Aid for Trade and Export Competitiveness: New Opportunities for Africa

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Introduction

Market access – which assumes center stage in bilateral and multilateral trade relations and negotiations – is a necessary but insufficient condition for harnessing trade for development. To exploit access to export markets, firms and traders must be able to offer a competitive product. Policies that result in anti-export bias, such as overvalued exchange rates and high domestic transactions costs (red tape), combined with low quality infrastructure services (energy, communications) and high transportation costs are the primary reason for the lack of trade growth and diversification in many African countries. These cost factors are amplified by trade restrictions affecting access to neighboring markets and to other developing countries. Most African economies now have good access to large OECD markets through preferential schemes as Cotonou, the EU's Everything But Arms (EBA) initiative and the U.S. African Growth and Opportunity Act (AGOA), as well as generally low MFN tariffs that prevail in these markets for those countries that do not have duty- and quota free access. This is not the case in most developing country markets.

More fully realizing the potential gains from trade is conditional on complementary policies and actions to support investment in new activities and expansion of sectors in which a country has a (potential) comparative advantage. Aid for trade (AFT) " — development assistance to bolster trade capacity and reduce trade costs — is a potential instrument to help governments and the private sector address these challenges.[1] For an expanded AFT effort to be effective, assistance must address national trade-related priorities – both policy- and investment-related. More specifically, in our view it should focus on enhancing the competitiveness of African firms and agricultural producers. Given the small size of most countries in Africa, efforts to bolster competitiveness cannot be limited to national actions. Small, poor, and/or landlocked countries can benefit from joint action with neighbors to address specific trade constraints and realize economies of scale. Cost-effective regional cooperation in both soft and hard infrastructure (e.g., concerted policy reforms, common regulatory frameworks to support

[1] The case for complementing trade liberalization with development assistance was made by a number of observers and groups during the Doha round – see e.g., Hoekman (2002), Bhagwati (2004), Page (2006), Prowse (2006), Sutherland et al. (2004), UN (2005), and Zedillo et al. (2005). Njinkeu and Cameron (2008) is a recent compilation of papers on this subject.

liberalization in services such as electricity or telecommunications, and investments in cross-country network infrastructures) may also attenuate problems of absorptive capacity.

While in no way downplaying the importance of a country-specific focus in allocating AFT, in this paper we devote most of our attention to the potential for regional cooperation in fostering greater competitiveness of African products. Our aim is to complement other papers in this project that focus on national dimensions of export supply constraints. The regional dimension of product competitiveness has also tended to be given less attention in the delivery of AFT to date.

The paper is organized as follows. Section 1 describes the objectives that have been identified for AFT in the policy literature and discusses a number of elements of the "competitiveness agenda" for many African countries. Section 2 argues that in many cases there may be a high return to using AFT to improve the functioning of services markets – a key determinant of competitiveness. Section 3 discusses where regional cooperation may be the appropriate instrument to support competitiveness. Section 4 briefly reviews the EU experience with regional cooperation and distills some lessons for efforts to pursue a regional AFT agenda in Africa. Section 5 turns to the question of delivering regional AFT and the adequacy of existing instruments. Section 6 makes a number of suggestions for further policy research. Section 7 concludes.

1. Elements of the trade capacity building agenda

For AFT to be effective, it should respond to a national trade strategy that is integrated with (a part of) a broader national development strategy. Such a trade strategy will be multi-dimensional, spanning both trade-related policy at home, access to export markets, and complementary measures to support trade growth. The process of developing a comprehensive trade strategy is time consuming and resource intensive. Mechanisms to identify and address trade-related policy and investment priorities are often weak in many African countries. Bolstering such national mechanisms was identified in the WTO AFT taskforce report (WTO, 2006) as a necessary condition for effective use of AFT.

Definitions of AFT vary – see e.g., Prowse (2006) or Page (2006). In this paper we define AFT as encompassing the following types of activities.

Technical Capacity for Analysis of Trade Issues. Policy formulation and implementation capacity is necessary within and outside government. In a typical African country the range of capacity needs includes identifying areas with actual and potential comparative advantage, key constraints, and priority actions to address these. The ability to build consensus among competing interests will require not only sound economic analysis of costs and benefits, but a good understanding of political economy considerations. Thus, an understanding, in the national context, of the linkages between poverty and trade, and how various interest groups will be affected is important. Such information is needed to design programs to mitigate short term costs that if not properly managed could derail the implementation of the trade strategy. Although most of the focus should be on own policies and national factors that reduce competitiveness, attention also needs to be given to identifying key market access opportunities in trading partners and policies that should be the subject of international negotiation.

Human and institutional reforms may be necessary to enable a country to undertake the above tasks. Existing public and private sector development programs may require significant restructuring, particularly if the focus in the past put the emphasis on State control and planning instead of a market-based approach. Training will be needed to cater for both short and long-term needs, for public and private sector-based personnel involved in international trade, as well as the civil society. Many donor programs give only marginal attention to private sector capacity and to longer-term trade capacity development.[2]

Addressing Supply Side Constraints. From the perspective of households and firms, the most important dimension of trade capacity is to reduce the costs of engaging in trade, thus stimulating investment and employment by enhancing the expected returns. There is a large domestic agenda associated with addressing the competitiveness problems that underlie the poor trade performance of African countries. Poor roads and ports, poorly performing customs, weaknesses in regulatory capacity, and limited access to finance and business services are all factors determining trade performance. Without action to improve supply capacity, reduce transportation costs from remote areas,

[2] Postgraduate degree programs in international trade with curricula covering inter alia international business management and private sector development offer a partial solution.

increase farm productivity through extension services, and improve the investment climate more generally, the potential gains from trade will not be maximized.

For example, enterprises in Tanzania report that on average it takes about 12 days for exports and 19 days for imports to clear customs.[3] It takes 116 days to move an export container from the factory/farm in Bangui (Central African Republic) to the nearest port and fulfill all the customs, administrative, and port requirements to load the cargo onto a ship. Overall, it takes 58 days for a typical import transaction in Africa. In contrast, it takes only 20 days in China, Malaysia or Chile.

A major dimension of facilitating trade is action to reduce the incidence of internal tax/customs/police controls. Addressing this source of operating cost – which increases the time needed for transport (an indirect cost) and often requires bribes to officials – would have a high return. Djankov, Freund and Cong (2006) conclude that each day of delay reduces export volumes by 1 percent on average. For example, if Uganda reduced its factory-to-ship time from 58 days to 22 (the average for the world), exports may increase by 36 percent. The delays just discussed are due to administrative hurdles - customs and tax procedures, clearance requirements and cargo inspections - often before the containers reach the port. As discussed further below, in addition to dealing with red tape, the trade agenda spans actions to improve access to services inputs such as finance, telecommunications, and transportation.

