Aid for Trade: Policy Issues for ACP States

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Background

This issue of Commonwealth Trade Hot Topics will examine some selected issues with policy implications relevant to African, Caribbean and Pacific (ACP) states in taking advantage of the aid for trade (AfT) initiative. These are, first, that AfT is a reality and the challenge is to exploit it fully; second, that effective implementation of AfT is lagging in most ACP regions for reasons on the supply side and on the demand side of AfT, hence addressing these inhibitions is central to improved AfT provision and utilisation; third, while working to operationalise AfT more fully, traditional trade-related capacity-building must be enhanced to meet the ever growing demand for assistance from ACP states; and, fourth, framing the AfT within the overarching vision among most ACP states on exiting from aid dependency, especially following the global financial and economic crisis.

Aid for Trade has evolved from a theory to practice

Over the five years since the Hong Kong Ministerial Conference of the World Trade Organization (WTO) and the Report of the WTO Task Force on AfT, there has emerged an international consensus that AfT should be provided, adequately resourced and that it should be urgently implemented. It has also been recognised that AfT must be provided in tandem with any trade reform agenda for the latter to be successful and meaningful in terms of the developmental impact, especially in developing countries. AfT assistance has been provided prior to the AfT initiative as part of overall aid by donors and organisations. However, the direct linking of aid to trade reform is a key contribution of the AfT initiative. The slow progress in the Doha Round of trade talks also provided an impetus in the sense that positive progress in the AfT initiative could contribute to building a positive climate for facilitating the negotiations.

Advocacy for AfT in terms of its relevance and development features has continued. In this respect, one of the first major international conferences was jointly organised by the United Nations Conference on Trade and Development (UNCTAD) and the Commonwealth Secretariat in March 2006 (that is, immediately following the endorsement of the AfT initiative by the 6th WTO Ministerial Conference). Such review and future audits can be helpful in promoting AfT packages that effectively build capacities to promote trade growth and development.

A number of developed countries, the European Union, Norway, and the UK have adopted AfT policies to implement the AfT initiative. International organisations such as the International Trade Centre

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(ITC), UNCTAD and regional development banks have also reviewed their trade-related technical assistance programmes. Only a few ACP states like Mauritius and some ACP regional groupings have elaborated national or regional AfT needs, primarily in the context of preparations for the WTO Global AfT Review. The First WTO Global AfT Review, undertaken in 2007, and the second one in July 2009, reviewed progress in implementing the initiative and took stock of funding commitments and disbursements by donors on AfT. The third review will be held in July 2011.

These steps indicate a major paradigm shift in a particular aspect of development discourse. In the past, costs of trade reforms were viewed primarily as concerns for national governments to deal with outside of trade agreements (apart from the special case of LDCs1). With the endorsement of the AfT initiative, there was tacit acceptance by WTO members that trade liberalisation needed to be accompanied by development support for developing countries that either did not have adequate domestic resources or could not afford to divert official development assistance (ODA) received from critical social sectors, to put in place the requisite capacities to negotiate, implement, adjust to and take advantage of trade reforms. It therefore has opened possibilities of considering AfT needs in the context of trade negotiation and agreements. Thus in the Doha negotiations, for example, the modalities agreed by members for trade facilitation make a direct link between the provision of AfT to developing countries and their capacity to implement obligations arising from any agreement on trade facilitation.

Indeed, for ACP states, AfT is a specific component of the EU’s development support to them for the implementation of the Cotonou Partnership Agreement. Also, in the ongoing ACP–EU negotiations of economic partnership agreements (EPAs), most ACP regions have prioritised an AfT package to be included that is additional to EU development assistance and specific to building ACP capacities to benefit from EPAs.

The impact of the global economic crisis on international trade in 2008–2009 has further highlighted the need for reviving trade through, among others, financing trade, an aspect of AfT. The April 2009 G20 Summit pledge of US$250 billion on trade financing is an example of the consensus on AfT and the provision of trade financing as one priority.

Organisation for Economic Co-operation and Development (OECD) Secretariat data showed that AfT commitments reached US$41.7 billion in 2008, and actual disbursement (expenditures) increased to US$26.7 billion. AfT commitments and expenditures cover four main categories: (a) trade policy and regulation; (b) building productive capacity; (c) economic infrastructure; and (d) trade-related adjustment.2 Economic infrastructure receives the largest share (over 80 per cent) of AfT commitments and disbursements, followed by building of productive capacity. Asian and African countries are the largest recipients of AfT, with a focus on energy, transport and banking infrastructure and services.

