December 2005 in Hong Kong, China, welcomed the discussions of Finance and Development Ministers that have taken place in various fora on expanding Aid for Trade (AFT) and took the decision to establish a Task Force to examine all aspects of AFT and make appropriate recommendations on how to operationalise it by July 2006. The thirteen-member

Task Force has since been established and is currently undertaking its assignment.

II. The AU Commission Retreat for African Ambassadors and Stakeholders on the WTO Aid for Trade Initiative

4. Given the fact that capacity building and supply-side constraints have been a major factor in the lack of competitiveness and the relatively poor trade and growth performance of Africa, the WTO Ministerial Conference decision on the AFT represents an important development in the continent's quest for a development-oriented multilateral trading system. Experience under ACP-EU Lome Conventions and AGOA has shown that African countries will not be able to take full advantage of market access opportunities in the emerging multilateral trading system if the issues of trade capacity building and the removal of supply-side constraints are not effectively addressed. It was in recognition of this that the Commission of the African Union organized, with the financial and technical support of the UNDP, UNCTAD, UNIDO, and ILEAP, a Retreat on AFT for African Ambassadors and Stakeholders.

5. The objective of the Retreat, which was held in Montreux, Switzerland on 7-8 April 2006, was to provide African negotiators and stake holders an opportunity to develop an African common position on the AFT initiative with a view to ensuring the effective participation of African countries in the shaping of its architecture and contents.

6. The Retreat was attended by African Ambassadors and Experts based in Geneva and Brussels as well as by the representatives of the RECs Also in attendance were participants from continental and international organizations, including the UNDP, UNCTAD, UNIDO, UNECA, ITC, ILEAP and South Center. The Chair of the Aid for Trade Task Force, Ambassador Mia Horn of Sweden, attended and addressed one of the Sessions of the Retreat. In her statement, she indicated that Africa is one of the major constituencies expected to play the role of a handmaiden in the process of the delivery of AFT that was still to be born.

7. Guided by background documents prepared by experts and resource persons, the Retreat deliberated extensively on the following issues:

- Supply-Side Constraints on the Trade Performance of African Countries;
- Evaluation of Current Multilateral Trade Capacity Building Programmes: JITAP and IF; and
- The new WTO Aid for Trade Initiative.

8. The Retreat identified numerous constraints facing Africa, in terms of infrastructures, production and supply-side capacities, that need to be addressed

to improve the continent's performance in global trade. The evaluation of JITAP and IF indicated that while the activities of the programmes had promoted a much better understanding of the rules and mechanisms of the multilateral trading system and reinforced the human and institutional capacities of the beneficiary countries, financial resources allocated to each country, under Window II of the IF, have been quite inadequate to cover country needs in the areas of capacity that were identified. The need for the promotion of ownership by beneficiaries of capacity building activities under the programmes and for improvement of local, regional and international coordination mechanisms among donors was underscored.

9. Participants at the Retreat welcomed the new AFT initiative. It was noted that the mandate of the initiative, as contained in Para. 57 of the Hong Kong Ministerial Declaration, aims at helping developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure that they need to implement in order to benefit from WTO agreements and more broadly to expand their trade and development gains from the international trading system. The Retreat agreed that, if properly structured and managed, AFT could be one of the important vehicles to deliver development to African countries. Noting that the genesis of the AFT derives from Africa, especially its political leadership at the highest level, the Retreat concluded that African ownership of the initiative is paramount. The AFT should play a catalytic role and become an engine of accelerated growth, development and poverty reduction as well as an instrument for the realization of the Millennium Development Goals.

10. The Retreat agreed that at this stage of the work on this mandate, the focus should be on identifying the guiding principles for the design of the AFT architecture. An important objective in this phase of the work is to ensure that Africa's voice is strongly represented in the WTO so that there is no attempt at taking top-down approach on decision-making, implementation process and in fulfilling WTO's role in its advocacy for the mobilization of the required resources under the initiative.

