

12 Aid for Trade and building trade capacity: the case of Morocco

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12.1 Introduction

Although Morocco is one of the main beneficiaries of Aid for Trade (AFT)¹ – the first in the Maghreb and among the top ten in the world – researchers and national academic experts have not shown much interest in it.

This study draws upon two considerations: the quantitative and qualitative trends that have been marking AFT globally, regionally and nationally (since the Sixth WTO Ministerial Conference held in Hong Kong in 2005), and the experience of Morocco in this field, based on the contribution of the Second National Rural Roads Programme (NRRP-II) in reducing poverty and isolation in rural areas.

Transport infrastructure is significant in this context; it is not only considered to be a “powerful booster of exportations” but also an instrument to fight poverty, leading to the opening-up of the countryside and development of local resources. In addition, the overall competitiveness of a country cannot be improved without having adequate logistics capable of promoting the country’s integration into global value chains. Today, logistics (roads, highways, ports, telecommunications infrastructure, etc.), as demonstrated by several studies,² are a powerful determinant of the competitiveness of national economies.

International trade has the potential to enhance development and reduce poverty; however, AFT-related infrastructure remains a vital factor and essential instrument

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in seizing the opportunities offered by this trade. The two main organizations involved in this initiative – the WTO and the Organisation for Economic Co-operation and Development (OECD) – have put forward a broad definition of the concept of AFT. However, it is understood that “AFT is not a new global fund for development or a new category of aid. Instead, it is part of the regular official development assistance (ODA)”.³ On the conceptual level, the notion of AFT is also linked to the debate on Millennium Development Goal 8: “develop a global partnership for development” (UNECA, 2013).

12.2 Global trends in Aid for Trade

Aid and trade currently tend to coexist in the framework of international initiatives, in the sense that ODA has become an optimal tool of trade liberalization and national choice regarding economic openness.

The implementation of the AFT initiative in 2005 has led to better understanding of the correlation between trade and development, as well as the potential benefits of trade liberalization and trade capacity-building. In this context, the findings of the four global reviews of AFT carried out by the OECD and WTO in 2007, 2009, 2011 and 2013 are generally positive. They stress the encouraging results of this initiative in both its quantitative and qualitative aspects.

The first positive finding of this study in terms of quantity is the rising trend in AFT from the time of the Sixth WTO Ministerial Conference in Hong Kong (2005) until 2010. The commitments under AFT reached about US\$ 45 billion in 2010, an increase of 82 per cent compared with the period 2002-2005, with an annual growth rate of 13 per cent (OECD and WTO, 2013). It is interesting to note that, despite the global financial and economic crisis, major donors increased their financial commitments to AFT in favour of the least-developed regions.

However, this rising trend was thwarted by the sudden drop in commitments to AFT in 2011 under budgetary pressure of the debt crisis on donor countries of the OECD. In 2011, the flow of ODA declined significantly, which negatively affected AFT.⁴ Commitments fell to 14 per cent in 2011 – the level of 2008-2009, amounting to US\$ 41.5 billion (OECD and WTO, 2013).

Africa as a key beneficiary

Africa has been one of the greatest beneficiaries of AFT resources. The African continent is the second-largest recipient of AFT after Asia, and has been receiving

more than one-third of total funding for AFT. Africa received US\$ 16.3 billion between 2009 and 2011, whereas Asia received US\$ 17.6 billion (UNECA, 2013).

In terms of AFT per capita or relative to GDP by region, AFT to Africa has exceeded that provided to other continents, with an average of US\$ 11.26 per capita or 0.65 per cent of GDP between 2009 and 2010 (UNECA, 2013; OECD and WTO, 2013). From a global perspective, five African countries are among the world's top ten recipients of AFT: Egypt, Ethiopia, Ghana, Morocco and Tanzania. Despite the economic crisis, 55 per cent of disbursements of AFT in Africa for the period 2006-2011 consisted of grants and similar instruments (UNECA, 2013).

Since 2005, the AFT initiative has mobilized US\$ 200 billion, with approximately US\$ 170 billion in disbursements (Lamy, 2013). By category of AFT, despite the decline in the importance of aid related to infrastructure (which decreased by 23 per cent in 2011 compared with 2010), this form of aid continues to mobilize significant funds (53 per cent of total AFT in 2011).

