

# BRIEFING PAPER

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## Aid for Trade *The Process So Far, But What Next?*

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### Introduction

Many developing countries, especially the least developing countries (LDCs) believe that they currently have little to gain from engaging in market access negotiations through the World Trade Organisation (WTO) or other international fora. This is because the supply-side constraints and infrastructure problems they face prevent them from taking advantage of the trading opportunities and competing in global markets. In the current Doha Round of WTO negotiations, developing countries have, therefore, asked developed countries to make commitments to increase support for trading capacity building and to help them adjust to the impacts of trade reforms. This is commonly called Aid for Trade (AfT).

In response to these demands, a number of donor countries made commitments at the Hong Kong Ministerial to up-scale their AfT support. For example, the European Union (EU) and the European Commission (EC) committed to provide •1bn (US\$1.6bn) annually by 2010 for trade-related assistance – that is, trade policy and regulations, and trade development, while the US promised US\$1.3bn in 2005 and US\$2.7bn in 2010 (conditional on sufficient progress in the Doha Round) for trade policy and infrastructure and Japan offered US\$10bn for all trade, production and distribution infrastructure over three years.

In addition, 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 to be presented to WTO Members in July 2006. This Task Force was established in February 2006 and was entrusted with the task of putting flesh onto the boney concept of AfT, as the Declaration did little to define the nature and scope of AfT. The Task Force submitted its report to WTO Members in July 2006.

### The AfT Task Force Report

In its opening paragraphs the AfT Task Force stated that AfT should be guided by the enabling objectives, which include:

- be a compliment and not a substitute to the ongoing Doha Round of trade talks;
- secure additional and predictable resources for developing countries;
- expand the trade capacity of the poorest countries, and help developing countries to integrate into the global economy and implement global trade agreements;
- fill the gaps that currently exist in trade capacity building programmes;
- identify country specific priorities identified through a country owned process; and
- ensure its implementation in a manner consistent with the Paris Declaration on aid effectiveness.

### Support Areas

The Task Force highlighted that support needs to be provided in traditional trade related assistance areas as well as a broader range of trade related areas (See Box 1).

#### Box 1: Trade-Related Assistance Areas

**(a) Trade policy and regulations:** Training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.

**(b) Trade development:** Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.

**(c) Trade-related infrastructure:** It included physical infrastructure.

**(d) Building productive capacity**

**(e) Trade-related adjustment:** It includes support for developing countries to put in place accompanying measures that assist them to benefit from liberalised trade.

**(f) Other trade-related needs**

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### ***AfT Gaps***

The Task Force also identified the following gaps in the current approach to AfT:

- Low attention to trade as a tool of development in recipient countries and in donor agencies
- Insufficient trade mainstreaming in national development strategies and Poverty Reduction Strategy Papers (PRSPs)
- Lack of private-sector involvement in identifying trade needs
- Limited absorptive capacity in recipient countries
- Inadequate linking mechanisms and lack of predictability in donor response to trade priorities identified at the national and regional levels
- Lack of coordination and coherence in donors' trade-related response
- Slow, duplicative and bureaucratic processes in the assessment and delivery of trade assistance, including burdensome parallel structures within recipient countries
- Lack of data on, and analysis of, trade policies and their impact on development, lack of easily-available information on existing AfT instruments
- Ineffective monitoring of trade-related country policies and donor activities; absence of rigorous, independent project and programme evaluation and impact assessment
- Limited support for regional, sub-regional and cross-border trade-related programmes and projects
- Inadequate support to address the adjustment costs of trade liberalisation
- Insufficient resources for infrastructure and productive capacity building
- Uneven country coverage

### ***Demand Side***

In order to strengthen the demand side of AfT, the Task Force made some significant recommendations, which include:

- implementing the recommendations for an enhanced Integrated Framework (IF) and explore the necessity of establishing a similar but separately funded in-country-process for non-LDCs;
- establishing effective national coordination to identify needs with the involvement of all relevant stakeholders;
- urging agencies, donors and governments in other developing countries to work together to establish similar processes if they do not already exist; asking donors and agencies, together with regional banks and organisations, to step up their efforts to identify regional, sub-regional and cross-border needs (including those related to regional integration); and
- establishing a system of data collection and analysis at country level.

