

## FACT SHEET N°6

# AID FOR TRADE AND FINANCIAL ASSISTANCE TO IMPLEMENT THE EPAs

### SYNOPSIS

This Analytical Note is part of a series of Fact Sheets designed to overview and assess the development implications of the Economic Partnership Agreements (EPAs), which the EU is currently negotiating with 76 countries in Africa, the Caribbean and Pacific (ACP). The purpose of these Fact Sheets is to examine the existing material on EPAs and to provide an analysis of their potential impact on ACP countries. The Fact Sheets seek to increase the understanding of the substantive issues at stake in the negotiations, thereby enabling policy-makers, lobbyists and campaigners to make informed decisions about how to engage with EPAs.

This Fact Sheet Nb.6 critically analyses the trade-related aid pledges made by the EC to ACP countries, the relationship of such pledges with those made under the WTO Aid for Trade initiative, and the suitability and effectiveness of the European Development Fund (EDF) as a mechanism for easing EPA-related adjustment and implementation costs in ACP countries.

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## FACT SHEET NO. 6: AID FOR TRADE AND FINANCIAL ASSISTANCE TO IMPLEMENT THE EPAs

### 1. BACKGROUND AND CONTEXT

1. The European Commission (EC) has argued that African, Caribbean and Pacific (ACP) countries negotiating an Economic Partnership Agreement (EPA) with the European Union (EU) should not be dissuaded away from signing such agreements on the account of large implementation and adjustment costs. The EC does not dispute that implementing and adjusting to EPA reforms will suppose a financial challenge for ACP governments and economies. However, the EC has promised that countries signing such an agreement would benefit from EU financial and technical assistance as may be necessary<sup>1</sup>:

- a) To address the supply-side constraints that have historically hampered trade and development in the ACP, to upgrade ACP productive capacities and to develop trade-related infrastructure in a way that ACP economies can take advantage of the EPAs; and
- b) To support the costs ACP countries will face in adjusting to the new economic conditions introduced by the EPAs.
- c) To support ACP governments in the implementation of the EPA rules, the establishment of new institutions, and the enactment or reform of legislation to comply with EPA obligations.

2. In order to guarantee that ACP governments would have the capacity to effectively implement, monitor and enforce an EPA and in order to guarantee adjustment costs can be coped with, some of the central questions for ACP EPA negotiators include:

- a) What will be the total implementation and adjustments costs related to an EPA for ACP countries?
- b) How much aid has the EU committed to assist ACP countries face these costs?
- c) What are the instruments through which such financial assistance will be channelled? What are the conditions to access and use these funds?
- d) How effective is the European Development Fund (EDF) as an instrument for disbursing aid and how does it match the needs of ACP countries if they sign an EPA?

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<sup>1</sup> “EPAs will not fail through a lack of financial support” from “*Economic Partnership Agreements: tackling the myths*”, comment by EU Trade Commissioner. The Standard, Kenya, 23 April 2007. Available at: [http://ec.europa.eu/commission\\_barroso/mandelson/speeches\\_articles/artpm037\\_en.htm](http://ec.europa.eu/commission_barroso/mandelson/speeches_articles/artpm037_en.htm)

3. The promise of increased aid has been seen by many as a strong incentive to engage in EPA negotiations. While a ministry of trade might often be cautious about signing an EPA, the ministry of finance could be more interested due prospects of financial support. Representatives of the private productive sector may also be lured into signing EPAs as some expect aid inflows to improve the local trade-related infrastructure.

4. However, pledges of increased EU aid require careful examination because ACP countries will have to make far-reaching reforms and face serious adjustment challenges after signing an EPA. The trade related assistance of ACP countries must be assessed in light of its sufficiency, timely disbursement, predictability and efficiency to meet the costs of implementation and economic arising from EPAs.

