

# Trade POLICY

Report 17

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## Southern & Eastern Africa, the Doha Agenda & Aid for Trade

by Catherine Grant

South African Institute of International Affairs



TRADE POLICY REPORT NO. 17

# **Southern and Eastern Africa, the Doha Agenda and Aid for Trade**

Catherine Grant



SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

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## ACRONYMS

AEC	African Economic Commission
ACP	African, Caribbean and Pacific
AU	African Union
CTD	Committee on Trade and Development
DTIS	diagnostic trade integration study
EC	European Commission
EDF	Economic Development Fund
EPA	economic partnership agreement
ESA	Eastern and Southern Africa
EU	European Union
FTA	free-trade agreement
IF	Integrated Framework for Trade-Related Technical Assistance
IMF	International Monetary Fund
LDC	least-developed country
MDG	Millennium Development Goal
Nepd	New Partnership for Africa's Development
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PRSP	poverty reduction strategy paper
SACU	Southern African Customs Union
SADC	Southern African Development Community
TIM	Trade Integration Mechanism
WTO	World Trade Organisation

## EXECUTIVE SUMMARY

For many years, the link between trade and development has been recognised in a number of different contexts, including the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO), as well as in some bilateral co-operation agreements such as that between the European Union (EU) and African, Caribbean and Pacific (ACP) countries. The exact nature of the linkage, however, is not clear, and there has been a long running debate in this regard, including about the best way in which to achieve economic development in developing countries. Agreement does, however, seem to be emerging around two broad points. Firstly, no one approach fits all developing countries and a specific mix of regulation and policy will be required in each individual situation. This will need to meet the specific circumstances of the country, and it is best if it is an indigenous solution. Secondly, trade liberalisation and integration into the global economy are important aspects of achieving economic development, but they are not sufficient conditions on their own and must be accompanied by a range of domestic reforms.

One example of the recognition of the importance of trade for development is Goal 8 of the United Nations Millennium Development Goals (MDGs), which has as one of its targets 'an open, rule based, predictable, non-discriminatory trading and financial system'. The MDGs, adopted in 2000, marked the start of a number of years when trade and development issues were considered in various forums by the international community. Development and trade took centre stage in 2001, when the WTO launched the Doha Development Round. It was not until 2005, however, that the concept of 'aid for trade' entered into common usage among trade negotiators. In 2005 multilateral organisations began to focus on ways in which to assist developing countries make better use of the opportunities provided by the multilateral trading system, while at the same time assisting them in making the adjustments necessary following trade liberalisation. Aid for trade gained momentum as a concept following the report of the United Kingdom's Commission for Africa and the G8 Gleneagles Summit. The G8 took steps to reduce the debt of some developing countries and pledged to increase levels of official development assistance (ODA) by an extra \$25 billion annually by 2010. The World Bank and International Monetary Fund (IMF) then considered the issue at their September meetings in 2005 and

acknowledged the need for increased aid for trade. At the WTO Ministerial Conference in Hong Kong in 2005 members agreed to establish a Task Force on aid for trade and to look into the possibility of increasing resources available for such activities.

Despite the focus on aid for trade in 2005, it is not necessarily a new concept. Broadly, aid for trade encompasses a wide range of issues. It is fairly hard to define accurately and it has proved difficult to quantify exactly how much is spent in the area of aid for trade. The WTO Task Force has identified six categories of activities under aid for trade: trade policy and regulations, trade development, trade-related infrastructure, building productive capacity, trade-related adjustment and other trade-related needs. In line with the Paris Declaration on Aid Effectiveness, the onus has been placed on developing countries to determine their own areas of priority and develop aid for trade programmes. The World Bank estimated in 2003 that aid for trade made up 4.4% of total aid commitments (excluding infrastructure). The Organisation for Economic Co-operation and Development (OECD) estimates that if trade-related infrastructure is included, then the aid for trade share of total ODA is 14.5% (\$15.5 billion).

The WTO Task Force commenced its work in 2006 under the Chairmanship of Ambassador Mia Horn Af Rantzien of Sweden. The Task Force received a wide range of written submissions and oral presentations. It reported back to the WTO General Council at the end of July 2006, and its recommendations have been generally welcomed by all members. Key among these recommendations was the call for additional, predictable, sustainable and effective financing for aid for trade. The WTO was asked to undertake a global periodic review of aid for trade that will include a debate in the General Council. Aid for trade was to be considered in line with the principles of the Paris Declaration on Aid Effectiveness – ownership, alignment, harmonisation, managing for results and mutual accountability.

The recommendations of the WTO Task Force do not speak about the specifics of additional funds and also do not endorse the idea of a stand-alone fund for aid for trade. They are rather low on specifics. They do, however, reflect the position adopted by the African Group in a number of areas, including the call for additional resources and the focus on regional projects. The African Group had been active in the Task Force through the representation of the ambassadors of Benin, Zambia and Mauritius. The recommendations were discussed



at the General Council meeting held on 10 October 2006 in Geneva. No concrete decisions were taken, and members seemed to require more time to digest the recommendations. The director-general reported back on his discussions regarding additionality of resources. He noted that there was a commitment to increasing aid for trade in the context of a projected overall increase in ODA, that the focus was on making existing mechanisms more effective and that the process needs to be owned by developing countries.

