

European Commission contribution to An EU Aid for Trade Strategy

Issue paper for consultation

February 2007

On 16 October 2006, the EU General Affairs Council agreed that the EU should develop a joint strategy on Aid for Trade.

A two step approach is foreseen to develop the strategy. As a first step the Commission will, to facilitate the process, table its ideas on the issue in a Communication. The next step will be discussions in the EU Council and the development by the EU Council of the joint strategy itself, which should be adopted in October 2007 at the latest.

The current consultation process is intended to generate input for the Commission Communication, in order to ensure that it takes into account the views of key stakeholders,

The purpose of the present paper is thus to provide a basis for dialogues between the European Commission and stakeholders¹ on the potential contents of an EU Aid for Trade Strategy. The paper explains the background to the initiative and outlines some tentative Commission views of the coverage of the strategy. It outlines a set of issues on which input from stakeholders would be particularly welcome.

¹ For the purpose of this paper a distinction is made between “civil society” and “private sector”. “Private sector” here refers to individual companies, whereas “civil society” is used to capture the other non governmental stakeholders in aid for trade such as consumer organisations, trade unions and community based organisations. This use of terminology differs somewhat from the one commonly applied for EC civil society dialogues, but was considered justified due to the specific role of the private sector in trade, and thus in aid for trade.

1. ORIGINS OF THE EU AID FOR TRADE STRATEGY

Trade can serve as a strong catalyst for growth and poverty reduction in developing countries. This said, formal market access is not necessarily translated into effective exports from developing countries. A telling fact is that the share of the poorest developing countries in world trade has remained marginal, despite the preferential trade regimes granted by industrialised countries. There is ample evidence that the poorest countries' successful integration into the world trade requires not only improved market access but also increased support for trade and productive capacities together with domestic reforms and more effective international trade rules.

The EU has consistently supported the Aid for Trade agenda. The European Consensus for Development which outlines the EU development cooperation vision and priorities identifies trade and regional integration as an important area for Community action. In December 2005 the Commission and Member States committed to strive to increase their respective Trade Related Assistance to €1 billion annually by 2010, in order to reach a total of 2 bn in 2010². The planned increases can be funded from increased future ODA flows. Increased TRA can thus be achieved whilst allowing for a continued level of attention to other Development cooperation priorities.

While it is clear that Aid for Trade is a necessary complement to successful trade negotiations, it does not substitute for these. Where negotiations create market access for products and services from developing countries and trade rules help reduce costs to trade, Aid for Trade can help developing countries to take advantage of new market access opportunities by assisting them with the implementation of new trade rules; strengthening their supply side capacity; and, where necessary, helping them to deal with adjustment challenges resulting from a changing external trade environment.

Aid for Trade is part of efforts to increase developing countries' economic growth. It must be seen as an endeavour to strengthen developing countries' trade and productive capacities and as an element of the broader ODA policies and objectives to support the Millennium Development Goals (MDGs). The EU firmly believes that Aid for trade has an important value in it self and that delivery of Aid for Trade should not be conditional upon the speed of progress in trade negotiations. However, benefits from Aid for Trade as well as the demand for Aid for Trade can be expected to increase if the negotiation agendas are concluded successfully.

Parallel efforts of the EU have focussed on improving the effectiveness of development assistance. This is an overarching effort relevant to all areas of development cooperation. The EU was a key actor behind the so-called Paris Declaration on Aid Effectiveness, and is at present engaged in ambitious efforts to put its principles into practice. It has taken on additional commitments to improve aid delivery in the future, all of which can also be pursued in the aid for trade context³.

The EU actively contributed to the WTO Task Force on Aid for Trade which was mandated by the WTO Ministerial Conference in Hong Kong (2005) to "operationalise Aid for Trade" and to explore how Aid for Trade can contribute to a successful outcome of the Doha Development Agenda.

The report of the Task Force widened the coverage of Aid for Trade to also include infrastructure and adjustment⁴. The Report furthermore provided recommendations on how to improve the effectiveness of Aid for Trade. In line with the general principles of aid effectiveness, the Task

² The commitments apply to trade related assistance as defined by the WTO/OECD for the purpose of reporting to the DOHA database.

³ Capacity building assistance will be provided through coordinated programmes and multi-donors arrangements; government-to-government assistance will be channelled through country systems as well as budget support or sector wide approaches; the number of un-coordinated missions will be reduced by 50% ; new project implementation units will be avoided

⁴ To be precise, the Task Force distinguished five different categories of aid for trade – the two already existing WTO/OECD TRA categories (trade policy and regulation and trade development) and three additional ones (building productive capacity, trade-related infrastructure and trade-related adjustment).