The second finding of this study is the positive character of the additional AFT, in that the growth of this new form of development aid is not at the expense of the other substantial sectors, such as health and education. This shows that most donors remained committed to the fact that AFT should be additional.

Our third finding is related to the growing importance of the regional dimension of AFT. For instance, Africa's share of total disbursements of AFT for regional programmes increased from 9 per cent in the period 2006-2008 to 15 per cent in the period 2009-2011 (UNECA, 2013).

Improving aid effectiveness

Progress has been made by improving the quality of AFT in accordance with the 2005 Paris Declaration on Aid Effectiveness.⁵ Alongside the positive quantitative results highlighted by global and regional reviews of AFT, qualitative progress has been made since the launch of the AFT initiative in Paris at that time. This includes:

- the gradual integration of trade into national development strategies by recipients of AFT (the principle of national ownership);
- the improvement of dialogue between donors and recipients of AFT (the principle of mutual responsibility);
- the establishment of an evaluation of the implementation of the AFT process (the principle of managing for results).

Furthermore, to adapt to the profound changes that have marked the global economy in recent years, since the launch of the fourth Global Review of AFT in 2013 the focus has been on the identification of strategies to assist recipients to connect to or progress in value chains.⁶ Hence, the importance of the private sector in the development of trade as well as competitiveness is to be recognized.

12.3 The Moroccan experience of Aid for Trade

Integrating trade into national development planning and taking ownership of the AFT initiative are the best ways to raise funds. According to the recommendations of the Task Force on AFT, “[p]rojects and programmes should be considered as AFT if these activities have been identified as trade-related development priorities in the recipient country’s national development strategies” (WTO, 2006). In this respect, Morocco has set as a priority for AFT in its relations with donors, new projects such as sectorial competitiveness,⁷ export diversification and value chains. With regard to connection to value chains, which was the main focus of the fourth Global Review of AFT, it should be noted that this is also one of the key objectives of Morocco’s National Pact for Industrial Emergence 2009-2015 which identified the country’s global businesses (e.g. automotive, aerospace, agriculture, pharmaceutical products, etc.) in order to improve its competitiveness and facilitate its trade integration.

General framework

Given that Morocco is a middle-income developing country, it does not only rely on ODA to mobilize funding and investment. Morocco received nearly US\$ 2.9 billion in ODA in 2011, representing 2.9 per cent of its US\$ 100 billion GDP – a percentage that remains important, however, for the economic sustainability of the country, especially in the context of external deficits. This aid supplements and strengthens the national capacity to mobilize external financing.⁸ In the light of data provided by donors, this initiative has shown that Morocco is a “good disciple”. It is among the top ten recipients of AFT in the world and the first in the Arab Maghreb Union (UMA), receiving US\$ 1.45 billion during the period 2002-2006 (UNECA, 2009).

Between 2009 and 2011, the UMA region accounted for an average AFT commitment of nearly US\$ 1.5 billion per year and received disbursements for US\$ 1.4 billion. This means that Morocco and Tunisia together account for nearly three-quarters of all resources disbursed to UMA member countries (UNECA, 2013). In terms of categories of AFT, trade-related infrastructure (42 per cent of total AFT), including energy, rail and road transportation, has benefited from the increase observed in favour of Morocco (UNECA, 2009); these are priority sectors for the development of the Moroccan economy.

Trade and development strategies and priorities

Morocco is trying to take ownership of its AFT by defining and articulating trade and development strategies and priorities. Following the recommendations of the second Global Review of Aid for Trade (2009), Morocco established a national committee for AFT (Comité National d'Aide pour le Commerce, or CNAPC), led by the Ministry of Economy and Finance. Its main objective is to take ownership of the AFT initiative at the national level and coordinate with relevant departments in charge of strategies for implementation and trade integration. Through its new industrial policy (the National Pact for Industrial Emergence 2009-2015), implemented in 2009, Morocco seeks to have comparative advantages in industries that are part of the expansion of global value chains.

