

# BRIEFING PAPER

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## Aid for Trade: Where are we & where will we go?

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### Introduction

Many developing countries, especially least developing countries (LDCs), believe that they currently have little to gain (but potentially a lot to lose) from engaging in market access negotiations through the World Trade Organisation (WTO) and other fora. This is because the supply side and infrastructure problems they face prevent them from taking advantage of these trading opportunities, and due to the fact that further liberalisation at the multilateral level will erode the value of trade preferences they currently enjoy to markets such as the EU and the US.

In the current Doha Round of WTO negotiations, developing countries have called for developed countries to make commitments as a part of the Round to increase support for building the trading capacity and help them adjust to the impact of preference erosion (commonly called Aid for Trade AfT). The hope is that the inclusion of AfT as the WTO's newest policy area will ensure that the WTO promotes more effectively the trade development of those countries that are struggling to integrate into the world economy and not just those existing or emerging trading powers.

In response to these demands, the Hong Kong Ministerial Declaration mandated the General Council of the WTO to establish an AfT task force to explore the AfT needs of developing countries and draw up recommendations which would be presented to the WTO members in July 2006.

This task force was established in February 2006 and was set the enormous task of putting flesh onto the boney concept of AfT, as the Hong Kong Ministerial Declaration did little to define the nature and scope of AfT. Since then the task force has facilitated discussions and formulated recommendations on who will provide AfT, how AfT should be delivered, what AfT commitments should be made and how exactly it will be tied into the Doha Round and the WTO process in the long run.

However, the suspension of the Doha Round of negotiations, of which the AfT initiative is a part, is posing serious questions about its future. This briefing paper provides a brief assessment of the recommendations made by the AfT taskforce and attempts to respond to the questions therein.

### AfT Principles

In the deliberations that have so far taken place on AfT there has been a broad agreement on the principles that should guide its implementation. These principles are reflected in the task forces' recommendations that: AfT should be a compliment and not a substitute to the ongoing Doha Round of trade talks; its objective should be to expand the trade capacity of the poorest countries, help them to integrate into the global economy and assist them implement global trade agreements; its implementation should be consistent with the Paris Declaration on aid effectiveness; it should secure additional and predictable resources for developing countries; it should fill the gaps that currently exist in trade capacity building programmes; and priorities should be country specific and be identified through a country owned process.

Beyond these principles, there has been a significant amount of discussion about the finer details of how these principles are to be pursued and how AfT should be operationalised. There is a reasonable consensus on many of these issues, but there are areas where disagreements have arisen and where there is still much to be decided about how AfT will be operationalised.

### What is AfT?

Given the variety of needs that developing countries face in expanding their capacity to trade, much of the discussion relating to AfT over the last few months has been focused on identifying what activities support should be directed to and, how these needs should be prioritised. The task forces' recommendations reveal that there has been a broad consensus on the types of activities that should be covered by the AfT agenda.

In principle, trade development and capacity building activities are monitored jointly by the WTO and the Organisation of Economic Cooperation and Development (OECD) that divide these activities into the three categories: trade policy and regulation; trade development; and infrastructure. In addition to these categories of AfT, the task force recommends that two additional categories of activities should be supported i.e. building productive capacity and trade related adjustment.

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Besides, the task force recommends that apart from increasing funding to these activities at the national level, a greater effort should be made to identify and increase funding for regional, sub-regional and cross-country trade-related projects.

In addition to making recommendations on the broad types of AfT areas that need support, the task force echoed the concerns of many by stating that a lot of work still needs to be done to improve the country ownership of diagnostic work to identify specific AfT needs and priorities and to incorporate these programmes into national development and poverty reduction strategies. The task force sees this process as the key to ensuring the AfT initiative achieves its objectives and that needs are effectively prioritised for each country and across regions.

In terms of mechanism for identifying AfT priorities the AfT task force recommended that the Integrated Framework (IF) remains as one of the main diagnostic tools to be used for LDCs but that efforts be made to improve its management, deepen country ownership and widen its focus to include a broader range of trade capacity building activities (in line with the recommendations made by the IF task force in June 2006).<sup>1</sup> The task force also recommended that IF-like processes should be established in non-LDCs so that their needs could be identified and targeted by AfT.

