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GHANA PRESIDENT CALLS FOR REMOVAL OF THE SYSTEMATIC INDIGNITIES OF PERMANENT AID

Reported by Ambassador Nathan Irumba

Addressing the Third High Level Forum on aid effectiveness, President Kufour of Ghana urged the conference to work to remove the systematic indignities of permanent aid through social and economic empowerment. Ghana's aim was to totally wean the nation out of a perennial and structural dependence on aid.

The high level forum which was held in Accra Ghana 2-4th September 2008, concluded by adopting the Accra Agenda for action reaffirming the commitments made in the Paris Declaration and agreeing on what they described as “concrete and actions to be monitored to meet those commitments by 2010.”

The Accra meeting was organised jointly by the Organisation of Economic Cooperation and development, the World Bank and Government of Ghana. The objective was to review progress towards achieving the 12 goals for Aid Effectiveness as set out in the Paris Declaration of 2005 in which, inter alia, the donors promised to make aid more predictable and to reduce conditionalities attached thereto. That declaration urged donors to increase country ownership of the development projects and harmonisation of Aid coming from different sources.

In his address **President Kufuor** urged the forum to end with bold and ambitious resolutions, to minimize existing impediments to Aid Effectiveness in recipient countries, so as to make way for sustained growth and development.

He stated that “The driving force of the shared humanity behind these conferences shows that the concept of development partnership has attained a critical acceptance as a major vehicle to enhance Aid Effectiveness further in recipient countries. Such countries should be empowered to play proactive role in the rapidly emerging global village of interdependence.

He called on the **forum to work to remove the systematic indignities of permanent aid through social and economic empowerment of the recipient countries.**”

“Already, the global aid architecture is changing and transforming relations between developed and developing nations. Both sides are encouraging recipient nations to take ownership of focused country development plans, aid policies and strategies, and other frameworks to ensure that Aid supports their development priorities. These trends are increasingly evident from the experiences of nations like Tanzania and Cambodia. Of course competent leadership and accountable political and economic governance systems are crucial for the success of the process.”

He said in these countries, the roles of aid in national development as well as mechanisms for accountability are dearly defined, while relationship with development partners, are closely monitored within a government-led mutual accountability framework for Ghana has made. “The aim is to totally wean the nation out of a perennial and structural dependence on aid.”

Noting that even in fragile states with strong and committed

leadership, there are examples of remarkable progress on Aid Effectiveness and development, he said, "Such demonstration of committed leadership which is carrying along the citizenry deserves unalloyed and urgent support from the development partners."

"The message from these success stories is that "aid should be used chiefly to assist with capacity building in recipient countries, both in terms of Human Resource Development and infrastructure laying to improve productivity. The self-confidence and "can-do" spirit that are unleashed from such developments are what Aid Effectiveness must be about."

"Many recipient nations have established various frameworks for financial monitoring and accountability and procurement process. Partners should demonstrate commitment on their part by matching such efforts with increased support and goodwill. Such support should manifest in the timely release of resources for critical programmes in the shared country plans. Delays in implementation of programmes that society has brought into frustrate expectations and tend to cause political disenchantment and render governments, especially a democratically elected leadership, vulnerable," he observed.

Harmonize Assistance

In the face of multiple donors, "harmonisation of assistance reduces the strain and sometimes costly burden of dealing with them individually by a recipient country. Of course, harmonisation of aid should not sidetrack from whatever bilateral support a donor nation may agree with a recipient because of their special relations."

President Kufuor emphasized that "In the long run, Aid is to help recipient nations build capacity not only to, overcome poverty, but also, to develop economic muscle, to become worthy investment partners internationally, and that should be the underpinning spirit of this forum."

The President of the World Bank Zoellick, Underscoring the need for harmonisation and better aid delivery observed that the average recipient country hosts 260 donors a year and that in 2007 donors undertook "astonishing" 14,000 missions to 54 countries and less than one fifth of those projects were carried out with another donor. He also observed that as donors increased in number the size of their donations shrunk.

Many participants called for more aid being channelled through in-country public financing systems instead of external agencies of funding mechanisms of the donor countries.

Many developing countries were unhappy that most of the funds from aid end up meeting overhead costs or catering for emoluments of rich country experts.

Mr. Robert Fox of Oxfam International echoed their concern and emphasized that "Aid should strengthen local capacity rather than spawning parallel aid empires or relying on contractors and consultants from the North." "The sooner we ensure our aid dollars are strengthening the capacity of developing countries to meet their needs, the better."

Accra Agenda for Action

After intensive negotiations, the meeting adopted the Accra Agenda for action outlining measures for strengthening country ownership, and for building more effective and inclusive partnerships. It was agreed to broaden country policy dialogue on development through working more closely with parliaments, and local authorities and engaging with civil society. It was also agreed to strengthen and use developing country systems for aid delivery to the maximum extent possible.