The practical implementation and utilisation of AfT however is slow

The actual use of AfT by ACP states is affected by a number of deficiencies. The key limitations are basically threefold: first, an information gap exists on the availability of AfT funds, on the principles and procedures for accessing such funds, and on donor policies, often compounded by stringent project procedures of donors; second, deficient national or regional institutional mechanisms to articulate AfT needs as integral part of trade development; and third, lack of clarity over the quantity and additionality of AfT.

To some extent there is also some confusion in AfT implementation caused by the very wide definition of AfT provided by the WTO Task Force on AfT that basically covers the whole gamut of trade and trade-related technical assistance. This includes the soft aspects of trade policy and regulations and the hard aspects such as building of supply capacity and physical infrastructure, thus making it difficult to prioritise AfT assistance by both donors and beneficiaries. ACP states could consider prioritisation in terms of sectors such as productive sectors or capacities deemed of critical importance. Such prioritisation would take place at national and regional level of ACP regional groupings or even at the ACP-wide level and inform donors so that they can in turn tailor their AfT programmes to meet these common needs. It is important for ownership of AfT projects that donors tailor their programmes to meet beneficiaries’ needs, rather than for beneficiaries to adopt their needs to the donors’ policies.

1 The least developed countries (LDCs) were provided with assistance to build up their trade capacities subsequent to WTO agreements through the Integrated Framework for Trade-Related Technical Assistance to LDCs, established in 1997, and its successor the Enhanced Integrated Framework for LDCs made operational in 2007.

2 OECD, Aid for Trade in 2008.
On the supply side of AfT, discussions about appropriate delivery mechanisms have been extensive but in practice the result seems to be that donors will be providing AfT through national (or regional) AfT strategies, and in a limited number of cases (like Norway or the Enhanced Integrated Framework – EIF – for LDCs) through existing multilateral agencies. Some donors have designed a specific AfT policy to articulate their involvement and contribution to AfT. In the case of ACP states, for instance, the EU Aid for Trade Strategy is important. It plans to raise annual trade development assistance to developing countries to €2 billion per year from 2010 (€1 billion of it in Community aid and €1 billion in bilateral aid from the member states). Some 50 per cent of this EU aid would go to ACP states. The UK’s AfT Strategy promises to allocate at least £400 million per year on Aid for Trade by 2010. Other donors have yet to develop a clear AfT strategy. Multilateral agencies have also highlighted AfT products but only a few have put in place integrated strategies that articulate their AfT approach.

It has not been possible to clearly establish whether the pledged and disbursed AfT funds are new and additional resources or finance that comes from the existing level of ODA but couched in terms of AfT. The OECD Secretariat is taking a lead role in quantifying AfT. Developing countries including ACP states have indicated, rightfully, that AfT should not be provided at the expense of traditional ODA which continues to be important. The tendency in some donors to set up project implementation units, based in capitals of the donors, to supervise implementation of AfT projects and to help disburse funds pledged has limited impact in terms of building trade capacity in ACP countries. The impact is limited since such an approach tends to conduct disparate projects on a piecemeal basis, from one country to another, with limited follow-up support to ensure sustainability of capacities created. They also tend to emphasise programme delivery rather than programme impact. The EU’s global support programmes to ACP states such as on WTO negotiations and EPA negotiations have involved the establishment of such units established in Brussels.

There is a great need for enhanced information flow, including through the WTO AfT Global Review, but more importantly at national and regional levels with the appropriate government institutions (trade and/or planning), on the AfT strategies of donors and multilateral agencies, the financing available and the procedures and conditions for accessing these funds. This can be followed up with assistance to beneficiary countries in becoming familiar with the various supply sources of AfT. Instead of setting up project implementation units in donor capitals such mechanisms should be established within beneficiary developing countries as well as in their regional integration organisations. Training support should also be provided to relevant government agencies on project procedures and requirements. Donors should revise their project formulation, approval, reporting and evaluation requirements to facilitate access by developing countries. Also, during the Global AfT Reviews, the WTO could consider facilitating match-making between interested beneficiaries and donors on financing and implementation of AfT projects. This would enlarge the scope of the AfT Global Reviews and make the exercise much more meaningful and operational.

South–South aid for trade has existed for many years. Many developing countries, large and small, provide aid-related assistance to other developing countries either as a deliberate part of their foreign policy or as part of members of an economic grouping. Brazil, China and India have been providing financial and technical assistance to other developing countries in their regions or outside, like in Africa, to help train human resources, build institutional capacity and/or improve productive capacity as well as strengthen economic infrastructure. However, information on such South–South AfT is not easily available and there is no data on the size and flow of such aid. Providers of South–South AfT thus should also disseminate information more widely on their AfT packages.