However, the failure of the IF process to date to stimulate a sufficient and sustained response from donors suggests that it is a process that is regarded with significant suspicion by donors as well as recipients, and these reforms need to be implemented wholeheartedly if the process is to take centre stage in AfT. Given the problems related to country ownership and mainstreaming trade into development plans, it is important for stakeholders in the AfT process to realise that there is no magic wand that can be used to ensure that the effectiveness of AfT initiatives are improved. Country ownership and trade mainstreaming requires increased and sustained efforts by donors and recipients to train and provide resources to key government institutions, private sector bodies and NGOs within developing countries in developing the expertise they require to independently develop a national trade strategy and assess their AfT needs. Competition in this area may stimulate new and productive ideas, albeit it is important that these efforts are also coordinated, so that unproductive duplications in donor support are avoided.

## How to deliver AfT?

Aid to support trade development and capacity building is currently supplied through the aid programmes of individual donor countries and a number of other vertical and horizontal funds such as IF. These mechanisms have been able to sustain an increase in the AfT funds of around US\$6bn over the last five years.<sup>2</sup> Although some have suggested setting up of a new dedicated AfT fund to manage its delivery, there is consensus that the AfT initiative needs to incorporate and build on the existing mechanisms. There is also

consensus that these mechanisms need to be reformed in order to improve their poor record in relation to the delivery and effectiveness of AfT support.

**Table 1: Infrastructure Expenditure by Year and by Type of Flow**

Years (Commitments)	Total (US\$ 000)	Equity investment (%)	Grant (%)	Loan (%)
2001	9,146,607	1	29	70
2002	9,227,001	1	32	66
2003	9,330,294	3	33	63
2004	14,802,675	0	49	50
Total 2001-04	42,506,577	1	38	61

*Source: "The financial architecture of aid for trade", ILEAP 2006*

However, the AfT task force stops short of recommending as to which specific mechanisms should lead the process. Instead, its report urges the Director General of the WTO to carry out consultations on the appropriate mechanisms to secure additional financial resources for AfT.

The debate over appropriate AfT mechanisms is therefore likely to continue for some time and will involve a wide range of institutions that will be eager to enhance their role in this area. However, proposals for basing the operationalisation of the AfT agenda around a multilateral fund face significant political obstacles. In 2004, multilateral Trade-Related Technical Assistance/Capacity Building (TRTA/CB) funds attracted only US\$45mn or two percent of total TRTA/CB spending,<sup>3</sup> suggesting that there is currently strong support amongst donors for designing and managing their own AfT programmes. With the suspension of the Doha Round, it might be difficult to mobilise the political commitment required to change the current approach of donors to AfT and establish such a facility.

This all suggests, that in the short to medium term a multiplicity of donors will continue to be involved in delivering AfT alongside any (existing or new) multilateral mechanisms. As stated by the task force, this will necessitate continuing efforts to coordinate AfT activities of donors in order to improve AfT effectiveness. In this regard, as recommended by the task force the establishment of National AfT Committees in developing countries, which would bring together donors and government ministries involved in AfT, could provide an important mechanism for improving the coordination of AfT interventions.

The most significant challenges facing the aid community in relation to AfT is to improve the poor effectiveness record of AfT interventions. As highlighted by the task force's report, AfT programmes have achieved only limited success, in part due to a failure in monitoring and evaluating their impact effectively aided and betted by the overly bureaucratic mechanisms utilised by many donors for delivering assistance. It is therefore important for the donor community, in partnership with recipients, to develop more effective monitoring and delivery mechanisms that will improve the effectiveness of AfT interventions.

