

**UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT**

## **AID FOR TRADE**

**Report on a Conference Organized by  
UNCTAD and Commonwealth Secretariats**



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## Executive Summary

A Conference on *Aid For Trade (AfT)* was organized by UNCTAD and the Commonwealth Secretariat between 21-22 March 2006. Conference participants discussed how the initiative could be used to address the key trade-related problems of developing countries, particularly LDCs, which hamper their effective participation in, and limit their benefits from, international trade, including those likely to arise from the outcome of the WTO Doha Trade Round. Such problems include the *lack of competitive supply capacity* to take advantage of the market access opportunities that would be offered in the Doha Round, underdeveloped or inadequate *infrastructure*, and the relatively high *adjustment and implementation* costs associated with trade reforms. The conference helped to clarify concepts, definitions, issues and perceptions concerning AfT. But one strong, key message emerging from the conference was that *aid for trade should ensure additional, adequate, secure, non-debt creating and predictable funding for deeper-end trade capacity development, and should be channeled through a process that is demand-driven and owned by developing countries.* Among possible delivery mechanisms to provide AfT funding, a suggestion was made by Nobel Laureate Professor Joseph Stiglitz for a stand-alone Global Trade Facility (GTF). Also while there was agreement in general that AfT funding should be predictable, participants discussed — but did not reach a consensus on — the modalities for ensuring such predictability, including the notion of making it binding and enforceable within the WTO.



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## **Summary report**

A Conference on Aid for Trade organized by UNCTAD and the Commonwealth Secretariat in Geneva (21-22 March 2006) was the first international forum of its kind after the 6th WTO Ministerial Conference in December 2005 to consider key conceptual, operational and implementation issues related to the Aid for Trade (AfT) initiative, and the contribution it could make to the development of developing countries. In sum, the conference contributed ideas on how a consensus could evolve towards achieving an effective AfT initiative that is development-oriented. It helped clarify issues relating to the architecture of the AfT, building on the Hong Kong Ministerial Declaration (HKMD); reinforced the message that AfT must deliver development in developing countries; and discussed other strategic issues which need to be taken up in further deliberations. It set the basis for better informed deliberations and decision-making and policy on AfT in various fora, including the WTO Task Force on AfT, and within the United Nations system.

The conference was attended by UNCTAD member States, WTO trade negotiators, as well as officials from the WTO, World Bank, IMF, UNDP, OECD, regional development banks, regional integration secretariats of developing countries, other international organizations, private sector

representatives, NGOs, academics and the press. UNCTAD and the Commonwealth Secretariat were thanked for organizing the conference as it was both timely and provided a platform to improve understanding and exchange ideas on the Aft initiative and contribute to the work of the recently-formed WTO Task Force on Aid for Trade. The substantial, high-level and well attended conference (with over 300 participants) reflected substantial interest in the issue, as well as the value and usefulness of the conference.

The conference was opened by Dr. Supachai Panitchpakdi, Secretary-General of UNCTAD, Mr. Winston Cox, Deputy Secretary-General of Commonwealth Secretariat and Ms. Mia Horn Af Rantzien, Chairperson of the WTO Aid for Trade Task Force (Sweden). Presentations on various topics were made by: Professor J. Stiglitz (Columbia University); Mrs. Lakshmi Puri (Director, Division on International Trade in Goods and Services and Commodities, UNCTAD); Mr. David Wakeford (Commonwealth Business Council); Mr. R.P. Lichkus (Lichkus & Associates, South Africa); Mr. S.V. Diwaakar (Consultant, India); Mr. Mohammed Salisu (Africa Development Bank); Mr. Havelock Brewster and Mr. Antoni Estevadeordal, Latin America (Inter-American Development Bank); Mr. Bernard Hoekman and Mr. L. Alan Winters (World Bank); Mr. Jean-Pierre Chauffour (IMF); Mr. Samuel Asfaha (South Centre); Mr. G.T. Senadhira (Ambassador, Sri Lanka); Ms. Hilde Johnson (former Minister for International Development, Norway); Mr. David Luke (UNDP); and Mr. Sam Laird (Senior Adviser, UNCTAD).