With regard to reducing the costly fragmentation of aid it was agreed that:

- a) Developing countries will lead in determining the optimal roles of donors in supporting their development efforts at national, regional and sectoral levels. Donors will respect developing countries' priorities, ensuring that new arrangements on the division of labour will not result in individual developing countries receiving less aid.
- b) Donors and developing countries will work together with the Working Party on Aid Effectiveness to complete good practice principles on country-led division of labour. To that end, they will elaborate plans to ensure the maximum coordination of development co-operation. We will evaluate progress in implementation starting in 2009.
- c) An international division of labour across countries be started by June 2009 and
- d) The issue of countries that receives insufficient aid be addressed.

A significant step forward or a weak symbolic gesture?

Many participants especially the donors welcomed the Accra Agenda for Action, as important step forward in increasing aid effectiveness.

The OECD Secretary General Angel Gueria praising the outcome said “The Accra Agenda for Action represents a significant step forward and presents donors and partners with a series of new concrete measures to accelerate movement towards agreed development goals. It is the blueprint to make sure that we meet our commitments under the Paris Declaration on Aid Effectiveness by 2010 and significantly deepen our engagement on some crucial fronts.

It enshrines the principle of reducing conditionality and further untying aid.

It strengthens partner country ownership by engaging their parliaments and citizens and making greater use of their own national systems to deliver aid as a first option – not as a last resort.

It builds more effective and inclusive partnerships for development — pulling together all actors into the tent. Middle-income countries, global funds, the private sector and civil society organisations are all bringing valuable experience to the table.

It increases aid’s value for money, and ensures donors work effectively in-country — not overcrowding some sectors while ignoring others.

It focuses on delivering and accounting for development results;

which means being transparent to our citizens, and keeping to our promises, so we can all plan to use aid as effectively as possible.

It focuses on increasing the medium term predictability of aid, so that developing countries can effectively design and manage their development programmes over the medium term. This is especially important in sectors such as health which rely on long-term recurrent funding to deliver key services and, for obvious reasons, in the area of food aid.

And it finishes by leading us to a time when countries will no longer be dependent on aid but on mobilising their own resources, the ultimate sign of success.

Some developing countries and civil society were not impressed by the outcome of Accra meeting and saw the declaration “as nothing but a weak symbolic gesture.”

The U.S and Japan resisted the efforts for including strict timelines for achievement of aid goals.

Effective Policies are needed for Agricultural and manufacturing Sectors to Remove Constraints to Production

Reported by Ambassador Nathan Irumba

To attract investment to agriculture and manufacturing African governments should consider offering physical incentives to potential investors and consider re-establishing some services that were traditionally provided to agriculture and industry, such as access to subsidized inputs and improved access to credit. This recommendation is contained in the 2008 UNCTAD report on Economic Development in Africa.

The report states that limited ability to produce the quantity and quality of goods required to respond to global demand for those goods is the main obstacle to improved export performance in Africa, and explains why the continent has lost market share from 6% of world exports in 1980 to about 3% in 2007.

The report observes that while two decades of trade liberalization in Africa have removed many of the barriers that used to limit trade from the continent, increase in export has been less than expected and is far below those achieved by other developing regions.

The diversification of African economies which has long been recommended as a way of ensuring more robust and stable growth has not occurred. The manufacturing sector, where potential higher profits and higher living standards can be realized has been stagnating in contrast to other developing regions which have expanded their industrial outputs.

Governments need to take effective steps to reverse several worrisome trends, according to the report. These include; decades of relative neglect of agriculture that have hindered African countries progress at a time of climbing commodity prices.

While gaining greater access to world markets opens up vast opportunities, many African countries do not yet have sufficient ingredients in place to take advantage of it, the report says. They need such building blocks as well-trained workforces, reliable electricity supply, research and development skills, flexible investment and banking services, and efficient transportation to supply, at competitive prices, large volumes of products for which there is global demand.

Modest export performance and hardly any diversification liberalization

Trade liberalization in Africa was expected to result in increased production in the tradable sector, which should have increased export volumes and diversified the array of exported products. As of the second half of the 1990s, most countries in the region were liberalized. Their average ratio of exports to Gross Domestic Product (GDP) increased from 23% before liberalization to 26% after. This 11% climb is much lower than the 50% increase recorded in non-African developing countries following trade liberalization. Relative to other developing regions, the increase in Africa's export value had been driven primarily by an external factor -- rising export commodity prices -- rather than increasing volumes. Over the period between 1995 and 2006, both export volumes and prices grew at about 6% per year. This performance contrasts with the experience of developing Asia over the same period, where export volumes grew by 10% per year while the prices increased by only 1% per year, the report finds.

An analysis of Africa's export composition shows that most African countries have not diversified their export products. Instead, more than 60% of African countries registered higher export concentration indexes in 2006 relative to 1995, increasing their countries' vulnerability to falls in prices for a small number of commodities. Most African countries that increased their export revenues owed it more unexpected increases in the prices of fuel and other minerals, such as copper and gold. The ratio of the value of fuel exports to GDP increased from 5% in 1998 to more than 15% in 2006. Over the same period, the corresponding ratio for non-fuel primary commodities and manufactured products remained constant, each at about 5% of GDP. These statistics suggest that the current commodity boom should not lure African countries into a false sense of prosperity. Africa still remains vulnerable to the vagaries of international commodity prices, the report warns.

