



Regional Trade Facilitation Programme

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Aid for Trade

A LDC Contribution to the WTO Aid for Trade Task Force

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Introduction

1. As has been stated by a number of commentators, the concept of Aid for Trade is not new – what is relatively new is the idea that trade, as a development tool, does not have a high enough profile on many developing countries' and LDCs' development agendas; the need for the WTO to become more actively involved in the promotion of economic development using trade as a development instrument (as is provided for in preamble to the Marrakesh Agreement, GATT 1994 and GATS, amongst other documentation); and the need to address a “broad” rather than a “narrow” set of Aid-for-Trade needs.

2. The WTO became involved in the Aid for Trade debate through the Geneva consultation process and the paper which was produced by this process fed into the preparation of the World Bank and IMF paper “Doha Development Agenda and Aid for Trade” which was endorsed by the Development Committee at the World Bank and IMF Annual General Meetings in September 2005. The paper prepared by the Geneva consultation process recognised the complex reasons for under-development of developing countries and LDCs and suggested a three-pronged approach to strengthening Aid for Trade:

- i) Enhancing the in-country trade development agenda (in the broadest sense) via the Integrated Framework (IF) approach;
- ii) Creating a multilateral fund with the aim of providing more predictable and credible financing to respond to the prioritised trade-related needs assessments; and
- iii) A separate “window” for specific adjustment issues affecting certain countries arising from MFN liberalisation (notably on preference erosion, but also other issues could be considered, including loss of fiscal revenues).

3. The next milestone in the Aid for Trade (Aft) debate was the inclusion of stand-alone paragraphs on both the Integrated Framework (IF) and Aft, thus separating the two, in the Hong Kong Ministerial Declaration. The Ministerial Declaration concluded 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. The Ministers also agreed that Aid for Trade cannot be a



substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA.

4. There have since been a number of other papers which have been produced on Aid for Trade, including contributions to the Aid for Trade Task Force from Mauritius (on behalf of the ACP), a joint paper from Columbia, Ecuador and Peru, Brazil, and the EC. The agencies and some development banks have also made contributions to the Task Force in the form of a response to a questionnaire. There are a number of ideas and positions in these papers worthy of discussion and, in some instances, endorsing, but this paper from the LDC Group tries to avoid repeating or commenting on these ideas and recommendations.

5. There have also been significant and important contributions to the AfT debate in papers produced by academics, research institutions and other interested persons which hopefully will be taken into account by the Task Force.

Coverage of Aid for Trade

6. The coverage of Aid for Trade should be addressed from two angles:
- i) country coverage – which should be all developing countries, including LDCs; and
 - ii) sectoral coverage – which should be all sectors as long as they meet pre-agreed and transparent criteria which show that the aid provided under the AfT umbrella will result in, or is aimed at, increasing trade in a manner which improves economic growth and reduces poverty. This is not to suggest the need for a set of restrictive conditionalities but, rather, to allow the recipients to demonstrate that the assistance requested is trade-related (so avoid overlapping with other aid or assistance programmes) and the providers of AfT to demonstrate additionality of resources.

Scope of Aid for Trade

7. Aid for Trade should cover the following activities:
- i) Trade Related Technical Assistance and Capacity Building which would include assisting countries to both develop and implement legislation required to implement the rules and regulations of the WTO (including the SPS/TBT and TRIPS Agreements) as well as to use trade as a tool for development.
 - ii) Adjustment Facility to enable LDC and developing country WTO Members to continue with trade liberalisation by removing short-term budgetary constraints brought about by either a reduction in their own tariffs or by changes in terms of trade caused by implementation of a WTO agreement by a third party, including erosion of preferences and higher costs of importing food. The Adjustment Facility would not be a compensatory programme. It would be available to LDCs and developing countries which are constrained from undertaking further trade reform owing to budgetary constraints. The aid provided will be in addition to existing resources being made available rather than replacing these existing resources. To qualify for the Adjustment Facility, which would take the form of untied budgetary support, recipient countries would need to demonstrate that their public expenditure management is transparent, accountable and effective and that the country is following a well defined trade reform or tariff reduction programme. They would also



need to demonstrate what measures are being taken to adjust to the situation which caused the budget short-fall in the first place so that the assistance provided is temporary.

- iii) Removal of Trade-Related Supply-Side constraints. For LDCs and developing countries to successfully use trade to reduce poverty levels they will need to lower costs of production, which is dependent on both making better use of available infrastructure and transport systems and, usually, making significant improvements in these countries' (and regions') trade-related infrastructure. The facility to assist LDCs and developing countries to remove supply-side constraints should aim to finance, or partly finance, infrastructural development and rehabilitation that can be shown to contribute to the removal of supply-side constraints, with a subsequent lowering of trade costs.