## **A. Aid for Trade, development and the Doha Round**

The AfT concept was first coined by Mr. Kofi Annan, the UN Secretary-General, in a message to the 5th WTO Ministerial Conference (Cancún, Mexico) in September 2003 in which he stated that if market access was to be meaningful, AfT must complement aid for development and not substitute it. A singular feature of the São Paulo Consensus (June 2004) is the emphasis by UNCTAD member States on expanding trade-related technical assistance beyond the traditional “soft” aspects towards the “deeper-end”, such as dealing with productive capacity, trade-related infrastructure and adjustment costs. The UN Millennium Project Report on Investing in Development: A Practical Plan to Achieve the Millennium Development Goals (released in January 2005) suggested, inter alia, on the creation of a temporary “Aid for Trade Fund”, that would be non-debt creating and used to facilitate adjustment to liberalization by developing countries, thereby ensuring that the costs are socially, economically and politically manageable. Furthermore, a commitment was made in the World Summit Outcome in September 2005 to supporting and promoting increased aid to build productive and trade capacities of developing countries.

At the 6th WTO Ministerial Conference WTO members endorsed the AfT initiative (HKMD, paragraph 57) and called for its early operationalization. Participants agreed that the AfT initiative was one of the most important and innovative outcomes of the development package that was proposed at the 6th WTO Ministerial Conference. The acceptance of the AfT initiative represents a significant conceptual advance and an admission by the international community that market access alone is not sufficient and that gains from trade liberalization are not automatic. If it is put into practice with adequate design and management, AfT has the potential to help developing countries to fully exploit the opportunities arising from globalization and liberalization. The rationale for AfT lies in the fact that despite the successful experience in recent years of a few developing countries as internationally competitive producers and traders, many of them have failed to fully benefit from emerging trade and investment opportunities, and have been increasingly marginalized from international trade and the multilateral trading system. This indicates that the ability of developing countries to produce and compete is undermined by weak capacities, showing that there are structural limitations within these countries that can be far more important barriers to export development than foreign market access barriers, and thus need to be adequately addressed through such measures as AfT.

There was agreement among participants, as articulated in the HKMD that AfT is, and should be, a valuable complement to — and not a substitute — for

the development benefits, which may emerge from the Doha Round, particularly on market access. This is because AfT can be used to help developing countries build their supply capacity and competitiveness and related trade infrastructure so as to be in a better position to reap the possible gains arising from increased and effective market access and market entry conditions, as well as a fairer trading environment. Hence, AfT is a valuable, complementary part to the development package expected out of the Doha Round. It was also noted that AfT was not a new concept and that it was already being provided. Importantly, a new AfT architecture was needed to ensure that AfT could be delivered in a different manner, in complement to existing aid and enhanced qualitatively.

Some participants expressed apprehension as to whether AfT would be a credible, real and viable tool for trade development. They wondered whether AfT would actually be delivered by the international community, by how much, whether it would be in addition to existing aid, or if existing funds would be recycled, and whether it will in turn deliver the expected development in developing countries. Similar promises on trade-related technical assistance, or even on ODA for MDGs have been made in the past, such as in the Uruguay Round, Monterrey Consensus, and not fully implemented. The need therefore exists to adopt a realistic approach to the initiative. It was queried as to how much value should be placed on the AfT initiative vis-à-vis other offensive (e.g. market access) and defensive interests (e.g. fiscal revenues considerations) of developing countries in the Doha negotiations. At the same time,

it was noted that the credibility of the multilateral trading system would be tested by this commitment, and that there should be no retreat or wavering from the AfT initiative. The political statements manifested in the AfT decision will have to be translated into concrete actions to ensure that AfT is not an empty promise.

## **B. Country eligibility and ownership**

Participants stressed that all developing countries, particularly LDCs, should in principle be eligible for AfT, as noted in the Hong Kong Ministerial Declaration. At the same time, some participants advocated that the eligibility criterion could be further clarified to ensure that the much needed trade-related assistance reaches those developing countries most in need, including LDCs and small, vulnerable economies. Another suggestion was that AfT could be made available as a “bonus” to countries that have made significant liberalization through the Doha commitment or unilaterally. Other participants disagreed and stressed that country eligibility for AfT should not be conditional upon the negotiating process and commitments made in the Doha Round and that there should not any linkage with any other type of liberalization.

