

## Aid for Trade

### 1. What's Aid for Trade?

Aid for Trade is part of overall Official Development Assistance (ODA) — grants and concessional loans — targeted at trade-related programs and projects. It aims at helping developing countries, in particular the least-developed, to build the trade capacity and infrastructure they need to benefit from trade opening.

Because trade is a broad activity, Aid for Trade is broad and not easily defined. It includes (i) technical assistance — helping countries to develop trade strategies, negotiate more effectively, and implement outcomes; (ii) infrastructure — building the roads, ports, and telecommunications that link domestic and global markets.; (iii) productive capacity (including trade development) — investing in industries and sectors so countries can diversify exports and build on comparative advantages, and (iv) adjustment assistance — helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade.

The Aid for Trade is not a new global development fund but part and parcel of normal programmable ODA. Thus, there are neither specific eligibility criteria nor specific application procedures. Additional resources will only materialize if partner countries prioritize aid for trade activities in their national development strategies (such as PRSPs and CAS) and articulate their demands in their dialogue with donors.

In that respect, Aid for Trade is not an alternative to the Enhanced Integrated Framework. On the contrary, activities financed by the Enhanced Integrated Framework are counted as Aid for Trade and considered fully part of the Aid for Trade initiative, including the monitoring and evaluating aspects. Commitments to technical assistance under a potential Trade Facilitation Agreement will also be counted as Aid for Trade.

### 2. Aid for Trade and the World Trade Organization

The 2001 Doha WTO Ministerial Declaration has put developing countries' priorities at the centre of the agenda. Devising instruments to help developing countries overcome their trade-related institutional, human resource and supply-side capacity gaps thus became a complement to the WTO negotiations. More specifically, at the 2005 Hong Kong WTO Ministerial Conference, Ministers gave the WTO a mandate to help developing countries, especially the least developed, build the trade capacity they need to take advantage of trade opening. Ministers considered that in many developing countries, Aid for trade is central to helping developing countries move from making trade possible to making trade happen.

The Hong Kong Ministerial established a Task Force to provide specific recommendations on how to operationalise Aid for Trade and invited the Director-General to consult with “...international

organizations...on appropriate mechanisms to ensure additional financial resources for Aid for Trade". Its report, endorsed by the WTO's General Council in October 2006, set out a series of recommendations for reaching this goal. In particular, it called for strengthening the "demand side", strengthening the donor "response", and closing the gap between "demand" and "response" at the country, regional and global level. It also suggested that the WTO could best advance this agenda by better monitoring and evaluating Aid for Trade.

### 3. Mobilizing Aid for Trade: The Regional Reviews

In the fall of 2007, the WTO, in collaboration with each of the main regional development banks (the [Inter-American Development Bank](#), the [Asian Development Bank](#) and the [African Development Bank](#)), organized three "Mobilizing Aid for Trade" regional reviews in Latin America and the Caribbean region, Asia and the Pacific Region and Africa. The regional reviews had four broad objectives:

- Identify the main trade needs and priorities for addressing them – both nationally and regionally;
- Encourage recipient countries or sub regions to formulate aid for trade 'business plans';
- Encourage donors to develop a detailed response and scale up trade-related development assistance;
- Secure the political commitment to follow through on the Aid-for-Trade agenda in the region.

The conclusions of the three reviews were presented and discussed at the 1<sup>st</sup> WTO Global Aid for Trade Review in November 2007. The reviews identified the following as crucial in the regional aid-for-trade agenda i) regional cooperation and integration to complement Aid for Trade efforts and help guide funding priorities; ii) better cross-border infrastructure; iii) trade facilitation reforms; iv) availability of trade finance, v) harnessing the role of the private-public partnerships and; vi) enhanced monitoring and transparency to facilitate implementation of the initiative and adherence to the aid effectiveness principles of the Paris Declaration.

In addition, the three reviews recommended the establishment of a follow-up group, such as:

- An "Aid for Trade 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;
- A Regional Technical Group on Aid-for-Trade for Asia and the Pacific would be established to i) synthesize sub-regional/country needs and priorities, ii) identify on-going assistance programs, and (iii) develop concrete aid for trade proposals for sub-regions and countries.
- An African Aid-for-Trade network– led by the ECA and the AfDB, including countries, donors, regional and multilateral agencies, and private-sector representatives – to assist countries and sub-regions in mapping out priorities – in developing action plans – in mobilizing resources and in monitoring and evaluation of progress.