The World Bank and IMF have also continued to discuss aid for trade. Both organisations have been undertaking activities that could fit within the concept of aid for trade for a number of years now. Over the last 25 years, it is calculated that the World Bank has been involved in more than 500 lending operations in support of trade in developing countries. This amounts to more than 8% of total World Bank commitments during that period. Most recently, the focus of these loans has been on investment in infrastructure and institutional reform. The lending activities have been supplemented by research, capacity building and training. The IMF is also engaged in such activities, but, more specifically, the IMF established the Trade Integration Mechanism (TIM) in 2004 to help countries meet the adjustment costs of multilateral trade liberalisation. To date, three countries have taken advantage of the TIM.

In 2005 World Bank and IMF officials were asked to prepare a report on the adequacy of existing mechanisms to address regional and cross-country aid for trade needs. It is this aspect of a more regional approach to aid for trade that was the focus of discussion at the Annual Meetings held in Singapore in September 2006. The paper prepared by the Secretariats suggested three possible options for action on cross-border aid for trade projects – rely on existing mechanisms, provide additional ‘soft’ funding to assist in the preparation of regional projects or create a vertical fund to co-finance regional projects. Most donors support the first option and are unlikely to be in favour of taking the issue any further than consideration of ways to improve existing mechanisms to fund regional projects. The Development Committee communiqué simply agreed on the need to improve existing mechanisms and strengthen monitoring. Endorsement of specific recommendations related to regional and cross-country aid for trade would have been a welcome contribution to the debate.

There are two other aid for trade-related initiatives that are of particular relevance for southern and eastern Africa – the Enhanced Integrated Framework

for Trade-Related Technical Assistance to Least-Developed Countries (IF) and the negotiation of economic partnership agreements (EPAs) with the European Union (EU). The current IF, since it was created in 1996, has not been particularly effective, and resources have not been widely disbursed to least-developed countries (LDCs), with much of the focus being on undertaking diagnostic studies. In 2005 a Task Force, under the leadership of Ambassador to the WTO, Stephenson of Canada, was established to discuss the best way to develop an Enhanced IF. The key recommendations of the Enhanced IF Task Force included expanded coverage of the eligible activities, confirmation that the IF was only for LDCs, the creation of a new Executive Secretariat for the IF, administratively housed in the WTO Secretariat (with a strong firewall around it), and an increase of funding to \$400 million over a five-year period.

Reactions to the recommendations for the Enhanced IF have generally been positive. It is seen as a compromise deal brokered between the demands of the LDCs and the constraints imposed by donors. Neither group achieved its full objectives, but it is acknowledged that improvements have been made, including increased funding. It has been suggested that the World Bank and IMF were particularly unhappy with the recommendation to house the IF Executive Secretariat in the WTO and felt that the process of enhancing the IF had been hijacked by Geneva-based representatives. This may also reflect a general approach within the Bretton Woods institutions that sees WTO involvement in development as an intrusion. The issue also remains that even the Enhanced IF is still not large enough to fund significant infrastructure projects. The infrastructure proposals made by LDCs under the aid for trade initiative will need to be considered under other existing mechanisms, such as the African Infrastructure Consortium that is being established under the auspices of the African Development Bank. Proponents of the Enhanced IF are keen to involve 'emerging' or non-traditional donors, including countries like South Africa, China, Brazil and India. It is argued that these countries could perhaps provide some financial resources, but, more importantly, they could also contribute assistance based on their own experiences as developing countries operating in the global trading system. This would be valuable for LDCs and would be a concrete example of South-South co-operation.

A special relationship of co-operation has long existed between the EU and the ACP of countries. This has been governed by the Lomé Conventions and

the Cotonou Partnership Agreement. Because it is a preferential agreement, Cotonou has come under some criticism from the members of the WTO for not being in line with Article XXIV of the GATT 1947. The EU and ACP were, however, granted a waiver by the WTO until the end of 2007. The aim now is to negotiate a replacement regime for the Cotonou Convention that is known as EPAs. EPAs are being negotiated at the level of regional groups – with four groups in Africa: the Southern African Development Community (SADC), the Eastern and Southern African (ESA) Group, the Economic Community of West African States and the Economic and Monetary Council of Central Africa. For both the SADC and ESA Groups, the development dimension is a key aspect of EPA negotiations, but it is not clear exactly how the development pillar of the EPAs will look. These negotiations are likely to provide an interesting example of a specific aid for trade initiative and possibly a ‘pilot project’. The negotiating dynamic between the EU and its EPA partners provides useful insights into some of the possible pitfalls ahead in the broader aid for trade debate. The EU has shown itself to be reluctant to commit additional resources under the EPAs, while ACP countries have clearly indicated that if they are to make market access concessions, then these steps must be accompanied by the necessary levels of support to ensure that the implementation costs involved do not have a negative impact on development.