### ***Supply Side***

In order to strengthen the supply-side of AfT, the Task Force made some important recommendations, which asked to:

- integrate trade and growth issues more effectively in their aid programming;
- strengthen their trade expertise both in the field and in capitals;
- use needs assessment processes (where available) and their results as a basis for their programming;
- move towards a programme/sector/budget approach, if country-owned, if mainstreamed in national development strategies and if a robust system of financial accountability is in place;
- make targeted funds available for building infrastructure and removing supply-side constraints – over and above capacity building and technical assistance – perhaps as co-financing with multilateral development banks; and
- consider channelling AfT Funds multilaterally, when appropriate.

### ***Link between Demand and Supply***

In order to strengthen the linkage between the demand and supply-sides the Task Force came up with the recommendations, including:

- integrating trade more effectively into national strategies (such as PRSPs) with donors aligning support to such strategies;
- establishing National AfT Committees in-country to lead mainstreaming efforts, determine country needs, set priorities, assist in matching “demand” and “response”, and help in evaluation; and
- promoting the involvement of local, regional and private-sector actors as well as South-South cooperation through triangular schemes.

### ***Regional Dimension***

On the regional dimension, the Task Force brought about recommendations that include:

- strengthening functions in relation to regional, sub-regional and cross-border issues, such as diagnosis of needs, cost of projects, preparation of project proposals, and the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes, (for example cross-border infrastructure and policy-integration projects);
- assigning responsibility for these functions, prioritising existing mechanisms and involving all stakeholders in such discussions; and
- exploring the merits of establishing a Regional AfT Committee, comprising sub-regional and regional organisations and financial institutions to oversee the implementation of the sub-regional and regional dimensions of AfT, to report on needs, responses and impacts, and to oversee monitoring and evaluation.

## Monitoring and Evaluation

In relation to monitoring and evaluation the Task Force made two broad recommendations that are:

- a monitoring body should be established in the WTO who will convene a global periodic review of AfT, to whom progress reports will be submitted and who will have the responsibility of monitoring AfT flows and the responses of donors and recipients; and
- such monitoring should be carried out in partnership with others who are already playing a critical role in directing the AfT effort, e.g. the Organisation for Economic Co-operation and Development (OECD) and regional development banks.

## Next Steps

Besides directing WTO Members to begin implementing AfT without delay and instructing the WTO's Director General to lead such efforts, the AfT Task Force recommended that an initial review of AfT should be undertaken, with the participation of all stakeholders.

## The 2007 AfT Review

In 2007, a review of AfT was undertaken, which involved 13 regional AfT reviews (Africa, Asia and the Pacific, and Latin America and the Caribbean) held in September 2007 (See Table 1) and a global AfT review hosted by the WTO in November 2007.

## Global Review

The Global Review was held at the WTO and brought together WTO Members to take stock of what is happening on AfT (based on a joint OECD-WTO stock-taking report and the outcome of the regional reviews) and to identify what should happen next and improve the WTO's monitoring and evaluation role.

## Highlights of OECD-WTO Report

The data on 2002-05 was used as a baseline for monitoring future efforts. The data in this report is on commitments, with next year's report to also include data on disbursements. However, there is a significant problem with this data (See Box 2). According to the data thus collected, between 2002 and 2005, donors committed on average US\$21bn per year on the aid categories more closely associated with AfT. This included:

- US\$11.2bn to build economic infrastructure;
- US\$8.9bn to promote productive capacities (including US\$2bn for trade development); and
- US\$0.6bn for increasing the understanding and implementation of trade policy and regulations (only three percent of the total AfT).

This represents an annual rate of growth of 6.8 percent and a welcome contrast with the long-term declining trends present since the mid-1970s. However, there is some way to go before mid-1970s levels of AfT are reached.