11. Strategic issues of interest to Africa in the AFT initiative, such as the status of its value addition, how its financial needs can be appraised, whether it should be part of a single undertaking, whether an Advisory Council should be established, etc, were examined by the Retreat. Also considered and discussed in great details were the coverage, the funding, the scope and types of needs to be supported by AFT, mechanisms for providing support, and the governance and operational modalities of AFT.

12. It was agreed that AFT should be brought to add value and should be funded with adequate and predictable resources. The funding arrangements should be sustainable in the long term and be fully implemented. They should be devoid of conditional ties and should not create any debt burden for beneficiary African countries. In order to ensure an effective and efficient use of new

resources, it would be necessary to identify trade capacity building needs that are already being handled through existing facilities and programmes and to focus, on one hand, on the gaps in their financings; and, on the other hand, on new sources to address the growing needs of meeting challenges and opportunities of liberalisation

13. Such an approach will allow a clearer tracking of resources, commitments and pledges made by donors and guard against the potential problems of overlapping and duplicating activities, inefficient and costly management of the financing.

14. With regard to the scope of AFT, the following major elements were identified:

- Trade-related human and institutional capacity building;
- Development of trade-related infrastructures;
- Development of production and supply-side capacities; and
- Costs of implementation and adjustment to WTO Agreements

15. As an instrument for addressing the capacity constraints and meeting the capacity building needs, the Retreat emphasized that AFT initiative should, inter alia, help in the development and enhancement of trade policy and regulatory frameworks; to meet SPS, TBT and standards; accelerate technology transfer; move up the value chains; improve technical capacity in the accession of African countries; increase capacities to meet implementation costs arising from existing WTO Rules and the outcome of the Doha Round including trade facilitation; meet adjustment costs arising, inter alia, from preference erosion and tariff revenue losses; promote public-private sector partnerships in relevant areas and to enhance entrepreneurship development and competitiveness. It was emphasized that the AFT should not become another missed opportunity.

III. Recommendations

16. At the end of its deliberations, the AUC Retreat made the following recommendations, as elements of an African Common Position on the AFT initiative, for the consideration of African Ministers of Trade, and Ministers of Finance and Economic Development:

- a) The funds under the AFT initiative should be additional, predictable and sustainable. A clear distinction is to be made between existing commitments and pledges and new ones under the initiative. Funding under this initiative should not be at the expense of traditional development aid and other programmes and initiatives such as ODA, bilateral, sub-regional, regional funding arrangements and should not

- crowd-out funding for social services. There should be no conditional ties attached.
- b) The funding of the AFT initiative should be provided in grant form. The terms and conditions should be development friendly and should not involve high transaction costs. Such costs should be limited to maximize the use of allocated resources on the ground. These fundings shall be aimed at having a positive impact on the development of the beneficiary countries.
 - c) There should be a wide stakeholder involvement in the design and implementation of programmes under AFT at the national and regional levels.
 - d) It is also recommended that the AFT initiative could draw useful lessons from good practices and experiences in those African countries where developmental programmes such as the IF, DTIS, JITAP and other bilateral and regional integration programmes under regional cooperation have been implemented.
 - e) While AFT should support national efforts and projects through budget or project related assistance it should also be supportive of regional integration initiatives. AFT funding should be additional resources over and above existing national and regional programmes of development and project funding and should not be used as an excuse to affect these initiatives and programmes. Furthermore, regional and sub-regional projects under AFT should be informed by the leading work already accomplished by NEPAD. The NEPAD projects should be given maximum attention.
 - f) AFT should be used to strengthen and develop Trade policy and enhance trade negotiation capacity at national, sub-regional and regional levels through an effective mechanism including, inter alia, JITAP and IF and other mechanisms whether or not modeled on these existing mechanisms.
 - g) Aid for Trade should be a complement and not a substitute for the development promises of the Doha Development Agenda nor of traditional Aid for Development such as ODA and other regional and bilateral initiatives and programmes (EU's EDF, US Millennium Account, etc.).
 - h) Extensive work on the requirements and the magnitude of a facility such as the AFT has already been identified in major works such as that of the NEPAD and the Commission for Africa. It is critical that recommendations from these initiatives are brought to bear on the AFT Task Force work as it relates to African members.