The links and possible overlapping mandate with the Enhanced Integrated Framework were not discussed in depth at the Reviews. The issue would be particularly relevant for the African region where most countries are LDCS countries eligible to the EIF technical and financial support. Close collaboration between the EIF, AfDB and UNECA would be critical.

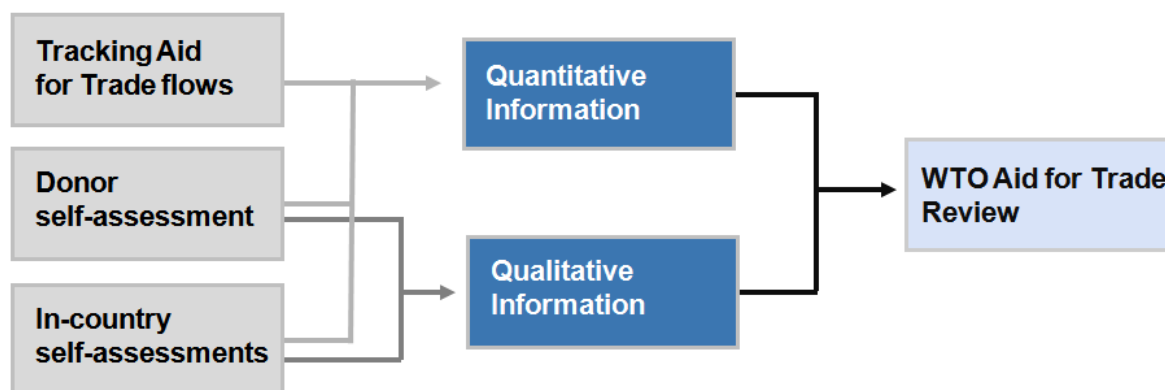
The WTO is planning to hold a limited number of National and Sub-regional Aid-for-Trade Reviews in Africa, in Latin America and the Caribbean, and in Asia and the Pacific in 2008. These technical, and results-oriented sub-regional/national reviews, will aim at assisting in advancing – and then monitoring – the implementation of concrete national and especially sub-regional plans. The Reviews would be hosted by the participating national government or regional organization in cooperation with lead donors and key regional and international agencies. The results would be profiled in the next Global Aid-for-Trade Review – to be held in the first half of 2009.

#### **4. OECD's contribution: Monitoring Aid for Trade**

The WTO Task Force underscored the need to reinforce the global accountability of aid-for-trade flows. It stressed that at all providers and recipients of aid for trade have a responsibility to report on progress and results, and to increase confidence that aid for trade will be delivered and used effectively. Donors were invited to report, among other things, on the volume of funds dedicated to aid for trade, how they intend to meet announced aid-for-trade targets, the forms of aid for trade they support, and progress in mainstreaming trade into aid programming. Partner countries were invited to report on various issues including trade mainstreaming in national development strategies, the formulation of trade strategies, aid-for-trade needs, donor responses, implementation and impact.

During 2007, the OECD collaborated with the WTO in setting up an aid-for-trade monitoring framework. The logic of the framework is that increasing transparency on aid for trade would provide incentives for better and more Aid for Trade. We believe that an effective and systematic monitoring of aid-for-trade plans and activities will strengthen mutual accountability and improve the impact of donor's assistance. The objective is to create a dialogue, to encourage all of the key actors to honor commitments, meet needs, improve effectiveness, and reinforce mutual accountability.

A three-tiered system (*e.g.* global, donor and partner country tiers) has been developed to elicit critical quantitative and qualitative information from donor agencies and their partner countries, as depicted in Figure 1.

**Figure 1. The three-tiered aid-for-trade monitoring framework**

Quantitative information, i.e. tracking aid for trade flows, is obtained through the OECD Creditor Reporting System (CRS), a database covering around 90 per cent of all ODA. Global data is complemented by donors and partner countries' reports. Flows data is collected in order to assess whether additional resources are made available, to help identify where funding gaps remain, to highlight where resource reallocation might be appropriate, and to increase transparency on pledges and disbursements. However, the WTO Task Force definition of aid for trade covers a broad set of expenditure categories as indications of donor activities which impact on partner country trade capacities. The OECD Creditor Reporting System (CRS) was recognized as the best data source for tracking aid for trade flows at global level, but it cannot provide data that match exactly all the above categories. Instead, it offers proxy measures for key categories.

Qualitative information is obtained through two structured questionnaires, each tailored to one of the two constituencies (donors and recipients).

