

Aid for Trade

The current debate on Aid for Trade can be traced back to the multilateral trade negotiations which concluded the Uruguay Round, and the subsequent establishment of the World Trade Organisation in 1995.

The Uruguay Round introduced common obligations and rights into the multilateral trading system and, with this, stronger enforcement of international trading rules. The culmination of the Uruguay Round negotiations saw developing countries (but excluding LDCs) agreeing, as part of the Single Undertaking, to submit schedules of concessions and commitments on market access in industrial and agricultural products, as well as commitments on intellectual property rights and in the services sector. Although developing countries saw the benefit of these common rights and obligations and the introduction of new disciplines, they were also faced with new challenges, including putting into place the necessary administrative, institutional and legal machinery to implement their commitments. Amongst these challenges were the need to consider the cost implications of implementation, the sourcing of the necessary skilled manpower and implementation within the agreed timeframes in which new legislation and regulations needed to be prepared and enacted.

The 1994 Marrakesh Declaration, which established the World Trade Organisation (WTO), explicitly acknowledged the need to provide trade-related technical assistance to LDCs to help them with their implementation difficulties and associated adjustment costs. In addition, a large number of specific agreements (including SPS, TBT, Customs Valuation, Pre-shipment Inspection, GATS, TRIPs and DSU) contain specific references to best endeavours to provide support to developing country members, and in particular LDCs, for their implementation.

Shortly after the signing of the Uruguay Round Agreements, African Trade Ministers called upon the international community to help strengthen their capacity to formulate trade policy, participate in trade negotiations and implement trade agreements. In response, the WTO, UNCTAD and ITC established the Joint Integrated Technical Assistance Programme (JITAP) to mobilise expertise and support to help African country partners participate in the WTO, integrate into the new multilateral trading system and take advantage of new trade opportunities arising from the globalisation of world markets.

The first WTO Ministerial Conference in 1996 also recognised the special difficulties LDCs faced in integrating into the world economy. The following year, WTO members adopted an initiative for strengthening LDCs' trade capacities, known as the Integrated Framework for Trade-Related Technical Assistance to the Least Developed Countries (IF). It was supported by six multilateral organisations (the IMF, ITC, UNCTAD, UNDP, the World Bank and the WTO) with the OECD/DAC as an observer.

However, the programmes which were put in place to provide technical assistance and capacity building did not, in the main, deliver the expected results and this, plus concerns about preference erosion has left the LDCs and other low-income countries with a continued reluctance to implement significant MFN tariff cuts and to undertake further trade-related commitments. In general, LDCs and other low-income countries perceive that they lack the capacity to capture the gains from emerging market access opportunities and other WTO agreements. Putting in place a regulatory environment to attract and protect productive investment, supported by the necessary institutions, is a necessary, but not sufficient, condition for development.

In the run up to the Sixth WTO Ministerial Conference in Hong Kong, Ministers of Finance and Development had been discussing Aid for Trade in a number of fora, including the G8 Gleneagles meeting (July 2005) and the G7 Ministers of Finance meeting in London (February 2005). At these meetings a commitment to double aid to Africa was made and to raise resources allocated to (narrowly defined) Aid for Trade to US\$4 billion per year.

The G7 and G8 called on the World Bank and the IMF to submit proposals for additional assistance to developing countries to develop their capacity to trade and to ease adjustment in their economies so that they could increase their capacity to take advantage of more open markets. The IMF and World Bank responded by presenting a joint paper on Aid for Trade at their 2005 spring meeting. The outcome of the spring meeting was a request to the Bank and

the Fund to do more work, with others, on the paper and to present the reworked version at the 2005 Annual General Meeting.

The WTO Membership, through the consultative process, fed into the preparation of the World Bank and IMF paper “Doha Development Agenda and Aid for Trade” which was endorsed by the Development Committee at the World Bank and IMF Annual General Meeting in September 2005.

The next milestone in the Aid for Trade (AfT) debate at the multilateral level was the inclusion of stand-alone paragraphs on both the IF and AfT, thus separating the two, in the December 2005 Hong Kong Ministerial Declaration and the creation of a WTO task Force on Aid for Trade. The Ministerial Declaration concluded that Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. The Ministers also agreed that Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda, particularly on market access.