## **2. AID FOR TRADE – WHAT IS IT ABOUT?**

5. ‘Aid for Trade’ is the term often used to describe aid packages that channel financial resources to countries to ease their costs of adjustment to trade liberalisation, and to increase their capacity to supply goods and services, and to improve their trade-related infrastructure. Strengthening the trading and productive capacity of developing countries is considered fundamental to maximise developing countries’ ability to take advantage of the potential benefits of liberalised trade. Aid for Trade initiatives have emerged largely in recognition of the fact that without removing developing countries’ domestic supply-side and infrastructural constraints to productivity and competitiveness, internal trade-related reforms and improved market access abroad will not lead to economic development and poverty reduction. (see Box 1 below for supply side constraints).

### **Box 1: Supply Side Constraints**

‘Supply-side constraints’ is the term used to describe the physical, human and institutional barriers which affect the competitiveness of a country’s domestic production and its ability to trade. These constraints include inadequate infrastructure, poor communications and transport systems, electricity shortages and poor water supplies, ineffective institutions, shortages of skilled labour etc. These barriers are particularly acute for developing countries. Erratic, expensive and inefficient systems of economic and physical infrastructure damage the ability of developing countries to produce with as much speed, variety and cost-efficiency as developed countries. For example, poor and under-funded road and rail networks mean that developing country producers often face higher transport costs, which has the effect of increasing the price of their goods when these reach markets.

6. Aid for trade encompasses mainly five headings of assistance<sup>2</sup>:
- a) Technical assistance to help governments and private operators gain knowledge of trade opportunities and how to access them;
  - b) Capacity building to help increase the capacity of developing countries to deal with trade policies, rules, disputes, etc. through, for example, the training of government officials;
  - c) Assistance to accompany institutional reforms, to help create a framework for sound and well-functioning institutions for trade, including strengthening customs authorities, quality assurance, and tax systems;
  - d) Support for infrastructure building to help link the goods produced to regional or international markets, through improving roads and ports etc.;
  - e) Adjustment assistance to help the transition costs associated with tariff reductions, preference erosion, or declining terms of trade, through, for instance, fiscal support.
7. Signature of an EPA is expected to trigger many types of costs under the headings described above. For instance, the elimination of tariffs applied to imports from the EU will generate a loss of fiscal revenue. The size of that loss is substantial for most ACP countries, since tariffs usually constitute a major source of governmental resources, and can be very high for countries trading mostly with the EU. Another case in point concerns the wide range of institutions that ACP countries would have to establish or reform to comply with possible EPA obligations. These can include judicial authorities, a competition authority, standards and conformity laboratories or certifying agencies, etc.

### 3. WHAT DOES AID FOR TRADE HAVE TO DO WITH EPAS?

8. The interaction between aid and trade is not new for ACP countries. Since the first Lomé Convention in 1975, ACP-EU relations have been based not only on trade, but also on wider development issues and financial assistance. This is also the case under the current Cotonou Agreement, which includes cooperation in three pillars: political cooperation; development assistance; and trade and economic cooperation. Nonetheless, in spite of the direct links between the EPAs and adjustment and implementation costs, aid for trade is not officially part of the EPA negotiating framework, which focuses specifically on the trade and economic cooperation pillar of ACP-EU relations (e.g. market access, liberalisation, trade-related rules, etc.).
9. Nevertheless, if ACP countries are to benefit from an EPA, and are to be compensated for the implementation and restructuring costs caused by an EPA,

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<sup>2</sup> J. Nielson (2006) 'Aid for Trade', in Trade, Doha, and Development: A Window into the Issues, Newfarmer, R. (ed). Washington DC: The World Bank, p. 320

financial assistance will be required to address their supply-side constraints, institutional weaknesses and tariff revenue losses.

10. To this end the EU has pledged that ACP countries will be primarily supported by resources managed by the European Development Fund (EDF). The EC has also indicated that other aid schemes will be used, such as the WTO Aid for Trade initiative.

11. Hence, it is important to examine how much will be specifically allocated for EPAs, and whether the instruments are suitable and effective to manage trade-related aid arising from EPAs.

#### **4. EDF AND EPAS**

12. The main financial instrument for the deployment of EU support to ACP countries is the EDF. EDF is a central part of ACP-EU relations and has been in operation since 1958. It is financed by voluntary contributions from EU member states, which are agreed at the beginning of each five-year financing cycle, known as an 'envelope'. The European Commission is tasked with the management of the EDF resources on behalf of the EU member states. Direction over the allocation of funds is provided to the EC via the EDF Committee.