High operating and transactions costs are not only due to intra-national factors. Trade barriers in export markets can also be significant, especially in other developing countries. Non-tariff measures are often a significant barrier to export growth and diversification. Estimates of the investment costs for export industries of complying with prevailing product standards can be as high as 1 to 3 percent of the value of the trade flows concerned. Firms in Africa report that product quality standards rank just behind freight and transport charges as the most important factor blocking export success. Case studies focusing on the costs and benefits of health and safety standards come to similar conclusions, but also demonstrate that the overall gains from making the associated investments can be significant (World Bank, 2005). AFT that helps firms satisfy

[3] All data are from World Bank, *Doing Business 2006.*

prevailing market standards can have a major impact on the ability of countries to benefit from trade opportunities.

Thus, many factors need to be considered in pursuit of the objective of increasing competitiveness of firms and farms in African countries. Priority areas for action will differ across countries. The challenge confronting African governments is to map the various sources of AFT assistance to national development objectives, avoiding overlaps and gaps, while ensuring that trade capacity building addresses the full spectrum of issues involved: trade policy formulation and implementation; technical capacity for analysis of economic and trade issues; training for technical capacity building and institutional reforms; addressing supply side constraints and dealing with adjustment problems.

Addressing Adjustment Problems. Because of high concentration of exports and fiscal dependence on import taxation, many African countries may face short term adjustment shocks if they liberalize trade. Much will depend here on the speed and depth of reforms, with more gradual implementation implying less significant period-by-period costs. Adjustment shocks may also arise due to global liberalization, insofar as this erodes preferences and raises world prices of commodities for which countries are significant net importers. Measures to mitigate the negative effects of shocks – whether due to own or rest-of-the-world policy reforms – are generally not the focus of trade capacity building programs. Assistance for adjustment is available from the international financial institutions – World Bank, IMF, regional development banks – but this will not be provided in the form of pure grants and may be constrained by overall financing limitations for countries. AFT could play an important role as a co-financing mechanism to increase the grant element of adjustment assistance. It can also be an instrument to directly assist those that are negatively affected by trade reforms.

2. Supporting Services Reforms for Competitiveness

An efficient, competitive financial sector is critical in ensuring that capital is deployed where it has the highest returns.[4] Lower cost and higher quality telecommunications will generate economy-wide benefits, as this service is both an intermediate input and a "transport" mechanism for information services and other products that can be digitized.

[4] This section draws on Hoekman and Mattoo (2007).

Similarly, transport services contribute to the efficient distribution of goods within and between countries and are the means through which services providers move to the location of clients (and vice versa). Business services such as accounting and legal services reduce transaction costs associated with the operation of financial markets and the enforcement of contracts. Retail and wholesale services are a vital link between producers and consumers, with the margins that apply in the provision of such services influencing the competitiveness of firms on both the local and international market. Because many services are inputs into the production of other services and goods, their cost and quality affects the ability of all firms in an economy to compete.

Much of the behind the border competitiveness agenda is services-related. Power outages cost the median firm in Tanzania 5 percent of sales. Firms try to cope by providing their own infrastructure: in Nigeria, over 90 percent of firms with more than 20 employees have generators. The marginal cost of such power is about two and half times higher than power from the grid, and the capital cost of a generator is equal to about 20 percent of the total cost of machinery and equipment. Unreliable public infrastructure is often most problematic for small firms. Better access to services can have a major impact on the magnitude of the benefits accruing to poor households from merchandise trade liberalization (Hoekman and Olarreaga, 2007).

For there to be a reasonable prospect of achieving significant benefits from liberalization of services trade and investment, more attention is needed for the regulatory context in which services liberalization takes place. In particular, regulators must be reassured that liberalization will not deprive them of the freedom to regulate; that liberalization will not be prematurely thrust upon countries with weak regulatory institutions; and that liberalization will be supported by international cooperation. Dedicated assistance to improve regulatory capacity in developing countries would help reassure policymakers that regulatory inadequacies that could undermine the benefits of liberalization will be diagnosed and remedied before any market-opening commitments take effect.

The focus of trade agreements is on market access. Policy advice and assistance for regulatory reform and public investments in services infrastructure are provided by international financial institutions and specialized agencies. There is virtually no link

between the two processes. This disconnect persists even though improved regulation – ranging from prudential regulation in financial services to pro-competitive regulation in a variety of network-based services – will be critical to realizing the benefits of services liberalization in many sectors. Policy intervention will also be necessary to ensure universal service because liberalization per se will not always deliver adequate access to the poor.

Poor service sector policies in many countries often reflect standard political economy forces: those who gain (or are not hurt) from current policies are more economically and politically powerful than those who lose. In the case of telecommunications, for example, the incumbent provider may confront an administered price structure (with artificially high international prices and artificially low local prices). Liberalization will require tariff rebalancing to allow the incumbent to compete on the international segment. The resultant increase in local call prices is likely to be resisted by the politically vocal urban consumers, though the prospect of more competitive mobile telephony may dilute such opposition. Putting in place transparent and credible compensatory measures (e.g. voluntary retirement schemes, access to cheaper mobile telephony) could help persuade the incumbent's employees and urban consumers to accept reform.

Similar forces play out in other sectors. In Zambia,[5] a country that being landlocked confronts higher transportation costs than many coastal countries, high costs are partly due to restrictions that Zambia imposes on air and road transport. While these are detrimental to exporters, they benefit import competing interests and domestic transport service providers.[6] In accounting, local professionals in Zambia are geared almost entirely towards the lucrative large firm market and the use of international accounting and auditing standards. Although these are recognized to be excessively burdensome (costly) for small firms, the accounting profession has an interest generating the revenue associated with audits. Identifying the magnitude and incidence of the costs and benefits of prevailing policies that inhibit competition from foreign providers and developing mechanisms to assist losers is one area where AFT resources can make a

[5] What follows draws on detailed analyses in Mattoo and Payton (2007).
[6] E.g., foreign entry in cabotage activities is prohibited and international transporters may move products between two foreign countries only if they pass through their own country.

difference in helping governments deal with vested interests that resist changes to the status quo.

Regulation is often needed in services sectors to achieve efficiency and equity objectives. Designing appropriate regulatory standards and institutions takes time, as they often must be tailored to national circumstances to be effective and attain the desired objective. An increasing body of evidence has shown that a "one size fits all" approach – including international "best practice" norms – may not be appropriate. Reverting to the case of Zambia, in addition to the accounting example just mentioned, burdensome regulatory requirements for banks relating to documentation, collateral, and money laundering restrict access to credit for small enterprises and the rural poor, while not affecting much large firms or the urban rich. A fear of being blacklisted generates a chilling effect on the incentives for banks to explore or propose less burdensome alternatives to regulatory requirements.