## Box 2: Creditor Reporting System on Trade-Related Aspects

Almost by definition, data on global AfT present a significant over-estimation of the actual volume. For instance, economic infrastructure, which is used throughout this report as a proxy for trade-related infrastructure, includes many infrastructure projects aimed at improving the welfare of the domestic population and not the country's trade capacity. Also, Creditor Reporting System (CRS) categories do not separate out trade-related aspects. It is almost impossible at the global level to provide a sound criterion that differentiates between trade-related aid and other general economic and productive related aid.

The CRS categories included in this report are unable to capture volumes of trade-related adjustment and other trade-related needs as defined by the WTO Task Force. However, donors reporting to the OECD database have agreed that starting in 2008 they will collect specific trade-related structural adjustment data for 2006. After that, further monitoring reports will contain data on trade-related adjustment.

It should be noted that a significant proportion of infrastructure aid has gone to Afghanistan and Iraq, especially from the US. For example, since 2003, Iraq received nearly twice as much AfT as Vietnam, the second largest recipient of AfT flows. The average share of AfT in total sector aid was 34 percent between 2002 and 2005, during which time commitments rose by 22 percent in real terms. On an average, bilateral donors provide 31 percent of their sector allocable Official Development Assistance (ODA) to AfT. However, considerable variation across countries is also evident with shares ranging from a high of 62 percent in the case of Japan – driven in large part by Japan's sizeable support for economic infrastructure – to a low of eight percent for Greece. In volume terms, Japan and the US are the largest providers, which is not surprising since they are also the largest donors. Other important bilateral donors in volume terms are Germany, the UK, France and the Netherlands.

Large multilateral and regional institutions – the World Bank and the Regional Development Banks – provide around 50 percent of their sector programmes to AfT. In volume terms, the World Bank and the EC are also large donors, providing particularly significant support for infrastructure and productive capacity building. Between 2002 and 2005, Asia received 51 percent of total AfT (includes Afghanistan and Iraq), Africa 30 percent, Latin America and the Caribbean seven percent, Europe five percent and Oceania one percent. Asia's predominance is driven by large allocations to economic infrastructure. Most AfT went to lower middle-income countries (36 percent) followed by the LDCs (25 percent).

On an average, Asian countries received an average more than double AfT received by African countries, while other low-income countries obtained more than