13. Previously, EDF funding was deployed through several different instruments of assistance.<sup>3</sup> The Cotonou Agreement replaced these instruments with two basic facilities: a facility for long-term development cooperation activities (with a national and regional cooperation window), and an investment facility. EDF is distributed at a number of levels, stretching from national, regional to all-ACP programmes.

14. The EDF is not exclusively a trade-related aid facility as it provides funding to a wide range of development programmes (including, water, education, health, rural development, etc.). However, it does have provisions related to trade and structural adjustment. Additionally, the EC has stated that it will take into account the needs of ACP countries arising from the negotiation and implementation of EPAs in the programming of EDF.

15. In this sense, several ACP countries have expressed a concern that the utilisation of EDF funds to cover trade-related assistance needs could require a shift of funds from other EDF headings, such as health or education. The EC, however, has argued that will not be the case since the amount of resources that would be available are scheduled to increase.

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<sup>3</sup> In total, there were seven instruments of assistance through which EDF aid was disbursed under the Lomé/Lomé Conventions. These included National Indicative Programmes (NIPs), Regional Indicative Programmes (RIPs), the STABEX scheme for the stabilisation of export earnings, the structural adjustment facility, and facilities for emergency relief and refugee support.

16. The 9<sup>th</sup> EDF is currently in place and is due to come to an end by 31 December 2007. This coincides with the deadline for the negotiation of EPA. If negotiating deadlines are met, implementation of EPAs should start on 01 January 2008. Hence, resources to cover the implementation and restructuring costs of EPA will come from the 10<sup>th</sup> EDF, which covers the period 2008-2013.

#### The 10th EDF

17. In December 2005, the EU agreed to commit €22.6 billion for the 10<sup>th</sup> EDF.<sup>4</sup> Although, the EU has pledged that in the programming of the 10<sup>th</sup> EDF, it will take into account the needs of ACP countries arising from the negotiation and implementation of EPAs, the precise relationship between these funds and EPA has not yet been confirmed. Discussions are still underway to determine the framework for this funding. How much will be earmarked for the implementation of EPA and how much will be allocated to each national and regional programme is still not known as of May 2007.

18. The EU member states and the EC will have to decide whether or not there should be specific development resources set aside within the 10<sup>th</sup> EDF for the negotiation and implementation of EPAs. Equally, they should decide the future programming of EU development support to ACP countries and regions between 2008 and 2013. Finally, they should also decide the procedures and responsibility of the EC with regard to the implementation of the 10<sup>th</sup> EDF.<sup>5</sup> These will be finalised through the development of Country Strategy Papers and Regional Strategy Papers.

#### **5. ADJUSTING TO EPAS: WHAT ARE THE COSTS FOR ACP COUNTRIES?**

19. The move towards a reciprocal trade arrangement with the EU would entail a fundamental transformation of ACP-EU relations, and would have significant implications for production structures, domestic competitiveness and government revenues.<sup>6</sup> If ACP countries were to sign an EPA, the costs of adjusting to the agreement would be high. These implementation and restructuring costs ('adjustment costs') would include, among others:

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<sup>4</sup> The European Investment Bank has also pledged to contribute €2 billion to the EDF. The allocation of leftovers from the 9<sup>th</sup> EDF are yet to be approved for transfer to the 10<sup>th</sup> EDF. Grant, C. 'EDF and EPAs: A Beginner's Guide'.

<sup>5</sup> ECDPM (2006) 2<sup>nd</sup> Technical Note on EU financing for development: The 10<sup>th</sup> European Development Fund: Development Funding for EPAs.

<sup>6</sup> See South Centre, EPA Fact Sheet Nb.3: "Trade liberalisation and the difficult shift towards reciprocity in the EPAs", available at [www.southcentre.org](http://www.southcentre.org)

- tariff revenue losses and the associated costs of creating new forms of tax administration;
- adjustment measures for loss of competitiveness and restructuring of domestic industries;
- the costs of creating new regional units and developing institutions to address the harmonisation and coordination of customs procedures, border controls, standardisation, etc.;
- creating safety nets to address employment losses in sectors particularly affected by EU competition, including skills retraining.