In poor countries the desired investment response to liberalization (entry by foreign providers, new investment to expand capacity and service delivery) may be muted and take long to materialize. Structural factors such as economic size or location may imply that some countries or parts of countries will not be attractive enough to induce entry by private firms, whether foreign or domestic. Or, the market may be too small to allow vigorous competition. Such situations will result in limited access, if any, for many poor households or rural communities. Improving the distribution of access to services could be achieved by targeting AFT on service providers to encourage them to provide services in remote and disadvantaged regions and/or to lower the prices of such services below what would be needed to cover costs. The idea is to use AFT to induce services providers to serve households that otherwise would not have access.

The experience of a number of countries in the last decade has revealed that universal access policies can be used to complement market-based reforms to improve access to infrastructure services. In network industries such as telecommunications or electricity, private providers could compete for performance-based subsidies related to providing services to poor households. This would ensure that the poor to reap some of the benefits of competition, and while minimizing outlays for the government – the "reverse auction" process allows it to discover the true cost of service provision.

Countries such as Chile, Peru and Uganda have put in place such mechanisms. Based on the Chilean experience,[7] Kenny and Keremane (2007) estimate that an upper bound on the amount needed for achieving universal access to basic telecommunications using competitively awarded subsidies to private providers in developing countries is some $5.7 billion. Of this amount, $1.8 billion could not be supplied by a reasonable tax on existing providers, and would need to be generated from outside the sector. Most of this – some $1.5 billion –would be needed in Africa.

3. Aid for Trade Competitiveness: The Regional Dimension

Much of the AFT agenda is national in scope, as amply illustrated by the other papers in this project.[8] However, key factors reducing competitiveness may arise from conditions prevailing in other (neighboring) countries. A nationally focused trade development strategy often will not be sufficient to maximize trade opportunities—pursuit of an ambitious competitiveness agenda needs to extend to regional cooperation, implying that AFT should include support for such cooperation.

The potential benefits of regional cooperation in addressing supply side constraint for small and land-locked countries can be large. Regional cooperation in delivering AFT can lower costs and enhance global competitiveness of exporters by removing duplicative administrative and regulatory controls, allowing firms and governments to realize economies of scale by spreading the fixed costs of regulatory enforcement and related services over a larger area, and promoting greater competition. High tariffs often impede movement of goods into and within Africa and thus raise the costs of exporting. The establishment of transport and trade facilitation corridors linking two or more countries can be a mechanism that reduces trade costs both directly and indirectly – by increasing the incentives of all countries involved to monitor "performance" of the corridor.

There is a large literature documenting the trade-impeding effects of national borders: even if there are no formal trade restrictions such as tariffs, recent estimates

[7] The subsidy needed to provide universal access in Chile varied across sub-regions, with poor, sparsely populated areas requiring a larger per capita subsidy. Income density explains over 60 percent in the variation of subsidy cost. Kenny and Keremane (2007) therefore use income density data for other countries to estimate what would be needed to achieve universal access.

[8] See Bacchetta (2007), Biggs (2007), Kaplinsky and Morris (2007), Lyakurwa (2007), Mbekeani (20007), and Oyejide (2007).

suggest that regulatory differences reduce trade by a factor of 6 relative to domestic trade (Anderson and van Wincoop 2004). Each additional border to be crossed increases compliance costs.

Many of the policy reforms and actions that can lead to significant improvement of the business environment and attract investment are of a public good nature: the associated outputs are non-excludable (it is difficult to prevent countries who may not have contributed to its provision from using it) and non-rival in consumption (use by a neighboring country does not affect the supply or quality of the good) (Cornes and Sandler 1996). These characteristics create a collective action problem – the incentives for agents to free ride will result in under-provision of the good. There are many examples of cooperation on market integration-related policies that have the characteristics of regional public goods (Estevadeordal et al. 2004), including harmonization of financial sector regulation or mutual recognition of product standards, certification and accreditation systems. Once achieved, all consumers benefit, and additional consumption does not affect supply or the quality of the public good.

A similar argument also applies for instances where the output is not a pure public good such as a highway that links cities on different sides of an international border. Once built, both countries benefit. If only one country builds the road up to the border and the other does not, the investment may be of little value. This is an example of a coordination problem, but the road is not a public good because the benefits are excludable and rival – as use of the good increases, "quality" may fall due to e.g., congestion costs.

In principle, voluntary provision (cooperation) is feasible for such impure public (club) goods as there is not a free rider problem – the members of the club can be excluded if they do not contribute. Thus, a system of user fees or tolls could ensure internalization of the benefits of a specific investment. However, in such cases the distribution of benefits could be very skewed. For example, a land-locked country may require access to a seaport in a neighboring country, but the latter may have little interest in building the required infrastructure to connect landlocked neighbors to its ports. While in principle a system of transfers and user fees should be able to finance the needed infrastructure if the expected rate of return is higher than the investment and running

costs, in practice preferences and priorities may differ across countries, there may be uncertainty about the costs and benefits and their distribution, disagreements about cost sharing, and fears of exploitation of market power once the infrastructure is in place.

Even if coordination problems can be overcome, the capacity of poor countries to invest and/or the unwillingness of the private sector to do so as a result of a mix of commercial and political risk considerations may be a binding constraint. Capacity is not just a financial matter – institutional capacity is needed to ensure implementation, maintenance, etc.[9] Some regional partners simply may not have the capacity to contribute enough to allow the regional public good to be provided.

The potential scope of multi-country or regional cooperation goes far beyond trade and market integration – indeed, much of the cooperation that has been pursued by countries on a regional basis addresses other concerns, such as environmental spillovers, national security and public health. The regional AFT agenda on which this paper focuses includes both cooperation on trade-related regulatory policies and their enforcement ("policy integration") and cooperation on infrastructure projects that will benefit more than one country (provision of regional "club goods"). In practice, the extent to which the AFT agenda involves cross-border spillovers will need to be determined on an issue-by-issue basis through analysis and consultations.

Two examples to illustrate the potential payoffs to regional cooperation on AFT, and the challenges of designing the appropriate form of – and forum for – such cooperation follow.

Investments in trade logistics and improved infrastructure

One of the most obvious directly trade related areas for action to bolster Sub-Saharan Africa's trade capacity is to improve the intra-African road network. Overland trade between West Africa and South Africa is practically nonexistent. This helps explain why the price quotes for container shipments from Baltimore to Durban is $2,500, whereas the cost to Mbabane (Swaziland) via Durban comes to $12,000 – a landlocked "penalty" of

[9] Useful characterizations of this capacity constraint are the "weakest link" and the "best shot" problems of providing a regional public or club good (Hirschleifer, 1983). The first pertains to situations where some countries cannot contribute enough of the good, with other countries cutting back accordingly. The second pertains to cases where a critical level of commitment/investment is needed for the good to be beneficial, and a country does not have the capacity to deliver this.