The question that arises in the specific context of Morocco is how to turn this aid into a catalyst for productive investment that could help the economy fit into these value chains. Firstly, any productive investment needs a favourable and effective infrastructure to improve the attractiveness of the territory and reduce the cost of logistics in the value chain. Hence the need to set priorities in the development of externally funded projects. Secondly, with regard to comparative advantage, Morocco ought to raise its profile of specialization by moving from its traditional sectors into the realm of high-technology and high-value sectors. Finally, Morocco should take into account the regional dimension as a structural lever for the transformation of both the Moroccan economy and its industrial system. This will be even more relevant if donors continue funding projects with a regional dimension.

Case story: Second National Rural Roads Programme (NRRP-II)

Among the flagship projects that have benefited from the AFT initiative is NRRP-II. This case elucidates the significant achievement of a project under AFT and the real challenge for the overall development of Morocco. NRRP-II, launched in 2005, aims to achieve several objectives, including balanced regional development and reducing regional disparities, strengthening national solidarity, strengthening the fight against poverty and reducing the isolation of rural areas, as well as developing local resources and increasing the accessibility of rural trade by reducing transportation costs. In addition, the integration of this programme as a priority for trade-related development has allowed Morocco to obtain financing and raise additional funds on preferential terms.

It should be noted that the fundamental feature of NRRP-II, which is part of the basic national infrastructure, in particular that related to access roads, is that it plays an essential role in the strategy of social and economic development of rural areas. Indeed, rural roads facilitate the accessibility of the rural population to basic social

and economic services as well as the development of local resource exchanges. To that end, the Moroccan Government has provided the necessary means to enable the installation of basic amenities to meet the urgent need to open the road infrastructure within a reasonable time.

NRRP-II extends over two phases, incorporating the following aspects:

- the construction, maintenance and management of rural roads to provide access to and for the rural population
- a participatory approach to development with the broad involvement of representatives of the people and local councils (with the signing of agreements between the state and the rural communities involved in the programme)
- the raising of additional funds and involvement of additional actors to expand the partnership between Morocco as an AFT recipient and donors.

NRRP-II was adopted by the government and local councils in 1,284 rural communities with the objective of achieving 2,000 km of roads per year and opening up access to and for 300,000 people annually, with a 15 per cent local resource component and 85 per cent contribution by state networks. A further objective is to increase the pace of construction of rural roads from 1,000 km per year, recorded since the launch of the first NRRP in 1995, to 2,000 km per year.

NRRP-II also aimed to raise the rate of accessibility of the rural population to the road network from 54 per cent in 2005 to 80 per cent in 2012 (rather than 2015, as originally planned). To respond effectively to the challenge of achieving the objective in only seven, instead of ten, years, Morocco undertook a large-scale mobilization of most of its resources from the investment budget and Special Road Fund, along with contributions from local authorities. These domestic resources boosted the Special Road Fund, which in turn mobilized additional financial resources in the form of loans made on concessional terms by donors. The financial package designed for NRRP-II accelerated the construction of rural roads from 1,000 km per year prior to 2002 to more than 2,000 km per year in 2009, and consequently an increase in the beneficiary population is expected.

This financial mobilization for optimal funding and the partnership aspect of NRRP-II have already resulted in increased accessibility for the rural population; by 2012, there were nearly 12 million beneficiaries, according to the Ministry of Equipment and Transportation. In terms of partnership, various foreign institutions have participated in the implementation of this programme: the African Development Bank (AFDB), European Investment Bank (EIB), French Development Agency (AFD), Japan Bank for International Cooperation (JBIC), Kuwait Fund for Arab Economic Development (FKDEA) and the World Bank.

12.4 Lessons from experience in Aid for Trade

Despite the positive aspects (both in quantitative and qualitative terms) previously outlined, AFT is fraught with difficulties and suffers from shortcomings which limit its effectiveness. These are:

- the lack of a commonly accepted definition of AFT, which does not promote consensus (e.g. in quantification of AFT and scoping AFT categorization)
- the non-implementation of operational strategies to exploit the potential of integration into the multilateral trading system, and the non-prioritization of attention to barriers that hinder the development of trade, which has a negative impact on optimal mobilization of funding
- the lack of coherence between national and regional programmes in trade prevents developing countries from taking full advantage of the benefits of AFT at the regional level
- the low involvement of the private sector negatively impacts on AFT, as it is unrealistic to conceive of achieving productive capacity and diversification of supply without a competitive business community
- the global and regional AFT examples and case studies, identified mainly in the third Global Review of AFT in 2011 (OECD and WTO, 2011), tend generally to the bright side and a correlation between aid flows and improvement of the commercial potential of developing countries in general and LDCs in particular. This assessment approach to AFT needs to be consolidated by impact studies.⁹

Lastly, if AFT remains a work in progress and a perfectible process, it is always possible for Morocco to improve its approach in this area by reinforcing its ownership of the initiative and strengthening institutional coordination among all the actors involved. Also, the newly established CNAPC should supervise the implementation of an operational strategy for national development priorities.