20. In addition, if ACP countries are to benefit from an EPA they will need to invest in addressing the supply-side constraints and other barriers that impede the competitiveness of their domestic production (see Box 1).

21. While EPA negotiations are ongoing, it is difficult to assess before they are concluded what the precise impact of EPA-related adjustment will be. Similarly, the costs of implementing an EPA are likely to vary between ACP regions and between individual countries. Nevertheless, by identifying and aggregating the overall trends in adjustment, a study commissioned by the Commonwealth Secretariat estimates that the overall EPA cost of adjustment will require €9.2 billion in assistance.<sup>7</sup> This total cost includes:

- € 3.3 billion for fiscal adjustment support;
- € 2.1 billion for trade facilitation/export development support;
- €1.5 billion for production and employment adjustment assistance; and
- €2.3 billion for skills and productivity enhancement support.

## **6. HOW DOES EDF MATCH UP TO THE COSTS?**

22. The EC suggests that funds to compensate ACP countries for the costs of implementing EPA will come primarily from the 10<sup>th</sup> EDF funding cycle (2008-2013), totalling €22.6bn. The total aid in the 10<sup>th</sup> EDF is €7.4bn more than the previous envelope of €15.2bn,<sup>8</sup> which represents a nominal increase of 48.6%. At first glance these funds seem sufficient to address the costs of implementing an EPA, but it is important to examine the quantity and quality of this assistance further.

### A. 'Business as Usual' rather than targeted EPA assistance

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<sup>7</sup> This figure is calculated at 2005 equivalent prices. R. Grynberg and A. Clarke (ed.) (2006) 'The European Development Fund and Economic Partnership Agreements', Commonwealth Secretariat, Economic Affairs Division, p. 7.

<sup>8</sup> ECDPM, p. 3



*Stagnating aid-to-GNI ratios*

23. Further scrutiny reveals that the figure of €22.6bn, which the EU has pledged for the 10<sup>th</sup> EDF, is only marginally more than if the EU had continued contributing aid at levels it has historically done so in the past. The 10<sup>th</sup> EDF closely resembles a 'business as usual' funding programme, rather than a programme that provides additional assistance to EPA, over and above what ACP countries would otherwise have normally received.

24. This is shown in a Commonwealth Secretariat study, which compares the ratio of aid committed in the 10<sup>th</sup> EDF, as a percentage of the EU's Gross National Income (GNI), in two different scenarios<sup>9</sup>:

- The Gleneagles Scenario: The EU adheres to the commitments it made at the 2002 EC Meeting in Barcelona and the July 2005 G8 Summit in Gleneagles, to increase its development assistance flows (DAC) as a percentage of its GNI to 0.39% in 2006, 0.56% in 2010 and 0.7% in 2015.
- The Business as Usual Scenario: The EU continues to provide 0.38% of its GNI in development assistance (DAC), which is the average level of its historical contributions from 4<sup>th</sup> to the 9<sup>th</sup> EDF.

25. Under the Gleneagles Scenario, the 10<sup>th</sup> EDF allocations would have been €27.27 billion, whereas under the Business as Usual Scenario, the 10<sup>th</sup> EDF would have been €21.27 billion.<sup>10</sup> Hence, the €22.6bn actually committed in the 10<sup>th</sup> EDF is closer to the business as usual model than if the EU had expanded its aid as a percentage of GNI to take into account the adjustment costs of EPAs.

26. ECDPM even argues that the 10<sup>th</sup> EDF is in fact lower than the 9<sup>th</sup> EDF if one factors in the amount of resources that were transferred from the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF envelopes. ECDPM suggests that the actual amount of resources available to the ACP in 2000-2007 was not €13.5 billion but rather €23.6 billion because the balance of €9.8 billion from the 6-8<sup>th</sup> EDF was transferred to the 9<sup>th</sup> EDF.

27. Be it as it may, the key point is that on the basis of the 10<sup>th</sup> EDF, the EC has not provided any new funds for EPA and instead will attempt to cover EPA adjustment costs from its existing aid budget.