SAPs failed to appreciate strategic role of agriculture

Despite its importance, the agriculture sector in many African countries has been deteriorating over the years. In the space of a generation, Africa's agriculture has so dramatically declined that Africa has fallen from its status of a net food producer to become the region most dependent on external food aid. Africa is currently experiencing a food crisis.

The main explanation lies in the negligence in development policies pursued during the last 25 years, which have abandoned previous emphases on research, agricultural infrastructure, extension services, and the provision of credit for farmers. The recent policies, including trade liberalization and privatisation, failed to recognize the strategic role of agriculture in African economies and went as far as dismantling the institutions that had previously supported the sector.

The report notes that total donor support to agriculture declined from its peak of US\$8 billion in the early 1980s to \$1 billion in 2004; the proportion of official development assistance (ODA) allocated to agriculture declined from 16.9% in 1982 to just 3.5% in 2004. Domestic resources invested in agriculture followed the same trend.

It is instructive that the countries that maintained strong agricultural export sectors were those that pursued sustained and coherent sectoral policies to increase and diversify their agricultural exports.

Africa has not been able to diversify into manufactured exports

The report points out that the importance of manufactured exports for economic development is well illustrated by the experience of the East and South East Asia region where manufacturing products account for about 90% of total merchandise exports. In Sub-Saharan Africa, exports from the manufacturing sector account for only 26% of total exports, the lowest proportion of all regions. Over the period 2000-2006, only eight African countries had manufactured exports worth more than 10% of their GDPs or more: Botswana, Mauritius, Morocco, Namibia, South Africa, Swaziland, Togo and Tunisia, according to the report.

The oft-heard argument that Africa's failure to export more manufactured products is due to the region's comparative advantage in the production of primary commodities is a simplistic and flawed argument, the report contends, and there is no fundamental reason why Africa should not be able to emulate the positive Asian experience. Arguing that Africa should stick to its traditional exports of primary commodities and a few labour intensive manufactured products is tantamount to condemning the region to slower development, argues the report.

Need for appropriate Industrial Policy

To achieve increased industrial output and exports, African governments must take steps to deal with several key problems, the report says. These include poor infrastructure, high entry costs for businesses, shortages of qualified labour, low investor protection, difficulty in accessing credit, and cumbersome tax systems.

Together, these discourage investments that could increase productivity. Economies of scale also must come into play -- many African manufacturers are currently too small to benefit from the efficiencies achieved by larger firms elsewhere, and governments should enact measures to help them expand so that they are internationally competitive. Addressing these issues effectively will require industrial policies tailored to the specific characteristics of each country, the report says.

Some policy perspectives—The report suggests that sectoral policies to increase production and competitiveness in the agricultural and manufacturing sectors could be crafted on the basis of two building blocks: increasing productivity and developing reliable infrastructure, including major improvements to electricity generation, water supply, and telecommunication systems.

Productivity improvement could be achieved through technology upgrading, research and development, encouraging enrolment in technical education programmes, and fostering vocational and on-the-job training. To attract investment to agriculture and manufacturing, governments could consider offering fiscal incentives to potential investors. Countries could also consider re-establishing some services that were traditionally provided to agriculture and industry, such as access to subsidized inputs and improved access to credit. Each country should consider setting up an export promotion agency with its own export promotion fund. These policies could be funded through the national budget and, where such funding is not available, aid allocations. To help overcome the problem linked with the small size of African national markets, regional economic cooperation could be encouraged, the report observes.

The Destruction of African Agriculture

By Walden Bello

Biofuel production is certainly one of the culprits in the current global food crisis. But while the diversion of corn from food to biofuel feedstock has been a factor in food prices shooting up, the more primordial problem has been the conversion of economies that are largely food-self-sufficient into chronic food importers. Here the World Bank, International Monetary Fund (IMF), and the World Trade Organization (WTO) figure as much more important villains.

Whether in Latin America, Asia, or Africa, the story has been the same: the destabilization of peasant producers by a one-two punch of IMF-World Bank structural adjustment programs that gutted government investment in the countryside followed by the massive influx of subsidized U.S. and European Union agricultural imports after the WTO's Agreement on Agriculture pried open markets.

African agriculture is a case study of how doctrinaire economics serving corporate interests can destroy a whole continent's productive base.

From Exporter to Importer

At the time of decolonization in the 1960s, Africa was not just self-sufficient in food but was actually a net food exporter, its exports averaging 1.3 million tons a year between, 1966-70. Today, the continent imports 25% of its food, with almost every country being a net food importer. Hunger and famine have become recurrent phenomena, with the last three years alone seeing food emergencies break out in the Horn of Africa, the Sahel, Southern Africa, and Central Africa.