12.5 National ownership of AFT: issues for policy-makers

Greater national ownership of AFT by the beneficiary developing countries should not be limited to implementing what has been agreed upon internationally or responding to donors' priorities.¹⁰ It requires the real involvement of beneficiaries in the design of AFT and its mechanisms of follow-up and evaluation, in order to circumvent the current controversy over the principle of additional AFT compared with other, traditional components of ODA. This could involve establishing a domestic database. As a result, dependence on external statistical sources would decrease, allowing parties to the initiative (donors and beneficiaries) to reach a consensus.

From this perspective, truly national ownership of the AFT programme cannot be achieved without meeting a number of conditions, including better prioritization, effective operationalization, institutional coordination among all national stakeholders, adequate and continuous monitoring, institutionalization of dialogue between donors and recipients, and a good relationship between the public and private sectors.

Prioritization and coordination between institutions

Identifying the barriers that “paralyse” the commercial potential of Morocco falls under the responsibility of the CNAPC, which was set up in order to tackle these barriers and identify priorities for that purpose. This raises the fundamental question of the effectiveness of the principle of hierarchy of priorities and coordination among the relevant institutions. Therefore, it is essential to undertake a diagnosis of the current AFT situation through:

- a comprehensive definition of a national strategy to promote growth and development through trade, which would lead to focus on the main impediments to competitiveness and diversification – in other words, a correct diagnosis
- identification of national needs and additional regional AFT to distinguish between projects which have an impact on the development of exports at the national level (i.e. the national strategy for export promotion) and those that have an impact on regional development (e.g. the Port of Tangier Med as a regional platform for the development of trade in the Mediterranean) – follow-up is needed, based on performance indicators and case studies
- identification of barriers to the development of exports on the basis of an analysis of the entire export chain, starting with exportable supply, production capacity and export sectors and logistics platforms, and marketing to raise external financing in the context of the AFT categories mentioned above
- encouragement of the partnership of the private sector in the formulation and implementation of results – oriented in terms of AFT operational strategies
- accompaniment of the development of the AFT initiative at national level by specific measures of adaptation and adjustment to the regional level (in the 16 regions of Morocco).

Promoting action within the Morocco AFT approach

In Morocco, the development of the national strategy for export promotion is a practical, large-scale action and a priority that was assigned on the basis of a correct diagnosis. Through this strategy, Moroccan foreign trade has been identified as a government priority and has received public funds amounting to 500 million dirhams (US\$ 55 million) for 2009-2010. Export development has been confirmed as one of the main growth engines of the Moroccan economy in the years to come.

In order to diversify exports and enhance the country's comparative advantage, foreign funding should be allocated to building production capacity and trade development, which would strengthen Morocco's export competitiveness; this could, for instance, be in the form of training business executives on exporting, fostering economic diplomacy, etc.

Nevertheless, reinforcing the ownership of national and regional projects is strongly considered to be achievable, by smoothing the selection process for projects and strengthening and sustaining cooperation with the relevant financial institutions (e.g. the AFDB). Such cooperation would lead to exploration for new export sources, resulting in wider local involvement in ATF. In this regard, the AFDB and the United Nations Economic Commission for Africa (UNECA) – both of which play an important role in the AFT initiative in the region – in collaboration with the WTO and the OECD, can assist Morocco to benefit from their experience in this field, by taking action such as providing ongoing training to departmental officials involved in AFT.

Why Morocco has been unable, so far, to benefit from the AFT initiative in a satisfactory way is largely due to the lengthy process of integration into regional development projects, which are fundamentally favoured by donors. Therefore, AFDB and UNECA should assist Morocco more amply towards their implementation. As stressed by former WTO Director-General Pascal Lamy, "Aid for trade must also play a more supportive role in helping governments to formulate and concretize their regional agenda" (Lamy, 2013). Finally, Morocco cannot overcome the constraints hampering supply at the regional level without the relaunching of the AMU and the activation of programmes and projects designed to improve infrastructure for transportation, energy, and trade facilitation and standards.