## How Much AfT?

Donor support to AfT activities has increased markedly in recent years. The OECD/WTO reports that support for the activities it monitors (trade policy and regulations/trade development TRTA/CB) increased from US\$2.1bn in 2001 to US\$2.5bn in 2004. The share of these activities in total Official Development Assistance (ODA) also increased slightly from 2.75 percent in 2001-02 to 2.9 percent in 2003/4, although it should be noted that this is still a very small share of total ODA. Initial data from 2005 suggests that the volume of TRTA/CB assistance and its share in total aid are continuing to rise.<sup>4</sup>

**Table 2: Trade Capacity Building Support by Category for Select African Countries**

Country	Trade Policy and Regulations 2004, (in US\$mn)	Trade Development, 2004 (in US\$mn)
Benin	1	1.8
Cameroon	0.4	7.8 (12.7 in 2005)
Ghana	1.7	21.2
Kenya	23.2	25.6
Malawi	2.5	7.8
Nigeria	0.4	0.7 (15 in 2003)
South Africa	4.8	27.5 (63 in 2005)
Tanzania	9.3	47.9
Uganda	0.8 (6m in 2003)	£31.1 (66.7 in 2003)
Zambia	3.8	17.1 (37 in 2005)

*Source: OECD/WTO database of TRTA/CB*

In terms of other categories of AfT, the share of aid to build economic infrastructure in total ODA fell from 15.6 percent to 9.8 percent between 1997 and 2003 and that of aid to support the private sector fluctuated between seven and nine percent in recent years. In the context of falling aid budgets in recent years these figures suggest that aid to support these activities has stagnated.<sup>5</sup>

This data, therefore, suggests that AfT is being significantly under-funded at present, which is of major concern given the long-term potential benefits for economic growth and trade expansion from this type of aid. The task force's report specifically highlights the need for more support to be directed towards infrastructure and the expansion of productive capacities areas, which have been neglected in recent years.

Besides this emphasis and insistence that the AfT initiative results in additional and predictable AfT funds for developing countries, the AfT task force report says nothing about the volumes of funds that should be committed by developed countries. This is because AfT is linked to the Doha Round and its volume of commitments will in part be negotiated and linked to the outcome of the Round and its impacts. As the Doha Round has been suspended, the pressure on developed countries to make significant and enforceable AfT commitments has therefore receded considerably.

At the Hong Kong Ministerial, a number of countries stated specific commitments to increase their AfT support,

including the EU with additional €1.3 bn (US\$1.6bn) per year by 2010 and US with additional US\$1.4bn per year by 2010 and Japan with additional US\$10bn. However, there are serious apprehensions that the sums they have promised were already committed and then repackaged to be announced at the talks and it is also not clear, especially with regard to the US, to what degree these pledges were dependent on progress in the Doha Round.

A reason for some optimism concerning an increase of AfT spending in the context of the Doha Round's suspension is the G-8 July 2006 commitment to increase aid volumes by US\$50bn by 2010. If these overall aid commitments are met and if the share of AfT activities in total ODA stays constant, then spending on TRTA/CB over the coming years will increase from US\$2.6bn in 2004 to US\$4.3bn in 2010 and spending on infrastructure will increase from US\$12.9bn to US\$17.6bn. If these commitments are met and if the share of AfT activities in total ODA increases, then AfT activities will attract even more substantial increases in donor funding.

In this context, the main purpose of keeping the AfT initiative on the agenda and continuing to map out its operationalisation is to make sure that the G8 (and other donors) do actually meet the aid commitments they have made and that these result in additional support to AfT activities. Given the current low share of ODA spent on TRTA/CB projects, there also seems to be a case for increasing the share of AfT activities in total ODA, though this may be difficult in view of the suspension of the Doha Round. However, it is also important that any increases in AfT should not come at the expense of aid for social programmes, and in this regard the expansion of aid budgets is vital so that all aid priorities are met in the coming years.

In order to ensure that AfT volumes are increased it is vital that the volume of global AfT funds are monitored effectively. In this regard, the task force's report calls for the OECD/WTO database to be made more comprehensive and for a global periodic AfT review to take place, possibly involving the WTO. This could also include the possibility of AfT contributions being assessed within the trade policy reviews carried out by the WTO.

## The Way Forward

Given its linkage to Doha Round, one would be forgiven for thinking that the suspension of the talks will lead to the AfT initiative stalling. It is certainly true that it has reduced the political pressure for AfT to be operationalised and make it impossible for binding AfT commitments to be negotiated in the near future.