It was further added that regional economic organizations of developing countries could be potential beneficiaries. Some cautioned that such support should be aimed at strengthening regional cooperation, rather than regional trade preferences. Also, the private sector could benefit from AfT regarding specific activities and through specific modalities best suited for this purpose.

Beneficiary country ownership of AfT was stressed by most participants as a foundation pillar, and that AfT initiative should be demand-driven and needs-based. Beneficiaries of such aid should be consulted to shape the conceptualization and operationalization of the initiative. Country ownership could be implemented in two respects. First, developing countries should be involved in the running and control of any governing mechanism for AfT so that their perspectives — and not only those of donors — are taken into account when determining the setting of policy objectives. Equally, developing countries should have a strong say in any multilateral financing mechanism that may be set up to mobilize and dispense the funds, so that any financing decisions taken to reflect the needs and priorities of beneficiaries. Second, the needs and priority areas for AfT support must be determined by each beneficiary developing countries (subregions or regions) through a multi-stakeholder process of consultation on the basis of needs assessment. Multi-stakeholder involvement at a national (subregional or regional) level facilitates national consensus-building, balancing of priorities and closer linkages with national development policies. This would help to ensure that AfT responds to national priorities; national policies would in turn mainstream trade and AfT as key elements for development. So clarifying in operational terms “country ownership” of AfT remains a challenge ahead.

### **C. Defining Aid for Trade**

Participants agreed that a clear definition of AfT was critical to its effective operationalization. A clear definition of the concept and a realistic expectation about what it could achieve was needed as it was widely recognized that it was not a panacea for all the trade and development problems facing developing countries. In attempting to provide a definition, many participants considered that AfT comprises financial assistance for trade and trade-related development activities which should be guided by the principles of additionality, predictability, adequacy and non-debt creating aid. Clarifying these principles will help in operationalizing them.

On additionality, it was stated that AfT must complement and be different from existing trade-related funding commitments and arrangements, as well as complementary to aid for development. It should come in the form of new monies that supplement, and not replace, existing commitments. In this way AfT could meet, for example, new needs for implementation of agreements arising from the Doha Round, while at the same time, ensuring a “maintenance of effort commitment” so that current assistance that is providing valuable support is maintained and even expanded. Furthermore, it is

important that additional funds for AfT are not sourced from current commitments on development assistance. Otherwise, AfT would crowd out aid for equally important socio-economic development priorities.

The generous financial pledges made by some donors at the 6th WTO Ministerial Conference would go some way in addressing the trade-related needs of developing countries; however, the amounts may not be ambitious enough to cover all problems. Japan pledged to spend \$10 billion on trade assistance over a three-year period on trade, production and distribution infrastructure; the United States announced annual trade grants aid of \$2.7 billion by 2010; and the EU and its Member States announced annual trade-related spending of Euro 2 billion by 2010.

On predictability, there was agreement on the principle but divergent views were expressed on how to render it functional. It was noted that imbuing AfT with predictability and security was important as many of the Uruguay Round promises of trade-related financial assistance did not materialize to the extent expected due to their non-binding nature. While WTO commitments were binding on WTO Members, funding promised to developing countries to implement the commitments did not materialize, the countries were therefore unable to satisfactorily implement their commitments; this was particularly true for those commitments that were capital-intensive, such as those relating to WTO Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Technical Barriers to Trade (TBT)

and Sanitary and Phytosanitary Measures (SPS) or trade remedies. Many developing countries were unable to abide by their commitments because the funds they had been promised to implement these agreements had not been forthcoming, this ultimately defeats the purpose of promoting a transparent and predictable multilateral trading system. This record of unfulfilled promises, expectations and needs must be addressed for AfT to be meaningful.

Various suggestions were advanced on how AfT could be rendered predictable. One particular suggestion was for AfT to be quantified and committed to within the Doha Round negotiations and be subsequently enforceable within the WTO. Hence, AfT would be “multilateralized” and “bound” as part of the single undertaking of the Doha Round. Other participants disagreed on binding AfT in the WTO. The following reasons were put forward as factors against enforcing AfT in the WTO: (a) AfT as part of the negotiations would become an element of conditionality in the negotiations, which should be avoided as AfT addresses a broader development objective; (b) the WTO is not an aid organization and has no means to implement AfT measures bound under its structure; and (c) trade negotiators have no authority to legally bind budget allocations, which are made by parliaments and committed and delivered by Ministers of Finance and international financial agencies, rather than by Ministers of Trade.