ACP states could reflect on intra-ACP AfT support at the regional or inter-regional levels, or via South–South triangular co-operation – that is, between ACP states and other non-ACP developing countries. The AfT funds in such cases may not be substantial but the process and procedures for accessing them could be more flexible, and the aid provided could be more appropriate in terms of technological content, expertise and areas of assistance. Another approach for LDCs would be to request other developing countries that are providing preferential treatment for their exports to also provide AfT assistance in building productive capacities to take advantage of the preferences provided. Such approaches are novel – linking trade preferences to productive capacity-building – and should be encouraged and replicated.

On the demand side of potential beneficiaries, many difficulties have been encountered in preparing AfT projects, respecting the procedures
and conditions of AfT donors. This is due in part to lack of awareness about donor policies, and in funding availabilities and procedures, in part to lack of expertise for preparing project proposals and ensuring follow-up implementation and reporting once a project is approved for funding, and in part to very stringent project requirements set by donors. The three constraints have limited the demand for AfT projects. Only a few countries, like Mauritius and Peru, and regional groups of developing countries have prepared and proposed specific AfT projects for funding. In many developing countries and regional groupings there are no suitable committees as proposed in the report of the WTO Task Force to develop projects in a coherent manner as part of a strategic approach to deliver broader national development goals. The challenge is greater for ACP states which are negotiating EPAs with the EU and need to define trade development needs at national and regional level to build up their capacities to benefit from EPAs.

Addressing these gaps would then enable a process of match-making between the supply and demand for AfT. ACP states need to seriously consider putting in place national and regional AfT committees, or using existing mechanisms for stakeholder consultations, such as those created for EPAs or in the case of ACP LDCs the EIF project implementation units. Such efforts would contribute to strengthening the institutional apparatus for trade development.

The information gap among beneficiary countries regarding AfT policies and practices of donors is diminishing due to continuing awareness-raising efforts by regional development banks, other organisations and the WTO in the context of preparations for WTO AfT Global Reviews. The impact of the global economic crisis also heightened interest in AfT and how it can be more effectively harnessed to promote trade and mitigate the downturn in economic activity.

A major initiative in terms of both supply and demand for AfT is the Enhanced Integrated Framework for LDCs. The EIF provides the modality for the implementation of the AfT initiative for LDCs – it is seen as a dedicated AfT system for LDCs, that is operational. Many donors providing AfT to LDCs would do so through the EIF. LDCs are also receiving AfT outside of the EIF. The EIF has a whole institutional set up at the global and national level to establish priorities and mobilise the international community to provide funding and assistance in implementing trade-related capacity-building support in LDCs. Implementation of EIF projects will be done at national level in each country involving, as appropriate, the relevant international development institutions. The EIF, however, had a long gestation period. It became fully operational in 2009, project co-ordinating units are being set up in beneficiary LDCs, and the implementation of trade-related projects is likely to be initiated in 2010.

Also, in April 2009 in Lusaka, Zambia, COMESA (Common Market for Eastern and Southern Africa), EAC (East African Community) and SADC (Southern African Development Community), their member states and the international community committed to implement the North–South Corridor Model Aid for Trade Programme to reducing costs of cross-border trade in Sub-Saharan Africa and enabling producers and traders to be more competitive. About US$1.2 billion of funding was committed by the development partners for upgrading road, rail, ports and energy infrastructure and to support implementation of trade facilitation instruments. This is one of the few useful practical examples of a specific region-wide AfT programme being initiated. Its implementation in the years ahead should be monitored to ensure that it realises its development impact.

The global economic crisis in 2008–2009 and the incipient recovery under way in 2010 has heightened the need for trade and trade-related assistance for ACP states, as local efforts are insufficient to mitigate the impact of the crisis, and deal with a myriad of trade challenges. Moreover, as mentioned earlier, accessing and utilising aid for trade funds that might be forthcoming under the aegis of the AfT initiative is still at the infant stage. In this situation, traditional trade and trade-related technical assistance and capacity-building provided by trade organisations such as WTO, UNCTAD, ITC, and others are of continuing relevance and may be more urgent.

The area of trade policy development and trade negotiations deserves urgent attention in ACP states. As they negotiate a multiple of trading arrangements and try to benefit from the existing ones, a key factor in assisting them to navigate through the web of agreements is to put in place trade policies. The trade policies would serve as the guide to trade negotiators, policy-makers and law-makers on priority trade measures to promote and alert the private sector as to areas in trade in which reform will take place and the need for adjustment and building of competitiveness.

