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**Preferential Trade Agreements: Adjusting to New Trade Realities?**

Jean-Pierre Chauffour

Over the past 10 years, the world has witnessed a renewed dynamism in the negotiation and conclusion of preferential trade agreements (PTAs). This new wave of “21st century regionalism” as Richard Baldwin calls it, is characterized by several features: the rise of cross-regional initiatives and agreements that cover wider networks of participants, the increased involvement of countries at all levels of development, the stronger participation of Asian countries to bilateral and regional agreements; and of course the growth of the deep integration and behind the border agenda in these agreements. In this short article we first reflect on the possible reasons explaining this new wave of regionalism before attempting to outline some implications for developing countries.

Today’s international trade is radically different and more complex than yesterday’s. First the process of globalization and regional integration has deepened, driven by large reductions in border barriers and technological changes that have lowered, inter alia, the costs of communications and transport. Second the emergence of production networks, global value chains, and trade in tasks (as opposed to goods) is shaping the new trade landscape. This is best illustrated by the Asia factory and the famous example about the ubiquitous production of the iPod. Third is the rise in immaterial trade, linked to increasing services tradeability. Fourth is the global fall in MFN tariffs and the increasing participation in preferential trading agreements, notwithstanding the current stalemate in the Doha round negotiations.

These factors, along perhaps with more institutional ones such as the natural evolution of existing agreements towards new disciplines, and the promotion of more complex models of integration by developed countries, explain why the agenda of preferential agreements is shifting towards deeper integration policies. In a world where traditional barriers to trade have diminished and where the gains from historical tariff preferences have eroded, the emphasis has turned to non-tariff barriers, trade facilitation, services, investment, and other domestic complementary policies (e.g. competition and procurement policies). Additionally, the fragmentation of production and the emergence of new services trade have put more emphasis on the importance of regulatory policies affecting the movement of production factors and the contestability of markets in input services sectors. To be sure, with the rise of PTAs and the distortion of tariff structures, such as the practice of sectoral tariff peaks in agriculture and textile, the quest for a transparent, nondiscriminatory and predictable international trading system has remained as important as ever. Yet, policymakers are facing new concurrent priorities.

Objectives beyond market access and preferences have emerged as important focus of modern PTAs. Increased economic interdependence is generating more demands for regional and global policy coordination and the delivery of transnational public goods. PTAs are increasingly seen as institutional means to solve these coordination problems.

*Continued on page 2...*
This in itself has long been understood by policymakers and several regional economic integration initiatives, starting with the European Economic Community, have been fostered by non-economic motives. Trade agreements also offer a locus where governments can credibly commit to policy reform, through external anchoring, improved governance (transparency, accountability, and voice and participation) and potentially the possibility to import best regulatory and reform practices from others.

More controversially, beyond regulatory rapprochement and cooperation, PTAs can be a way for global and regional hegemons to pursue non-trade related agendas. At this stage this is largely driven by large rich countries, and to a lesser extent by smaller developed countries. Issues such as intellectual property rights are now routinely part of PTAs, and provisions pertaining to social norms, such as labor standards and human rights, are not rare either.

Importantly, in the architecture of most PTAs, not all the commitments are legally binding. Soft-law provisions abound in preferential schemes, reflecting the incomplete contractual nature of international trade transactions. There are several reasons for this, some directly linked to the evolving nature of PTAs. Chief among them, the elimination of regulatory barriers to trade and investment is synonymous with positive integration, whereby new rules and institutions must be devised, often jointly, to lower such barriers.

Binding agreement on rules and discipline is an important dimension of the policy compact required for better regulatory integration. The effective implementation of PTAs calls for transparent and inclusive consultation processes, administrative modernization, and coordination mechanisms, such as soft-dispute resolution systems and standards setting bodies. Other examples of soft-law provisions include the provisions on capacity building and resource transfers often found in PTAs where there is strong asymmetry among partners, i.e., North-South agreements. Finally, the possibility of increased trust and confidence among parties is another important side benefit of PTAs (in addition to the legal certainty conveyed by the agreement itself). Institutions managing trade agreements such as regional economic communities have therefore a key responsibility in helping reap the benefits of this new generation of deep and high quality trade agreements.

Adjusting to new realities

An implication of the growth in number and breadth of scope of PTAs is the rising complexity of policy issues they raise. In many of the new areas covered by these agreements there is no clear and proven template of liberalization and reform. And probably there will never be given the country and sector-specific quality of most issues. So what does this mean for developing countries with weak capacity?

A first emerging lesson is that developing countries should not fear PTAs but think about them in a different way from old-style trade agreements. The economic paradigm of shallow PTAs does not necessarily apply to deep and high quality PTAs. Concepts such as mercantilist reciprocal liberalization, trade creation and diversion, or a textual approach to signing PTAs may still underpin the reasoning of many policymakers but are often obsolete or incomplete for deep integration liberalization. Failure to understand this may in turn explain why most PTAs have either not exploited to the full the liberalization opportunities of behind the border measures or not prioritized the one closest to the parties’ interests.

Second, deep integration PTAs are potentially powerful “tools” to push wide-ranging government-owned reforms. Beyond market access, deep integration PTAs create opportunities to complement trade liberalization with other behind the border reforms. And they offer unique instruments to promote bilateral or plurilateral cooperation and resource transfers, transparency mechanisms, mutual equivalence, informal mechanisms for dispute resolution, in-depth and expert dialogue, and deeper liberalization among willing parties. These are not approaches that can be easily — or at all — replicated in the large and formal setting of multilateral institutions.