380 percent. Aside from longer overland distances, traffic to and from landlocked countries often suffers from higher transaction costs due to the complexities of coordinating multimodal transport journeys and the crossing of multiple borders. It is thus not surprising that landlocked countries have only 30 percent of the trade volume of coastal economies. Raising the infrastructure density of the median landlocked country to the 25th percentile is estimated to reduce the transport cost disadvantage of being landlocked by 12 percentage points. And improving the infrastructure of the transit economy reduces the disadvantage by a further 7 percentage points (Limão and Venables, 2000).

A transport network that raises road quality to the "average " level and that is complemented by actions to minimize delays at national border crossings and within countries (checkpoints, etc.) would have a very large impact on trade flows. Buys, Deichman and Wheeler (2006) use spatial network analysis techniques to identify a network of primary roads connecting all Sub-Saharan capitals and other cities with populations over 500,000. They estimate current overland trade flows in the network, using econometrically-estimated gravity model parameters, road transport quality indicators, actual road distances, and estimates of economic scale for cities in the network. They then simulate the effect of feasible continental road network upgrading by setting network transport quality at a level that is functional, but less highly-developed than existing roads in countries like South Africa and Botswana. The costs of upgrading are estimated using a World Bank database of road project costs in Africa. Their baseline results indicate that continental network upgrading would expand overland trade by about $250 billion over 15 years, with major direct and indirect benefits for the rural poor. Financing the program would require about $20 billion for initial upgrading and $1 billion annually for maintenance.

Buys et al. (2006) stress that the benefits of a higher quality road network are conditional on action to ensure the roads are "barrier-free" within and across countries. This implies that in addition to investment in roads, efforts must be devoted to agreeing on common conventions on trade and security, and empowering regional authorities to ensure streamlined border procedures and prevent harassment of truckers for bribes at local road barriers. In addition to political commitment to remove existing barriers and

controls, a system monitoring and local engagement will be critical to addressing the problem of *internal* trade controls and checkpoints.[10]

Support for Regulatory Reform and Harmonization

For small countries in particular there may be economies of scale that can be realized through regulatory cooperation – harmonization or mutual recognition of qualifications, technical standards, prudential regulation, etc.[11] For example, in basic telecommunications, apart from spectrum monitoring equipment, computers and programs, there is the cost of professional assistance for activities such as interconnection, cost estimation and spectrum management. An example is the Eastern Caribbean Telecommunications Authority (ECTEL), the first regional telecommunications authority in the world. Although the member countries retain their sovereign power over licensing and regulation, ECTEL provides technical expertise, advice and support for national regulations. Apart from the economies of scale in establishing a common regulator, there are at least three other advantages. It will promote the development of harmonized and transparent regulation in the region, allow for a greater degree of independence (and hence credibility) in regulatory advice, and enhance bargaining power in negotiations with incumbents and potential entrants.

A regional mechanism that replicates the key elements of the successful national universal access schemes discussed previously in this paper may be one way to use additional AFT resources to increase support for pro-competitive reforms. This could involve sets of countries (regions) that are willing to eliminate barriers to investment being given assistance to put in place both the necessary regulatory reforms *and* granted access to a "universal service provision fund." Funds would be made available to provide a subsidy to firms to create infrastructure and/or provide services in the relevant region or country at pre-specified terms. These terms could be established as the result of a reverse

[10] Modern technology can play an important role, with rapid identification of maintenance- or security-related bottlenecks by airborne or satellite-based surveillance of network roads. Another dimension of addressing local road barriers could be through a coordinated program of community outreach and policing. Local road-maintenance employment and authority-funded community development programs can provide incentives for barrier prevention by settlements along the network road.

[11] For a more extensive discussion of regulatory cooperation and reform issues in a specific African country context, see Mattoo and Payton (2007).

auction or bidding process under which firms would indicate the minimum level of subsidy they would require to fulfill the mandate set out by the government. Note that this form of assistance does not target specific industries or firms, as would industrial policies or trade preferences. Rather the objective would be to improve the availability and quality of services for all firms, farms and households in areas that would otherwise be underserved.

These examples illustrate the potential payoffs to regional cooperation in terms of attaining both greater competitiveness (lower costs for firms, greater efficiency) and ensuring greater equity in the distribution of the benefits of market opening and integration. While there is a strong case for considering regional cooperation as one instrument to pursue these objectives, and that AFT should therefore be available to support such cooperation, the rationale for a regional approach needs to be clearly defined, and the preconditions for any such approach to be likely to be successful clearly identified and addressed. To date the payoffs to regional cooperation efforts in Africa have been disappointing.

The next section briefly summarizes key elements of the institutional mechanisms that have been put in place in the most successful regional integration initiative in recent history: the European Union. We will argue that grants and redistributive transfers between EU members ("development assistance") played a major role in supporting regional cooperation. In the African context, AFT could play a similar role.

4. Regional Cooperation and AFT: Lessons from the EU

The EU is the most far-reaching inter-governmental cooperative effort extant aimed at regional integration of product and factor markets and the supply of regional public goods that support greater trade. Key features of the European integration process have been the creation of supra-national institutions to which sovereignty is ceded in specific policy areas affecting the integration of markets, complemented with financial mechanisms through which poorer regions are provided with transfers from richer members and a concerted effort to supply regional public goods. These transfers are motivated both by the regional integration objective and a desire to attenuate the adjustment costs associated with regional integration and to foster greater convergence of

real incomes within the EU. Mechanisms such as the Structural and Cohesion Funds provide grants to eligible (i.e., poorer) sub-regions and communities. These funds – totaling some €257 billion between 2000 and 2006, of which €44 billion for pre-accession countries – are paid from the EU budget, with disbursement managed by the Commission upon approval of the Council and European Parliament. They are complemented by loans from the European Investment Bank (EIB) that co-finance investment projects, including large-scale infrastructure, in relatively disadvantaged EU regions. The annual level of EIB lending is some €40 billion, with cumulative disbursements of €210 billion in the last 5 years, of which €185 billion went to EU members. The magnitude of the associated transfers has been significant, ranging up to 3-4 percent of GDP for countries such as Greece and Portugal for some years (Griffith-Jones et al. 2004).