The WTO AfT Task Force concluded its work mid-2006. It came to the conclusion that additional, predictable, sustainable and effective financing is fundamental for fulfilling the

Aid for Trade mandate. Aid for Trade was to be guided by the Paris Declaration on Aid Effectiveness¹ and was defined in broad terms in that it recommended that all projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies. It distinguished five different categories of Aid for Trade, these being the two already existing

Box 1

Paris Declaration on Aid Effectiveness

Ownership. The development community will respect the right and responsibility of the partner country to exercise effective leadership over its development policies and strategies, and coordinate development actions.

Alignment. Donors will align their development assistance with the development priorities and results-oriented strategies set out by the partner country. In delivering this assistance, donors will progressively depend on partner countries' own systems, providing capacity-building support to improve these systems, rather than establishing parallel systems of their own. Partner countries will undertake the necessary reforms that would enable donors to rely on their country systems.

Harmonisation. Donors will implement good practice principles in development assistance delivery. They will streamline and harmonise their policies, procedures, and practices; intensify delegated cooperation; increase the flexibility of country-based staff to manage country programmes and projects more effectively; and develop incentives within their agencies to foster management and staff recognition of the benefits of harmonisation.

Managing for Results. Partner countries will embrace the principles of managing for results, starting with their own results-oriented strategies and continuing to focus on results at all stages of the development cycle – from planning through implementation to evaluation. Donors will rely on and support partner countries' own priorities, objectives, and results, and work in coordination with other donors to strengthen partner countries' institutions, systems, and capabilities to plan and implement projects and programmes, report on results, and evaluate their development processes and outcomes (avoiding parallel donor-driven mechanisms).

Mutual accountability. Donors and partners are committed to enhance mutual accountability and transparency in the use of development resources. Partner countries will reinforce participatory processes by systematically involving a broad range of development partners when formulating and assessing progress in the implementation of national development strategies. Donors will provide timely, transparent and comprehensive information on aid flows.

¹ See Box 1 for a description of the Paris Declaration on Aid Effectiveness.

categories of **trade policy regulation** and **trade development** and three new categories of **building productive capacity**; **trade-related infra-structure** and **trade-related adjustment**.

The Task Force, therefore, addressed both the need for additional resources and the need for a more effective delivery system.

Additionality of Resources

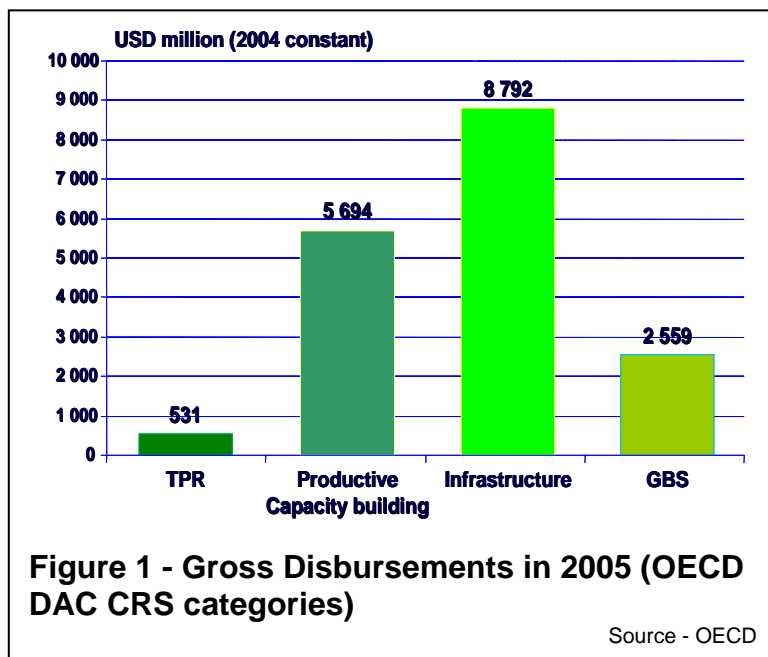
The issue of “additionality” requires some clarification in the context of the aid for trade debate. Most OECD/DAC members have already made commitments for their total aid levels to at least the year 2010. According to OECD, however large a commitment is made to Aid for Trade, the overall aid programme of any DAC member will not rise beyond what is currently planned, at least to 2010. The United States, which is virtually the only DAC member without some form of medium-term ODA target, might be the possible exception. However, OECD go on to predict that, given the increased attention to Aid for Trade, it is realistic to expect that the relative share of Aid for Trade will grow faster than the projected increase in overall ODA. Already the current pledges on Aid for Trade, and in particular those that were made during the WTO Hong Kong Ministerial Conference (as shown in Table 1) would significantly increase the relative share of Aid for Trade.

