

29 June 2006

**DRAFT OUTLINE:**

**POSSIBLE AID FOR TRADE RECOMMENDATIONS**

A. MANDATE

The Hong Kong Ministerial Declaration invited the WTO Director-General to create a Task Force to provide recommendations "on how to operationalize Aid for Trade" and "on how Aid for Trade might contribute most effectively to the development dimension of the DDA". It states that "Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.

B. RATIONALE

Aid for Trade is about assisting developing countries to benefit from liberalized trade. Effective Aid for Trade will enhance the growth and poverty reduction prospects of developing countries and complement multilateral trade reforms. Aid for Trade can increase the benefits of integration into the world economy, distribute the global benefits more equitably across and within developing countries, and mitigate adverse macroeconomic effects of projected increases in ODA flows.

C. FINANCING

These recommendations for operationalizing Aid for Trade are dependant on substantial increases in additional financial resources for trade-related programmes and projects. The Task Force encourages the Director-General to continue clarifying current Aid-for-Trade pledges as part of his mandate to consult with relevant actors on "appropriate mechanisms to secure additional financial resources for Aid for Trade".

D. SCOPE

It is important to define the scope of Aid for Trade in a way that is broad enough to reflect the diverse trade capacity building needs identified by individual countries. It must, however, also be clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. Such clarity is a necessity for a reliable monitoring of Aid-for-Trade efforts and to avoid "over-counting". The following categories, that build on the definition of the Joint WTO/OECD Data Base, have been identified:

(a) *Trade policy and regulations*

As defined in the Joint WTO/OECD Trade Capacity Building Data Base.

(b) *Trade development*

As defined in the Joint WTO/OECD Trade Capacity Building Data Base.

(c) *Compliance with commitments, rules and standards*

Partly overlapping with (a) and (b) but adding i.e. capacity to adapt to and comply with i.e. SPS and TBT standards. .

(d) *Supply-side capacity building*

(e) *Trade-related infrastructure*

(f) *Trade-related adjustment*

Reporting on categories (a), (b) and parts of (c) (overlapping with (a) and (b)) could follow the definitions in the Joint WTO/OECD Trade Capacity Building Data Base. The activities that fall outside of the Joint WTO/OECD Trade Capacity Building Data Base definition – parts of (c) (not overlapping with (a) and (b)), (d) and (e) – should be reported as Aid for Trade if these activities have been identified as trade priorities in the recipient country's national development strategies, such as the PRSP.

## E. CHALLENGES/GAPS

Since the start of the DDA in 2001, the donors have substantially stepped up their commitments on Aid for Trade. More developing countries are also integrating trade into their development strategies. But major challenges remain. These can include:

- Low attention to – and/or understanding of – trade as a tool of development in recipient countries and in donor agencies.
- Insufficient mainstreaming of trade in national development strategies and PRSP, and weak identification of trade projects and programmes due to lack of commitment, political will and/or capacities at country level.
- Lack of private-sector involvement in identifying trade needs.
- Limited absorptive capacity in recipient countries,
- Inadequate and uncertain donor response to trade priorities identified at the national and regional level.
- Lack of coordination and coherence in donor response.
- Slow, duplicative and bureaucratic processes in the assessment and delivery of trade assistance, including burdensome parallel structures within recipient countries .
- Lack of data and analysis of trade policies and their impact; lack of easily-available information on existing Aid-for-Trade instruments and expertise.
- Ineffective monitoring of country policies and donor activities; absence of rigorous, independent project and programme evaluation and impact assessment.
- Limited support for cross-country and regional programmes and projects.
- Insufficient resources for infrastructure and productive capacity building.
- Uneven country coverage.

## F. OPERATIONALIZING AID FOR TRADE

### F.1 Objectives

- To enable developing countries, particularly LDCs, to expand their trade to promote growth, development and poverty reduction.
- To help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure and to facilitate effective access to markets.
- To help facilitate, implement, and adjust to trade reform and liberalization.