Third, deep integration should be pursued in a strategic and selective manner. Another answer to complexity, not sufficiently considered by developing countries in our view, is selectivity. Liberalization is a complex matter, not only from a capacity standpoint, but also politically. Overloading the negotiating agenda (which will later on become the implementing agenda) keeps the focus away from what may be achievable and where gains may be the most important. Agreements bloated by too many issues may lose significance and fail to achieve much. On the other hand, picking meaningful issues with the right partner and adequate technical assistance and cooperative approach may result in substantial liberalization progress and serve as a positive signal or trigger for more challenging areas. Market access should not be the only item on the agenda of negotiators, especially those of developing countries, since deep integration is really about domestic reform. In this respect too, prioritization of core objectives and sequencing should be central considerations of negotiators.

Finally, although core economic principles should be followed to promote to the extent possible market-based solutions in PTAs, there is no one-size-fits-all deep integration. As policymakers start integrating more and more these new dimensions, we can expect that they will become more intensive “users” of PTAs to further liberalization objectives, hopefully in complement to multilateral efforts. Liberalization in each sector is not a simple matter and escapes easy characterization, as well as uniform answers. This complexity means that there are few universal rules to follow, but mainly carefully designed and specific solutions. Deep and high quality integration is essentially a sui generis process.


Notes


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From Cape to Cairo: The Birth of Africa’s Largest Free Trade Area  

Agatha Nderitu

There is increasing consensus among African policy circles that increased regional trade cooperation through the removal of intra-regional trade restrictions, such as tariffs, quotas and non-tariff barriers, is a critical strategy to address the challenges posed by small domestic markets, limited economies of scale and increasing marginalisation of African economies in world trade. As a result, the formation of regional trade blocs has proliferated.

In acknowledgement of this truism, the Governments of the Regional Economic Communities (RECs) of East African Community (EAC), Common Market for East and Southern Africa (COMESA) and the Southern Africa Development Community (SADC) have agreed to create the COMESA-EAC-SADC Tripartite Free Trade Area (FTA), which will bring together 26 countries with a combined population of nearly 600 million people, a combined GDP of approximately US$ 1 trillion and a GDP per capita of US $ 1,184.

Making up over half of the African Union (AU) in terms of membership with just over 58% in terms of contribution to GDP and 57% of the total population, once established, the Tripartite FTA is seen as a major building bloc towards the African Economic Community (AEC). The main goal of the Tripartite FTA is to allow the duty-free, quota-free flow of goods and services, and the free movement of business people by 2016. The hope is that positioning half of Africa as one large common market will allow it to benefit far more from global trade flows, as well as attract greater investment and large-scale production. The overall objective of the Tripartite FTA is to accelerate economic integration, increase economic growth, reduce poverty, attain sustainable development and improve the quality of life for the citizens of the Tripartite Members States. The Tripartite Integration process is anchored on 3 pillars, namely Market Integration, Infrastructure Development and Industrial Development.

The Tripartite FTA Agreement will, among other things, harmonise discrepant regulations governing trade among the three RECs. The agreement also aims to improve the flow of goods along transport corridors by lowering transit times and reducing the cost of trading. Additionally, joint planning and implementation of infrastructure programmes will enhance physical interconnectivity through infrastructure development and improving operational efficiencies of border crossings and seaports. This will be complemented by facilitation of the movement of businesspersons within the Tripartite region.

Towards establishing the FTA, the REC governments constituted the Tripartite Task Force (TTF) in October 2008 during the 1st Tripartite Summit. The 2nd Summit of the Tripartite Heads of State, held in June 2011, officially launched the negotiations towards the FTA. Among others, the Summit adopted the Draft Agreement and its Annexes; together with the Negotiation Scope, Principles, Processes, Institutional Framework and Road Map.

The Tripartite process

In terms of the Scope of negotiations, there will be 2 phases. Phase I will cover negotiations on tariff liberalization, rules of origin, dispute resolution, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers (NTBs), trade remedies, technical barriers to trade (TBTs) and sanitary and phytosanitary measures (SPS). Movement of businesspersons will be dealt with during Phase I of negotiations, but as a parallel and separate track.

Phase II will cover negotiations on trade in services, intellectual property rights, competition policy, and trade development and competitiveness.

The Roadmap for the Tripartite FTA Negotiations is organized along a preparatory phase and a negotiation phase. The preparatory phase will take 6-12 months, starting June 2011. It will cover information exchange, rules of procedures, schedules, positions and establishing monitoring and evaluation mechanisms.

The Negotiation Phase, to take 24–36 months, aims at completing negotiations around the issues outlined in scope 1, business persons and the negotiations of the built-in agenda outlined in Phase 2.

The negotiating principles adopted are also noteworthy. The negotiations shall be REC and/or Member State driven (it should be noted that the EAC intends to negotiate as a REC). Variable geometry, which will allow progression in cooperation among the members to implement FTA at different speeds, is also provided for. The Summit also adopted the notions of building on the acquis of the existing REC free trade areas in terms of consolidating tariff liberalization in each REC, and of a single undertaking covering first phase on trade in goods. Other negotiating principles include substantial liberalization, most-favoured nation (MFN), National Treatment, Reciprocity and consensus on decisions taking.

The private sector’s role

The role of the private sector as the key Tripartite FTA beneficiary has been acknowledged by the Tripartite FTA Policy organs, including the Summit. Each Partner State is expected to use its various systems to receive inputs from the private sector and other non-state actors. Cognisance has also been given to REC business associations such as East African Business Council (EABC) as stakeholders to provide input for the negotiation process. To this end, EABC is collaborating with the EAC Secretariat and is also set to begin a program to ensure that our Members and the wider private sector develop positions and provide other inputs on key areas of interest including on matters related to tariff liberalisation, rules of origin, NTBs, SPS measures and customs documentation, among others.
The road ahead

Looking forward to the negotiations, there are a number of factors that will augur well for the establishment of the Tripartite FTA. Among these is the fact that the Tripartite RECs share a lot in common. Firstly, the proposed FTA comprises the largest number of English speaking Africa and the countries which constitute the three RECs have been cooperating on many fronts. For instance, Tanzania was home to most of the liberation movements in southern Africa particularly Mozambique and Southern Africa.