A case was made for multi-year financing commitments, with resources in the order of \$200 to \$400 million to be disbursed over an initial five-year period and replenished at regular intervals. Such

commitments, serviced by an independent and effective monitoring mechanism, could be instrumental in securing predictable funding.

This raised another important issue, as many participants pointed out – namely that the AfT financing should be substantial and adequate to meet the huge trade development needs of developing countries. Currently, there are gaps in the financial resources available to meet the demands for deeper-end trade-related assistance to developing countries. Such gaps are likely to be increased in a post-Doha Round setting. AfT thus needs funding to be substantial, adequate and commensurate with the individual needs of developing countries in order to have real and sustained impact on the ground.

The importance of the non-debt creating nature of funding by AfT was emphasized so that the aid does not add to the already huge debt burden of most developing countries. Some participants, however, pointed out that the nature of funding will depend on the activity for which AfT funding is being provided. AfT could thus combine both grants and loans at concessional terms. Instruments should vary depending on the type of projects and the recipient country or entity. For certain hard physical infrastructure development such as constructing roads, ports, power supply systems — all requiring substantial financing — a co-financing system with long-term concessional loans from other multilateral financial institutions, including regional development banks and the World Bank, could be explored. For trade policy and trade negotiations capacities, as well as productive capacity-building, grants should be

used. Private sector beneficiaries, it was suggested, would be eligible for concessional loans.



#### **D. Setting the scope and coverage of Aid for Trade**

It was widely held among participants that the ultimate objective of the AfT initiative should be to ensure that trade promotes development and reduces poverty in developing countries, consistent with the development agenda contained in the Doha Round and the wider Millennium Development Goals. Specifically, AfT should help build capacities of developing countries to make maximum use of benefits of increased market access conditions arising from trade liberalization in a multilateral, regional and unilateral context. Trade liberalization will create winners and losers, and the losers are likely to be those countries without export capacity and competitiveness. Indeed, market access alone has not led to trade penetration by beneficiaries as evidenced by the experience with the low utilization of the preferential trade schemes for LDCs such as the EU's Everything But Arms (EBA), and the African Growth and Opportunity Act (AGOA) for sub-Saharan African countries. AfT should therefore address gaps in trade-related supply capacity and infrastructure in developing countries, as well as help them cushion and meet implementation and adjustment costs from trade reform.

AfT needs form part of a broader set of development needs which extend beyond the Doha mandate. This means that AfT should be provided, regardless of the ongoing Doha trade negotiations, i.e. it has an important role to play both in responding to the outcome of the Doha Round, and beyond it in terms of trade development generally. AfT should be aimed at enhancing the contribution of trade to development in developing countries, rather than focus on the equally important, but narrower, WTO process. While it was considered that AfT should be broad enough to cover a variety of challenges facing developing countries, caution was expressed that its coverage should not be enlarged to an unmanageable degree and, in particular, it should not move into or overlap with development assistance. In this context, participants generally agreed that AfT should be used to:

- (a) Develop supply capacities and trade-related infrastructure of developing countries. Supply-side constraints and trade infrastructure deficits were among the most pressing obstacles standing in the way of the effective participation of developing countries in global trade. Addressing such domestic obstacles to trade was considered to be more important and urgent for developing countries.
- (b) Address implementation and compliance-related issues and costs arising in the post-Doha Round period which will add to current implementation-related issues and concerns raised by developing countries in the context of the Uruguay Round agreements.

- (c) Respond to longer terms adjustment issues and costs from trade liberalization and reform generally. If not properly and adequately addressed, the impact of trade liberalization could bring major costs for developing countries which would need to be addressed through adjustment measures.

A number of priorities were recommended with regard to helping developing countries to build, upgrade and strengthen supply capacity and related infrastructure to make them competitive internationally. Building competitive productive capacities in developing countries for trade requires beneficiary countries to propose concrete proposals and projects. These can include diversifying the export base into new and dynamically growing sectors of trade; strengthening participation in global supply and value chains; improving competitiveness and value-added commodities production and trade; and building supply capacity and competitiveness in services sector given its importance in the economy. In the case of LDCs, the building of competitive supply capacity would be instrumental in making effective use of the duty-free, quota-free treatment of all their exports, as agreed at the 6th WTO Ministerial Conference.