- To assist regional integration and integration into the global trading system and in implementation of trade agreements.

## **F.2 Guiding principles**

Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved (donors, agencies and beneficiaries), including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of programme-based aid modalities, management for result, transparency, and predictable and multi-year commitments, which should be built into all programming. Aid for trade should be rendered in a coherent manner taking full account, *inter alia*, of the gender perspective and of the overall goal of sustainable development.

## **F.3 Strengthening needs identification at the country level – "demand side"**

A commitment to country ownership – and country-driven approaches – is key to the effectiveness of Aid for Trade. In some countries in-country processes for mainstreaming trade into national development strategies, for formulating trade strategies, and for proposing priority trade projects for donor financing, need to be supported through technical assistance and capacity building. In other countries, consultative mechanisms already exist which can be used as they stand – or improved upon – as vehicles for preparing Aid-for-Trade plans and proposals. Value-chain analysis could be one valuable tool for needs assessments.

*The Enhanced Integrated Framework (IF) for LDCs.* The purpose of the IF is to strengthen the LDCs' capacity and ability to identify their trade needs and to propose priorities to be supported by development partners. An enhanced IF, as recommended by the IF Task Force, will be an essential foundation and prerequisite for strengthening the demand-side of Aid for Trade in LDCs.

*Non-LDCs.* Many non-LDC developing countries also need support to mainstream trade into national strategies, to establish broad-based consultation processes (including the private sector, civil society, and relevant government agencies), to formulate trade strategies, to develop action matrices and to formulate priority project proposals.

*Regional needs.* Some of the constraints facing developing countries are cross-border and regional in nature. These needs have to be identified and properly addressed. Regional organizations, including regional banks, may play a role in assisting countries to identify such needs.

### Possible recommendations:

- Implementation of the recommendations of the IF Task Force on the enhancement of the Integrated Framework.
- In order to support the in-country process, a mechanism comparable to the IF, but separately funded, should be established for "IDA – only" countries. In other developing countries, agencies, donors and governments need to work together to establish a similar process, if it does not already exist. It should be modeled to the specific circumstances and needs of the country concerned, building on what already exists.
- Agencies, donors, together with regional banks and organizations, should step up their efforts to identify cross-border issues and regional needs, including needs related to regional integration.

#### **F.4 Strengthening donor "response"**

*Donor policies.* Donors need to give more attention to trade issues in their aid programming and to strengthen their trade expertise (both in the field and at headquarters). There is a need to coordinate staff working across sectors and to mainstream trade in aid agencies.

*Donor coordination.* Greater donor and agency coordination and harmonization of procedures - at both the local and global level - is critical. Trade-related programmes and projects should be more coherent, both in terms of operations and policy.

*Donor response.* In allocating resources, donors and agencies should be guided by country-identified priority needs, as well as by the potential merit of the trade projects in relation to stated objectives for Aid for Trade. The outcome of a strengthened in-country process should be mirrored by donor/agency support for identified priority projects/programmes.

##### Possible recommendations:

- Trade and growth issues should become an integrated part of donors' aid programming.
- Donors agencies should further strengthen their trade expertise (both in the field and in capitals).
- Needs assessment processes (where available), and their results, should be used by donors as a basis for their programming.
- When consistent with country-ownership, mainstreaming-of-trade-approach, donors should move towards a programme/sector approach and/or pooled funding for trade-related activities.

#### **F.5 Strengthening the bridge between "demand" and "response"**

##### **F.5.1 Country level**

*Matching.* In many recipient countries, strengthened in-country structures are needed to help move from trade-related diagnostics to implementation, with improved links to donor processes in order to maximize multilateral and bilateral resources for implementation. The task of matching demand for Aid-for-Trade projects with response should be addressed through a strengthened country-based partnership between recipient countries, donors, and other relevant stakeholders, such as the private sector.