Secondly, these countries, for decades, have had close ties in terms of trade and investment, with South Africa being one of the major investors in countries of Eastern and Southern Africa. Also, River Nile riparian states have been cooperating under the Nile basin initiative.

Thirdly, the RECs share common objectives where economic integration is concerned – that of expanding trade with a view to economic growth and improved standards of living of their people. Each REC is already implementing regional integration programmes in trade and economic development covering the establishment of Free Trade Area, Customs Union and Common Market, as well as regional infrastructure development programmes in transport, information communications technology, energy and civil aviation as a first step towards the realization of continental integration.

The key challenge will be to come up with an agreeable new framework for RoO as the EAC and COMESA’s RoO regimes (themselves somewhat similar) are significantly different from the SADC RoO.

Challenges of course are expected. Amongst these is the issue of Rules of Origin (RoO), which in preferential trading arrangements, set out the criteria for determining the origin of a product. The key challenge will be to come up with an agreeable new framework for RoO as the EAC and COMESA’s RoO regimes (themselves somewhat similar) are significantly different from the SADC RoO.

(...countries should not be allowed to simply exclude whole sectors from the FTA, they should justify exclusions on the basis of development policies.

Challenges to the tripartite negotiations

Another challenge relates to tariff liberalisation and the issue of sensitive products. Given that trade liberalisation can have negative effects on a country / region’s economy, products to be exempt from tariff liberalisation in order to fend off any negative effects are designated as sensitive products. However, what constitutes a sensitive product differs from REC to REC and even within the RECs; and there is no common criteria used to determine sensitive products. “In the negotiations, officials have a tendency to list everything that a country produces as ‘sensitive’. These products are then excluded”, SADC trade policy advisor Paul Kalenga is quoted as saying. He further adds that countries should not be allowed to simply exclude whole sectors from the FTA, they should justify exclusions on the basis of development policies.

Taku Fundira, a researcher with Trade Law Centre for southern Africa, notes the issue of sensitive products may become an area of contention in the Tripartite FTA negotiations, simply because “much of the basis for this exemption designation is likely to be arbitrary, and the sensitive products are more likely to reflect protectionist interests or rent-seeking behaviour, both of which will perpetuate inefficiencies.”

Additionally, concerns have been raised on the readiness of smaller nations in the region to engage in such a grand scheme as the Tripartite FTA, what the potential benefits are for them; and what needs to be done to ensure they reap these benefits. Speaking during a TRAPCA Workshop in Arusha, Dr. Mukhisa Kituyi, former Trade Minister for Kenya, correctly argued that greater market access through the first pillar offers many opportunities for the most dominant economies in the region that have industrial bases but not so much for smaller economies. Thus, to sustain the latter’s interest in the Tripartite FTA, the partners should endeavour to sequence the activities under the pillars in a way that boosts all countries. This may require identifying ‘champions’ for trade facilitation and infrastructure and industrial development.

The last challenge is the issue of ‘single undertaking’, which has been adopted as one of the principles of the FTA negotiations. A number of people have questioned the purpose of a principle that holds that “nothing is agreed upon, unless there is agreement on all the issues on the table”. Indeed this very principle has been held responsible for the jam that the WTO Doha Rounds finds itself in. The principle has the potential to prolong and derail the Tripartite negotiations. To avoid this scenario it would be wise to identify areas that may cause rifts and address them early on so as to create appetite and momentum for the process by offering partner states quick wins or an early harvest.

Overall of course, the negotiations will proceed on the assumption that the 3 RECs have their own arrangements, be they at the stage of FTAs or Customs Unions, operating optimally. that all have tariff free internal trade, no sensitive products within the RECs, no stay applications, no non tariff barriers and that trade amongst themselves is well facilitated and governed. Ergo, it is imperative that we address challenges within our own blocs to ensure that once the Tripartite FTA is established, it achieves the benefits we envisage for it.

Notes

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Achieving Export Diversification: Lessons from Brazil

Xavier Cirera

Achieving export diversification has been a central objective of development policy for the last 50 years. Yet for most developing countries, the composition of production and exports is highly concentrated in natural resources, exacerbated by a decade of high commodity prices. As a rapidly growing economy and large commodity exporter, Brazil provides an interesting case study of how export diversification occurs.

A narrow focus on raw materials exports can be a constraint for economic growth in periods of low commodity prices, and it increases these economies’ vulnerability to external shocks. Successful export diversification at an economy-level requires first understanding the firm-level processes which support the introduction of new products for export. This note uses evidence from research on Brazilian manufacturing firms to draw lessons for other developing countries on how firms achieve export diversification.

Despite the theoretical and empirical grounding on the benefits of export diversification, many developing countries struggle to achieve it. In addition, there are indications that it is becoming increasingly difficult to break into non-commodity export markets, due to the rise in global competition. Also current high commodity prices incentivise countries to remain in commodity exports. As a result, most developing economies are faced with exports that are highly-concentrated in natural resources, and are unable to reap the benefits of diversification.

Firm-level diversification

Although the quantity and quality of empirical evidence on export diversification has increased in the last decade, much of the literature focuses on trade diversification at the country-level. However, achieving export diversification at the country-level requires individual firms to diversify exports, and little is known about the firm-level processes and innovation efforts required for introducing new products to export.

Through studying a unique dataset of Brazilian manufacturing firms during the 2000s – including information on exports, firm characteristics, production processes and innovation efforts – our research aims to draw lessons for other developing countries that are seeking to encourage export diversification.