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<sup>9</sup> These scenarios assume linear growth in EU GNI (EU25) and that the EU members' total contributions to the EDF remain at its historic average of 8.63% of DAC flows. R. Grynberg and A. Clarke (ed.) (2006) 'The European Development Fund and Economic Partnership Agreements', Commonwealth Secretariat, Economic Affairs Division, p.8

<sup>10</sup> The estimations in these scenarios are worked out by looking at the EU's levels of DAC contributions as a percentage of its GNI, and then calculating the total EU contributions to EDF based on the historic EDF share of DAC flows (8.63%).

## B. No Additional Funding & the Potential for Box-Shifting

28. The 10<sup>th</sup> EDF is by no means an exclusive EPA assistance fund, and covers a range of other objectives and programmes including governance, rural development, water, education, health, agriculture, environment, civil society support, etc.

29. As the EU has not provided additional funding for EPAs under EDF – the 10<sup>th</sup> EDF being only a marginal improvement on the ‘business as usual’ level of contributions – money used to help ACP countries to implement EPA will come from the same pot as does assistance for health, education, agricultural support etc. Hence, if the EC attempts to fund EPA adjustment from the 10<sup>th</sup> EDF, there is the possibility that this will result in the diversion of aid from other priorities, including those earmarked for the attainment of the Millennium Development Goals. This diversion of aid, without an increase in the overall aid budget, is known as ‘box-shifting’.

30. The amount of development support, which the ACP will receive until 2013 under the 10<sup>th</sup> EDF, has already been settled and it is unlikely that additional resources will be channelled through the EC besides what is set aside in the 10<sup>th</sup> EDF and EU Budget.<sup>11</sup> The EC has refused to negotiate resources available for EPA adjustment under EDF, claiming that it does not want aid discussions to obfuscate what is essentially a trade negotiation. It has also argued that the EPAs are being negotiated by the Directorate General for Trade of the Commission, whose mandate does not cover aid matters. These positions are both in stark contrast to its professed ambition of integrating ACP economies into a liberalised global market, and the promise not to make adjustment costs a hurdle to the conclusion of the EPAs.

## **7. EDF EFFECTIVENESS AS A COMPENSATION MECHANISM: TRENDS IN EDF AID**

31. While EDF funding has evolved considerably since its inception<sup>12</sup>, there remain serious questions as to its suitability in providing effective and timely support in addressing the challenges ACP countries will face if they sign an EPA. The trends in EU aid deployment do not bode well for the needs of ACP countries for adjusting to EPAs.

### A. Declines in real EDF resources

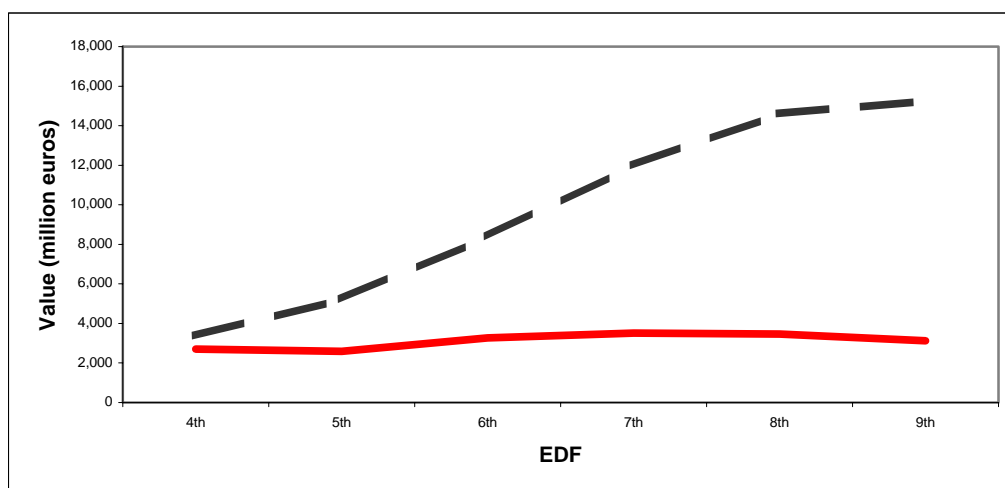
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<sup>11</sup> ECDPM (2006) p. 2

<sup>12</sup> Since Lomé III, EDF funding shifted from areas of support with long lead times and nominally low rates of commitment and disbursement (e.g. agricultural and rural development), towards forms of support, which are quicker to disburse (e.g. budget support). ECDPM suggests though that these changes still did not improve the rate at which EDF money is actually disbursed.