*Mainstreaming trade.* Given that progress will depend on many actors working together coherently – the World Bank, the IMF, regional development banks and relevant UN agencies at the international level, and trade, agriculture, development and finance ministries at the national level, it is the responsibility of both donors and recipients to do their part in reforming how those entities integrate trade into development and national strategies.

*South-South cooperation.* Technical cooperation among developing countries is a valuable tool to deliver effective results, due to better understanding of problems affecting each other. The valuable technical expertise of the South could be channelled to project implementation, through triangular schemes of cooperation.

*Private sector.* As actors in the field, private enterprises are well placed to identify trade-related problems and bottlenecks. An increased dialogue between the public sector and private entrepreneurs would improve effectiveness in assessment of Aid-for-Trade needs, in implementation as well as in evaluation of the effectiveness in implementation.

Possible recommendations:

- Recipient countries are responsible for mainstreaming trade into national strategies, such as PRSPs, for formulating trade strategies, and for proposing priority trade projects for donor financing.
- Responsibility for funding and implementing Aid-for-Trade projects and programmes, identified in the recipients trade strategy, should be addressed through country-based processes such as PRSP/CG-processes or similar processes, if necessary complemented with a partner conference focusing specifically on trade-related support, convened once countries have integrated trade into their national strategies, such as PRSPs.
- In some countries a new complementing Aid-for-Trade Partnership might be needed to assist in the matching of demand and response. Tasks could include identification of co-financing for large investment projects, as well as in assessing adjustment needs and brokering of financing for such programmes.
- Partners should commit to contributing to the implementation of trade strategies and identified priority projects and programmes. The resulting plan should incorporate a results-based management framework, resting on – and reinforcing – mutual accountability. Indicators of progress should be agreed.
- The involvement of local and regional actors and the private sector, as well as South-South cooperation through triangular schemes of cooperation, should be promoted.

F.5.2 Regional level

In many cases, countries require cross-border infrastructure and regional policy cooperation in order to trade more effectively. The ability to identify cross-country and regional needs should be strengthened, both at the country level and among donors and agencies. Once needs have been identified, donors and agencies must improve their ability to respond.

A clearing-house function for regional and cross-country needs could complement country-level partnerships, and assist in addressing such needs, including those related to regional integration.

Possible recommendations:

- A clearing-house function should be considered for addressing cross-country and regional needs including needs relating to regional integration.
- Tasks that could be included are diagnostics of such needs, costing of projects, preparation of project proposals, co-ordination of donor response, including brokering and co-financing of needs that at present have difficulty in attracting financing in country-based processes, such as cross-border parts of priority regional infrastructure and policy integration projects.
- Responsibility for the tasks can be assigned either to (an) existing agency/agencies, or to (a) new regional clearing-house(s).

F.5.3 Global level

A number of tasks in relation to Aid for Trade are best performed at the global level. These include:

*Data collection.* Lack of empirical data has made it difficult to examine the relationship between policies related to trade and performance. Better data and statistics are a precondition for better understanding the process of globalization and its impact and for determining priorities for development cooperation.

*Knowledge creation and sharing.* Dissemination of Aid-for-Trade evaluation results, development of best practices and guidelines and the facilitation of information sharing needs to be

improved at global level in order to assure efficient use of Aid-for-Trade funds, involving all relevant actors.

*Supporting IF-type process for IDA-only countries.* An IF-type approach in IDA-only countries (apart from LDCs) will need institutional support at global level.

*Matching.* Some donors might wish to direct Aid-for-Trade funds without having to build their own institutional capacity in this area and without getting involved at country level. One important function could be to connect TRA-needs to donors willing to contribute to their fulfillment.