Our findings for Brazil suggest that, firstly, the rate of export failure is high. The majority of new products introduced by exporters are not sustained beyond the first year. In fact, we observe that 57 per cent of export flows are only sustained for one year. Export sustainability is a critical challenge for maintaining diversification.

Secondly, it is existing exporters that tend to diversify. Indeed, our results show that diversification is mainly carried out by existing exporters, rather than new entrants to international markets. More than 80 per cent of new exports are introduced by existing exporters. Export experience is critical for diversification.

A third finding to emerge from our research is that diversification occurs mainly into similar and less-sophisticated products. We analysed the type of products that firms tend to diversify into. We found that in most cases, new products are similar or related to existing exported products, either in terms of sector, or the inputs used for production. They also tend to be of lower sophistication or technological content than existing exports.

The picture, however, changes when we consider diversification in relation to the main domestic product for the firm. In this case, diversification tends to occur in product more unrelated and more activities to core activities. This highlights the multiproduct nature of most firms, at the same time than the fact that existing firms’ capabilities constrain the scope for export diversification.

And finally, firms that diversify are better performers and more internationally exposed. More importantly, we find that Brazilian firms that successfully diversify exports tend to have:

- Larger firm size and more productive
- Foreign ownership
- Larger domestic market share
- Less reliance on specific key products
- More innovative production processes and products
- Increased investment in Research & Development (R&D), skilled labour and marketing activity

These findings suggest several implications for developing country governments trying to facilitate export diversification. These are listed below.

1) Incentive innovation. Policies that incentivise investments in innovation and R&D will help firms acquire the capabilities that are vital if they are to diversify.
2) Support firms to consolidate in the domestic market. Firms must improve their production base domestically, prior to diversifying. Therefore, policy frameworks that encourage export diversification should also focus on eliminating existing constraints in domestic markets.
3) Support export sustainability. While governments need to continue to support firms in breaking into new products and new markets, they equally need to address the sustainability of exports. This requires a more balanced approach of support policies such as Aid for Trade, giving more weight to measures that may facilitate consolidation of new trading relationships over time.
4) Facilitate foreign exposure and links with international markets. Foreign exposure appears to increase diversification, so policies that encourage trade integration, FDI or participation in international value chains can critically assist firms in acquiring the required capabilities to boost export diversification.


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BRICs’ Approaches to Development Financing and Their Implications for LICs

Nkunde Mwase and Yongzheng Yang

The coming unto the scene of development financing by Brazil, Russia, India and China (BRICs) has intensified the debate on aid effectiveness and related policy issues. Indeed, unlike aid from OECD donors, BRIC financing (excluding Russia) focuses on mutual benefits without attachment of policy conditionality.

Nevertheless, as with other sources of financing, low-income countries (LICs) will need to ensure high returns for BRIC-financed projects through sound public investment management.

BRICs, with the exception of Russia, provide financial assistance based on the principle of ‘mutual benefits’ in the spirit of South–South cooperation. Brazil, China, and India see themselves as ‘development partners,’ not ‘donors.’ Their experience as recipients of traditional development assistance and their identification with other recipients also contribute to their sensitivity to the term ‘aid.’ Indeed, the term is sometimes contentious. China, for example, does not regard itself as providing aid.

Should there be conditionality and tied aid? Meeting the minds on debt sustainability

There have also been differences in the approaches to assessing debt sustainability between some BRICs and traditional donors. China and India generally focus on a project’s economic viability while traditional partners emphasize long-term debt sustainability at the economy-level. China makes a distinction between productive and non-productive investments; the latter are generally financed through grants while the former generally by loans. In contrast, traditional partners pay more attention to debt sustainability at the macroeconomic level, often based on the results of the IMF/World Bank Debt Sustainability Analysis.

Overall, the differences are, however, narrowing with BRICs increasingly appreciating the importance of overall debt sustainability and traditional donors the need for investing in physical capital.

Benefits of BRIC Financing

The scaling up of public investment associated with most BRIC financing is likely to have large positive growth effects. Indeed, BRIC financing has played an important role in alleviating infrastructure bottlenecks in many LICs and should help them tap their natural resources.

Vivien Foster, Lead Economist at the World Bank, and Joseph Onjala, a research fellow at the University of Nairobi, noted that it has resulted in a 35 percent improvement in electricity supply, a 10 percent increase in rail capacity and a reduction of the price of telephone services.1 BRIC financing of infrastructure could have positive supply side effects, and consequently improve export competitiveness. Importantly, BRIC financing can also help strengthen regional trade linkages.

In addition to these, Montie Milachla, Deputy Division Chief at the IMF, noted that the strong focus of BRIC financing in improving access to trade and natural resources has been associated with a sharp increase in trade flows and foreign direct investment between LICs and BRICs.2 Issouf Samake, Senior Economist at the IMF, and Yongzheng Yang, the IMF’s Resident Representative in the Pacific, find significant growth spillovers from BRICs to LICs both through direct channels (such as bilateral trade) and indirect channels (such as global commodity prices).3

Dealing with challenges

While BRIC financing has generated significant economic benefits for LICs, it also poses challenges that call for better economic management to minimize the associated risks and expand future benefits. The first of these challenges is ensuring high returns on projects. As with other sources of financing, it is critical that LICs align BRIC-financed projects with national development priorities.

A second challenge is improving transparency and governance. Efforts should be made to improve data on the size and terms of financing flows, the structure and conditions of packaged deals, as well as the rights of concessions for natural resources. Safeguarding debt sustainability will also be key. Macroeconomic analysis of total project financing, including assessments of risk, implications for public finances (including how maintenance costs will be financed and contingent liabilities associated with some FDI projects) and growth impact, is critical to avoid potential debt sustainability problems while ensuring adequate public investment.