AfT can also improve the quality of trade-related technical assistance and address weaknesses in ongoing efforts to build the “software” aspects of trade-related infrastructure that comprise trade-supporting institutions of developing countries. These include: enhancing capacities to meet product

standards relating to the application of quality, technical and health standards; improving access of enterprises to trade finance, knowledge, technology to become competitive in producing and exporting commodities, manufactures and services; help enterprises with market development and business support, including product design and upgrading, product promotion, e-commerce readiness and business-to-business networking; and trade facilitation and related backward and forward linkages, including export marketing facilities such as storage facilities for perishable commodity exports. Another area for AfT support is strengthening capacities for trade policy design, adaptation and research; trade negotiations at multilateral, regional and bilateral levels; institutional and regulatory development; and trade-related human resource development and training.

A particular area where AfT can support and bring much needed improvement relates to trade data and information services, especially with regard to non-tariff barriers (NTBs). The latter represent increasingly important barriers to trade, but data on them is imperfect and this undermines informed policymaking and negotiations. It was thus proposed that a share of AfT could be put into strengthening and making data available to the public on trade flows in goods and services, as well as tariff barriers and, importantly, on NTBs. It was noted that the core budget allocation to data collection in UNCTAD and WTO are very small and could be supported with AfT to substantially improve data collection and dissemination. For instance, lessons could be drawn from, and support provided to, UNCTAD's work on

data collection, classification and quantification of NTBs.

Some participants felt that AfT could also be used for addressing “hardcore” trade-related, including physical infrastructure needs of developing countries. These include possible trade-related infrastructure activities such as physical infrastructure construction (roads, railways, ports, airports) and projects such as rehabilitating regional road networks, logistics and transport, telecommunications, energy, electricity, water and plant upgrading. Some participants pointed out that multilateral development finance institutions and regional development banks can provide lending for infrastructure projects. Some of them are currently actively providing such assistance for infrastructure projects, often using public-private partnerships. It was proposed that AfT could help in this process by supporting: (a) infrastructure preparation (project identification, programme preparation, pre-feasibility and feasibility studies, project design, financing structure); and (b) infrastructure software (setting up systems for efficient operation of the infrastructure such as legal frameworks, norms and standards). For the actual infrastructure construction or rehabilitation, however, AfT may not be the modality – such funding requirements are substantial and will continue to be provided by multilateral and regional development banks. Further examination is needed on what role AfT could play in physical infrastructure development, such as providing seed funding for public-private sector partnerships for infrastructure development. In any case, the need to address high transport costs for many landlocked and seelocked

countries was highlighted as a major disincentive and barrier to trade performance.

Many participants pointed out that implementation-related issues and costs that will arise from a post-Doha Round are natural candidates for AfT. These concerns relate to any costs that may arise from meeting obligations arising from new WTO rules, including those relating to trade facilitation, complying with products standards, adjusting trade legislation, setting up institutions and regulatory systems, meeting transparency requirements such as notifications, and other obligations. Those obligations whose implementation is particularly capital-intensive should be natural candidates for AfT support. It was noted that implementation-related issues and concerns would encompass both new WTO agreements and the current backlog of implementation issues from the Uruguay Round agreements, in which many developing countries continue to experience difficulties.

AfT also needs to respond to the longer terms adjustment issues and costs from trade liberalization (tariff cuts or bindings) and reform generally, and from the current Doha round and the past Uruguay Round. It was pointed out that even if some developing countries and LDCs may be exempted from MFN trade liberalization owing to their country categories, they may be forced to undertake liberalization as part of a Customs union with a single common external tariff. The case of members of the Southern African Customs Union and the East African Community was highlighted as possible examples. Developing countries would face greater

adjustment challenges owing to their less diversified economies and greater vulnerability to external shocks, distortions in export sectors, weak market structure and imperfections, and the absence of social safety nets. Particularly at risk will be those developing countries that are least able to cope with the changes induced by trade reforms, including the poor, women, elderly and unskilled and low-skilled workers.