In addition to redistributive programs, transfer mechanisms are also used to increase the supply of cross-country infrastructure and to support policy integration initiatives. A mix of grants and loan funding is used to pursue these objectives, with the former providing an instrument to identify the likely gains from cooperation and their distribution, thereby also establishing the case for borrowing from the EIB. Grants are also used to lower the overall costs of cooperation for poorer countries, by subsidizing the upstream costs of project identification and preparation, as well as the borrowing costs associated with infrastructure investments.

EU institutions play a major role in supporting cross-country cooperation by helping to identify potential priority projects, allocating subsidies/transfers to entities, and monitoring implementation (i.e., helping to overcome the coordination problem). Similar approaches have been used to support accession countries. In the case of South East European countries, the average share of grants in total assistance provided by the EU (€7.2bn in 2005) is 40 percent, rising to 50 percent for Moldova and 58 percent for Bulgaria (World Bank 2005).

Specific programs have been developed to finance the infrastructure needed to capture the potential benefits of regional integration of national markets. A major example is the Trans-European Networks (TEN) initiative, through which Member States agree on priority cross-country infrastructure investments for road, rail, water, telecom

and energy networks. Between 1990 and 2005, the EIB lent some €77 billion for TEN projects. These programs have played a major role in linking EU markets.

The EU experience illustrates the importance of a balanced approach that combines support for policy integration efforts with mechanisms to encourage investments in regional infrastructure. It also suggests the importance of providing dedicated funding mechanisms to co-finance regional projects and to provide grants to fund the upstream "software" investments (analytical work, etc.) to build the case for regional cooperation, put in place the institutional mechanisms needed to achieve agreement on a specific project or program, and to monitor performance and outcomes.

5. Supporting Regional Cooperation and AFT in Africa

The foregoing discussion suggests there are a number of preconditions for AFT to be effective in enhancing competitiveness: (i) identifying and rank ordering potential policy reforms and investment projects as instruments to attain national objectives; (ii) determining which of these have a cross-country dimension; (iii) coordinating and obtaining agreement between the potential (regional) partners (governments; potential private investors in the case of infrastructure) on the design of such projects and programs, including in the case of regional projects a clear identification of the distribution of costs and benefits across countries; and (iv) establishment of effective institutional support mechanisms to ensure implementation, and, in the case of regional projects, to sustain regional cooperation. The latter spans national as well as regional institutions, as national bodies will generally have to implement regional interventions at the country level, and country ownership is a key for sustaining regional cooperation.

There is a multiplicity of regional organizations and Regional Economic Communities (RECs) in Africa. The African Union (AU) has a mandate to coordinate these various regional integration programs and the EPA negotiation process (although not being a party to the Cotonou Partnership Agreement it does not have a seat ate the negotiating table). The New Partnership for Africa's Development (NEPAD) is a focal point for regional cooperation and integration.[12] African RECs play a key role in NEPAD

[12] Four areas for intervention are high-lighted in the NEPAD short-term action plan for infrastructure: facilitation (creating the policy, regulatory and institutional framework); capacity-building for

implementation, although capacity constraints and limited willingness by member countries to agree on policy and project priorities have implied that the AU/NEPAD has had limited success in fostering regional cooperation.

The African Development Bank (AfDB) supports regional cooperation and integration efforts by lending for multi-country projects and assisting RECs. The NEPAD initiative raised the profile of the regional integration agenda in AfDB activities, both policy-based (e.g., banking and financial standards) and infrastructure development. The AfDB hosts the Africa Infrastructure Consortium Secretariat, and is tasked with facilitating cooperation on infrastructure development between itself, the AU, NEPAD, RECs and the members of the Consortium. The AfDB recently created a Department for NEPAD, Regional Integration and Trade to consolidate and strengthen its trade-related activities. Priority is being given to the promotion and development of regional infrastructure, but in partnership with the AU and UNECA, an objective is also to bolster the capacity of African RECs.

Most African RECs have not had a significant impact as a result of incomplete implementation reflecting capacity constraints and lack of political support. The technical assistance and capacity-building support that has been provided has consequently had limited impact. Such impacts have also been reduced by a lack of comprehensive strategies that integrate the policy reform (cooperation) agenda – removing regulatory and administrative impediments to regional market integration – with a focus on regional investments in infrastructure.[13]

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implementing institutions; mobilizing financing for already identified priority investment projects; and identification of new priority projects. Regional projects – supported by lending from the AfDB and other IFIs and donors – emphasize infrastructure projects and improved access to services. Examples of important regional projects currently being supported by the development banks include transport and trade facilitation, where the objectives include improved access of land-locked countries to export markets and reduce trade costs and transit times (West Africa Road Transport and Transit Program; East Africa Road Transport Program); Central Africa (CEMAC) trade and transport facilitation project), energy (West Africa Power Pool; Southern Africa Power Pool; West Africa Gas Pipeline, water (Senegal River Basin Development; Nile River Basin development), telecommunications (Regional Communications Infrastructure Program), financial sector (Partial Risk Guarantee Facility for the West African Economic and Monetary Union (WAEMU) countries; African Trade Insurance Agency, and agriculture (Southern Africa Productivity Program; West Africa Productivity Program). These projects and programs are based on NEPAD Short Term Action Plan priorities and the World Bank's Africa Action Plan (AAP).

[13] RECs such as ECOWAS and UEMOA, CEMAC, COMESA, EAC and SADC face common issues constraining their effectiveness – in turn constraining delivery of NEPAD priority programs and projects: a lack of engagement by members in setting specific operational agendas for the institutions, lack of clearly

Lending by the development banks (AfDB, World Bank) for regional trade-related projects is limited owing to the difficulties in securing agreement between countries and the appropriate guarantees for multi-country loans. Loans can only be made to revenue earning, creditworthy regional entities, unless repayment obligations are assumed by member governments. Many regional bodies are not revenue earning and are dependent on financial contributions from their member governments, which themselves often face serious fiscal constraints. More fundamentally, regional projects are less likely to find their way into national development plans as a result of coordination problems.

Because there is only limited access to grant resources to undertake upstream analysis of regional cooperation, regional projects that would generate large benefits may not get support. Although development institutions have been focusing more attention on regional cooperation, available grant funding tends to be institution-, region- or program-specific, and is not earmarked for trade.[14] In the case of IDA-14 a specific share—US$ 1 billion out of the total of US$34.4 billion—is dedicated to support regional projects.[15] While these IDA credits are important in providing an incentive for governments to consider cross-country cooperative projects, IDA does not provide grant funding for regional projects, and there are constraints on using credits to directly support non-revenue earning regional implementing bodies.