The final challenge will be to deepen project linkages to the local economy. LICs and BRICs could work together to build incentives, as part of a total package for development financing, to encourage local employment, foster skills development, and improve technology transfer.


Notes

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Civil Society Participation in Global Governance for Development

Marco de Ponte

Sustainable growth and an international development framework - addressing poverty and inequality, building policies and programmes with a human rights based approach - cannot be achieved without people’s engagement. In our experience, development needs active and engaged individuals and communities.

Facilitating active citizenship and participation is a crucial step towards the creation of a functional democratic system, which in itself is an essential ingredient to a sustainable development. Civil society can help in this regard, by enabling a broad and democratic debate, and by supporting people’s ability and right to choose and influence their development. This articles lays out the main arguments in favor of civil society engagement at the global level, and goes on to assess the role of civil society in the Busan High Level Forum on aid effectiveness and in the OECD’s new strategy on development.

Civil Society Organizations (CSOs) are a key link in the accountability chain. For instance, in the poor countries where ActionAid is present, we do not act only as a development organization delivering services but also as a support to local communities so that they can mobilize themselves to hold their governments accountable for their choices and policies. We work at the improvement of conditions that can enable civil society organizations’ initiatives. The most recent and still ongoing crisis has a deep impact on the way we look at development and growth. It also confirms that citizens’ participation in holding politicians and governments accountable is relevant at any latitude.

Much more must be done in terms of better and more participatory global governance to make sure that all countries and stakeholders are represented on a fair basis. The dynamic between people’s participation and the decision making is crucial: it is an essential element to generate mutual accountability mechanisms, which are uniquely important to make equal partnerships work.

The accountability of both international and national institutions is essential, starting at the local level, where it works through the presence of people, groups and staff. One lesson that we have learnt over the years is that international, national and domestic accountability mechanisms are mutually reinforcing.

**Busan: Aid effectiveness and policies’ coherence**

Reflections on aid effectiveness and development policies’ coherence have clarified that aid produces a marginal impact where political and social climate is not conducive, whether it be in the north or in the south. In this spirit, and in response to the global debate, CSOs have committed to improving their own effectiveness: we have in fact endorsed the Istanbul principles for CSOs’ effectiveness which commits CSOs to such principles as people’s empowerment, gender equality, transparency and accountability. It is crucial that the most recent Busan Partnership for Effective Development Cooperation incorporates the Istanbul Principles and commits all parties to creating and enabling environment where CSOs can act as truly independent actors.

Busan was a unique opportunity to influence development cooperation from the point of view of people’s organizations and the Busan Principles present such potentials that they can transform policies beyond the domain of ODA and development cooperation. Moreover, they can positively contribute to translate Policy Coherence for Development into a performable path for both donors and partners countries.

**OECD’s Strategy on development: the need of a multi-stakeholder approach**

The OECD has recently committed to into a more systematic and comprehensive policy dialogue and knowledge sharing and its engagement with multiple stakeholders. We emphasize the importance of different approaches to diverse stakeholders, a key element to foster innovation in development and poverty reduction strategy. Furthermore, we recommend evaluating the unique role that a diverse CSO community can provide: the relation with the civil society can be a precious added value, specifically in terms of outreach. If we really want to build States that are able to implement policies the collaboration with the civil society has to focus more on reaching out to a broader and more various public.

As regards the relation between International NGOs and the OECD, we note that a consensus building process is in place but we believe that there is an urgent need for more structures and formal consultations with other stakeholders, beyond watchdogs and International NGOs. A successful Strategy should embody a clear role for global civil society as “an actor of change” and outline how new approaches can be experimented; in this sense, civil society cannot be seen in a limited way – as watchdog only – but has to be considered as an important and strategic partner. We welcome OECD’s commitment to recognize civil society participation as a prerequisite for long-term poverty reduction and promotion of democracy, and we would like to see a Strategy that proactively supports and acknowledge the role that citizens can play.

The OECD DAC for example has hosted the Working Party on Aid Effectiveness that, over time, has evolved into the new entity, which has embraced a wide range of actors coming from different walks of life. This approach – based on multi-stakeholders’ participation in policy setting processes – is an example that can be worth exporting to other agenda domains.

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Regional Integration for Food Security in East Africa: the Role of CAADP

Dolly Afun-Ogidan

The East African Community (EAC) is one of the few regional economic communities (RECs) which have made substantial progress on its regional integration agenda. Within a short period of time, the EAC has been able to attain a common market status and is currently working towards establishing a monetary union by 2012. Given that the region is prone to food shortages and drought, promoting regional integration and cooperation around agriculture has the potential to help the EAC address its food security challenges.

A greater focus on regional agricultural development in East Africa could not be more timely. In addition to growing climate change challenges and recent food price volatility, the Horn of Africa food crisis has brought food security concerns to the forefront. However, despite being a relatively homogenous REC with higher chances of successful agricultural integration, because national interests are usually stronger than regional priorities, East African countries have often resorted to measures that go against promoting integration objectives.

Additionally, because agriculture is inherently linked to other sectors, actions – or lack of them – taken in other domains have consequences for regional food security and agricultural development. Divergent trade policy tools and non-tariff barriers, for example, greatly constrain intra-EAC trade in general. Intra-regional trade in agriculture products, which is largely informal, is particularly hampered by the inconsistencies between partner states’ trade and agriculture policies.

Without harmonisation of national policies there are no checks and balances to prevent situations where food deficits lead to hunger and famine or surpluses induce low food prices and economic losses for farmers.

CAADP as a regional integration and regional food security tool

The CAADP process operates in a unique way, seeking to place the national and regional reform and investment process firmly in stakeholder’s hands. A crucial part of this process is the formulation of national and regional compacts. Compacts are a form of ‘agreement’ amongst all agricultural stakeholders, outlining priority areas for action in each country and region, and are elaborated though national and regional consultations. Compacts are then followed by investment plans, concretely outlining projects in the areas identified in the compacts. Ideally, national compacts and regional compacts and the investment plans that accompany them operate in synergy.