Adjustment costs arise from preference erosion, loss of tariff revenue, loss of employment, adjustment to the end of the Agreement on Textiles and Clothing, concerns of net food importing countries regarding high food prices, weak supply-side responses, social costs from job losses and retraining and increases in interest rates, which will make borrowing costly for enterprises. For example, some participants noted that the IMF estimated in 2003 that a 40 per cent cut in the MFN tariffs of QUAD countries (US, Japan, Canada and EU) would result in a potential aggregate value of export revenue loss for LDCs of about \$530 million per year and about \$914 million for middle-income developing countries. It was also pointed out that recent UNCTAD studies on several developing countries found that adjustment costs will be real and huge, especially in some countries and some sectors. Thus, AfT should provide a development solution to adjustment costs, including diversification into new products, finding alternative sources of fiscal revenue, retraining and retooling of employees to facilitate social adjustment and helping enterprises adapt to a more competitive trading environment. The role of the private sector was underlined by many participants as crucial in meeting and undertaking the

necessary adjustments. At the same time, some participants cautioned that adjustment support through AfT should be made in a manner that does not delay multilateral trade liberalization efforts.

Some participants stated that implementation and adjustment costs originating in regional integration process involving developing countries should, as is the case with multilateral trade liberalization, be eligible for AfT package. AfT should also be used to help countries in the process of acceding to the WTO to address the deeper end of trade support. Currently, support to acceding countries tended to (rightly) concentrate on market access issues and WTO commitments, rather than broader development issues of strengthening productive and competitive capacities necessary to engage beneficially in the multilateral trading system. Similarly, the deep-end trade-related needs of recently acceded developing countries should also be addressed by the AfT initiative.

It was also suggested that beneficiary countries should be committed to effectively using the aid from the AfT initiative, as an investment. In other words, they should make good and effective use of the funding they will receive.

Participants stressed that it was important that AfT support is determined and provided on the basis of needs assessment. Participants also highlighted the need to derive lessons from past or ongoing experiences and international organizations, including in respect of needs assessment and drawing up of typologies of project proposals. For instance, lessons

could be drawn from UNCTAD's trade-related technical assistance, as well as its policy analyses and proposals such as the "Towards a New Trade 'Marshall Plan' For Least Developed Countries: How to Deliver on the Doha Development Promise and Help Realize the United Nations Millennium Development Goals?" Lessons could also be drawn from developing countries which have successfully engaged in international trade such as Brazil, China and India. Lessons could also be drawn from developed countries such as the European Union and the support programmes it formulated for trade development in favour of the new 15 EU member countries, or even the Marshall Plan for the reconstruction and development of Europe after the Second World War.



## **E. Needs assessment for Aid for Trade**

Participants noted that priority identification and setting for AfT support must be based on a comprehensive and realistic needs assessment. They emphasized that needs assessment should be based on professional country (subregional, regional) diagnostic studies that assess the minimum threshold for a results-effective, realizable programme of trade assistance. There should be no one-size-fits all approach to AfT as each country's situation was different, even among LDCs, and hence the importance of customized, country or region-oriented needs assessment. Some proposed that AfT support needs can be garnered from WTO's Trade Policy Review Mechanism. Other participants thought that although inputs from the Trade Policy Review Mechanism may be valuable, the mechanism in its current form was inappropriate to serve as a source of needs assessment for developing countries as it was directed at implementing WTO agreements and linked to WTO's single undertaking. If AfT was not to be a part of the single undertaking, the Trade Policy Review Mechanism may not be an appropriate mechanism as it is in the nature of compliance assessment.

Others felt that some of the trade-related problems and needs of LDCs had been assessed and identified through the Integrated Framework process via the Diagnostic Trade Integration Studies. These studies and related action matrices could be used to establish the priority needs of LDCs, along with other needs assessment. Some participants suggested that UNCTAD is an appropriate organization where needs for AfT support could be comprehensively assessed as it is equipped to conduct — and indeed has experience of — tailor-made needs assessment, ensuring that the development dimension is emphasized.

Some participants advocated that a development assessment and audit of developing countries should also be considered. Such an audit would set the basis for a realistic assessment of the capacity gaps and resource needs for AfT.