Agriculture is in deep crisis, and the causes are many, including civil wars and the spread of HIV-AIDS. However, a very important part of the explanation was the phasing out of government controls and support mechanisms under the structural adjustment programs to which most African countries were subjected as the price for getting IMF and World Bank assistance to service their external debt.

Instead of triggering a virtuous spiral of growth and prosperity, structural adjustment saddled Africa with low investment, increased unemployment, reduced social spending, reduced consumption, and low output, all combining to create a vicious cycle of stagnation and decline.

Lifting price controls on fertilizers while simultaneously cutting back on agricultural credit systems simply led to reduced applications, lower yields, and lower investment. One would have expected the non-economist to predict this outcome, which was screened out by the Bank and Fund's free-market paradigm. Moreover, reality refused to conform to the doctrinal expectation that the withdrawal of the state would pave the way for the market and private sector to dynamize agriculture. Instead, the private sector believed that reducing state expenditures created more risk and failed to step into the breach. In country after country, the predictions of neoliberal doctrine yielded precisely the opposite: the departure of the state "crowded out" rather than "crowded in" private investment. In those instances where private traders did come in to replace the state, an Oxfam report noted, "they have sometimes done so on highly unfavorable terms for poor farmers," leaving "farmers more food insecure, and governments reliant on unpredictable aid flows."

The usually proprivate sector Economist agreed, admitting that “many of the private firms brought in to replace state researchers turned out to be rent-seeking monopolists.”

What support the government was allowed to muster was channeled by the Bank to export agriculture – to generate the foreign exchange earnings that the state needed to service its debt to the Bank and the Fund. But, as in Ethiopia during the famine of the early 1980s, this led to the dedication of good land to export crops, with food crops forced into more and more unsuitable soil, thus exacerbating food insecurity. Moreover, the Bank’s encouraging several economies undergoing adjustment to focus on export production of the same crops simultaneously often led to overproduction that then triggered a price collapse in international markets. For instance, the very success of Ghana’s program to expand cocoa production triggered a 48% drop in the international price of cocoa between 1986 and 1989, threatening, as one account put it, “to increase the vulnerability of the entire economy to the vagaries of the cocoa market.” In 2002-2003, a collapse in coffee prices contributed to another food emergency in Ethiopia.

As in many other regions, structural adjustment in Africa was not simply underinvestment but state divestment. But there was one major difference. In Latin America and Asia, the Bank and Fund confined themselves for the most part to macro management, or supervising the dismantling of the state’s economic role from above. These institutions left the dirty details of implementation to the state bureaucracies. In Africa, where they dealt with much weaker governments, the Bank and Fund micromanaged such decisions as how fast subsidies should be phased out, how many civil servants had to be fired, or even, as in the case of Malawi, how much of the country’s grain reserve should be sold and to whom. In other words, Bank and IMF resident proconsuls reached into the very innards of the state’s involvement in the agricultural economy to rip it up.

The Role of Trade

Compounding the negative impact of adjustment were unfair trade practices on the part of the EU and the United States. Trade liberalization allowed low-priced subsidized EU beef to enter and drive many West African and South African cattle raisers to ruin. With their subsidies legitimized by the WTO’s Agreement on Agriculture, U.S. cotton growers offloaded their cotton on world markets at 20-55% of the cost of production, bankrupting West African and Central African cotton farmers in the process.

These dismal outcomes were not accidental. As then-U.S. Agriculture Secretary John Block put it at the start of the Uruguay Round of trade negotiations in 1986, “the idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure their food security by relying on U.S. agricultural products, which are available, in most cases at lower cost.”

What Block did not say was that the lower cost of U.S. products stemmed from subsidies that were becoming more massive each year, despite the fact that the WTO was supposed to phase out all forms of subsidy. From \$367 billion in 1995, the first year of the WTO, the total amount of agricultural subsidies provided by developed country governments rose to \$388 billion in 2004. Subsidies now account for 40% of the value of agricultural production in the European Union (EU) and 25% in the United States.

The social consequences of structural adjustment cum agricultural dumping were predictable. According to Oxfam, the number of Africans living on less than a dollar a day more than doubled to 313 million people between 1981 and 2001—or 46% of the whole continent. What was especially disturbing was that, as Oxford University political economist Ngaire Woods pointed out, the “seeming blindness of the Fund and Bank to the failure of their approach to sub-Saharan Africa persisted even as the studies of the IMF and the World Bank themselves failed to elicit positive investment effects.”

The Case of Malawi

This stubbornness led to tragedy in Malawi. It was a tragedy preceded by success. In 1998 and 1999, the government initiated a program to give each smallholder family a “starter pack” of free fertilizers and seeds. This followed several years of successful experimentation in which the packs were provided only to the poorest families. The result was a national surplus of corn. What came after, however, is a story that will be enshrined as a classic case study in a future book on the 10 greatest blunders of neoliberal economics. The World Bank and other aid donors forced the drastic scaling down and eventual scrapping of the program, arguing that the subsidy distorted trade. Without the free packs, food output plummeted. In the meantime, the IMF insisted that the government sell off a large portion of its strategic grain reserves to enable the food reserve agency to settle its commercial debts. The government complied. When the crisis in food production turned into a famine in 2001-2002, there were hardly any reserves left to rush to the countryside. About 1,500 people perished. The IMF, however, was unrepentant; in fact, it suspended its disbursements on an adjustment program with the government on the grounds that “the parastatal sector will continue to pose risks to the successful implementation of the 2002/03 budget. Government interventions in the food and other agricultural markets... crowd out more productive spending.”

