

AITIC CONSULTATIVE MEETING  
AID FOR TRADE AND ENHANCED INTEGRATED FRAMEWORK  
Geneva, 22 February 2007

Edited Transcript of Statement by C.Michalopoulos

Ladies and Gentlemen,

Making progress in implementing the recommendations of the two task forces on Aid for Trade (AFT) and the Enhanced Integrated Framework (EIF), will be very difficult. Progress depends on active collaboration between two sets of institutions: on the one hand the aid agencies, bilateral and multilateral; on the other, the WTO. These institutions have different cultures, and actions on their part depend on different dynamics and processes which will be difficult to change: the aid institutions will not change, as AFT accounts for a very small proportion of total aid flows, and they will not be prepared to change their ways on account of AFT. The WTO will also have difficulty in changing. As the Director General Mr. Lamy has repeatedly stated, the WTO is not a 'development institution'. Thus, my first message is to reduce expectations. Yet, we must try to move forward: AFT is too important a topic to just have one more report from one more task force gather dust on the book-self.

AFT

There is a number of difficult issues that need to be resolved before substantive progress can be made.

1. What is the base line in AFT and what is included. The AFT Task Force said that in addition to the categories of assistance on which information has been gathered by the OECD, assistance for 'building productive capacity', 'adjustment assistance', and 'other projects and programmes, if these are identified as trade related development priorities in the recipient's country's national development strategies' be included. None of these additions are particularly helpful in getting a baseline of what is being done and determining flows over time in order to figure out whether aid is increasing or not. While it is clear that supply constraints on exports are important, adding a category on 'building productive capacity' is not helpful as it can not be determined *a priori* whether any productive capacity addition will result in exports or not; adjustment assistance tends to confuse between assistance for balance of payments adjustment and assistance to individuals and firms to cope with increased import flows; and the last category opens up the opportunity for including anything, as long as it is vaguely related to trade. The OECD-DAC data base can not be used with small improvements to do the work needed. The OECD does useful work and, over time, it has been able to produce refined statistics on a lot of different aid flows and concepts. A great deal of additional effort and time will be needed before anything that comes close to an operational data base can be produced.

2. Additionality. The major donors engaged in a beauty contest in Hong Kong. While they have typically reaffirmed their commitments subsequently, these aggregate commitments are not meaningful, because they relate to different concepts and base lines. They can not be evaluated any more than the commitments for increased assistance made under the Uruguay Round could be evaluated.
3. Conditionality. Developing countries have been requesting that AFT be not subject to any conditionality. This is not likely to happen. And very little, if any of the amounts promised in Hong Kong will be forthcoming without some kind of conditions. All aid is subject to some form of conditionality; and the best kind of aid, budget support, is subject to extensive conditionality: before a country can get such aid, it must demonstrate that it has an adequate plan and capacity to implement it as well as good governance. In particular, regarding AFT, donors will be asking that the recipient country demonstrate that trade is a high priority in its overall planning and strategy. The new thinking on aid requires the recipient to be in the driver's seat; for the recipient to articulate its priorities and to establish the conditions that it must meet for successful aid programs; otherwise aid is wasted and nobody benefits.

There are also some issues of differing culture and decision making that would need to be addressed.

1. Developing Countries are asking that all AFT be in grant form. This will never happen. Aid institutions have their own rules as to the terms on which assistance is provided: in grant form, concessional terms or near market terms, depending on the financial capacity and level of development of the recipient; in short they differentiate among developing countries. They will not change these rules for AFT.
2. On the other hand, developing countries in the WTO only differentiate between LDCs and all the rest. But all the rest, have very different needs for assistance in trade. It is for this reason that the AFT Task Force asked that the possibility for a separate fund for 'IDA eligible' poor developing countries, including some very poor transition economies, be established. But nothing appears to have happened on this important issue so far.
3. Developed countries are not going to be willing to accept legally binding aid commitments. Yet they will be seeking legally binding developing country commitments in trade facilitation. Developing countries, have correctly argued that they would be prepared to accept only commitments that they can implement; and would only accept additional commitments if they are assured of assistance that would help them increase their implementing capacity. How that link between increased commitments and increased assistance is made will be very important for all future discussions on aid for trade.

4. The DG has been emphasizing that the WTO is not a ‘development institution’. But if the AFT and EIF initiatives are properly implemented, the WTO would have to become substantially more of a development institution than it is now. And there is nothing wrong with that, as the bulk of its membership consists of developing countries. Let me explain: First, the secretariat of the EIF—which is supposed to be in the WTO, will have to consist of development personnel able to assist the in-country groups with project design and other development activities. We are told that there will be a ‘firewall’ between this Secretariat and the rest of the WTO. Yet the EIF (and AFT) and its implementation will be discussed in other WTO bodies. Presumably, this will require ‘development’ expertise and judgments to be made. Similarly, AFT would be reviewed in TPRs both from the recipient and the donor standpoint. Two points need to be made on this: First, for a meaningful discussion of this issue, the TPR ‘culture’ in the WTO needs to change. Originally patterned after the DAC/ OECD peer review of aid programs, the TPR has failed to meet expectations: the Secretariat review is too descriptive and not analytical; and the peer review has focused on parochial trade concerns, not developmental policies. Both the Secretariat and the peer reviews have to become more ‘developmental’ in their orientation for meaningful monitoring and review.

Finally, there is an important issue of coherence. To this point, there has been no effort to link the AFT discussions to the trade facilitation negotiations. Indeed, the latter appear to be moving towards the establishment of yet another ‘platform’ for assistance. This can not be right. Assistance for trade facilitation is a key part of AFT. There is no way that donors would be prepared to be make meaningful commitments on trade facilitation, as they should—and be asked also to make separate but unrelated, yet meaningful commitments on AFT. If this link is not made all the discussions will result in meaningless ‘best efforts’ statements which will not help developing countries.

## EIF

There are two main challenges for the effective implementation of the EIF, in addition to resolving such issues as where to locate the Trust Fund as well as providing it with adequate resources.

First, it is important that the National Steering Committees succeed in installing trade as one of the national priorities. Without this, no significant amounts of assistance will be forthcoming from donors. Second, in order to ensure that trade gets the priority it deserves, the Committees need to be able to develop programs, design projects as well as implement small TA activities. To do this, the Committees will need outside help. Presumably this will have to be provided from the Geneva based secretariat and other sources of assistance. How this process works will go a long way in determining whether the EIF will finally start making a significant contribution.

## AITIC

There are three areas in which I see AITIC playing a role in this process:

First, it is clear that the National Committees under the EIF will need a lot of help in carrying out their mandate. I doubt that the Secretariat in the WTO will be able to meet demands in this area. AITIC can help in project design as well as in the delivery of certain amount of TA, involving training seminars and similar activities.

Second, while LDCs have articulated their needs many times and in many fora, there is often a communication problem: the needs articulated in WTO are not articulated in PRSPS or other plan documents; nor are they readily translated in concrete projects that can be funded by donors, each of whom have different requirements. AITIC may be able to play an intermediary role, helping countries in identifying donors and assisting them in meeting donor procedures and requirements.

Finally, AITIC will have to play in this area --as it does in other areas of WTO activity-- an important role in informing countries without a resident mission in Geneva and assisting them in taking advantage of the EIF and any concrete initiatives that materialize in AFT.