ODI Background Briefing

Aid for Trade: one year on

Introduction

A series of WTO meetings on Aid for Trade later this year will determine whether and in what form the Aid for Trade initiative will survive. While Aid for Trade emerged as an issue in the current Doha round of WTO negotiations, it has now acquired an independent momentum outside it. There is now an increased awareness of the importance of trade and development in developed and developing countries and existing Aid for Trade programmes are being improved. WTO regional and general council meetings on Aid for Trade and other discussions forthcoming in the second half of this year will determine how the initiative moves forward. First, donors do not yet regard trade as an objective of aid similar to other areas. Further, it is unclear how the private sector has been involved in the planning and implementation of Aid for Trade. It is also unclear how regional challenges such as cross-border infrastructure can be resolved satisfactory in nationally based development programmes. Finally, after the promises during the run-up to the Hong Kong ministerial, donors are failing miserably on their promises and there is the risk that Aid for Trade will actually decrease as a share of aid. Aid for Trade will need new impetus if it is to survive outside the current WTO negotiations and meet its expectations. The forthcoming meetings can contribute to this.

Why Aid appeared as an issue in the Doha Round

The term Aid for Trade (A4T) has become part of the standard aid agency vocabulary. How this emerged explains its role in aid and in trade. By the late 1990s, the preference erosion effect became recognised. Most analyses of 'the results of the Uruguay Round' had ignored the existence of preferences in calculating the potential export gains for developing countries. Countries like Mauritius, Bangladesh, and Sri Lanka, however, were beginning to express concern that the end of controls on textiles and clothing exports by developing countries would damage them because they had replaced some of the quota-constrained countries, and countries feared that any liberalisation in the Doha Round would have similar effects, given new schemes for LDCs and Africa such as Everything But Arms and the Africa Growth and Opportunity Act. Preferences have helped some countries to develop. Therefore, it was not possible for the WTO (especially in a Development Round) to reject them without offering an alternative. The obvious one and economically most efficient is to provide finance to help countries to develop. The Uruguay Round had extended international rules to new areas were associated with high costs of compliance for developing countries, which led to demands for assistance.

The Doha Declaration of 2001 had not mentioned A4T, as it did not envisage any losses from trade liberalization. By 2002, LDCs suggested that there was a need to 'Provide temporary financial compensation for fall in export earnings resulting from a reduction of MFN tariff rates in the case of products whose share in the total export earnings of an LDC exceeds 50 per cent', the first explicit proposals on obligatory aid for costs and for preference erosion. In 2003, the IMF accepted the argument that preference erosion would have significant costs. West African cotton producers requested compensation for losses and sugar producers also recognised the problem.

Should the WTO solve the problem?

From the beginning there were two approaches to dealing with this problem, to create some mechanism to deliver aid within the WTO or to leave it to the normal processes of aid. Broadly speaking, those from the trade community favoured the first, while those from donors, including the World Bank and the IMF, favoured the second, or simply assumed that this was the only possibility. But asking the financial institutions to deal with a new problem faced institutional obstacles.

Following the collapse at Cancún, which was attributed in part to the fears by some developing countries that they would lose from the proposals then on the table and the concerns by a great many more countries that they had little to gain, there was general pressure to find new solutions. On the cost of implementing new WTO rules, there was clear progress in 2004. In the July 2004 framework for WTO negotiations, under trade facilitation, there was for the first time in a WTO agreement an acceptance that 'in cases where required support and assistance for such infrastructure is not forthcoming, and where a developing or least-developed Member continues to lack the necessary capacity, implementation will not be required.'

In the UK, both the International Development Committee of the House of Commons and DFID recognised that preference erosion was a problem, and started to examine possible remedies. In 2005, a group of experts chaired by Ernesto Zedillo examined what developing countries could gain from the Round, and concluded that A4T was an essential part of a package to rescue the Round and ensure that developing countries gained. The consultations leading to this paper helped to define the terms in which A4T would be discussed in the WTO's Task Force.

Following the April 2005 meetings of the IMF and the World Bank, these organisations asked two ambassadors to the WTO, from Sweden and Rwanda, to consult the ambassadors there on 'the need for A4T'. The ambassadors identified a need for enhancing the Integrated Framework (IF) and also for a new multilateral fund to provide 'more predictable and credible financing to respond to the prioritised trade-related needs assessment and a separate "window" for specific adjustment issues affecting certain countries arising from MFN liberalisation.' The IMF and World Bank accepted the arguments for an Enhanced Integrated Framework, but rejected the proposals for a separate fund and a separate window for adjustment.

Aid for Trade in the Doha Round

In Geneva, there was still support among negotiators (from developed and developing countries) for a separate fund for A4T, in spite of (virtually the same) countries' formal acceptance of the World Bank and IMF rejection of it. In the final stages of preparation for the Hong Kong Ministerial, the WTO convened an informal group of ambassadors to prepare a draft for Hong Kong. In its final version, it gave a clear process: a Task Force to prepare a report to the General Council on 'operationalizing' A4T and instructions to the Director General to identify what donors could do, before a discussion in the General Council.