When an even worse food crisis developed in 2005, the government finally had enough of the Bank and IMF’s institutionalized stupidity. A new president reintroduced the fertilizer subsidy program, enabling two million households to buy fertilizer at a third of the retail price and seeds at a discount.

SEATINI BULLETIN

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The results: bumper harvests for two years in a row, a surplus of one million tons of maize, and the country transformed into a supplier of corn to other countries in Southern Africa.

Fleeing Failure

Malawi's defiance of the World Bank would probably have been an act of heroic but futile resistance a decade ago. The environment is different today. Owing to the absence of any clear case of success, structural adjustment has been widely discredited throughout Africa.

Even some donor governments that once subscribed to it have distanced themselves from the Bank, the most prominent case being the official British aid agency that co-funded the latest subsidized fertilizer program in Malawi. Perhaps the motivation of these institutions is to prevent the further erosion of their diminishing influence in the continent through association with a failed approach and unpopular institutions. At the same time, they are certainly aware that Chinese aid is emerging as an alternative to the conditionalities of the World Bank, IMF, and Western government aid programs.

Structural adjustment in the 1980's dismantled the elaborate system of public agencies that provided farmers with access to land, credit, insurance inputs, and cooperative organization. The expectation was that removing the state would free the market for private actors to take over these functions—reducing their costs, improving their quality, and eliminating their regressive bias. Too often, that didn't happen. In some places, the state's withdrawal was tentative at best, limiting private entry. Elsewhere, the private sector emerged only slowly and partially—mainly serving commercial farmers but leaving smallholders exposed to extensive market failures, high transaction costs and risks, and service gaps. Incomplete markets and institutional gaps impose huge costs in forgone growth and welfare losses for smallholders, threatening their competitiveness and, in many cases, their survival.

In sum, biofuel production did not create but only exacerbated the global food crisis. The crisis had been building up for years, as policies promoted by the World Bank, IMF, and WTO systematically discouraged food self-sufficiency and encouraged food importation by destroying the local productive base of smallholder agriculture. Throughout Africa and the global South, these institutions and the policies they promoted are today thoroughly discredited. But whether the damage they have caused can be undone in time to avert more catastrophic consequences than we are now experiencing remains to be seen.

Walden Bello is a senior analyst at Focus on the Global South, Bangkok and a columnist for Foreign Policy In Focus where this article first appeared under the title, "Destroying African Agriculture and was also published in South Centre bulletin.

EPA FRAMEWORK AGREEMENT MUST BE REVIEWED AND IMPROVED

By Oduor Ong'wen

On November 27, 2007, Partner States of the East African Community comprising Burundi, Kenya, Rwanda, Tanzania and Uganda on the one hand and the European Commission (EC) on behalf on the European Union member states on the other, initialled the “*Framework for Economic Partnership Agreement*” (known as Interim EPA). The agreement was initiated by the EC in an effort to provide a legal framework for the continuation of European trade preferences for EAC and other African, Caribbean and Pacific (ACP) exports in the light of the expiry, at the end of 2007, of the WTO Waiver for the EU-ACP Cotonou Partnership Agreement (CPA).

As the end of year deadline for concluding the negotiations approached, the EC brushed aside all genuine concerns expressed by many ACP groups and civil society organizations regarding the potential adverse impacts of EPAs, or suggestions for alternatives as well as calls for extending negotiating time. Instead, it stated that the Generalised System of Preferences (GSP) regime would apply to developing country members of the ACP that would not agree to the interim arrangements which would mean tariffs on their exports would raise with effect from January 1st 2008. Many ACP countries, including those of the EAC, were impelled to initial interim EPAs in order to secure continued market access.

The coverage of the EAC-EC FEPA is very wide and disciplines envisage are more stringent than required under WTO rules. The provisions detailed therein create a number of binding obligations for the EAC partner states and require a comprehensive review. In this regard following are some of the areas that should preoccupy the EAC negotiators.

Development Focus

The removal of trade barriers in rich countries can provide benefits for developing countries like the EAC partner states. However, this can only occur when the economies of underdeveloped countries are accorded the right space to respond first and foremost to the fundamental developmental needs of these countries. The rapid import liberalization imposed on these, through EPAs, are more likely than not to intensify poverty and inequality.

The content of the interim agreement and the proposed road-map betray the mercantilist motivations behind the EC positions. Chapter IV (Article 36) makes a general appreciation of EAC's development needs and states that the EC “confirms it will contribute towards resources required for development under the 10th EDF Regional Indicative Programme, Aid for Trade and the EU budget.”

