



Some initial thoughts on indicators for EPAs

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January 2009**

1. Introduction

The Cotonou Partnership Agreement explicitly established poverty reduction as an overriding objective of EPAs.

This is operationalized in the agreements themselves through inclusion of special treatment provisions for ACP countries (such as longer transition periods), pledges of coordinated development assistance, as well as a monitoring mechanism “to ensure that the objectives of the Agreement are realised, the Agreement is properly implemented and the benefits for men, women, young people and children deriving from their Partnership are maximised.”ⁱ

Suitable indicators to chart progress on implementation and impacts of EPAs are an important tool in putting into practice their poverty reduction ambitions: they can make special treatment more meaningful and effective; can assist in timely, coordinated and effective delivery of assistance as well as enabling monitoring of impacts.

This short brief outlines some initial thinking around the role and design of indicators in EPAs to inform Aprodev's strategy to develop suitable indicators and mechanisms to involve civil society in EPA monitoring.

2. Delivering poverty reduction through EPAs: the role of EPA indicators

EPA indicators should serve three key purposes:

- to trigger implementation of EPA commitments by ACP countries or to qualify them for exemptions
- to monitor impacts of EPA implementation on sustainable development and poverty reduction
- to monitor implementation of commitments, in particular disbursement and effective delivery of pledged financial and technical assistance.

2.1 Indicators as triggers

The experience of “big bang” liberalisation under structural adjustment programmes resulted in a wider acceptance of the need to sequence trade reforms with some preconditions and accompanying measures if they are to contribute to pro-poor growth.

Existing trade agreements use exemptions or lesser commitments and longer implementation periods to accommodate the understanding that under certain circumstances, certain reforms are not helpful and that countries with lower levels of development may find it difficult or inappropriate to implement the same level of reforms as more developed ones.

Although, these needs are recognised to an extent in existing trade arrangements involving developing countries, the tools currently adopted in trade deals to deal with them are somewhat blunt.

At the WTO, for example, the main instrument is categorisation of countries according to whether they are least developed, developing or developed countries. This leads to one of two unsatisfying situations: i) either that there are too many exemptions/ flexibilities in order to accommodate all the possible development needs and situations of a wide range of countries or ii) that there are too few flexibilities or that flexibilities are available only to a much smaller group of countries. The second scenario results in insufficient flexibilities being available to some countries that need them. The first results in it being a very unsatisfying prospect to enter into negotiations with a group of countries that are unlikely to make any real commitments as they need so many exemptions, such as the ACP, and for ACP countries themselves a loss of leverage at the negotiating table and a loss of the benefits of predictability and transparency that the framework of meaningful commitments of a trade agreement can provide.

The EPA monitoring approach using indicators as triggers allows a more refined approach. Countries can prioritise among a “menu” of flexibilities or exemptions to suit their development needs and strategies. For example, one country may not have the necessary regulatory set-up in place in order to liberalise its telecommunications sector, whilst another might be concerned that its small-scale agricultural processing sector is not yet prepared for competition with EU producers. These commitments could nevertheless form part of the regional EPA, but those countries would only put them into practice once their regulatory structures were in place or indicators showed that conditions were more propitious for the domestic manufacturers.

There are precedents for these kinds of triggers in existing trade arrangements. The special treatment of net food-importing developing countries at the WTO, for example, gives exemptions to countries that qualify as having a particular set of needs. The EU's graduation process for the GSP scheme triggers exclusion from preferential treatment to developing country producers once they reach a level of competitiveness (measured by their share of EU imports in that sector).

These kinds of more specific exemptions and triggers could be developed by the EPA parties. For example for countries that have a large small-scale agriculture sector employing the majority of the poor population, liberalisation in key products could be triggered by levels of low-skill employment alternatives available to them and the existence of social safety nets.

2.2 Indicators to monitor impacts

The results of trade reforms can be unpredictable and vary considerably according to local circumstances. The ability within EPAs to monitor impacts and adjust implementation in light of these is an important one.

Whilst EPAs cannot be expected to “deliver poverty reduction” to the ACP – they are only one among many factors – we can expect that they should not have serious negative impacts.

In current trade agreements the only provisions to deal with unexpected adverse consequences are via safeguards (or when a country is so badly affected that it might revert to LDC status!). These can only be used in limited circumstances and effectively require that the crisis has already taken place for action to be taken.

Monitoring using indicators should allow countries to adjust commitments if trends are moving in the wrong direction to a sufficient degree – unemployment is rising, growth and diversification are diminished.

In some instances, it is easier to isolate the role of EPAs in producing these negative impacts. For example, whether the presence of European banks has increased or reduced access to financial services in rural areas, or whether small-scale retailers and suppliers have been affected negatively by the entry of European supermarkets.

In other circumstances it might be more difficult to define causality. If unemployment increases or food prices go up, these can also result from other factors or global trends, as much as from EPA effects. This need not be problematic however. As countries have more tailored exemptions (see 2.1. category explanation) then if necessary, implementation or other measures can be adjusted to suit development needs and priorities regardless of whether EPAs are at the root of the problem.