**Table 1: The 2007 Regional AfT Reviews**

Africa	Asia and the Pacific	Latin America and the Caribbean
<p>This was organised by African Development Bank (AfDB) and United Nations Economic Commission for Africa (UNECA), held in Dar es Salaam, Tanzania and brought together over 450 participants from across Africa, including 34 ministers of Finance and Trade, key donors, international agencies and the private sector.</p> <p>The discussions highlighted the following priorities:</p> <ul style="list-style-type: none"> <li>• country leadership and mainstreaming;</li> <li>• focus on regional projects and integration;</li> <li>• identify key priorities;</li> <li>• reduce the costs of trade;</li> <li>• mobilise the private sector;</li> <li>• harness public-private partnerships;</li> <li>• leverage regional development banks;</li> <li>• increase and improve financing; and</li> <li>• coherence and cooperation.</li> </ul> <p>The main recommendations for following up on progress included:</p> <ul style="list-style-type: none"> <li>• ECA and AfDB to increase awareness on AfT;</li> <li>• countries and regions to develop AfT Action Plans;</li> <li>• create an Africa AfT network (to be led by ECA and AfDB);</li> <li>• ECA and AfDB to regularly report on progress and convene a regional stock-taking meeting in the autumn of 2008.</li> </ul>	<p>This was held in Manila and co-hosted by Asian Development Bank (ADB), the Philippines government and the WTO, with collaboration from the World Bank. It brought together over 400 representatives from governments, international organisations, donor agencies, and the private sector, including 10 trade and finance ministers, and four heads of international organisations.</p> <p>The sessions identified several common themes that will help shape the future AfT agenda in the region that include:</p> <ul style="list-style-type: none"> <li>• the importance of regional cooperation and integration;</li> <li>• the need for better cross-border infrastructure;</li> <li>• the need for further assistance to countries in their efforts at trade facilitation;</li> <li>• the need to develop trade finance markets through public-private sector partnerships; and</li> <li>• close adherence to the principles of the Paris Declaration, in terms of harmonisation of donor procedures, mutual accountability, and alignment with donor partnerships.</li> </ul> <p>The review participants agreed on the need to take the AfT initiative in Asia and the Pacific forward into 2008 and beyond. To this end, the ADB and WTO were tasked with preparing a short report on the outcome of the Manila review and the next steps to be presented at the WTO's Global Aid for Trade Review in Geneva on November 20-21, 2007.</p>	<p>This was organised at Lima by the Inter-American Development Bank and the WTO, and was hosted by the Government of Peru, in cooperation with the World Bank. Some 300 participants including Peru's President, 13 ministers of trade or finance, three heads of international organisations, senior government officials, leading private-sector representatives, and key donor agencies attended.</p> <p>The discussions highlighted the following cross cutting issues:</p> <ul style="list-style-type: none"> <li>• promote national leadership;</li> <li>• effective stakeholder coordination;</li> <li>• focus on a "broad" trade agenda;</li> <li>• balance trade and development through complementary policies;</li> <li>• adapt AfT to the needs of Latin America and the Caribbean; and</li> <li>• build on existing analyses and needs assessments.</li> </ul> <p>The discussions highlighted the following regional approaches:</p> <ul style="list-style-type: none"> <li>• identify regional priorities and strategies;</li> <li>• apply the sub-sidiarity principle; and</li> <li>• variable geometry of regional programmes.</li> </ul> <p>The discussions highlighted the following key priorities</p> <ul style="list-style-type: none"> <li>• trade-related infrastructure and regional public goods;</li> <li>• trade finance and small and medium size enterprises (SMEs) export development;</li> <li>• trade facilitation and standards; and</li> <li>• export promotion and export diversification</li> </ul> <p>It focused on the following priorities on public-private partnerships:</p> <ul style="list-style-type: none"> <li>• private sector participation;</li> <li>• mobilising the private sector; and information sharing.</li> </ul> <p>It highlighted the following priorities on additional and effective financing:</p> <ul style="list-style-type: none"> <li>• scaling-up financial assistance;</li> <li>• leveraging financial resources; and</li> <li>• developing regional financing instruments.</li> </ul> <p>The main recommendations for following up included:</p> <ul style="list-style-type: none"> <li>• countries, sub-region and regions to map out their priorities and develop action plans; endorse the constitution of an "AfT LAC Support Network" – led by the IDB and the WTO, including countries, regional secretariats, lead donors, multilateral and regional agencies and private sector representatives – to assist countries and sub-regions in mapping out priorities and developing action plans;</li> <li>• explore funding for priority pilot projects with existing available resources and/or request the creation of specific regional financial facilities to fund projects included in the action plans; and</li> <li>• prepare a road map and plan timetable for monitoring progress, including a regional "stock-taking" conference to be held in the region to be followed by an operationalisation conference</li> </ul>

twice the amount of AfT compared to LDCs or lower middle-income countries. In all, seven out of the ten largest AfT receivers were Asian countries. Binding regional constraints, such as poor cross-border infrastructure, are clearly acknowledged in agencies' AfT strategies and some of the larger donors are already addressing them. Working at regional level, however, poses particular challenges, such as insufficient regional co-operation and concerns about asymmetric costs and benefits.

### Highlights of Global Review discussions

- There is not yet a collective understanding on how to define AfT and current OECD categories (on the CRS database) are only proxies for the Task Force categories that have been identified. This makes actually measuring very difficult as to what is happening and holding donors accountable.
- Donors are actually doing their own measurements based on their own methodologies; so at future reviews, they will be reporting these figures.
- With up-scaling of overall aid having stalled (and even reversed somewhat) in 2006 and 2007 (following huge debt relief in 2005), there is concern that AfT up-scaling will stall and that commitments will not be met, including by the EU.
- Donors have been working on their AfT strategies since the Hong Kong Ministerial. The EC has developed an AfT strategy, the UK is currently developing one, Germany is working to assess its response to AfT, Norway presented a brief strategy at the Global Review.
- Regional issues are receiving increasing attention and regional strategies being developed, but financing and governance mechanisms still require significant attention.
- Recipient strategies still need more work and there is still much to be done to integrate trade effectively into national development strategies. The onus is on recipients to be better demanders, and there was quite a muted recipient voice at the Global Review.