It is important that any reforms in the EAC or entire ACP relations with the EU be premised on adequate and specific development benchmarks. These should include, but not limited to: building these countries productive capacities, human resource development, employment creation, technology transfer and adaptation, environmental protection, compensation for revenue losses accruing from liberalisation and development of infrastructure and regulatory capacity. The text does not even note that trade liberalization can heighten food insecurity – a matter that EAC should insist is treated as a development issue. Development should be the first chapter to be negotiated in detail and should include binding commitments.

Rendezvous Clause

All the ACP regions have consistently refused to negotiate some of the trade related issues; as these could shrink their policy space carry out measures for development. There is no compulsion to negotiate these new generation of trade issues under the EPA in order to meet the requirement of WTO compatibility. Yet the “rendezvous clause,” (Chapter V/Article 37) has a long shopping list of the Singapore Issues, Services and intellectual property to be negotiated in the comprehensive EPA. This new generation trade related issues will pose serious policy challenges to EAC countries as they attempt to develop common policies in these areas. Negotiating these subjects, under such conditions, runs the risk of delivering unbalanced outcomes that may be prejudicial to national developmental objectives and to prospects for deeper integration of the EAC. The outcomes will most probably go beyond those agreed in the WTO, and introducing into the bilateral context, issues that were rejected in Cancun (investment, competition and government procurement) and earlier in Seattle (labour and environment). ” It is therefore prudent for the EAC countries to exclude these issues in the negotiations for a comprehensive EPA.

Scope and Pace of Market Opening

In the course of negotiations with countries with of the Southern and Eastern Africa (ESA) configuration, the EC had agreed in principle to accept offers of tariff liberalisation of 80% over a period of 25 years.

Table 1: Summary of the Schedule for liberalization by EAC partner states

Table 1: Summary of the Schedule for liberalization by EAC partner states

Good/Products to be Liberalized	EAC CET	Period Of Liberalization	Value Liberalized (US\$)	% Of Trade Liberalized
Raw Materials and Capital goods	0%	By 2010	1,725,753,302	64%
Intermediate products	10%	2015 – 2022	416,830,776	16%
Finished Products	25%	2020 – 2032	65,507,218	2%
Total trade to be liberalized by EAC			2,208,091,296	82%
Total trade not to be liberalized by EAC			469,750,967	18%
Total EAC imports from EU			2,677,842,263	100%

Source: EAC Directorate General Customs and Trade

However, in the interim Agreement, tariff elimination starts from the entry into force of the agreement (2008). The elimination of other barriers (export taxes) is not as gradual as the EC had indicated they would be, and may have to be implemented as early as 2008. Only a marginal share of trade volume is subject to long implementation periods for tariff elimination (see Table 1). In spite of the fact that the EAC includes four LDCs among its five members, the FEPA targets 82% of the EU imports for liberalization. Of this, 62% will be liberalised after two years (51% of this is currently at zero percent), and 80% after 15 years; only a final 2% of trade is liberalised over a period of more than 15 years.

Standstill Clause

The EC insisted on the inclusion of a **standstill clause** (Article 13). This clause freezes applied tariffs on *all* trade between the parties, *whether or not these products are subject to liberalization*. As a result, even for a product on the ‘exclusion list’, the tariff on this product cannot be raised after the entry into force of the agreement, except in case of dumping or under the bilateral safeguards agreement. The EAC partner states must insist on removal of this clause.

Export Taxes

Article 16, precludes export taxes except for the purposes of maintaining currency stability and fostering development of domestic industry. However, even in this case, this must be for only a limited number of products and for only a limited period of time – and with the permission sought and obtained from the EPA Council, which would review it after 24 months. Export taxes have been used for raising revenue for some developing countries across the world, accounting for more than 20% of government revenue in countries like Burundi¹.

<http://www.southcentre.org/info/Analysis/ExportTaxesAndRestrictions.pdf>

Export Subsidies

Despite previous statements from the EC indicating that EU agriculture export subsidies would be eliminated for those products imported by the ACP, there is no clause in the Interim EPA to this effect. On the other hand, there are provisions that explicitly allow the EU to continue to subsidise its own products. Article 18.4 appears to be a complete ‘carve out’ clause from the EU’s national treatment obligation with regard to domestic subsidies. The clause allows EU goods to be subsidised in the EU domestic market. This will not only operate as a market barrier to EAC goods exported to the EU market, but will probably lead to a surplus of domestically subsidised products that are exported cheaply to the EAC region. This could lead to EAC countries facing unfair competition – both in the EU market and in their own domestic markets. This is clause that must be renegotiated.

Inadequate safeguard clause

In the absence of tariffs, effective safeguards are the main policy instrument that can be used to protect the agricultural sector and existing industries from import surges, ensure food security, and nurture the development of new ‘infant’ industries. As currently structured, the safeguards will not provide adequate protection for EAC producers. The text does not differ very much in substance from those currently available at WTO.