Operational Modalities

8. Aid for Trade financing should be done on a demand driven basis and needs should be assessed in a transparent and timely way. Countries in the WTO are categorised as either developed or developing or least developed and AfT should not be used to establish further categorisation. However, there are some developing countries who may wish to declare themselves as not requiring AfT assistance (or a specific category of AfT), much in the same way as developing countries were offered the opportunity to declare themselves in a position to provide duty free quota free market access to LDCs.

9. The emphasis in the operation of the AfT Facility should not be on WHAT to finance but, rather, HOW to finance. In this way an AfT mechanism may be able to avoid having to decide on whether to finance, for example, port facilities but not irrigation systems, because the project or programme should be determined according to the requirements of the specific country (or region) making the application.

10. In addition, deciding on how to finance a programme rather than what programmes or projects to finance will allow WTO members to decide on whether there should be a unique AfT funding mechanism and where that should be housed, managed and monitored, or whether existing financing mechanisms can be used, or whether an AfT Facility should be a combination of both existing facilities and new facilities. The decision will depend on the flexibilities of existing mechanisms and whether there is a perceived and obvious need for further instruments to take account of requirements highlighted through the AfT needs assessments. There may be scope to have both an AfT multilateral fund, which will finance activities which cannot be financed through existing bilateral and multilateral funding mechanisms. There could also be scope to have not only grant funding but financing through concessional loans. Finally, there could also be scope to use the financing provided through AfT to leverage additional finances from private sector institutions in the form of Public-Private-Partnerships or Special Purpose Vehicles or Build-Operate-Own or Build-Operate-Transfer or using other financing architectures.

11. AfT requirements may be determined and monitored in different ways, depending on the category being financed. If, for example, AfT is in the form of trade-related technical assistance or capacity building, there are a number of mechanisms in place which determine needs (although, with all systems, there is probably scope to improve and refine existing systems) and provide delivery. A number of donors and financing agencies have had significant experience in implementing and managing adjustment facilities in the form of untied budget support, although one important difference for an AfT Adjustment Facility would be that the criteria which are used to



determine eligibility, and the operational mechanisms, should be uniform, rather than be dependent on the provider of funds. In this way the recipient will be able to conform to one set of criteria when applying for financing under the AfT Adjustment Facility while the provider will be able to apply its own monitoring and evaluation mechanisms.

12. There are existing facilities, such as the Global Environment Facility¹, and facilities operated and managed by regional development banks, which could be used as models for mechanisms to address the removal of supply side constraints. The model which should be used should take into account the need to be able to use funds provided by donors and International Financial Institutions to leverage additional funds from private sector banks and institutions. It should be recognised that the development needs of developing countries and LDCs, even in the rather limited area of the removal of trade-related supply-side constraints, are significantly greater than the amounts that will be made available by donors and public finance institutions through an AfT Facility. It should also be recognised that there will be a number of infrastructural projects in developing countries and LDCs that will have a positive, and attractive, rate of return and which may constitute an investment opportunity for the private sector. In such instances the private sector could be encouraged to make the necessary investments if the potential investors are aware that their investments are going to be either underwritten or supplemented, or both, by funds from an AfT Facility.

Additionality and Availability of Resources

13. Additionality of resources is taken to mean additional resources provided to aid programmes which are aimed at making trade a more efficient instrument for development. It does not mean that donors and lending agencies should divert resources from other non-trade sectors to the trade sector.

14. In practice, it is extremely difficult to measure additionality of resources. However, what is as important as additionality of resources is ensuring the resources are made available to the targeted beneficiaries in a simple, efficient, and timely manner, without sacrificing transparency or accountability. The funding criteria of some donors are both extremely difficult to manage, and extremely bureaucratic, and funds only become available in tranches long after the justified application has been submitted and approved. If the public sector is to work with the private sector it is important to be able to guarantee the availability of a sum of money in a short space of time, with minimum bureaucracy involved. This may mean a change in financing mechanisms of some donors.

Conclusion

15. The LDC Group is strongly in favour of an AfT Facility, which should, where appropriate, work in tandem with an Enhanced IF by bridging the gap between identification of trade-related needs and their financing. An AfT Facility could be financed through a combination of existing instruments and, if necessary, new instruments. What is necessary is to ensure that whatever funding instruments are used, they should be flexible enough to allow co-financing from other sources. Additionality of resources, and a simple and uniform set of funding mechanisms, are essential pre-requisites of an AfT Facility. The AfT Facility could be used to finance Trade Related Technical Assistance and Capacity Building, an Adjustment Facility and removal of trade-related supply-side constraints and should not make any pre-determined assessments of what sectors of

¹ The GEF has, since 1991, provided \$6.2 billion in grants and generated over \$20 billion in co-financing from other sources to support over 1,800 projects that produce global environmental benefits in 140 developing countries and countries with economies in transition.



projects and programmes to finance should be in. Finances should be made available on the basis of required needs and on a transparent assessment as to whether the project or programme is trade-related.