### WTO 2008 AfT Roadmap

#### *Global Monitoring*

The following points are mentioned for global monitoring.

- Assess results of the first year of monitoring;
- Update donor and (especially) partner-country questionnaires;
- Explore ways of increasing partner-country involvement (including by streamlining surveys and improving incentives);
- Examine how TPRs could be further adapted to AfT monitoring, building on existing work;
- Identify a cluster of indicators to benchmark progress in building trade capacity;

- Hold an expert symposium on evaluation; and
- Work with the OECD to implement an AfT “knowledge network”, i.e. using information technologies to establish contact points, highlight activities, and share best practices, etc.

#### *National and Sub-Regional Reviews*

Following are some major issues regarding national and sub-national reviews.

- Take the initiative to the “next level” by holding a series of selected National and Sub-Regional AfT Reviews in Africa, Latin America and the Caribbean, and Asia and the Pacific. These Reviews would be focused, technical, and results-oriented, with the aim of assisting in advancing and then monitoring the implementation of concrete national and sub-regional strategies. The broad objective would be to showcase how AfT strategies can progress (and are progressing) and to create incentives for others to follow suit.
- Work with countries, donors, regional banks, and other key stakeholders to identify ready and eligible “first generation” review candidates (e.g. having an AfT plan, coordinating structure, completed needs assessments, identified priorities, etc.).
- Convene national and sub-regional reviews – co-hosted by the participating national government and/or REC together with the Regional AfT Support Network (as recommended by the regional reviews) – with the aim of:
  - ◆ assessing and improving national/regional plans (and coordinating structures);
  - ◆ identifying binding constraints and key priorities; and
- agreeing on the roadmap for implementation (including timetables, institutional mandates, and financial requirements).
- Use OECD/WTO self-assessments as “living documents” to develop actionable plans, monitor progress, and encourage mutual accountability.
- Report on progress to periodic meetings of the Committee on Trade and Development (CTD).
- Profile results at the next Global Review to monitor progress and encourage “peer” review and incentives.

#### *Regional Aid for Trade Networks*

Regarding regional AfT networks, the following points are highlighted.

- Encourage early establishment of Regional Aid-for-Trade Networks – comprised of key stakeholders (RDBs, OECD, World Bank, UN economic commissions, WTO, lead donors, etc.) – as recommended by last year’s regional reviews, to assist countries and sub-regional in identifying priorities, drawing up plans and mobilising resources.
- Hold next Global Review in Spring/Summer 2009 to provide political guidance, momentum and the “big picture” on implementation and evaluation.

- Consult the CTD in the development and implementation of the 2008 roadmap and report regularly on progress and results.

### **In Lieu of a Conclusion**

To conclude, some major issues to be considered for better implementation of AfT are as follows.

- ◆ Due to limited commitments to date from a limited number of donors, the recipients still do not know what they can expect from AfT.
- ◆ Slow-down/reversal in aid up-scaling suggests limited funds may be available for AfT.
- ◆ Definition of AfT still not determined, while measurement of AfT flows still needs work as depending on proxies, including question whether AfT can really be accurately measured or proxies will have to be used. The recipients do not really know how effectively donors are responding.
- ◆ Developing countries need to be better demanders, not just substitute for this, which will help them make their case more strong and effective.
- ◆ There are major challenges still exist at the regional level though strategies are emerging but governance and financing channels need to develop further.
- ◆ For the poorest countries, especially LDCs and African countries, AfT still gets limited attention for a range of reasons, e.g. limited donor response, absorption issues, poor prioritising.
- ◆ There is a need to ensure that up-scaling of AfT does not impact on social sector spending.
- ◆ AfT levels need to remain high for a significant period in order to tackle the neglect in this area over the last few decades and help ensure trade development is sustainable. This is only the beginning.

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