A challenge then is to ensure that sufficient attention is given to determining the relative direct importance of regional projects and cooperation for countries, the potential positive externalities that could be achieved and finding solutions in cases where country-specific capacity constraints preclude the appropriate level of regional cooperation (supply of a regional public good). This requires a detailed analysis of the costs and benefits of potential cross-country regional projects and their distribution across countries. While national engagement is clearly a prerequisite input into such analysis,

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defined deliverables and accountability for results, and inadequate resources for the institutions to deliver on their mandates.

[14] In the context of the European Development Fund, the grant mechanism used to support ACP countries, 13 percent of funding is for cross-country projects.

[15] The regional funding agreed for IDA14 is based on an envelope of up to SDR 300 million per annum for regional projects, with SDR 100 million coming from the participating countries' IDA allocations and the balance of SDR 200 million coming from a special set-aside provision. With their 1/3 contribution, countries are therefore able to leverage the remaining 2/3 of project costs. The national contribution ensures ownership in the regional projects, while recognizing the need for additional incentives to address the externalities affecting regional cooperation.

coordination requires a regional "focal point" that helps national governments identify areas where there is a high payoff to regional cooperation, be it on policies or infrastructure.

Existing REC secretariats are often too weak to identify and implement priority activities. Without scaling up of capacity and expertise, limited identification, implementation and monitoring capacity will continue to impede regional cooperation. The need here is similar to that arising at the national level in defining trade-related priorities in the context of a national development strategy, in that at the national level regional cooperation options need to be considered both in and of themselves (insofar as they are club goods or regional public goods) and as potential mechanisms to achieve purely national objectives. However, it is more complicated in that any such national deliberations must be informed by analysis on the likely return to regional cooperation in a specific area. Undertaking such analysis and identification is in itself a public good that is affected by collective action problems.

As noted previously, in the EU, grants to identify regional projects and pursue policy integration play an important role in attaining agreement on the provision of regional public goods. Absent such upstream "subsidies" to identify mutually beneficial projects that require cross-country cooperation and the needed regional level coordination, the scope for – feasibility of – realizing regional projects declines even if there is a capacity to undertake the needed analysis. In the case of Africa, where this capacity is weak, the need for such subsidies is that much greater.

There is clearly a longer-term capacity-building agenda for the RECs, but as important is building capacity and raising the domestic policy profile of regional cooperation in *national* governments and national trade prioritization processes. Additional AFT to support "open regionalism" and to bolster the capacity of RECs to identify regional approaches to market integration and lowering trade and transactions costs as well as their capacity to monitor implementation of agreements would be beneficial. This is an important agenda, and comes closer in some areas to being a pure regional public good than infrastructure, which may help explain why progress has so often been limited.

The focal point for regional cooperation on trade matters – and thus AFT – does not have to be a REC. What is needed is to bring in those who have the regulatory authority and/or a clear interest in a specific subject. In the case of accounting/auditing services, for example, in Eastern Central and Southern Africa the appropriate focal point is not a REC but a regional Federation of Accountants, a non-governmental standards-setting organization (Mattoo and Payton, 2007). Although a "higher" level organization with a regional ambit that determines the appropriate counterparts on an issue by issue basis will often be needed, this may or may not be a REC. In many cases what is needed are specialized bodies – regional regulatory bodies, commissions, etc. Additional grant resources can greatly reduce the transactions costs associated with a national approach to support regional cooperation, which can be disproportionately large.[16]

The need for grants to support regional cooperation extends to 'hard' infrastructure projects.[17] Regional infrastructure projects must include a management function that is assigned responsibility for implementation and operation. Even if burden-sharing for the needed investments in hardware can be agreed among the countries involved, countries are often reluctant to borrow to finance the management function and to meet related capacity building requirements. A regional project may generate investment obligations that are disproportionately located in one country. If so, a small country with limited borrowing capacity may not be able to contribute the needed magnitude of financing. Conversely, regional cooperation may be impeded because of large disparities in the distribution of payoffs.[18]

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[16] An example is a Regional Trade Facilitation project in Southern and Eastern Africa, which includes the creation of an African Trade Insurance Agency (ATI) to catalyze trade and investment through provision of trade insurance and related services. This project required a series of credits for each participating country, giving rise to much higher transactions costs than if a financing arrangement could have been made for the ATI directly. In 2006 there was decision by participating countries and the ATI Board and General Assembly to convert current country-specific IDA-funded contributions to its capital into pooled equity capital for the Agency. Pooling would allow greater leveraging of capital and diversification of risk, remove country-specific underwriting constraints, and encourage greater private equity participation. It would also convert the project into a truly regional one.

[17] What follows has benefited from discussions with and inputs from Mark Tomlinson.

[18] For example, Malawi experiences prolonged power outages impacting all sectors of the economy. Almost all of Malawi's generation comes from hydroelectric stations on the Shire River, the level of which is declining sharply with levels on Lake Tanganyika. A solution is to connect Malawi to the Southern African Power Pool, with a new transmission line to a bulk supply point in Mozambique. The World Bank has provided financing to Malawi through the Southern Africa Power Pool APL. Most of the line, however, needs to be constructed in Mozambique, which has only weak incentives to do so. If Mozambique's investment burden could be reduced through a regional aid for trade grant, the costs of the project could be

Such "capacity problems" can impede regional projects from being realized. Even with burden-sharing and co-financing, small countries where investments would need to occur may not be able to mobilize the required resources. The existing national credit, sovereign guarantee approach constrains regional cooperation on large infrastructure projects. While private investment will often be an important source of funding for large-scale regional infrastructure, private investors often will want to co-finance regional projects. The need by development banks to finance regional projects through a series of linked national credits or loans, with complex cross-linkages and coordination requirements makes such co-financing of regional projects by private investors relatively unattractive, as they must establish relationships with the co-investing governments and may perceive that the fragmented structure lessens their ability to effect commercial remedies if such become necessary.

Additional grant resources for regional cooperation could help offset these constraints. While there is a danger that dedicated funding for regional cooperation could increase incentives for the implementation of discriminatory trade and regulatory policies, the regional cooperation agenda in Africa is mostly a nontariff, behind the border one that is unlikely to result in significant trade diversion: insofar as the agenda is aimed at increasing competitiveness of firms and farms in the various regions, and not to increase protection, this will mostly be the case.