Force considered that achieving this is a joint responsibility of donors and beneficiaries. It stressed *inter alia* the need for developing countries to integrate trade into their development strategies as well as the need to approach trade in a holistic manner and the importance of local ownership. The Task Force did not recommend creating large global funds to deliver Aid for Trade, but instead recommended focusing on existing delivery channels. It also proposed the creation of a review mechanism in the WTO to ensure proper monitoring of the implementation of its recommendations as well as the delivery of the various pledges by donors.

On 10 October 2006 the WTO General Council endorsed the recommendations of the Aid for Trade Task Force. Having received this endorsement, the recommendations can now serve as a common framework of reference for donors and beneficiaries to shape their cooperation programmes on Aid for Trade.

The EU reacted quickly to the WTO endorsement of the Task Force recommendations by adopting Council Conclusions on 16 October 2006 aiming at putting both the TF recommendations and the EU Hong Kong commitments into operation. The Council underlined the importance of delivering on commitments, on strengthening effectiveness of aid for trade, and in addition indicated that a substantial share of increased Aid for Trade will be devoted to ACP countries, in the context of the EPA negotiations. To move things along the Council requested Member States and Commission to prepare in 2007 a joint strategy on Aid for Trade. It was agreed that this Strategy shall: i) set a road map for the EU to reach its financial commitments; ii) based on Aid for Trade needs prioritised by partner countries, identify modalities for coordination and response at various geographical levels; iii) propose ways to strengthen EU capacity to deliver and monitor Aid for Trade; and iv) address and set best practices on relevant effectiveness and quality issues.

The Commission is committed to contribute to the establishment of the joint EU strategy. It is doing so by engaging in consultations with various stakeholders, and on the basis of that, outlining in a Communication the Commission's views on what such a strategy should contain and focus upon.

2. OBJECTIVES OF THE AID FOR TRADE STRATEGY

In the Commission view, the objectives of an EU Aid for Trade Strategy would be the following, deduced from the Council Conclusions:

1. Increase EU trade related assistance by 2010 to at least €2 billion, with Commission and Member States contributing at least €1 billion each; and indicate how to respond effectively to needs of partner countries related to the wider Aid for Trade agenda
2. Ensure/Improve the effectiveness of EU Aid for Trade.
3. Ensure effective monitoring and reporting of EU Aid for Trade
4. Ensure that Commission and Member States have sufficient capacity to implement the above objectives.

The first objective does not require much explanation but needs concrete plans to be effectively implemented. The second, third and fourth objectives are focussed on the implementation of the recommendations of the WTO Task Force and those that the EU has set for the effectiveness of its development assistance. The final delivery of this objective is a responsibility we share with our partners.

As the Task Force recommendations are rather general in nature, there is scope to elaborate on specific issues, including the involvement of the private sector and civil society and modalities for

the delivery of Aid for Trade at the regional level. There is also scope for specific European accents. Examples are the Aid for Trade in the context of the European Partnership Agreements (EPAs) and the improved coordination between Commission and Member States in the delivery of Aid. In the view of the Commission, the Strategy should also reflect progress made in the EU improving effectiveness and complementarity of development cooperation, such as the division of labour between (EU) donors.

3. DELIVERING ON FINANCIAL COMMITMENTS

In the view of the Commission, one part of the EU strategy must address issues surrounding the financial commitments. The key issue to be tackled here is how to move from the present EU finance of TRA (850 mn and 300 mn annually respectively for Commission and Member States)⁵ to the targeted 1 +1 bn € in 2010, but there are also other issues relating to the wider aid for trade agenda that needs addressing.

As for the implementation of the financial commitments, the Council has requested a roadmap to be set out on reaching the €2 billion TRA commitment. Reaching specific volumes of aid for trade involves addressing complex issues such as how to combine the strong and explicit wish of the EU to assist developing countries meet their often generically expressed trade-related needs, with the equally strong and explicit commitments of both donors and partners to principles such as ownership and alignment around partner countries development strategies. Both the EU Member States and the Commission work on the basis of demands expressed by partner countries in their poverty reduction strategies (PRS) or the like, and thus, it is of major importance to ensure that trade related needs are articulated therein.

This issue is well addressed in the Task Force Recommendations, which points to the importance of better use of instruments such as the IF and equivalent to improve needs assessment and increase integration of trade issues into PRS and similar. The Commission fully supports these views. For LDCs, more could for example be done through better use of the Integrated Framework, and the model could be applied for other countries as well. The Commission participates in the “enhancement” of the IF, and is there advocating the need for major efforts to be given to ensuring that partner countries have true capacity to lead the TRA needs assessment and planning in country, and also considers that strong donor facilitators in country is supportive of this.