Both questionnaires were organized around four themes, namely: What is your aid-for-trade strategy? How much aid-for-trade do you provide/receive? How do you implement your strategy? And do you participate in mutual accountability arrangements? Under each of these themes, a range of questions aimed to bring out information to improve trade development strategies, better identify the gaps between needs and actual support, encourage a more precise tracking of aid-for-trade, reduce aid-for-trade transactions costs, and better assess impacts.

In November 2007, at the [1<sup>st</sup> WTO Global Aid for Trade](#), the first results of the monitoring exercise were presented. The WTO/OECD report - [Aid for Trade at a Glance: 2007](#) - gives a comprehensive picture of Aid-for-Trade flows and provides an overview of donor and partner country responses to the survey about their aid-for-trade strategies, pledges and delivery, which was sent to all WTO members during the summer. Key messages in the report included:

- Between 2002 and 2005, donors committed on average USD 21 billion per year on the aid categories more closely associated with aid for trade. This included USD 11.2 billion to build economic infrastructure, USD 8.9 billion to promote productive capacities (including USD 2 billion for trade development), and USD 0.6 billion for increasing the understanding

and implementation of trade policy and regulations.

- Commitments increased by 22% over the period but the average share of aid for trade in total sector aid decline from 35% in 2002 to 32% in 2005, reflecting the growth of aid to education and health.
- Aid for trade is increasingly prioritized in donors and partner countries' plans. Moreover, the development of new strategic statements, a gamut of initiatives to strengthen in-house capacities and increased prioritisation in donor-partner dialogues indicated that aid for trade is likely to attract additional resources the coming years.
- Binding regional constraints, such as poor cross-border infrastructure, are clearly acknowledged. Working at regional level, however, poses particular challenges, such as insufficient regional co-operation and concerns about asymmetric costs and benefits. The Regional Development Banks are seen as the natural partners for addressing these and other regional challenges.
- High level political backing to assign priority to trade in national development strategies is a key condition for donors' support. In cases where political commitment and local ownership are absent, donors increasingly seek to reinforce mainstreaming of trade by raising the issue in dialogues with partner countries.
- Donors and partners agree without exception, that the Paris Declaration on Aid Effectiveness sets out the principles that should guide the delivery of aid for trade. However, putting these principles more broadly and widely into practice remains challenging.

## 5. Engaging partner countries

The conclusions above are based on an excellent rate of responses from donors but a much poorer one from partner countries (only 7 responses). This low rate is partly due to low awareness levels in many partner countries on both the aid-for-trade initiative and the role of the monitoring framework, to time and capacity constraints but also most likely to the very demanding nature of the questionnaire and the lack of direct operational or financial incentives.

Indeed, the 2007 round of monitoring was designed to elicit general information that would enable us to develop a broad and comprehensive picture of what's happening on Aid for Trade and this required strong inter-ministerial co-operation to properly answer the questionnaire.

In the next survey, the focus will be to promote greater mutual accountability on the results that Aid for Trade is producing. This requires developing a more quantitative approach in the questionnaires that enable us to provide benchmarks on the quality of aid for trade programming and the evolution of trade capacity in a format that political leaders can see at a glance and respond accordingly.

However, it is important to remember that partners' self-assessment reports are also an excellent opportunity for countries to develop and refine their trade development strategies. Reporting their activities publicly in the WTO forum, whether as a fully fledged member or as an observer, enables

them to share their priorities with all key donors and send a signal to the donor community on the strength of their political commitment to developing their trade capacity. Moreover, it is likely that donors increasingly perceive an active participation in the WTO Aid for Trade reviews as a signal for political commitment and country ownership which is a key criterion for providing assistance.

The OECD is working to facilitate developing country engagement with the monitoring framework and exploring with non-traditional donors the creation of a dedicated donor questionnaire that better reflects technical and south-south cooperation and with partner countries, developing two levels of engagement to better cater for the diversity of interest and capacity of developing countries:

1. In-depth self- assessment reports for countries taking part in the WTO-led national or sub-regional reviews and potentially other countries particularly interested to showcase their experience.
2. A questionnaire much simpler, more user-friendly, and more relevant to national planning.

In addition, to complement this inform and provide a minimum of information about all recipient countries, a set of indicators based on publicly available data on trade policy, trade performance and aid for trade will be developed.

**Further information on aid for trade is available at <http://www.oecd.org/dac/trade/aft> and [http://www.wto.org/english/tratop\\_e/devel\\_e/a4t\\_e/aid4trade\\_e.htm](http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm)**