The allocation of funding for trade-related projects should be driven by assessments that consider *both* national priorities and potential regional spillovers. For the LDCs in principle the mechanism for this exists in the form of the Enhanced Integrated Framework (EIF). However, the report of the IF Taskforce (WTO, 2006b) gives little attention to regional cooperation or the fact that many RECs have memberships that span both LDCs and non-LDCs. The taskforce report calls for an "expanded [diagnostic analysis] to include broader trade-related issues such as needs assessment for infrastructure including related policy design, cross-cutting *and regional issues when so requested* (p.13, emphasis added), and notes that the EIF "should be an umbrella for other national and regional trade capacity initiatives" (p.15). This creates the risk that cross-country cooperation in the trade area will continue to get inadequate

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brought more into line with the perceived benefits.

attention. If the IF can be relied upon to identify regional trade needs in LDCs, and donors respond by allocating increased grant funds and concessional finance to support the delivery of cross-border parts of priority regional infrastructure and policy integration projects, which may include participation by countries that are not LDCs, much of the "support gap" for regional cooperation may be addressed. However, because the focus is on nations (governments), this will not necessarily address the capacity constraint issues at the REC level, and also may do little to assist governments and development banks to overcome regional coordination problems.

The "clearing house function" proposed by the AFT taskforce (WTO 2006a) might help identify where there are "support gaps", but it is not clear to how that might work in practice, who and where this should be done, etc. A multilateral clearinghouse (e.g., the WTO) is very unlikely to deal with the real problems effectively, as it presupposes that regional priorities are identified. This must be done at the national level, with inputs from – and interactions with – regional entities in Africa. An option here is to complement IF-type diagnostic trade integration studies with a regional analytic framework in those instances where governments agree that the appropriate locus of regional cooperation is a REC. This has been proposed by Pearson (2007) in the COMESA context, the idea being to establish a "virtual fund" in COMESA that will work with member governments to develop a regional trade strategy and act as a coordinating device to obtain funding for identified priority projects from the various existing sources of funding. This makes a lot of sense – in effect, the REC secretariat would act as a coordinating device and focal point for regional AFT. Clearly preconditions for this approach to be effective are that member governments support the REC in this function, that the REC has the capacity to undertake the coordination and provide the needed analytical support, and that donors will accept to fund the priority areas identified by governments for regional cooperation.

Limiting the focus to RECs will not be appropriate for all issues. An alternative (or complement) would be to generate incentives for the AfDB and the World Bank to do more to support regional cooperation. These agencies have a broader mandate and purview and are flexible in terms of the types of cross-country projects and programs they can support. Importantly, the development banks are directly engaged in supporting

the national policy reform and institutional strengthening agenda in African countries. Arguably the development banks are the best focal point for regional cooperation efforts in the trade area as they have the operational capacity to implement programs and projects.[19]

6. The Agenda for Policy Research

A key concern of African countries concerning the AFT discussion has been the extent to which the flow of funds can be monitored in order to determine if the pledges made since the G8 2005 summit at Gleneagles are additional commitments or simply resources re-allocated to trade from other areas. The WTO AFT task force (WTO 2006a) addressed this concern by predicating the success of AFT on its ability to provide "additional, predictable, sustainable and effective financing." Monitoring is therefore a key priority for the research and policy community. The OECD/WTO, working with development agencies, plans to enhance the DAC/WTO database for monitoring the flow of resources both for delivery and for achievement of program goals. While this is important, for this information to be relevant to the local policy context in African countries, African scholars and institutions, including the AERC, will need to play a role in leveraging the global monitoring effort of delivery of assistance with assessments of the impact of the aid.

The AFT task force suggested that a monitoring body be convened within the WTO to conduct reviews of AFT, in coordination with recipients, donors, and multilateral organizations. Work undertaken by local researchers would be an essential complement to this WTO monitoring body. There is a need to describe and analyze the effect of selected trade capacity building activities to determine their effectiveness in enhancing economic development and identifying those aspects that contribute most to nurturing the trade and development nexus in Africa. Subjects of interest include the macroeconomic consequences of expansion of AFT resources, especially on inflation and exchange rate, whether significant resource flows into trade institutions and RECs are

[19] Entities such as UNECA and the African Trade Policy Centre have bolstered their analytical trade capacity in recent years, and could play an important role in supporting regional cooperation in the trade area by monitoring progress and assessing the impacts of (lack of) such cooperation, both at the REC level and the activities of the development banks and donors.

managed and allocated so as to support long-term institutional building, and the fungibility and the effectiveness of aid.

Previous research has shown that in the aggregate aid may not be fungible, but that it becomes so at a disaggregated (project) level (Feyziogly et al 1998). One way to attempt to prevent fungibility is to impose specific performance targets (Devarajan and Swaroop, 1998). What those targets should be is a question of project design; whether they are met requires monitoring and evaluation.

One concern in the AFT debate has been on whether such aid should be earmarked and managed separately or fully integrated in the budget process. An argument for earmarking is that the low profile of trade ministries in government apparatus makes it less likely the trade agenda will receive the required attention in priority setting. This argument for earmarking AFT funds is not very compelling insofar as the trade agenda is a broad one that spans many ministries and groups in society: Trade Ministries generally will not have the mandate or the capacity to take the lead in many of the relevant areas. Sok (2007) and Lymo and Sungula (2007) make a strong case on the basis of ownership and effectiveness considerations for AFT to take the form of budget support, drawing on the experience of Cambodia and Tanzania, respectively. Such support could be provided through so-called Sector Wide Approaches (SWAPs) that provide the overall framework for interventions and projects in a broad area. Designing methodologies for assessing the benefits of the associated pooling of own and donor resources is another area for policy research.

The prioritization process that is explicit or implicit in national trade strategy documents often does not appear to be based on rigorous cost-benefit analysis, and may not identify in enough detail the specific actions needed to enhance the competitiveness of producers in a country. There is much that could be done by the policy research community to undertake such analysis, both as an input into the identification of priorities and to identify policy and resource gaps associated with specific trade projects. The experience to date suggests there is a significant capacity deficit among recipient countries in this area.

A first step could be to characterize the status quo policies in key services sectors that are inputs into production and trade and the effects of these policies on operating

costs. The World Bank has developed survey questionnaires and templates that can be used to identify applied policies. This information is needed to identify where there are significant barriers to competition. Given this information, analysis can focus on the effects of policies on prices, and on the incidence of the benefits and costs of policies that restrict competition. Such analysis can employ tools such as numerical general equilibrium modeling or take the form of case studies. The specific methodology is less important than focusing analytical attention on quantifying the performance of service sectors and the impacts of policies that raise the costs of doing business. The Investment Climate Surveys and the Doing Business survey undertaken by the World Bank on a country-by-country basis, as well as the national Trade Policy Reviews done periodically by the WTO and the IF's diagnostic trade integration studies (for LDCs) are all valuable sources of information on applied policies and their overall impacts on trade and transactions costs. Research mentioned previously in this paper, such as Djankov et al (2006), Kenny and Keremane (2007) and Buys et al. (2006), illustrate the use that can be made of available data in identifying priority areas for AFT interventions aimed at improving competitiveness. The supply chain analysis approach discussed by Kaplinsky and Morris (2007) is another approach that has direct relevance for the identification of AFT priorities.