#### Recommendations:

- A global clearing house function could be considered. The following tasks could be included:
  - Collection and analyzing data on trade policies and their impact, facilitation of knowledge sharing and the development of guidelines. Funding for such activities needs to be secured.
  - General support to IF-type processes in IDA-only countries (apart from LDCs).
  - Provision of information on existing Aid-for-Trade instruments and expertise.
  - Matching and brokering of unfunded TRA-needs and available donor funding for such projects and programmes.
- Responsibility for the tasks can be assigned either to (an) existing organization/agency/agencies, or to a new global clearing-house.

## **F.6 Strengthening monitoring and evaluation**

Monitoring and evaluating progress is essential in building confidence that increased Aid for Trade will be delivered and effectively used to address needs identified in national development strategies. It will also provide strong incentives to donors as well as to developing countries to advance the Aid-for-Trade agenda. It is important to emphasize the need for concrete and visible results on the ground. All providers of Aid for Trade, and the recipient countries, have the responsibility to report on progress and results.

*Monitoring.* In recipient countries monitoring shall cover the mainstreaming of trade into national strategies, such as PRSP, identified priority needs, donor responses and progress in implementing trade-related projects and programmes and their impacts. Donors that have made commitments to Aid for Trade shall report on the content of such commitments as well as on how they plan to meet the targets for Aid for Trade that they have announced.

*Evaluation.* Rigorous Aid-for-Trade programme evaluation is particularly important as the expected significant increases in Aid for Trade may stretch delivery capacity (on the part of donors) and absorption capacity (on the part of recipients). In-depth country-impact evaluations of Aid-for-Trade programmes would help build knowledge and facilitate a results-based approach to delivery. Evaluation of in-country processes should focus in particular on progress in mainstreaming trade in national development plans. Evaluations should adopt a results-based approach in order to ensure effectiveness of Aid-for-Trade programmes in relation to the objectives.

#### Possible Recommendations:

- A global periodic review of Aid for Trade should be convened by a monitoring body in the WTO, based on reports from several different sources:
  - from the recipient country level.
  - from donors.
  - from the regional and global clearing house functions.
  - from relevant multilateral agencies.

- from the private sector.
- At country level, periodic reviews of the mainstreaming of trade into national development strategies, such as the PRSP, the formulation of trade strategies, Aid-for-Trade needs, donor responses, implementation and impact, should be conducted. Prime responsibility for reporting to the global monitoring body lies with in-country actors (recipients, donors and international organizations).
- In order to assess additionality, donors should report to the global monitoring body on how they intend to meet the announced targets set for Aid for Trade as well as on any additional Aid-for-Trade efforts, including which Aid-for-Trade categories are covered. Donors should also report their progress in mainstreaming trade into their aid programming.
- The regional and global clearing-house functions should provide regular reports on identified needs, donor responses and efficiency in implementation, as well as on remaining gaps.
- The annual meeting of the World Bank and other relevant agencies, regional coordination meetings, and OECD/DAC could all be potential fora for the periodic review on Aid for Trade, and should be recommended to provide progress reports to the global monitoring body on a regular basis.
- An opportunity for private-sector providers of Aid for Trade to report to WTO Members on their contributions could be considered.
- The global periodic reviews should be followed by an annual debate on Aid for Trade convened in the WTO General Council to give political guidance on Aid for Trade.
- An assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews.
- Country-level evaluations of the in-country needs identification processes, the mainstreaming of trade into national strategies and PRSP, the donor response and the impact on the ground in relation to stated objectives, should be promoted and funded.
- The scope of the Joint WTO/OECD Data Base should be reviewed in light of the Task Force's definition of Aid for Trade. It should also be updated based on more accurate identification of needs (and the responses) by both providers and recipients of Aid for Trade.

G. HOW AID FOR TRADE CAN CONTRIBUTE TO THE DEVELOPMENT DIMENSION OF THE DOHA-ROUND

Annexes:

Paris Principles  
Joint WTO/OECD Trade Capacity Building Data Base  
History of the initiative (optional)  
What is being done today (optional)

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