32. While there has been a *nominal* increase in EDF allocations from Lomé I to the Cotonou Agreement, in *real* terms (i.e. adjusted for inflation) there has been a stagnation and even modest decline in aid to the ACP (see Diagram 1 below).

**Diagram 1: Real vs Nominal Values of each EDF envelope (1975 as base year)**



Source: adapted from data in R. Grynberg and A. Clarke (ed.) (2006)

33. The nominal increases in EDF funding are represented by the dotted line in Diagram 1. The table shows that nominal EDF aid allocations increased from the 4<sup>th</sup> to the 9<sup>th</sup> EDF, rising from 3.4 billion euros to 15.2 billion euros - a nominal increase of 348%. However, when compared to the real levels of EDF funding, represented by the solid line in the Diagram, there has been stagnation in aid to ACP countries. This has particularly been the case since the start of the 7<sup>th</sup> EDF, which reflected the end of the Cold War and changes in the geo-political importance of ACP countries for the EU.<sup>13</sup>

#### B. Declining Disbursements: Commitments vs Payments

34. The level of aid made available to ACP countries also has to be examined in terms of the actual payments of money the EU makes, rather than just the funds committed. Table 1 shows the amount of EU aid that was actually paid out to ACP countries (column 4), and the proportion this represented of the total aid the EU committed, i.e. the disbursement rate (column 5).

35. The actual amount of EDF allocation spent fell sharply from 42.9% during the 4<sup>th</sup> EDF to 20% during the 8<sup>th</sup> EDF. During the 9<sup>th</sup> EDF, the EU promised €15.2bn in aid to ACP countries, but after five years only 28% of the money had

<sup>13</sup> R. Grynberg and A. Clarke (ed.) (2006) p. 12.

been paid out- that is one in every four euros is actually delivered to ACP countries.

**Table 1: Funds Allocated versus Funds Spent during each five-year financing cycle (million euros)**

EDF assistance package	Total funds allocated (nominal value)	Real value of envelope (1975 base year)	Total disbursements (nominal value)	Percentage of total allocation disbursed in the 5 years to which it was allocated
4 <sup>th</sup> EDF (1975–80)	3,390	2,696	1,454.5	43%
5 <sup>th</sup> EDF (1980–85)	5,227	2,586	2,041.0	39%
6 <sup>th</sup> EDF (1985–90)	8,400	3,264	3,341.6	40%
7 <sup>th</sup> EDF (1990–95)	12,000	3,514	4,417.9	37%
8 <sup>th</sup> EDF (1995–2000)	14,625	3,463	2,921.6	20%
9 <sup>th</sup> EDF (2000–07)	15,200	3,131	4,239.0	28%

Source: R. Grynberg and A. Clarke (ed.) (2006) Data from [http://ec.europa.eu/comm/development/body/cotonou/statistics/stat11\\_en.htm](http://ec.europa.eu/comm/development/body/cotonou/statistics/stat11_en.htm).

36. The discrepancy between commitments and actual payments arises as a result of difficulties with disbursements, problems with accessing aid, long time lags and under-utilised resources. It takes an average of 16 years to fully disburse each EDF envelope's allocations.<sup>14</sup> As of September 2006, money was still being disbursed from the 8<sup>th</sup> EDF envelope which was committed in 1998 – 8 years after it was committed it was projected that only 90% of its funds will be paid out.<sup>15</sup>

37. While many of these delays are caused by the cumbersome bureaucratic implementation procedures of EDF and its poor organisation, some of the problems in the disbursement of aid are also a result of ACP countries poor capacity to fully utilise their funds. For example, in Nigeria since 1995 some €850 million available to the country, under the 7<sup>th</sup> and 8<sup>th</sup> EDF had been frozen because they were not utilised.<sup>16</sup>

<sup>14</sup> Based on the average from the 4<sup>th</sup> to the 7<sup>th</sup> EDF.