These provisions have proved to be inadequate and difficult to utilize for developing countries. It does not, for example, contain the kind of flexibilities developing countries have been calling for in the WTO, such as a Special Safeguard Mechanism (SSM). The safeguard clause in the FEPA is limited by a number of complex procedures that impede their effective use by the EAC. Besides the safeguards, are of limited duration and any measures exceeding one year 'shall contain clear elements progressively leading to their elimination at the end of the set period, at the latest.' The interim agreement specifically provides for the use of multilateral (WTO) safeguards including the Special Agricultural Safeguard under Article 5 of the WTO Agreement on Agriculture. The EC has agreed to initially exempt EAC exports from imposition of multilateral safeguards, but this is *only for the first five years*.

Scope and Coverage of EU Market Opening

The commercial gains arising from the Duty Free Quota Free offer itself will be of limited use unless the EU to substantially improves the rules of origin. The retention of transition periods on two key products (sugar and rice) and strict safeguards limit ACP access to EU markets. The latest EU offer on **Rules Of Origin** (Regulation COM (2007) 717 final, November 13 2007), which will be applied until a 'Full EPA' comes into force, contains only minor improvements to existing rules. Even these are still disputed by several EU Member States. *Cumulation is restricted to those ACP countries that have signed an EPA, adversely affecting production processes that span ACP countries that have not signed.*

The text only talks about the need to review the rules of origin with a view to simplifying them (Article 12). But in terms of actual commitments, the EU is only committing to consider the possibility of offering more 'development-friendly' RoOs in the future. Without clear binding agreement on RoOs, it is very difficult for the region to meaningfully assess the worth of the EU's market access offer. As the permanent RoOs are to be negotiated in the future, after the main bulk of EPA terms have been agreed, there will be less scope for influencing them, in tradeoffs.

4. Services and Investment

The EAC states had indicated that they were not ready to negotiate services. However, Chapter V commits the parties to negotiate services. This should be rejected.

5. Regional Integration

These agreements will negotiating impact on efforts for the regional economic integration, particularly in Africa. SACU, the oldest customs union in the world, is currently divided with 3 countries having initialled an interim agreement with the EC, one country refusing to do so (Namibia), and another one (South Africa) applying a separate trade agreement with the EU. SADC, where a detailed plan for a common market had been established, is also very much divided. This is contrary to the objectives as it set out in cotton, and which was thought to deliver greatest development potential: that of building upon and reinforcing regional integration.

The approach adopted under EPAs, has a number of serious consequences, all of them extremely counter-productive for regional integration.

- ✦ ACP countries are now submitting separate and un-harmonised tariff liberalisation schedules, not agreed on as a region, but commits them to liberalising to the EU before they have decided what to liberalise to each other (the case of COMESA, for example).

- ✦ As revision clauses are absent or inadequate in these EPA texts, the separate EPAs or trade regimes within a region would prevent the further integration of the region to a customs union.

- ✦ In addition to the countries not signed up will probably have to impose stricter border controls to guard against EU goods entering their markets through neighbouring countries, leading to defensiveness between regional neighbours and greater barriers to regional trade

In order to avoid fragmentation, the an option for countries left behind by regional neighbours that have already signed an EPA, would be to join up to an agreement that has been designed by the stronger partners without their interests being taken into account. This would leave these weaker countries unable to protect their own sensitive sectors, in cases where these differ from those of their more advanced neighbours.

Dispute Settlement, Monitoring, Evaluation and Review Mechanism

The detailed obligations contained in the EAC-EC agreement are subject to enforcement through a detailed dispute

SEATINI News

SEATINI held Parliamentarians workshop in Johannesburg South African 8-10th October 2008.

SEATINI together with CUTS International organized FEATS workshop on Policy Formulation in Kampala Uganda on 15th October.

settlement mechanism. This reflects the European Commission's view that the agreement will only deliver development if they are entirely implemented and applied, which translates in a focus on enforcement. This contrasts with the Pan-ACP view that application and enforcement should be linked to administrative capacity, and this requires technical and financial assistance to support the implementation of reforms.

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EDITORIAL: TIME TO DESIGN A STRATEGY FOR ENDING AID DEPENDENCE

By Ambassador Nathan Irumba

Ministers responsible for development and finance from both developed and developing countries as well as of bilateral and multilateral development agencies assembled in Accra in the first week of September to deliberate on the how to improve Aid Effectiveness. The discussions and the resulting outcome namely; the Accra Agenda for Action focussed mainly on how to enhance country ownership, increasing the volume of aid and predictability of aid flows, reducing aid conditionalities, harmonisation of and avoiding fragmentation of aid delivery.

President Kufuor of Ghana, struck the right note when he called on the Accra forum to work to remove the systematic indignities of permanent aid through social and economic empowerment and correctly pointed out that aid should help beneficiaries not only develop economic muscle, but also to become worthy investment partners internationally. We agree.

While appropriate development aid is desirable, there is increasing concern at the high level of aid dependence of many countries especially in Africa and the LDCs. The quest for foreign aid has become a major objective and preoccupation of many developing countries both in their foreign and domestic economic policies. The volume of foreign aid extended to a country is often announced with pride as signifying acceptability by the international community. This is most unfortunate. This has made them to veer off from the earlier policies of self-reliance whereby they would harness their own resources for development and only seek foreign aid as a supplement to support capital development.