However, the AfT initiative has been thrust very strongly into the limelight through the Doha Round and there is still significant political momentum to keep it on the agenda. The EC has already stated that it will stick to its existing commitment to increase support to AfT activities even without the completion of the Doha Round.<sup>6</sup> The Chair of the AfT task force Mia Horn (Swedish Ambassador to the WTO), has also called for AfT to be operationalised regardless of progress in the Doha Round. Given these statements and the existing

**Table 3: Scenarios for Sealing up Aid for Trade**

	Status-Quo		Constant share		Doubling the Value	
	2001-04	2004	2010		2010	
	% Share	US\$ bn	% Share	US\$ bn	% Share	US\$ bn
TRTA/CB	2.8	2.6	2.8	4.3	3.4	5.1
TRTA/CB & Infrastructure	14.5	15.5	14.5	21.9	20.5	30.9
Broader Aid for Trade	22.4	22.8	22.4	33.7	30.2	45.5

*Note: Share as a percentage of net ODA*  
*Source: "Aid for Trade: Making it effective", OECD 2004*

commitments of the G-8 to increase aid budgets, there are reasonable prospects for moving the AfT initiative forward in the coming years.

The suspension of the Doha Round gives greater urgency to the need to expand efforts in identifying AfT priorities and incorporate them into national development plans. This is because in the absence of progress in the Doha Round, developing countries will need to improve this aspect of their economic policy-making in order to ensure that donors give it increased attention.

Even ignoring the context of progress in the Doha Round, the immediate priority for the AfT initiative is to expand these diagnostic and integrative efforts so that AfT can be operationalised on an economically cohesive and coherent platform.

One of the most significant challenges facing efforts to improve trade diagnostic processes is in dealing with the complex economic and political context in which policies are formulated in many developing countries. Weak and poorly resourced government institutions often lack the capacity to effectively lead and coordinate trade diagnostic processes. In addition, due to the threat that trade reforms pose to elites and other interest groups, there is frequently only limited political will amongst these groups to engage in dialogue on trade policies. These governance issues have been identified as playing a key role in limiting the effectiveness of recent trade diagnostic and integrative processes.<sup>7</sup>

It is, therefore, vital that besides providing support to government institutions to lead and coordinate these processes, efforts are to be made to build the capacity of the private sector and civil society groups to carry out diagnostic work and trade policy analysis. This should be

designed to support private sector and civil society in developing knowledge and expertise they require in identifying the capacity constraints they face. Besides, it should build a strong constituency that can demand a more effective response from their governments.

From the donor perspective it is therefore vital that besides providing developing countries with support to build the human and institutional capacities they require to take effective ownership of trade diagnostic efforts, it is also needed to take care to widen consultations with stakeholders and promote country ownership through other means.

When talking about identifying AfT priorities it should be noted that developing countries have already carried out a significant amount of work in this area through process such as the IF, Poverty Reduction Strategy Papers (PRSPs) and ITC-led National Export Strategies (NESs). However, these priorities have not yet attracted the required funding and the donor's response to these trade development plans has been disappointing.

In order to tackle these challenges it is, therefore, vital that the following interventions are prioritised:

- Comprehensive audit of technical capacities (related to trade) across government, private sector and civil society is required. This will include an assessment of current support programmes and identification of resource gaps.
- Implementation of programme on human and institutional capacity building across the government, private sector and civil society (where relevant), focusing on the following key areas: domestic trade policy; policy research and identification of constraints; trade negotiations; technical standards compliance; trade development; and supply chain management.
- Analysis of physical supply capacity constraints across the economy, including an assessment of current support programmes. This could include use of value chain analysis to assess capacity constraints at each level of the supply chain. It is important that poverty sensitive sectors are prioritised in this process.
- Need to deepen and institutionalise dialogue amongst government, private sector and civil society on relevant trade issues.
- Need to increased funding by the donor community for already identified xAfT priorities, such as those highlighted through the IF, PRSPs and NESs.

## Endnotes

- 1 These recommendations are based on those made by the IF task force in July 2006.
- 2 However, it should be noted that much of this increase has been as a result of increased US support to infrastructure projects in Afghanistan and Iraq.
- 3 "Aid for Trade: Making it effective", OECD 2004
- 4 *Ibid*
- 5 *Ibid*
- 6 As suggested by EC Trade Commissioner Peter Mandelson, who has stated his commitment to continue implementing the Doha development package despite the suspension of the Round.
- 7 "Trade-related technical assistance and capacity building – What do recent thematic evaluations tell us?", OECD 2006