3 For discussion on the impact of the crisis on trade see for example the UNCTAD report on ‘Successful trade and development strategies for mitigating the impact of the global economic and financial crisis’ (TD/B/C.1/7).
In most ACP states the strengthening of productive capacities including diversification into higher value added products or into services, and production of outputs with high technological content and value addition, stands out as a key precondition for benefiting from trade reforms. Various measures have been developed and introduced to build up such productive capacities and need to be continued. The AfT initiative also targets building up of productive capacities. What is important in these AfT projects is that when the project ends, the beneficiary country or region has set up a production facility, plant or factory that produces a higher value product for exports. This in turn results in investment into productive capacity, job creation, enhanced managerial capacity and enhancement of income earning opportunities. Or, the AfT project results in increased agricultural outputs for domestic consumption and/or export. In other words, AfT projects directed at enhancing productive capacities should do exactly that, and not just end with policy papers and documents that leave the onus on beneficiary countries to grapple with and which in many cases will end up not implementing.

Enhancing the competitiveness of goods and services of ACP states is a perennial concern. It comes inter alia with building up competence in trade facilitation, stock of infrastructure and networks, transport stock and frequency, technological innovation, and entrepreneurial skills. These have to be continuously developed.

**ACP states and aid dependency**

Participation in and utilisation of AfT by ACP states should be conditioned by the strategic goal in many countries to exit from aid dependency in the medium to long term. For example, in Rwanda, where ODA is a significant source of development finance, the government has identified exiting from aid dependency as a development goal. ODA in 2007 was valued at US$713 million, which accounted for over 21 per cent of Rwanda’s GDP as compared to exports of goods and services totalling US$334 million and representing 10 per cent of GDP. In Papua New Guinea, where ODA has declined drastically, the government has adopted a policy stance to exit from aid dependency. ODA to the country in 2007 was valued at US$317 million, accounting for 15 per cent of GDP, while exports of goods totalled US$4.1 billion representing over 65 per cent of GDP.

The utilisation of AfT is driven by the motivation of building up trade capacity to ultimately exit from aid dependency and diversify to other sources of development finance and economic growth, such as trade, investment and remittances. Such sources can be more sustainable, predictable and allow countries to use these funds in an independent manner without conditions imposed by donors or multilateral institutions. Such sources allow ACP states to exercise a degree of control over their own destinies – that is, in promoting trade to realise their development objectives.

**Conclusion**

The AfT initiative is the realisation of a major development issue put forward by developing countries to ensure that they benefit from trade reforms. ACP states need to make effective use of it, keeping in mind the longer term perspective of graduating from being aid recipients to developing alternative sources of development financing and becoming masters of their own destinies. There are several key issues in this regard.

First, the AfT initiative has evolved from a concept to a reality as an essential component of ODA. This is an important and positive transition. The work of the implementing organisations like the WTO and OECD, and international organisations such as UNCTAD and the Commonwealth Secretariat which are in the front line of advocacy support for the AfT initiative, has contributed to this evolution. This advocacy work must continue for the initiative to be continually improved in support of development of developing countries.

Second, the practical implementation of AfT for the benefit of ACP states has been slow or lagging owing to various deficiencies at the level of supply and demand for AfT, compounded by the broadest possible definition of AfT. An information gap on the supply side with stringent project requirements, an institutional gap on the demand side, and issues of adequacy and additionality of AfT continue to affect the initiative. Closing these gaps will help to enable match-making to take place between demand and supply of AfT at national or regional levels and even inter-regionally.

Third, even as AfT advocacy and operationalisation efforts continue, traditional trade-related technical assistance and capacity-building assistance must continue to be provided bilaterally and multilaterally and even expanded to meet the growing need expressed by ACP states for trade development, including in mitigating the impact of the global economic crisis and building resilient economies.
International Trade & Regional Co-operation
Section at the Commonwealth Secretariat

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- 3-4 June 2010: Trade policy Workshop with the Members of Parliaments in the Pacific, held in Samoa
- 27-28 May 2010: Trade policy Workshop with East African Members of Parliaments, held in Arusha, Tanzania
- 4 May 2010: Workshop on Potential Supply Chains in South Asian Textiles and Clothing, held in Colombo, Sri Lanka
- 3-4 May 2010: Commonwealth Investment Experts Group Meeting for the Pacific, held in Port Vila, Vanuatu
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