The LDC report 2008 points out that the fundamental priority of a government should be to formulate and implement national development strategies that promote sustainable development and poverty reduction. The report also observes the major constraints on the ability of LDC governments to exercise effective leadership in design and the implementation of their national development strategies which arise from the high level dependence on donor finance, the weak technical capacities and continuing bark and bite of policy conditionalities.

It also makes a point that "when politicians and policymakers feel inhibited from saying and doing certain things because of a sense of aid dependence, the political qualities of free-thinking society atrophy."

The inherent dangers of over-dependence on foreign aid for development are increasingly being recognised. Adrian Wood for example points out that "there are various reasons to be concerned about high aid dependence, but the most worrying is the undermining of good governance by distortion of political accountability. Governments that are highly dependent on aid pay too much attention to donors and too little to their citizens. This might not matter if the interests of citizens and donors were identical. But all donors have some non-developmental motives and, even when they seek to promote development, they have their own priorities. The result is confused and shifting policies, volatile aid and as a result, slower growth."²

Kishore Mahbubani also observes, "western countries have put significant amounts of money into their overseas development budgets, but these funds' primary purpose is to serve the immediate and short-term security and national interests of the donors rather than the long term interests of the recipients." [*As cited in Foreign Affairs: May/June issue. Article: The Case Against the West. Kishore Mahbubani is the Dean of the Lee Kuan Yew School of Public Policy at the national University of Singapore.*]

It is worth pointing out that the OECD's aid effectiveness agenda utilizes the World Bank's country policy and Institutional Assessment as an evaluative measure for lending worthiness that rests on elements which emphasize trade openness as a criterion of good policies and good governance. It includes requirements such the CPIA or government procurement standards that prejudice the role and direction of trade policy in the development strategies of recipient countries.

No doubt aid is recognized as contributing to global financial flows and can have a positive effect on the development of the recipient countries if well harnessed but not all foreign aids serve the purpose of development and some can actually be enslaving.

²This was stated by Adrian Wood a professor of international development at the University of Oxford and in 2000-2005 was chief economist of the UK's department for international development on www.ft.com.

The South Centre in their publication “Ending Aid Dependence” raises the following pertinent issues regarding accountability of aid recipient governments.

“In the aid-dependence is government accountable to its people or to the donors who finance the government? Can citizens be assured that their interests will be safeguarded by their own national governments and not become subservient to controls exerted by donors on their national governments? Can citizens of aid-dependent countries ever escape the stigma where the value of their industriousness and entrepreneurship will always be overshadowed by the value and importance given to aid?”⁴

For the last three decades most of our countries in Africa, as part of aid conditionality, have had to undertake Structural Adjustment Programmes which continue up to now under different nomenclatures or guises. The policies have exposed the world most vulnerable peoples and weakest economies to the full force of global market place dominated by the most powerful and richest economies and co-operations. The vast majority of measures – ranging from the dropping of trade barriers that protected the livelihoods of small scale farmers and fledging domestic industries to the rewriting of national labour laws – have typically been adopted as governments have been forced, under threat of being cut off from international financing, to respond to the interests of their official and private creditors over those of their own people. Without democratic control over the key economic decisions that so directly affect their lives, the vast majority of citizens have seen the past generation of policies serve other interests while their own circumstances deteriorate⁵.

⁴Ending Aid Dependence – By Yash Tandon

⁵The SAPRIN report on Structural Adjustment – The Policy Roots of Economic Crisis, Poverty and Inequality.

It is desirable to design an exit strategy from aid dependence. This requires a radical shift both in the mindset and in the development strategies of countries’ dependent on aid and a deeper and direct involvement of citizens in their own development on one hand, and a radical and fundamental restructuring of the institutional aid architecture at the global level on the other.

The Secretary General of OECD co-organiser of the conference hailed the Accra Agenda for Action as representing “a historic step in Aid Effectiveness agenda and described the declaration as a blue print to make sure that we meet our commitments under the Paris Declaration on Aid Effectiveness by 2010 and significantly deepen our engagements on crucial fronts. It focuses on increasing the medium term predictability of aid, so that developing countries can effectively design and manage their development programmes over the medium term. This is especially important in sectors such as health which rely on long-term recurrent funding to deliver key services and, for obvious reasons, in the area of food aid. And it finishes by leading us to a time when countries will no longer be dependent on aid but on mobilising their own resources, the ultimate sign of success.”

As we approach the Doha Review conference of the implementation of FfD programme adopted at Monterrey, and examine whether the resources have been availed as envisaged, we should bear in mind the need to distance ourselves from the psychology of aid dependence and its attendant mindset. The test for the success of the Accra Agenda for Action should be on whether it leads to “a time when countries will no longer be dependent on aid but on mobilising their own resources, the ultimate sign of success,” as promised above.

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