A relatively large share of the EC TRA to African, Pacific and Caribbean (ACP) countries is provided at regional level. It could be investigated whether such forms of finance would be a useful form of Aid for Trade in other geographical regions too.

The EU Council indicated that a substantial share of the increased TRA allocations will go to ACP countries, and the Commission intends to give attention to this issue in its contribution to the EU strategy, whilst maintaining efforts for other key regions.

As concerns the broader dimension of Aid for Trade, beyond TRA, it should be noted that the EU Council did not set specific numerical targets. However, in the view of the Commission, the EU strategy should consider also how to engage further in these areas. As support to some of these areas is already being provided, one way to integrate this into the wider AfT strategy could be to establish clearer conceptual links between ongoing actions in these areas, and discuss how these actions could be designed in the future so to be clearly beneficial to trade.

Linked to the above is the necessity to accompany the international discussion as regards definitions of aid for trade with a clarified EU position. The formulation of an EU strategy would be helpful in

⁵ 2001-2004 baseline

doing so. The WTO Task Force recommendations as regards definitions still leave room for tightening up, in particular as regards the broader Aid for Trade agenda, and this issue should be clarified at the EU level with the view of participating fully in the international debate.

4. ENSURING QUALITY / STRENGTHENING THE EFFECTIVENESS OF EU AID FOR TRADE

In the Commission view, the second pillar of a joint EU AFT strategy should focus on quality and effectiveness of aid for trade. In this regard, we are by no means starting from scratch, on the contrary there is abundant policy agreement on the importance of ownership, mainstreaming, coordination, alignment, use of programme based modalities, managing for results etc. Therefore, the value added of the strategy lies in agreeing specific actions to reach the targets.

In order to translate the various commitments relating to aid effectiveness into concrete deeds, an Action plan "EU Aid: Delivering more, faster and better" was approved in April 2006. Several of the agreed deliverables are of relevance for aid for trade, in particular those concerning Joint Programming; Complementarity (e.g. through division of labour between EU donors); and Joint Activities. The EU Aid for Trade strategy could therefore be seen as a direct, more concrete application of the agreed principles of aid effectiveness.

The EU already supports effectiveness and quality during the programme cycle through various actions, including staff training, guidelines, in country engagement in the IF (the EC acts as donor facilitator in 9 IF countries) etc. This said, more could be done to put the guiding principles of the WTO TF into practice (promoting ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of programme-based aid modalities, managing for result, transparency and predictable and multi-year commitments). In the Commission view, the EU strategy needs to be focussed on issues that EU donors can influence directly:

At national level key actions to progress have already been identified by the WTO TF, and include supporting partner capacity to own and lead AfT efforts, including by managing consultative processes involving all relevant stakeholders; enhancing the use of Trade Needs Assessments such as DTIS, or similar processes in non-LDC countries. As a complement to this, the Commission is keen to explore how the EU could cooperate in enhancing support to donor mainstreaming of trade into programming efforts (training, guidelines etc). The Commission furthermore considers that **joint programming** holds promise as a pillar of an EU aid for trade strategy, as a tool to increase EU and donors' coordination and alignment.

Similarly, more use of programme-based aid modalities have already been identified as one of the key actions to enhance effectiveness of aid for trade, and the Commission services would like the EU strategy to address **joint EU implementation** (Sector-wide approaches, Budget support, Co-financing).

There also appears to be scope to strengthen result based management of AfT. *Feedback from stakeholders on all these suggestions would be welcome.*

At regional level, there may be scope to consider and develop similar approaches to those applied for aid effectiveness at the national level, notably support regional partners' capacity to own and lead AfT efforts. Other possible actions would be to establish a better overview of existing programming approaches and develop cooperation between EU and other donors for the regional level (including joint analysis and dialogue). Similarly, programme-based aid modalities such as Regional Sector wide approaches, Budget support, Co-financing could be explored. *Feedback on this issue would be welcome.*

Another issues closely related to quality is the **link between poverty and aid for trade**. The Commission has noted that this link may not necessarily be well articulated in present interventions, and considers that this should be corrected. Various **degrees of direct poverty focus** could be foreseen for different categories of aid for trade. *Feedback on this issue would be welcome.*

Quality also concerns **sustainability** - institutional, financial, environmental and social. These matters too would appear to deserve a prominent place in the EU strategy. Reinforced use of sustainability impact assessments, as well as environmental (including strategic) impact assessments could be recommended. Pursuing **social agendas** related to trade, such as labour standards could also have its place in an EU AFT strategy.