2.3 Indicators to monitor implementation

Mechanisms to monitor proper implementation of commitments by the parties to a trade agreement is fairly standard. An innovation in EPAs would be to monitor in parallel effective delivery on assistance commitments and to give equal weight to these.

This is important to achieving successful sequencing.ⁱⁱ Countries may be reluctant to liberalise sectors that are important for revenue, for example, until they have been able to develop tax collection systems or alternative sources of revenue. In the past the failure to be able to ensure that tax reform assistance programmes were successfully completed before revenue was lost from liberalisation has generated problems for ACP countries.ⁱⁱⁱ

Again, EPA-related assistance cannot be expected to deliver every programme that might help EPAs to have a positive impact as this could encompass almost every area of development activity from human resource development to infrastructure provision – however, it can be expected that ACP countries are able to hold the EU to account on delivery of their key priority assistance programmes, if necessary, before implementing related commitments. These priorities could be reviewed periodically, in line with aid programming and local decision-making processes, such as PRSPs and CSPs.

3. Conclusion: How do EPA indicators compare with existing development criteria in trade deals?

In many respects there is a good deal of overlap in the indicators that could be used in EPAs and those used to determine development criteria in existing trade arrangements. Many of the criteria used to classify LDCs or qualify as a “vulnerable country” for GSP treatment^{iv} will also be relevant for EPAs.

It may be necessary to use a greater range and more qualitative indicators to deliver on the poverty reduction objective of EPAs, however. Poverty is more multi-dimensional than income, and not delivered only by growth or economic diversification, arguably the main focus of existing development criteria in trade deals^v. Aspects such as human development, environmental impact and equity and gender considerations also become important. Some indicators already exist that can be used in this context^{vi}. However, it will also be important to involve those that will be affected by EPAs. Involving civil society will not only be necessary for practical purposes of understanding real impacts on the ground and monitoring livelihoods and firm-level impacts; it is also part of delivering poverty reduction to empower citizens to have a voice in decision-making that directly affects them and also an aspect of good governance.

The greatest innovation of EPA indicators, however, will not be in the things that are measured, but in how they are used in the implementation of the agreement. The flexibilities that indicators will help to operationalize will improve on existing S&DT in several respects^{vii}:

- they allow countries to properly sequence trade reforms so that they can manage adjustment and vulnerability (an important consideration in poverty reduction, as opposed to simply pursuing growth);
- they allow countries to overcome problems of non-delivery on best-endeavour aid commitments that are needed to ensure successful implementation and positive impacts of their trade commitments;
- they increase flexibility without the trade off of predictability and transparency that this normally implies;
- they are dynamic and tailored and not externally or automatically applied. This allows them to be compatible with local needs and priorities (for example, ACP countries prioritise regional integration impacts, an area not generally considered in flexibilities) and with other processes such as PRSP processes and EDF programming.

Recommendation:

As part of its Benchmarks project, Aprodev and partners could produce a first indicative menu-matrix of indicators to be developed and adapted by ACP countries and regions.

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Annex: Some main examples of development criteria in existing trade deals

LDC Classification (used primarily in WTO agreements):

The UN defines LDCs as those countries that satisfies the following 3 criteria:

- Low income (GNI per capita)
- Human resources weakness (human assets index: nutrition, health, education, literacy levels)
- Economic Vulnerability (agricultural production stability, export stability, economic importance of non-traditional activities - share of manufacture/services in GDP, merchandise export concentration)

EU GSP definition of “vulnerability” and graduation

Article 8 of the GSP regulation defines a vulnerable country as one that:

- is not classified by the World Bank as a high income country
- whose exports to the EU are heavily concentrated in a few products
- which has a low level of exports to the EU.

Graduation is triggered when a country exports more than a threshold share of the EU market over a three year period (a measure of competitiveness in that sector).

Commonwealth/World Bank Economic Vulnerability Index/ WTO SVE agenda TBC

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- i Article 5, EU-Cariforum Economic Partnership Agreement
 - ii See section 2.1
 - iii ICCO (2007) The realities of EC ‘aid for trade’ support in Botswana, Lesotho, Namibia and Swaziland: Lessons for EPA the negotiations
 - iv See annex
 - v The need to increase a focus on multi-dimensional poverty and livelihoods levels can be seen in the WTO's Special Products and SSM proposals in the current round, which explicitly target impacts on rural livelihoods, food security and sustainable development.
 - vi For example, the UNECA's African Gender and Development Index (AGDI), is a tool that maps the extent of gender inequality in Africa and assesses government performance. It consists of two parts, the quantitative Gender Status Index (GSI) and the qualitative African Women’s Progress Scoreboard (AWPS). The AGDI is a contribution to the Beijing Plus Ten review process. It is a complete and comprehensive tool that will guide policy makers, civil society and the donor community to intervene strategically in areas in which either the GSI or the AWPS have a low score. The AGDI will be an important instrument in development planning on the African continent.
 - vii The need to make such improvements in targeting S&DT and making it more effective can be seen in the WTO's Small and vulnerable economies and S&DT negotiations.

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