Table 1 - Aid for Trade Pledges up to and during Hong Kong

European Commission	EU Member States	United States	Japan
Euro 1 billion a year by 2010	Euro 1 billion a year by 2010	US\$2.7 billion by 2010	US\$10 billion over 3 years

Once donors’ commitments are met, ODA is expected to reach about US\$130 billion by 2010, an increase of US\$50 billion from 2004 and twice the amount spent in 2000. The expected scaling-up of aid has renewed concerns about the potential of aid flows to create a real appreciation of the aid recipient’s currency – the “Dutch disease” effect – and thereby dampen the

export competitiveness of a country. From a development perspective, the benefits of aid in reducing poverty and building long-term competitiveness can often offset the costs of reduced competitiveness in the medium term. However, it is clear that the effectiveness of an Aid for Trade facility would be seriously undermined if the additional aid contributed to reducing the recipient country’s export competitiveness. At the same time, Aid for Trade has a strong potential to mitigate Dutch disease effects by improving the underlying competitiveness of the economy and compensating the impact of currency appreciation.



In summary, it is extremely difficult to measure additionality of resources. However, what is as important as additionality of resources is ensuring that the recipient country has the capacity to effectively manage the additional inflow of resources (especially if this is to come in as balance of payments support) and to avoid a Dutch disease syndrome.

Monitoring Aid for Trade

The WTO together with regional banks and governments organised regional reviews on Aid for Trade in Lima, Peru on 13-14 September 2007; in Manila, Philippines on 19-20 September 2007; and in Dar es Salaam, Tanzania on 1-2 October 2007. The main objectives of these regional reviews were to underline the central importance of trade in development policies; identify the main capacity constraints to export growth; emphasise the importance of comprehensive national and regional trade strategies and encourage developing countries to prepare AfT strategies; highlight the need for increased and effective financing; and secure political commitment on the way forward.

The recommendations from the regional reviews were similar in that they proposed:

- The creation of regional Aid for Trade networks, preparation of progress reports and holding of regional stocktaking meetings;
- That countries and sub-regions should map out their main structural constraints and policy bottlenecks to trade, building on existing studies and needs assessments;
- The need to prepare sub-regional and national AfT strategies and implementation plans, including an assessment of the financial requirements of implementation;
- The need to involve Regional Banks in AfT implementation;
- The need to monitor progress, including regional stock-taking conferences.

The regional review fed into the global Aid for Trade review in Geneva on 20-21 November 2007. The WTO, together with the OECD Secretariat, prepared a report for the review, entitled "Aid for Trade at a Glance 2007" and this gives information on global AfT flows; donor strategies, policies and practices and partner-country strategies, policies and practices.

In terms of next steps, there is an urgent need to put AfT into operation. There is considerable good will from both the donors and the recipient countries and there is a need to get AfT strategies and implementation plans in place rapidly so that finances can start to flow to potential recipients as soon as possible. This requires:

- Aid for Trade being implemented as a true partnership between the recipient countries and the providers of Aid for Trade, meaning that both parties to the Paris Principles (donors and recipients) need to honour their commitments. For the donors this means making available the monies they have committed in a way that ensures ease of disbursement without sacrificing transparency or accountability. For the potential recipients it means mainstreaming trade into their economic development strategies and translating these into implementation plans and bankable projects and programmes.
- More flexible financing mechanisms to address the financing of regional programmes that allow some parts of a project to be financed by the private sector so that the private sector is not crowded out of investing in projects that have sufficiently high rates of return. Financing instruments need to be developed that allow grants and concessionary loans to be used to finance a programme and as a catalyst to attract private sector finance.
- Coherence and appropriate sequencing in implementing Aid for Trade projects and programmes. Costs of cross-border trade need to be reduced if competitiveness, necessary for economic growth and poverty reduction, is to be improved. Costs of cross-border transactions can be reduced through improving existing systems if they are more transparent and better managed; improving the legislative environment; and improving trade related infrastructure.