The Task Force concluded in July 2006 that the scope of what could be funded under A4T should be defined as 'activities … identified as trade-related development priorities in the recipient country's national development strategies.' It listed those that it thought would qualify, partly by reference to the OECD/WTO database on past trade-related aid which covers mainly training and institutional support, but it added infrastructure and more general spending on adjustment which could include creating productive capacity. It placed particular emphasis on identifying and meeting regional needs.

It did not recommend a new agency to administer A4T, but made clear its dissatisfaction with the existing mechanisms. It criticised donors for neglecting trade and failing to understand its needs, leading to inadequate support for infrastructure and failure to meet the costs of adjustment, and for inadequate attention to regional needs. Without formally proposing new institutions, it did recommend better coordination mechanisms at country, regional, and multinational level. The principal role for the WTO would be to monitor the overall and country performance of other agencies. It did not deal in detail with either the quantity or the nature of financing, leaving these (as required by the Hong Kong mandate) to the WTO Director General.

As Aid for Trade separates from the Doha Round, can it survive?

The Hong Kong mandate implied a strong link between A4T and the Doha Round: it was to 'contribute to the development dimension of the DDA' and be complementary to trade changes. Because the negotiations have failed, it is now important to ensure that spending can be justified even in the absence of a Round.

The WTO General Council accepted the Task Force's report, and endorsed the recommendations. The WTO Director General emphasised the WTO's role in 'promoting coherence' through monitoring and evaluating A4T. In 2007, the WTO started to take a slightly stronger approach: not just monitoring and evaluating, but 'mobilising' A4T.

The WTO recognised the need to translate the discussions of trade officials in Geneva to donors and recipients on the ground. In preparation for the first General Council discussion of how A4T is being implemented, in November 2007, it is trying to find ways of working with other organisations to fill these gaps. On aggregate data, it is working with the OECD. The current classifications in the OECD databases on aid do not correspond exactly to the types of spending identified by the Task Force, but there are various ways of using the raw data to arrive at estimates. The OECD will also need to find ways to include assistance by non-OECD DAC members and non-concessional spending. It will be important to find a common understanding (including across donors) of which parts of infrastructure and general budget support are to be considered A4T.

To assess the needs and then evaluate the outcomes in recipient countries and regions additional mechanisms will be required. The Trade Policy Review mechanism could be adapted to provide medium term checks, but is too infrequent and too descriptive to meet the need for analysing effectiveness. The OECD is planning simple questionnaires for recipients, but unlike its assessments of donors, these would not be able to rely on long experience of doing evaluations or existing close contacts with the OECD. There are no simple mechanisms for evaluating aid to regions.

The WTO is working with the three regional development banks to organise meetings in September-October 2007 to discuss how best to identify and meet needs of both countries and regions. These are intended to include all the donors and agencies operating in each region, and also representatives of the private sector. These are intended to inform the WTO General Council discussion in November.

It is striking that so far the planning for implementation of A4T has beenmost active in the regional development banks and in organisations like UNIDO and ITC, with a continued interest in productive sectors and with experience of working with the private sector. But it will be difficult to make the programmes effective without ensuring that the World Bank is more ready to cooperate.

Can Aid for Trade delinked from the Doha Round still meet the needs?

Given the level of capital requirements involved, the infrastructure needs are likely to account for most of the A4T required. An estimate of these for Africa thus gives a minimum for the total needed for all categories and all continents. Assuming that a certain level and rate of growth corresponds with a certain level of demand for infrastructure services can give an estimate. On calculations which exclude the port, airport and irrigation sectors, and some important large regional projects, the average investment needs are about US$22-24 billion while maintenance needs are around of US$17-18 billion per year for the period 2005-2015. Thus, the Commission for Africa claimed in 2005 that Africa needed to spend an additional US$20 billion a year on infrastructure investments and maintenance until 2015 to sustain a growth rate of seven per cent and that 'developed countries should provide an extra US$10 billion a year to improve Africa's infrastructure' rising to US$ 20 billion a year. A recent report by the Infrastructure Consortium for Africa highlighted infrastructure costs and needs in Africa to meet the MDGs based on three African countries. It concluded that applied to the whole of Sub-Saharan Africa, the need for additional donor support amounted $14 billion per year.

Although these are broad approximations, they imply that current levels need to be substantially increased. The ICA estimated that total ODA to African infrastructure reached US$ 5.6 bn in 2006, and total non-concessional capital flows reached US$ 2.1 bn. The OECD has estimated that aid to African infrastructure in 2005 was about $ 1.5 bn. This was about one-third of total aid to Africa. In contrast, Asia received more than $6 bn, and this was almost two thirds of total aid to Asia. Only 10% of total commitments in 2006 were for cross-border infrastructure, suggesting a particularly serious gap in regional infrastructure.