## **F. Implementation and financing mechanisms for Aid for Trade**

Participants concurred that it was important to carefully assess available options to implement AfT by means of intensive and extensive consultations, including with different stakeholders and learning from the lessons and experiences of existing mechanisms. Such options also depend on a realistic assessment of the amounts of fresh funds which could be made available for AfT. Several possible vehicles for AfT implementation, in particular to three specific suggestions made by participants. One option is to maintain the status quo, i.e. to continue with existing mechanisms but to include transparency among donors and beneficiary countries. The second option would build AfT on existing mechanisms such as the Integrated Framework (IF) for LDCs which is currently being reviewed to develop an Enhanced IF, as mandated in the Hong Kong Ministerial Declaration. It was noted that its country coverage, currently limited to LDCs, might need to be reconsidered and oriented towards an LDC-plus coverage. Likewise the JITAP (Joint Integrated Technical Assistance Programme to African Countries) was mentioned as another existing programme that could benefit from AfT. Generally, lessons from experiences with trade-related technical

assistance should be drawn from international organizations with expertise in trade-related capacity-building and delivery including UNCTAD, ITC, WTO, FAO, UNIDO and others.

Professor Joseph Stiglitz proposed a third option for AfT implementation, namely to establish a Global Trade Facility (GTF) similar to the Global Environment Facility (GEF). The GTF would transform and consolidate existing initiatives such as the Integrated Framework into a single multilateral framework; it would mobilize additional funding to already existing commitments that are periodically replenished; it would be housed within the World Bank to take advantage of existing institutional structures, in-country presences and experiences; and would subsequently enforceable within WTO. It would be governed by both developing and developed countries, with a majority of developing countries on its governing board. In GTF, a share of funds would be allocated for a private sector development including start-up financing for SMEs. Such a facility could form a coherent platform for allocating and coordinating AfT. Three sources of funding for the GTF were suggested. First, the advanced industrialized countries would contribute 0.05 per cent of their GDP to the GTF; second, there would be an additional commitment of a small percentage of the value of their exports to LDCs; and third, there would be an additional commitment of 5 per cent of all agricultural subsidies and 15 per cent of all arms sales to developing countries, partially reflecting the costs that these impose on developing countries. Additionally, a suggestion was made that \$ 5 billion

be set aside to achieve a critical mass for multilateral funding.

Other participants were not in favour of the idea of establishing a GTF. They were concerned that the creation of a large new multilateral fund would encounter significant resistance from donors. This may lead to confrontational negotiations on AfT that may have a negative impact on the AfT initiative and on the Doha Round negotiations, which are now entering a crucial period with very short timelines available for concluding the negotiations. They favoured existing financial mechanisms, including through the World Bank and the IMF. They said that there was little value in creating a new channel to deliver AfT when existing mechanisms can be utilized. Other participants urged that regional or national mechanisms or both could also be considered, such as for specific developing country regions.

Thus, the merits and demerits of a new mechanism for AfT versus existing mechanisms needs careful examination and analysis; several implementing mechanisms could perhaps co-exist in delivering AfT at various levels.

The IMF's Trade Integration Mechanism (TIM) was another mechanism; however, it was pointed out by some LDCs that because of its element of debt creation, it is rendered unattractive to many developing countries seeking AfT.

A suggestion was made for the creation of an Advisory Group on AfT that would, inter alia, ensure

coherence: between various implementing mechanisms for AfT, and between international organizations involved in AfT to avoid duplication. The Advisory Board could start by advising the WTO Task Force on Aid for Trade. This would be important as the AfT initiative has the potential of a multi-agency and multi-faceted initiative. Representatives of the Advisory Group would be international agencies with core competences in trade and development such as UNCTAD.

Participants generally agreed that any AfT delivery mechanism must effectively deliver aid with minimal transaction and implementation costs. Also, the mechanism should be subjected to regular monitoring and evaluation on its effectiveness and impact, based on benchmarks mutually-agreed upon by beneficiary countries and donors.

## **G. Private sector involvement in Aid for Trade**

Participants stated that the private sector, especially SMEs, is the hub of economic activities in developing countries and the motor for production and trade. AfT needs to be able to undertake measures to improve its competitiveness, and make its products and services exportable. At the same time, it was suggested that the private sector in developed countries and transnational corporations could also contribute to the AfT initiative. It was reiterated that market access alone did not suffice as a stimulus for private sector to invest and trade. This is clear from the experience of ACP States with trade preferences provided by the EU, which did not make effective use of the preferences to increase their trade penetration to the EU because, inter alia, of their weak and inefficient productive capacities. The East Asian experience conversely showed that policies that improved infrastructure and productivity created a business climate conducive to exploiting trading opportunities and enabled these countries and their enterprises to invest and trade in an effective manner. AfT support to the private sector must therefore focus on addressing the root causes of supply-side and competitiveness problems in developing countries by,

among others, empowering and enabling the private sector to gear itself.