Although CAADP has progressed steadily within the EAC region, most success - in terms of developing compacts - has been achieved at the national level: all EAC partner states have signed national compacts and are at different stages of the national agricultural investment plans (NAIP) process. The EAC Secretariat is now keenly interested in and working towards developing a regional CAADP compact in 2012. The Secretariat proposes a compact that adopts a bottom-up approach, building on the existing national compacts and addresses regional challenges shared among partner states. It also proposes to integrate existing and emerging regional initiatives such as the Food Security Action Plan into the regional compact.

Most stakeholders within the region agree that a regional CAADP process is the appropriate framework to stimulate improved coordination of regional agricultural initiatives addressing food security. There is consensus among the various actors working in the EAC that developing a regional compact would be a useful rallying point for REC, partner states, Development Partners (DPs), private sector and other stakeholders around regional agriculture.

Making regional integration work for food security

In order to make regional integration work, and successfully implement the food security action plan or even a regional CAADP compact, the EAC and its partner states would have to address the usual regional integration challenges, localise regional decisions at the national level, think beyond safeguarding national priorities and interests, and adopt measures that capitalise on the synergies which exist between agriculture and other cross-cutting sectors.

In the elaboration process of a regional CAADP compact, progress and obstacles in cross-cutting regional initiatives need to be taken into account. In addition, synergies between agriculture, trade, infrastructure and other related sectors should be further explored if the region is to become food secure. The guiding criteria being that the regional compact provides added value to existing initiatives, addresses the loopholes and weaknesses of current schemes and brings them together in an all-encompassing framework.
In spite of the fact that all partner states have endorsed the CAADP framework, the regional dimension was not properly articulated in the national compacts. The current process to develop a regional compact is an opportunity to strengthen coherence and complementarity between the national and regional levels. In that regard, it would be useful to map insecure regions, analyse national compacts, and related regional policies on trade, infrastructure, etc., to identify gaps that could be addressed with a regional compact. The EAC Secretariat, with support from development partners, could facilitate such analysis and dialogue among national governments, national and regional farmers organisation and other key stakeholders as part of the preparatory process for a regional compact.

**Building broad-based support for regional agriculture**

Non-state actors such as the East African Farmers’ Federation (EAFF) see the current process as an opportunity to strengthen coherence and complementarity between the national and regional levels. Most non-state actors view CAADP as an opportunity for more for organised and better targeted non-state actor input into regional agriculture policies and strategies. These regional stakeholders call for stronger commitment and action from the regional level that allows farmers, especially smallholders, to move beyond the basic subsistence level.

Moving forward with CAADP, the EAC Secretariat needs to place more emphasis on building multi-stakeholder dialogue and partnerships, especially with national and regional farmers’ organisations and agro-industries. Opportunities to form public-private sector-development partner alliances should be identified and exploited. The EAC’s private sector rather than a state-led development approach towards regional integration is also a step in the right direction. This should be matched by increase in investments in the agriculture sector, at national and regional levels.

EAC partner states and the Secretariat should also be committed to substantially increase budgetary allocations for agriculture, as well as focus spending on those areas that are necessary for better access to markets and improved regional trade. A mind-change is also needed to look beyond donor aid and start developing partnerships with the private sector, including three-way partnerships between the EAC-DPs and private sector, for investments in agriculture. Although it could be a challenge to stimulate private sector interest, the EAC and its members should be willing to develop quality financial feasibility studies and investment strategies that highlight the business value of agriculture and mutual benefits for all parties involved.

**Working toward a regional compact: applying a flexible, ‘differentiated-gear’ approach**

The EAC faces a clear opportunity to design a multidimensional regional CAADP, while at the same time using the current traction (political and financial) of CAADP to push other regional cooperation sectors. The difficult part, however, will be effectively shaping and managing the synergies that are likely to emerge across different sector policies and programmes, as well as coordinating the different sub-sectors and initiatives under one overarching ‘umbrella’ (which should also ‘respect’ other existing regional frameworks and institutions).

The EAC faces a clear opportunity to design a multidimensional regional CAADP, while at the same time using the current traction (political and financial) of CAADP to push other regional cooperation sectors.

A realistic way forward for an overarching ‘umbrella’ and a multidimensional regional CAADP framework would be to involve all EAC countries and their different stakeholder groups. This would be a differentiated-gears’ regional CAADP framework. It would be realistic and useful to build the regional food security compact and investment plan around different cooperation areas that are progressing at different pace, as well as identifying areas of possible cooperation between some EAC countries. For example, “different gears” for EAC countries could mean a uniform agricultural markets information system for those countries where, de facto, the trade integration is already there, or further and faster natural resources management cooperation for countries who share water basins. A faster ‘gear’ could mean, very concretely, a specific investment plan for a specific area or sub-sector, or a pilot joint programme to be initially implemented only by those willing EAC partner states.

The added value of such an approach would be to look at existing sector progress and find a niche for CAADP, either as synergy-creation or in some cases as new ‘multi-purpose’ programmes related to food security. e.g. a value chain development approach which identifies and addresses simultaneously the bottlenecks on natural resources, corridors, and trade. This type of coordination in the context of a regional CAADP would need to be funded as well, because it is a demanding exercise for all stakeholders involved.

This article is part of a five part series to share findings from a regional Comprehensive Africa Agriculture Development Programme (CAADP) mapping exercise undertaken by ECDPM. Each monthly article will highlight lessons learned from one of four African regions (COMESA, EAC, ECOWAS and SADC). A fifth final article will summarise and present crosscutting lessons relevant for successful implementation of the CAADP process at the regional level.