- i) There should be a proper management system of the funds under the initiative that promotes transparency, accountability and efficiency. The structure should include a monitoring and evaluation mechanism.
- j) The governance structure of the AFT facility should be designed to ensure that Africa has a strong voice in decision-making and implementation activities of the facility. The interface with multi- stakeholders and development partners is crucial for the successful operationalisation of the initiative and for ensuring that there is effectively a bottom –up approach on decision-making and implementation of the initiative. While the creation of an advisory group is being considered it should be an opportunity to ensure that African countries are fully represented and own the process of the AFT so that African interests and needs are fully articulated and taken on board. African institutions and programmes such as NEPAD, ECA, ADB and AU should be included.
- k) While it is critical to ensure coherence in trade policy formulation at national level, it is equally important to have coherence at the international level and in international policy making. In African countries there is need to strengthen coordination between the key Ministries at national level to ensure coherence in particular between Ministries of Trade, Industry, Agriculture and Finance as well as other relevant national institutions.
- l) At a Pan African level, there is a key coordination role for the AU in collaboration with the ECA. This coordination role should be extended in creating an interface between Geneva and Brussels processes as well as the Washington based chapters of Africa's representation including African Executive Directors at the IMF and World Bank.
- m) In addition to the problem of supply side constraints Africa is faced with serious challenges under the ongoing liberalization process in terms of preference erosion and adjustment costs. These concerns should be addressed with extreme urgency and adequately. AFT funding should be available to help African countries in the transitory period. Particular importance is attached to the role of adjustment costs related to commodities (prominent among which is cotton).
- n) While it is recognized that the AFT initiative is a big gain in the HMD, it is also recognized that the development and trade gains are not automatic. Hence it has to be carefully assessed how much value added will be effectively obtained under the AFT initiative (i) in terms of relief through technical assistance, capacity building and supply-side constraints (ii) as a bargaining chip under the Single Undertaking of the Doha Round.
- o) AFT should not be linked to the Doha Round negotiations. The question is how to ensure that the funding pledges and commitments will be fulfilled

and that there is no recycling of existing funds and commitments. It is also important to determine what is the leverage that Africa has to pursue the twin aspects of trade-related and development solutions under this mandate; and to determine the point at which the balance is achieved in the interest of Africa. Another important question that will need to be addressed by Africa is whether it should push for binding commitments or not under the initiative. If not, why and with what quid pro quos?

- p) National and regional expertise and resources available in Africa should be optimally used and synergized including in the diagnosis studies and technical cooperation programmes. Regional organisations and programs such as NEPAD, the African Development Bank, the ECA, and the Regional Economic communities (such as COMESA, SADC, ECOWAS, ECCAS, UMA, UMOA) could provide an African perspective to the AFT initiative. Technical assistance programmes and their deliveries should also look at how to create synergies for south –south cooperation.
- q) It is recommended that an AFT workshop be urgently held at sub regional and regional level.
- r) In order to ensure coherence between the trade and development aspects of Cotton, as determined at the WTO workshop held in Cotonou in March 2004 and reaffirmed in the 2004 July Framework, the African Group recommends that priority attention be given to Cotton in the implementation of the AFT initiative.
- s) Given the scant coverage of Africa's positions in world media the AU Commissioner for Trade and Industry is tasked to take appropriate action to raise the media communication profile on this and other trade issues

17. At the 4th Ordinary Session of their Conference, held in Nairobi, Kenya on 12-14 April 2006, the AU Ministers of Trade considered and endorsed the above recommendations on the Aid for Trade initiative.