But will these needs be met? In the second half of 2005, including at Hong Kong, and then again in 2006, 'increases' in trade-related aid were announced by several donors. They do not seem to represent an acceleration of recent spending on trade aid. The EU announced at the G8 Conference in 2005, repeated at Hong Kong and in 2006 and 2007, a total of € 2 billion, half from the Commission and half from national governments, by 2010. (Within this, the UK has offered £100 million, about €150 million.) At Hong Kong, Japan offered a total of US $ 10 billion, all to 'trade, production, and distribution infrastructure' apparently over three years. The US offered US $ 2.7 billion, apparently for both trade policy and infrastructure. For all these it was not stated how much is additional.

The total G8 commitment, confirmed at the 2006 meeting, is still stated as a level, not increase, of $4 billion annually for A4T, including the Enhanced Integrated Framework. Even taking the most limited OECD definition of past A4T, $2.5 billion for trade related technical assistance, this would be an increase of only 60%, and compared to estimates of current spending which include infrastructure, of around $23 billion, it implies an increase of less than 10%. As the Japanese pledge includes some infrastructure but mostly debt relief, there may be no increase. This would mean a fall in the share of A4T in total aid, given the promises to increase this made in July 2005 by the G8.

The original demand by developing countries was that A4T be additional to planned increases in total aid, in order not to divert resources from other areas. The Task Force supported this. All statements by donors have refused to accept this, arguing that the large increase projected for total aid ($50 billion more per year by 2010) was designed to allow for any new demands, and therefore for A4T. These targets, however, were accepted by the G8 in July 2005, before any formal discussion of A4T. But even accepting the overall limit, it is difficult to argue that commitments for A4T are 'additional' if the value is either stagnating or increasing more slowly than in the past and if it is a falling share of total aid. Thus it is likely that the A4T initiative in its current form is not going to bring the resources required.

Funds controlled by the development finance institutions (e.g. IFC, EIB, AfDB, IADB, FMO, DEG, CDC) complement A4T by financing private sector infrastructure. Such funds are increasing annually by 20%, but when they are set out as loans they are not reportable as traditional aid (ODA) but as other official flows (OOF). Around US $ 8 bn is committed annually by the DFIs to the private sector which is around the same as total ODA to infrastructure. The coherence mandate should also consider how to combine OOF and ODA for infrastructure.

What forms of Aid for Trade in the future?

It is a success that A4T stayed on the agenda after the collapse of the Doha Round, but there is now no negotiating momentum to support significant increases in A4T. It will be harder to shift additional aid towards improving the trading and productive capacities of developing countries. On the figures announced so far, in spite of the promises made in the run up to the Hong Kong ministerial, donors are failing on their promises with a risk that A4T will actually decrease as a share of aid.

There remains a strong multilateralist argument for accepting that international trading interests should influence aid programmes. An international system of aid based entirely on the needs defined by individual countries with no way of taking account of interests that cross borders is not coherent. There have still been no changes in the organisation of funding by any major donor to meet regional needs.

It is unclear how the private sector has been involved in the A4T processes. They did not contribute significantly to the Task Force, but the private sector is ultimately responsible for trading and should therefore be a major recipient. Its role in A4T planning and implementation should be clarified.

One reason that A4T emerged as an issue, and the main reason why it remained on the agenda in the absence of a Doha settlement is that trade policy makers, in both developed and developing countries, believe that, in spite of the evidence that aid for infrastructure and trade facilitation is effective, trade is not given sufficient importance in aid programmes, and that this is at least partly because of lack of interest by donors, not only because of mistakes by recipients. Thus the force behind A4T was about imposing outside constraints on donors. The Task Force justified the role of the WTO in A4T in terms of the 'coherence mandate'. It will be important that the international Financial agencies, in particular the World Bank, also take coherence seriously, and recognise that trade can have legitimate priorities. In 2005, countries were more able to impose a developing country agenda on A4T at the WTO, in Hong Kong, than at the World Bank and the IMF. Now countries will need to use their membership in the financial institutions if they want to change their approach to aid. The upcoming regional and WTO discussions on A4T will determine whether A4T can survive without a Doha Round and in what form.

Selection of Aid for Trade Papers Available on Website

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Zedillo, E. (2005). *Strengthening the Global Trade Architecture for Economic Development: An Agenda for Action*.

Check the following websites for these and other Aid for Trade references:

WTO http://www.wto.org/english/tratop_e/dda_e/aid4trade_e.htm
ODI http://www.odi.org.uk/iedg/aid4trade.html
ILEAP http://www.ileapinitiative.com/
AITIC http://www.acici.org/aitic/AidForTrade/index.htm

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