This article is based on ECDPM’s Mapping Study of CAADP in the EAC available at: www.ecdpm.org/dp128

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This month, this section covers recent EPA developments that occurred over the past month in the East African Community (EAC), the Eastern and Southern African (ESA) and the Pacific region. It also reports on the outcomes of the recent EPA negotiations Coordination Meeting organised by the African Union. For the state of play of negotiations in other regions, please read our previous issues and do not miss our forthcoming updates in these pages!

All ACP

EPA Negotiations Coordination Meeting held in positive atmosphere

The African Union Commission (AUC) hosted an EPA negotiations coordination meeting in Arusha, Tanzania from 17-18 May 2012, convening, among others, representatives of the Regional Economic Communities (RECs), international organisations and private sector representatives.

The meeting aimed at facilitating the cross-sharing of experiences on EPAs and at harmonising positions in common areas of negotiations across regions. It also provided a platform to work towards the coherence of national, regional and continental policies, and reflect on the linkages between EPA negotiations and the discussions currently held at the WTO. Overall, the general atmosphere in Arusha was reported to be positive and forward-looking.

It came out quite clearly that the remaining contentious issues in EPA negotiations (export taxes, the Most Favoured Nation (MFN) clause, EU domestic subsidies, the non-execution clause and the so-called “new” issues introduced by the EU) are of a common nature across regions. Participants thus reiterated the importance of sharing information regularly across regions to ensure that negotiators from one region are aware of concessions made by the EU in another and suggested reinforcing the EPA coordination mechanism, for instance through the creation of an online platform that would provide up-to-date information on EPA developments across regions.

Moreover, all insisted on the necessity for the continent to speak with one voice in EPA negotiations, to avoid different clauses and provisions across regions or countries that could potentially undermine regional integration processes. Accordingly, all agreed that African integration should be given precedence over the EPAs, and participants stressed the necessity of automatically granting each other concessions made to the EU during EPA negotiations. They also called for the specific interests and concerns of Least Developed countries to be taken into consideration in the EPAs to allow them to join an agreement.

This meeting was also an opportunity to hear the views of private sector representatives, who stressed their opposition to an hypothetical MFN clause in the EPAs, the prohibition or curtailment of export taxes, and emphasized the need for resources dedicated to implementing the EPA and addressing supply-side constraints.

Notwithstanding the positive atmosphere on EPAs, the importance of looking for alternatives, should an EPA not be signed, was also mentioned, notably by AU officials. They insisted on the importance of AU led initiatives such as the African Continental Free Trade Area (CFTA), foreseen around 2017. The AU proposal for a ‘Common and Enhanced Trade Preference System for Least Developed Countries and Low-Income Countries’, which invites preference giving countries to reform and enhance their GSPs, was also highlighted.

East African Community (EAC)

EAC-EU EPA negotiations on track for finalisation this year

EAC and EU technical officials met in Mombasa, Kenya from 8-12 May, to address some outstanding issues in the negotiations. On the sensitive topic of Rules of Origins (RoOs) in the agreement, various product specific rules will require further discussions, despite progress in some areas. Moreover the EAC continues to ask the EU to go beyond the RoOs offered in the GSP – while the EU argues that it has already provided substantial flexibility on some products (such as textiles), insisting it can not go further.

Progress was made on some aspects of the consolidated EPA text, notably on the wording of certain parts of the Agreement and the reshuffling/streamlining of some provisions across titles. Furthermore, according to sources close the negotiations, the rendezvous clause, the amendments made to Annex I and II of the Framework EPA text, and the provisions related to information exchange and transparency under the SPS chapter now seem to be the object of a consensus between parties. However, the EU proposal with regards to the provisional application of the agreement continues to be opposed by the EAC, not least due to legal reasons.

With regard to the Economic and Development Chapter, although it has been polished and integrated into the consolidated text, the place that the EAC Development Matrix should have in the text of the agreement and the question of what would be an appropriate timing for the development of benchmarks, indicators and targets continues to be controversial. These issues have been deferred to the Senior Officials level (see our previous EPA update). In Mombasa, technical officials also addressed the unsettled provisions related to agriculture, although little progress seems to have been achieved on the sensitive questions of EU domestic support and export subsidies. Similarly the question of geographic indications remains unsettled at this stage.

The next joint technical officials meeting is currently foreseen from 9-13 July in Brussels. In addition to those mentioned above, the main contentious issues that continue to oppose the parties are: the MFN clause, export taxes, the non execution clause, as well as newer issues introduced by the EU, such as trade, environment and sustainable development, good governance in tax matters and obligations/consequences arising from Customs Union Agreements concluded with the EU. According to an EC press release negotiations are on track for being finalised this year.

Eastern and Southern Africa (ESA)

ESA Interim EPA operational since 14 May 2012

As of May 14th 2012, the Interim Economic Partnership Agreement concluded by the EU with Mauritius, Madagascar, Seychelles and Zimbabwe is officially applied, making it the first such agreement to be operational in Africa. The agreement will officially enter into force once ratified by all parties. 1 In accordance with the provisions of the agreement, the EPA Committee, the committee on customs cooperation and on development cooperation should be established soon. In the meantime, parties continue to negotiate a regional EPA. No specific date has been set up with regards to the next joint negotiating session.

Pacific

Pacific Region calls on EC to respond on its proposals on EPA

The regional preparatory meetings initially foreseen from 23 April to 4 May in Tongatapu, Tonga have been deferred. The reason invoked for this cancellation is the EC’s lack of response so far on the revised draft legal text, the development cooperation chapter and the draft market access offers submitted by the Pacific in July 2011. 1 No formal joint negotiating sessions has been held between the parties since 2009.