The private sectors engaged in trade in developing countries, particularly LDCs, face a variety of constraints and challenges in enhancing their export capacity and competitiveness, including inadequate finance and technology, inadequate trade-related infrastructure, high intermediary costs and regulatory red tape. These difficulties come in addition to problems faced by the private sector as it attempts to exploit opportunities created by a complex web of multiple trade liberalization moves at the multilateral, regional and bilateral level. Many of these private sector needs could be the target of AfT support. AfT could respond through specific private sector/donor agencies consultation, on measures for improving export capacity and competitiveness of enterprises, enterprise development through export product competitiveness development, export promotion, and improving the business environment. Some participants felt that even if financial resources through AfT were made available to governments, it was important that the private sector could have access to them. They stressed the importance of direct negotiations between donors and private sector saying that AfT directed at the private sector should be determined in specific negotiations between concerned parties. A business plan encompassing these needs could be produced by the private sector to determine the level of AfT support. In addition, private sector support programmes should be developed on the basis of diagnostic studies and needs assessment. Such programmes should also have a monitoring mechanism with defined benchmarks to

assess the progress that has been achieved. Other participants pointed to the need for a careful mix of governments, private sector and donors in any AfT mechanism, and pointed to problems that could arise from donors directing funds directly to the private sector.

Some said that useful lessons for a prototype of private-sector AfT initiative could be drawn from existing instruments, such as the ACP-EU Cotonou Agreement which has a dedicated aspect on private sector development in ACP States. For instance, under the agreement, development assistance is provided to the rice sector in ACP States to improve production conditions, enhance quality and increase exports through support for such activities as: research, harvesting and handling, transport and storage, developing value-added products, meeting environment and waste management standards and other norms.

Participants concluded that the private sector — as a beneficiary of AfT — needed to be involved in all stages of any AfT initiative including its design, planning and delivery, particularly at the national level, but also regionally and multilaterally.



## **H. Coherence in Aid for Trade**

In view of the complexity and importance of the task ahead, coherence at the country, donor and international agencies levels was considered to be critical for AfT results. At the country level, coherence is needed for beneficiary countries to mainstream trade into development objectives so that AfT is provided under the framework of the national development strategies and plans, and not outside of them. This would require inter-ministerial coordination, particularly between trade and finance ministries, as well as multi-stakeholder consultations, involving government, private sector and civil society, so as to map out and address AfT needs according to their national development strategies, such as those drawn up through the PRSP process. This would ensure country ownership of AfT activities.

At the donor level, multilateral, regional and bilateral donors needed to coordinate their different efforts on AfT between themselves, with the beneficiary countries and with implementing agencies.

At the international agency level, as is the case at implementation level, a proposal was made to

establish an Advisory Group on AfT to the WTO Task Force on AfT and any future AfT mechanism (as noted earlier). For example, participants suggested that:

- (a) The WTO, as a global trade negotiating body but not a development agency, could play a particularly important advocacy role in mobilizing resources and raising the profile of trade in the donor and beneficiary countries.
- (b) The IMF could contribute towards assessing and assisting with macro-economic adjustment needs arising from balance of payments problems and shortfalls in government revenue. Such assistance could cover fiscal implications of tariff reform, customs and tax reform, and providing financial assistance for adjustment.
- (c) The World Bank could provide assistance for infrastructure development including trade facilitation, transport and logistics and others.
- (d) Multilateral and regional development banks could provide AfT financing especially for trade-related infrastructure building.
- (e) UNDP could focus on AfT development, especially through the Enhanced Integrated Framework.
- (f) The United Nations, particularly UNCTAD, could make significant contribution to the operationalization and implementation of AfT.

It was stressed that Aft has been a central element of UNCTAD's mandate and work. As the focal point in the United Nations on the integrated treatment of trade and development, UNCTAD has a successful track record of enhancing trade policy formulation and trade-related capacities of developing countries and LDCs in such areas as commodities, competition and consumer policies, trade analyses, trade negotiations and trade and environment.