5. MONITORING AND REPORTING

Monitoring and evaluation are an important part of the aid effectiveness agenda and figure prominently in the recommendations of the Aid for Trade Task Force. Efforts of donors and beneficiaries on Aid for Trade will be scrutinised on a yearly basis in the context of the WTO Aid for Trade review. In the Commission view, the review could assess Aid for trade delivery at three different levels:

1. Global Aid for trade flows as reported to WTO and OECD / DAC by donors
2. Reports by beneficiaries on the implementation of their trade capacity building strategies.
3. Qualitative reports on various issues relevant for aid effectiveness

Discussions about the precise content of the monitoring exercise are still ongoing between the WTO and other agencies. It is likely that at some stage WTO members will also be involved. Presumably the EU will need to adjust its approach to monitoring to the outcome of this process. However, the current ideas already provide some guidance as regards the priorities to be taken into account in developing the strategy. Issues for discussion here include:

- How to ensure that EU reporting to the WTO Aid for Trade review can also be used to provide optimal transparency for other review exercises, for example by the European Parliament?
- How support developing countries developing their own evaluation frameworks for Aid for Trade?
- How to support regional monitoring (for example, who should be the "reportee")

6. EU CAPACITY FOR AID FOR TRADE

Building human capacity in donor organisations in headquarters as well as in the field is a necessary condition for scaling up Aid for Trade. In the absence of such capacity, trade will figure much less prominently in the policy dialogue and donor organisations will find it more difficult to respond to the needs of partner countries.

The EU strategy could take stock of the existing capacity of the EC and Member States and propose ways to increase it. The Strategy could look at ways to use existing capacity more effectively, for instance by pooling resources.

ANNEX: INVOLVING CIVIL SOCIETY AND PRIVATE SECTOR

In order to ensure the success of trade capacity building strategies, broad involvement of those who will be affected by such strategies is critical. Civil society and the private sector (domestic as well as international) are important stakeholders in this process. The organisation of such involvement is the responsibility of the governments concerned, but cooperation partners can support these processes. Stakeholder consultation is critical during the phase of the assessment of trade capacity building needs, but also for the more precise design of interventions. The EC standard terms of reference for such needs assessments already include provisions for stakeholder consultations but more can probably be done. Below some ideas are set out.

The private sector and civil society can both make important contributions to the Aid for Trade agenda. The private sector has valuable practical experience. For example, larger companies operating long value chains have first hand knowledge of specific bottlenecks in this chain caused by lack of quality of public goods or market failures. SME's on the other hand play a key role in ensuring that benefits from trade reform trickle down to the poor and have a critical insight in the day to day difficulties smaller companies are facing. Both types of companies can help in identifying key obstacles and in proposing solutions to remove them. Obviously, the private sector will benefit from improvements of the trade and investments climate. In return they should make an effort to optimise synergies between their own objectives and the development objectives of the host countries. They can for instance promote development efforts by introducing innovative technologies in host countries and by upgrading the skills of their workforce and by ensuring decent labour conditions throughout their supply chain.

The work of the civil society groups can also be very relevant for the development of the trade potential of developing countries. These groups can be involved in trade themselves through activities in support of micro entrepreneurs or fair trade. Other groups promote the interests of workers or farmers. They have a first hand knowledge how these groups are affected by trade reform. Their views should therefore be heard during the development of trade strategies. Last but not least it is also very important to bring the interest of consumers to the table.

There are various examples where civil society and private sector are working together to generate income and employment and pursue social objectives such as the recent success of micro credits involving commercial banks and self help groups. Cases of trilateral cooperation between government, private sector and civil society are still rare. However, this can be a very strong model to generate pro poor growth. Examples of such cooperation models could feed usefully into national trade capacity building policies. In some cases trilateral cooperation can be implemented nation wide. An example is the Cambodian initiative on labour standards and competitive advantage for the textiles and clothing industry.

One of the main challenges for getting the private sector involved is organisation. Both private sector and civil society are extremely diverse and they are operating at the micro level, whereas trade capacity building strategies take a more macro approach. Bridging the micro-macro gap requires an effort from both sides. The government should make a conscious effort to involve stakeholders that may be difficult to reach. On the other hand private sector and civil society should try to pay adequate attention to the trade reform agenda and to spread best practices developed at the micro level. Intermediate organisations such as chambers of commerce, branch organisations can play a role in channelling the input from their constituencies into the process.

The EC considers it important to support these processes. In doing so it is essential to link up with existing public private consultation mechanisms for private sector reform programmes that already exist in many developing countries. These structures can be used as a vehicle for the preparation of Aid-for-Trade plans. An example is Zambia, where a private sector-led working group elaborates the Trade Expansion chapter in the PSD Reform Programme. This working group uses value chain analyses to identify which collective investments are needed for trade promotion.

The EC is also keen to promote participation of the private sector and civil society in the WTO Aid for Trade review and in similar events that may be organised at the national level.