<sup>15</sup> R. Grynberg and A. Clarke (ed.) (2006) 'The European Development Fund and Economic Partnership Agreements', Commonwealth Secretariat, Economic Affairs Division, p. 132

<sup>16</sup> Government of Nigeria, (2005), p. 4.

38. Nevertheless, the declining trend in disbursement rates is of particular concern in the context of EPA because the restructuring associated with reciprocal trade liberalisation requires that ACP countries have access to aid, which is responsive to their needs. It is essential that trade-related assistance be timely and efficiently delivered, so that it can coincide with the implementation challenges ACP countries will face if they sign an EPA. However, the low disbursement rates of EDF resources suggest that the EDF may not be an appropriate nor satisfactory mechanism for facilitating EPAs adjustment.

### C. Limited Experience in Trade and Private Sector Development

39. Whereas under the earlier Lomé Conventions the agricultural and rural development sector was the major focal sector, the largest proportion of aid deployment has been geared towards structural adjustment and budgetary support, since Lomé IV.<sup>17</sup> Under the 9<sup>th</sup> EDF, structural adjustment and support to transportation programmes accounted for over 50% of all funds allocated.<sup>18</sup>

40. However, one particularly crucial area that EDF has not historically supported is the business sector, trade and private sector development. Under the 9<sup>th</sup> EDF these sectors received less than 1% of all aid that was allocated.<sup>19</sup> If ACP countries sign and are to benefit from an EPA, financial assistance will need to be channelled towards export development support and upgrading of productive capacities, including through support and promotion of the private sector. However, the EDF's lack of experience as a funding instrument in these areas brings into question how effectively it will be able to meet the needs of ACP countries.

41. The key point is that the economic restructuring caused by EPAs and reciprocal liberalisation is likely to have significant effects on ACP countries, which will require them to be able to respond timely and effectively. However, the current trends in EDF aid including stagnating aid-to-GNI ratios, declining real values of assistance, slow rates of disbursements, and inexperience in trade and private sector development, mean that EDF is not an appropriate mechanism to compensate the costs of adjustment and to address the needs of ACP countries. This raises the question of other sources of aid available, even if only to complement EDF funds.

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<sup>17</sup> R. Grynberg and A. Clarke (ed.) (2006) p. 19

<sup>18</sup> These figures are based on EDF funds that are allocated through the National Indicative Programmes (NIPs), which are the result of a joint programming process between the EC and the recipient government to determine the priorities for assistance. EDF funds are also allocated through an EC discretionary fund and Regional Indicative Programmes (RIPs), which operate at a multilateral level with individual ACP regions.

<sup>19</sup> R. Grynberg and A. Clarke (ed.) (2006) p. 19

## 8. OTHER SOURCES OF AID: THE GLOBAL AID FOR TRADE INITIATIVE

42. ACP countries have continually called upon the EU to make a binding commitment for additional resources for the implementation of EPAs beyond those available under EDF. The revised Cotonou Agreement also states that there may be the possibility of 'additional resources' for EPA related adjustments: 'the minimum aid effort...is guaranteed without prejudice to the eligibility of the ACP countries for additional resources under other financial instruments which exist or, potentially, may be created...in support for the implementation of the Economic Partnership Agreements'.<sup>20</sup> Similarly, the EC has claimed that if the amounts available under EDF were not sufficient to address EPA requirements, then the question of funding could be reviewed.<sup>21</sup>

43. However, apart from EDF, there are a few other possible sources where additional resources could be derived from with sufficient certainty. For instance, additional aid could be granted by non-EU bilateral donors assuming they are willing to cover adjustment costs triggered by EPAs, that is, a Free Trade Agreement they are not party to. Aid could also come from the IMF, such as under the Trade Integration Mechanism (TIM) in the event of Balance of Payment difficulties. Those would, however, increase the debt of ACP countries. Finally, addition funds could also be sourced from multilateral programmes, such as the multi-agency Integrated Framework (IF) or WTO Aid for Trade Initiative. The IF, however, is only accessible to LDCs and in any case, the amounts of funds available are extremely modest. As a result, WTO Aid for Trade could be envisaged as an option.