Notes


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Monthly Highlights from ECDPM’s Talking Points Blog

www.ecdpm-talkingpoints.org/

Modernising EU budget support or overloading the boat? Talking Points, Jan Vanheukelom and Nadia Molenaers, 16 May 2012 On 14 May the EU Council of Ministers adopted a new policy on providing budget support – a composite aid modality that involves financial and technical assistance to partner countries’ treasuries, capacity development, policy dialogue and a results focus. This policy introduces a fundamental shift in the use of budget support. In contrast with the former policy, budget support will no longer be exclusively linked to poverty reduction and growth objectives, but also to the promotion of human rights (…)

European Report on Development 2012 – Celebrating the Voluntary Guidelines on Governance of Land and recognizing the need to move beyond. Talking Points, Frauke De Weijer, 11 May 2012 Coming Wednesday, on the 16th of May, the new European Report on Development 2011-2012, authored by ODI, DIIE and ECDPM, will be launched. This report looks at increasing scarcity and how it is likely to affect the prospects of furthering inclusive and sustainable development. Increasing scarcity of land and water has already led to large changes in ownership and usage of these natural resources, and emerging evidence is clearly pointing to negative outcomes for the poor. In addition, the changes in land use patterns in developing countries are not contributing to a transition to a (…)

Regional dimensions moving up in the agricultural development agenda. A report from the CAADP’s 8th Partnership Platform meeting. Talking Points, Jeske Van Seters, 11 May 2012 On 3-4 May, around 200 delegates came together in Nairobi for the annual Comprehensive Africa Agriculture Development Programme (CAADP) Partnership Platform meeting. CAADP, endorsed by African leaders in 2003, is the agricultural component of the New Partnership for Africa’s Development. Contrary to what the name may suggest, CAADP is not a (donors’) programme, it is a common and Africa-led framework for stimulating and guiding national, regional and continental initiatives to enhance agriculture productivity and food security. Forging partnerships is at the core of CAADP. In that spirit, the 8th Partnership Platform meeting brought together a (...)

Monthly highlights from ECDPM’s Weekly Compass Update

www.ecdpm.org/weeklycompass

Conflict prevention and peacebuilding in the EU’s new budget. Weekly Compass, No 110, 11 May 2012. Current negotiations on how the EU will spend its future external aid budget offer an opportunity to improve the bloc’s contribution to conflict prevention and peacebuilding. A new ECDPM Briefing Note provides recommendations for a comprehensive approach ensuring that long-term objectives of conflict prevention and peacebuilding, as well as means to achieve them, will be enshrined in all future EU external relations financial instruments. The paper, of which key elements were presented to the European Parliament’s Foreign Affairs Committee earlier this week, focuses particularly on the Instrument for Stability. It calls for swifter procedures and for evaluating the impact of the Instrument to ensure accountability and learning.

Away from aid as financial transfer, towards recognition of power and institutions. Weekly Compass, No 110, 11 May 2012. “Development outcomes in poor countries depend on the political incentives facing political leaders” is the opening line of a new publication entitled “The Political Economy of development in Africa”, which was published jointly by 5 international research programmes last month. They find that although clientelism usually undermines economic transformation, there are exceptions to this, both at the macro level and in particular productive and social sectors. This insight can inform new thinking on how to use aid better in generally difficult circumstances, helping actors in development cooperation to overcome the collective-action problems that prevent them moving ahead, according to the authors.

COMESA’s approach to Aid for Trade reviewed. Weekly Compass, No 109, 4 May 2012. In recognition of the growing attention to Aid for Trade (AFT) and of the potential usefulness of regional initiatives, countries of the Common Market for Eastern and Southern Africa (COMESA) adopted a regional AFT strategy in 2009. The COMESA Secretariat commissioned ECDPM to undertake a review of this strategy to examine the region’s efforts and the challenges it faces. A new joint COMESA – ECDPM publication presents the review’s findings and provides recommendations for steps to improve the AFT strategy. It notes progress on developing holistic support packages covering investments in infrastructure and trade facilitation instruments along trade corridors, and on creating programmes assisting countries in adjustment to trade liberalization. Stepping up implementation of AFT programmes is identified as a main challenge that COMESA needs to address, the study finds.

Level of EU aid to low-income countries “unacceptable”, Weekly Compass, No 108, 27 April 2012. The UK Parliament’s International Development Committee today issued a report on EU Development Assistance. It finds that, overall, the European Commission has improved its performance over the last decade and notes that it has recently proposed further improvements to development policy in the “Agenda for Change”. But the report also points out that only 46% of aid goes to low income countries, an amount the UK Committee Chair says is “unacceptable”. Parliamentarians urge the UK Government to press other EU Member States – Germany, France and Italy in particular – to meet their obligations they made on the 0.7% ODA target. The report also notes that the UK’s Department for International Development should become a champion for policy coherence for development. It further argues that incorporating the European Development Fund into the EU budget in 2014 is premature and should be postponed until 2020.
Resources

Tapping the potential of regional agricultural trade: Why regional cooperation and integration are important for CAADP and food security, Francesco Rampà, ECDPM Briefing Note, May 2012, www.ecdpm.org


ACP-EU Trade Calendar

**June**

11-13 95th Session of the ACP Council of Ministers, Port Vila, Vanuatu

14-15 37th Session of the ACP-EU Council of Ministers, Port Vila, Vanuatu

TBC Joint EAC-EU technical and Senior Officials Meetings (venue TBC)

**July**

27 Pacific ACP Officials Meeting, Suva, Fiji

TBC 2nd CARIFORUM-EU Business Forum, with the theme “Making the CARIFORUM-EU Economic Partnership Agreement (EPA) Work”, United Kingdom

9-13 Joint EAC-EU Technical Officials meeting (Brussels, Belgium)

TBC Joint EAC-EU Senior Officials meeting (venue, TBC)