12.6 Conclusions

The launch of the AFT initiative has helped to focus international attention on the structural and institutional barriers that hamper many developing countries and LDCs from benefiting from their trade potential and integration into the multilateral trading system. Funds mobilized under this initiative have enabled these countries to overcome structural problems that limit their ability to make the most of business opportunities, and strengthen their human and institutional capacities in developing business strategies.

However, the initiative is currently facing two major challenges. First, there is the blocking of multilateral negotiations under the Doha Round, which was expected to rebalance international trade relations in favour of developing countries. This block weighs heavily on the future of the AFT initiative, which was designed as a supplement

to the Doha Round. The second challenge is the inherent, potentially adverse effects of a succession of economic crises on the evolution of AFT. This is averred by the fact that many donors have adopted austerity measures as a result of these crises.

Regarding Morocco's approach to AFT, it should be noted that the country was able to capitalize relatively well on some experiences in this field and set up a committee for monitoring the aid at the national level. However, efforts by Morocco to integrate trade into national development strategies as a means to promote growth and reduce poverty – benefiting, as a result, from the AFT initiative – still face constraints related to the limitations of the Moroccan exportable offer.

In conclusion, while Morocco sought to enter some free trade agreements with both developed and developing countries¹¹ in order to become an “investment and export platform”, the worsening of the trade deficit with most of its partners has demonstrated the limits of the competitiveness of the Moroccan productive offer. Hence the need to take into account the complementarities among all components of economic policy (exchange rate policy, trade policy, industrial policy, etc.), and to attract aid funds to the AFT categories which have a direct relationship with Moroccan supply-side constraints, namely “production capacity enhancement and trade development”.¹²

Endnotes

1. The OECD and WTO have proposed two designs for AFT: a restrictive one in which AFT is considered to be concessional assistance, and an extensive one in which AFT is considered to be any form of development aid that is related to trade and that is provided to middle- and low-income countries (OECD and WTO, *Does Aid for Trade yield any results?* undated note). It is important to note that foreign funding falls into the category Aid for Trade (OECD).
2. See, for example, the World Economic Forum in collaboration with Bain & Company and the World Bank (2013), *Enabling trade: Valuing growth opportunities*, Geneva.
3. OECD and WTO, *Does Aid for Trade yield any results?* undated note.
4. In 2011, funding for AFT accounted for 33 per cent of ODA.
5. With regard to ODA in general, it should be noted that, in 2008, Morocco participated for the first time in the monitoring survey of the implementation of the Paris Declaration on Aid Effectiveness. See OECD (2012) (vol. 2).
6. The most recent (fourth) Global Review of AFT, held in Geneva in July 2013, examined how to use aid to connect businesses in developing countries and least-developed countries (LDCs) to global value chains. This review tried to identify barriers that prevent developing countries from participating in or contributing to value chains, and their impact on development.

- 7.** This prioritization is part of support for the various sectorial strategies (National Pact for Industrial Emergence 2009–2015, Maroc Export Plus, Green Morocco Plan, Halieutis Plan, logistics strategy, etc.). See: WTO and OECD (2013), *Questionnaire for partner countries on Aid for Trade*, Fourth Global Review of Aid for Trade: "Connecting to value chains", Geneva, 8–10 July.
- 8.** For example, on 5 December 2012, Morocco issued a bond issue on the international financial market in the amount of US\$ 1.5 billion.
- 9.** For example, the econometric study undertaken by UNECA which shows that an increase of 10 per cent in AFT is associated with an increase of 0.4 per cent in the index of economic diversification (UNECA, 2013, p.38).
- 10.** On the diversity of expectations, Hallaert (2013), citing OECD and WTO (2011), states, "Developing countries expect that aid for trade will boost and diversify their exports but feel it has not (yet) delivered on this promise. Donors, in contrast, see trade (and thus Aid for Trade) as a means to achieve growth and poverty reduction."
- 11.** Including agreements with the European Union, Turkey, the United States and the Arab countries.
- 12.** For example, AFT should be directed at support for productive capacities and focus on developing both the diversification and sophistication of the Moroccan economy.

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