44. The WTO Aid for Trade initiative, launched at the 2005 Hong Kong Ministerial Conference, is specifically designed to cover the type of adjustment costs that could derive from trade liberalisation. While the operational and structural details of the initiative are still under discussion at the WTO, the amounts pledged under this initiative, if confirmed, could be quite large.

45. The EU has pledged to contribute to up to €2 billion by year to the Initiative by 2010<sup>22</sup>. These funds would be granted half by the European Commission (€1 billion) and half by the various EU member states (€1 billion). The EC has further indicated that a "substantial share" in the increase of EU Aid for Trade resources should be allocated to ACP countries<sup>23</sup>.

<sup>20</sup> Declaration XV on Annex Ia, Final Act, EC Council Decision of 21 June 2005.

<sup>21</sup> EU Trade Commissioner Peter Mandelson stated that if there is not enough set aside for EPAs, then (the EC) will mobilise our Member States or others and review the commitments before (the ACP) sign', ACP-EU Joint Ministerial Trade Committee, Brussels, 28 June 2006.

<sup>22</sup> "EU to set out new commitments on Aid for Trade", October 2006, available at: [http://ec.europa.eu/trade/issues/bilateral/regions/acp/pr161006\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/regions/acp/pr161006_en.htm)

<sup>23</sup> European Commission Communication: *Towards an EU Aid for Trade strategy — the Commission's contribution* (COM (2007) 163 final). Available at [http://ec.europa.eu/development/ICenter/Pdf/2007/Final\\_Communication\\_COM\(2007\)163\\_EN.pdf](http://ec.europa.eu/development/ICenter/Pdf/2007/Final_Communication_COM(2007)163_EN.pdf)

46. While potentially large, these amounts could still not suffice to cover EPA-related costs, all the more so since they would also need to be used to cover costs associated with WTO negotiations and multilateral liberalisation under the Doha Round. Moreover, eligibility to Aid for Trade extends, in principle, to all developing countries, and not only the ACP. In addition, the disbursement of Aid for Trade would be programmed and scheduled according to individual donors' conditions, and not necessarily with relation to EPA-related needs or timeframes.

47. Finally, EPA commitments would comprise time-bound mandatory reforms, most likely enforceable through an EPA-specific dispute settlement mechanism and through joint EU-ACP institutions. By contrast, pledges of assistance through aid for trade are not mandatory, neither under the EPAs or the WTO and would not be linked to specific EPA reforms. Moreover, the delivery of aid would not be enforceable under either the WTO or the EPA.

## 9. CONCLUSION

48. EPAs will have a very direct impact on ACP governments and economies. Governments will suffer losses of fiscal revenue and will need to set up new institutions, reform legislation, enact new legal frameworks, enforce EPA obligations, and assist productive sectors in difficulty because of greater EU competition. ACP economies, as a whole, will need to enhance their competitiveness, face greater EU competition domestically and regionally and some producers could even be displaced in regional markets by the EU.

49. Despite these direct, foreseeable and (for some) quantifiable, consequences of the EPAs, these agreements currently do not incorporate financial aid provisions. The EC has preferred to externalise such provisions to other instruments, such as the EDF. Even discussions about financial assistance needs arising from EPA provisions are external to the core EPA debate and take place in the Regional Preparatory Task Forces (RPTF). This could well lead to a mismatch of priorities and of implementation and disbursement timeframes. At the very least, the split generate a hierarchy between mandatory and enforceable liberalisation obligations and soft, best endeavour aid pledges.

50. In the context of the EU-West African EPA, negotiators have mentioned the possibility of a "regional EPA fund". The details of such a fund are still to be discussed, but are unlikely to fundamentally change the position the EC has been defending with respect to not mixing core-trade provisions with financial assistance in the EPAs. If ACP countries are unable to face EPA implementation and adjustment costs, EPAs could simply never be properly implemented or enforced. The availability of appropriate aid will be instrumental in ensuring effective implementation and concrete benefits from such agreements.

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