ILEAP (2006) describes the pattern of past AFT spending by donors, recipients and category. Further work could analyze the impact of specific categories of trade related aid on a number of specific indicators. Trade in services and trade facilitation have been identified as good candidates for use of new trade capacity building resources. Finger and Schuler (2000) warn about the potential high costs of some projects in these areas. Empirical research in the African context would be useful to justify the expected flow of funds. Such work, done on a representative sample of countries, would help inform debates on the effectiveness of AFT. Of particular interest would be to increase knowledge on the relative costs and benefits of targeting infrastructure as opposed to policy-induced transactions costs ("red tape"). This is an area of debate, with some arguing that infrastructure is critical and a high return investment, even if high cost (e.g., Francois and Manchin, 2007; Buys et al. 2006). Others are of the view that most important is to address policy-related transactions costs, not least because doing so does

not involve much if any capital expenditures (Djankov et al. 2006). This is a debate that must occur on a country-by-country basis, informed by detailed empirical analysis.

Another important area for research concerns the macroeconomic effects of AFT. There is long standing concern in the literature that aid can have perverse effects on competitiveness by driving up real wages and the exchange rate (Oyejide, 2007; Suwa-Eisenmann and Verdier, 2007 survey much of this literature). Rajan and Subramanian (2005a, b), for example, conclude that there is evidence consistent with aid undermining the competitiveness of labor intensive or exporting sectors through real appreciation of the exchange rate. The Commission for Africa (2005) and UN Millennium trade taskforce (2005) reports make the case that AFT should have less adverse macroeconomic impacts insofar as it targets projects that reduce trade costs, thereby potentially offsetting the more overall negative competitiveness impacts. Monitoring and evaluating whether and to what extent there is evidence that specific AFT interventions help to offset the negative spillover effects of aid would help bolster the case for making AFT a priority.

Research of the type suggested requires access to relevant data. The required data goes beyond what is envisaged in the global monitoring effort suggested by the AFT taskforce (WTO, 2006a). What is needed is information on the costs of investments/projects in the various areas (infrastructure, institutions, training, etc.) and on indicators that are relevant in measuring performance or outcomes. Some progress has been made to generate new data relevant to trade facilitation through projects such as the World Bank "Doing Business" report and the Investment Climate Surveys. Greater interaction between such data collection projects and the research community would be useful to ensure the appropriate data gets collected for a representative sample of countries, and made available on a timely basis to African researchers and policymakers.

The competitiveness agenda centers in part on the provision of trade-related infrastructure with international externalities. Hence how such infrastructure is financed and managed should be an important element of the policy debate. Research to inform policy debate on regional infrastructure would include a review of alternative financing mechanisms and coordination mechanisms and institutions. As is true of national projects, research to assess the relative costs and benefits of policy integration among

countries versus investment in regional infrastructure projects is needed. The former may be relatively low cost and have high payoffs, whereas the latter will have higher upfront investment costs.

In summary, further research and analysis could:

- Build the capacity of local researchers to inform and participate in national trade priority setting processes and analyze the likely costs and benefits of alternative interventions/measures, including distributional impacts. This capacity building could include a focus on the preparation of projects.
- Identify the set of policy and infrastructure-related sources of high trade and transactions costs confronting African producers, including in particular services-related causes of competitiveness problems.
- Analyze which constraints and problems could most efficiently be addressed through regional cooperation; and the appropriate locus of such cooperation – RECs, public-private partnerships, industry associations, etc.
- Initiate research focusing on ex post impact evaluation to identify whether objectives were met and what the effects of AFT projects were on specific variables of interest (employment, incomes, poverty, etc.).

7. Conclusions

This paper has argued that AFT can do much to support actions by governments and the private sector to improve the competitiveness of African products. Much of the *national* AFT agenda revolves around improving the performance of service industries and government services that have a bearing on trade. This will require promotion of greater contestability of markets, including through entry by foreign providers, complemented by effective regulatory regimes to attain equity and efficiency objectives.

National AFT should be complemented by a greater focus on *regional* cooperation as an instrument to enhance the competitiveness of African producers on domestic and world markets. Trade policy is increasingly defined and implemented at the regional level, and there is great scope for multi-country trade-related infrastructure projects and cooperation on regulatory reform to reduce trade costs for producers and

thus support and reinforce national programs. AFT funding can help provide much needed regional public and/or club goods and address coordination failures.

Pursuit of competitiveness objectives through regional cooperation will involve a need for training and institutional development/strengthening, both at the national and the regional level, as well as increased grant resources to (co-)fund joint projects. Four types of regional AFT activities could be considered to complement national AFT programmes:[20] (i) support for identifying and rank ordering potential multi-country projects as instruments to attain national objectives; (ii) support for coordinating and obtaining agreement between the national governments on regional trade projects and programs, including clear identification of the distribution of costs and benefits across countries; (iii) support to put in place and/or strengthen institutional support mechanisms to sustain regional cooperation, both national as well as regional; and (iv) support directed at knowledge sharing and learning within a regional setting or entity.

National ownership of and support for regional cooperation will be important for success, whether the focal point is a REC or a development bank (IEG, 2007). Obtaining agreement and sustaining the needed commitment for implementation requires both objective analysis that identifies the magnitude and distribution of costs and benefits across countries, and credible and effective mechanisms to manage cooperation once this has been agreed. The EU experience clearly reveals the importance of access to grant funds to undertake the required coordination, analysis and project preparation. Providing access to significantly greater amounts of grant funding to support regional cooperation is therefore a key way in which additional AFT can help realize regional initiatives that will bolster African competitiveness. This can be done through existing mechanisms and trust funds that have already been established in the AfDB and the World Bank, as well as through bilateral mechanisms such as the EDF for ACP countries and EPAs.

The needs for policy research and capacity-building in this area are significant. They include:

- Training in methodologies and techniques to identify the likely impacts of AFT interventions on competitiveness, assess the costs and benefits of cross-border

20 See also ILEAP (2007).

projects, and analyze the political economy dimensions of effective implementation of AFT in Africa.

- Providing inputs into the entities – both national and regional – that are tasked with priority-setting for national and regional AFT activities, including contributing to and assessing regional diagnostics and analysis and identifying where regional cooperation can help achieve national objectives most efficiently.
- Support for knowledge sharing and cross-fertilization based on national experiences in the area of service sector regulation and deregulation-cum-liberalization.
- Reviewing and monitoring the adequacy of mechanisms to finance regional AFT and the effectiveness of AFT in attaining stated objectives.
- Development of regional databases, in coordination with similar processes at the international level, to enable systematic collection and analysis of information on AFT programmes.

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