It is not clear exactly how the aid for trade debate will progress from now onwards. There has been a good deal of scepticism from developing countries about the issue. Most support the idea that aid for trade is the other side of the market access coin and needs to be part of the ‘grand bargain’ of the WTO negotiations. Others would like to see some type of mechanism that ensures that aid for trade cannot be used as a bargaining chip for market access to developing country markets. Questions are raised, however, about what can be achieved through discussions in the WTO on what is effectively a development issue and on whether or not the initiative will deliver any additional resources for developing countries. On the question of additional resources, the OECD contends that the total amount of donor funds is effectively already decided until 2010. Additional funds for aid for trade will therefore have to come at the expense of other development priorities rather than in the form of additional funds. There is unlikely to be a separate mechanism set up to deliver aid for trade, and it will mainly take place through existing processes. In the WTO context, aid for

trade could be put on the agenda of the Committee on Trade and Development (CTD). However, the CTD has traditionally been an ineffective body with very few real decision-making powers. Giving aid for trade to the CTD could spell the death of the issue in the WTO.

That said, aid for trade could have something to offer countries of the region, including a new focus on the linkage between trade and economic development, the opportunity to reform existing mechanisms and a specific relationship with new rules being developed in the WTO that would provide 'legal teeth' for commitments made by donors. If aid for trade is to be taken forward in a meaningful way, then it must be driven by developing countries. They need to continue to be actively involved in the WTO discussions and in other forums, with positions that are co-ordinated at both national and regional levels.

A challenge for some countries in the region will be to ensure that trade is seen as a crucial part of development and that there is acceptance that trade liberalisation is part of an economic development package. If these principles are accepted, then well-thought-out and clearly identified priorities could be presented to donors. This will then place the onus on them to respond. Much of the ground work has already been done under other processes, therefore it is more a case of simply pulling together identified aid for trade projects into a comprehensive plan. Countries could establish national aid for trade committees to help in this regard and to consider innovative ideas to ensure that the same old ways of delivering aid for trade are not continued with little effect. The private sector can also play an important role, including in the early stages of identifying the aid for trade priorities of the region.

There is an opportunity for South Africa to engage in the debate on aid for trade at a number of levels. It is recommended that possible future actions in this area could include:

- the development of a co-ordinated South African position on aid for trade that considers whether it is an initiative that should be pursued with vigour
- and the possible pitfalls of taking it forward in the WTO. Issues such as the merits of a possible stand-alone fund for aid for trade could also be considered in this context. The South African government needs to also look at aid
- for trade against other development priorities set out in the MDGs;

- active engagement in the OECD work on aid effectiveness;
- encouraging discussion at the regional level in SADC, including looking at ways in which the regional aspect of aid for trade could be operationalised;
- supporting the development of national aid for trade programmes by countries in the region, including through financial and technical support. Such plans could build on work already done in the context of the EPA negotiations, the New Partnership for Africa's Development, the IF, PRSPs and national development plans; and
- encouraging countries in the region to look carefully at the operation of existing mechanisms for the delivery of aid for trade, such as the Economic Development Fund, and identifying concrete ways in which they could be improved.

## I. INTRODUCTION

The focus on development in the current round of World Trade Organisation (WTO) negotiations has placed the issue of trade-related capacity building and technical assistance at the forefront of discussions under the Doha Agenda. This has also coincided with a number of other initiatives aimed at assisting developing countries reach the United Nations Millennium Development Goals (MDGs) and become more integrated into the global economy. Goal 8 of the MDGs has as one of its targets 'an open, rule based, predictable, non-discriminatory trading and financial system'. The G8 have taken steps to reduce the debt of some developing countries and have pledged to increase levels of official development assistance (ODA) by an extra \$25 billion annually by 2010. Both the World Bank and International Monetary Fund (IMF) have also been making efforts to improve the participation of developing countries in their organisations, including through the review of voting rights. Trade-related programmes are becoming a more integral part of their operations in developing countries.

In this context, the debate on aid for trade has been gaining ground. Aid for trade can mean a number of things in different contexts. In its broadest sense, it is aid 'intended to help countries to trade, and in particular, to help them take advantage of WTO agreements'.<sup>1</sup> It usually refers to financial assistance provided to the poorest countries<sup>2</sup> and can take many different forms. The WTO Task Force on Aid for Trade noted that

the scope of aid for trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between aid for trade and other development assistance of which it is a part.<sup>3</sup>

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<sup>1</sup> Phillips L, S Page & DW te Velde, *Aid for Trade: What Does It Mean? Why Should Aid Be Part of WTO Negotiations? And How Much Might It Cost?* Overseas Development Institute Opinions No. 61. Geneva: Overseas Development Institute, 2005, p.1.

<sup>2</sup> BBC News, 'Slow progress on fair deal for Africa', 23 June 2006, p.2, available at <http://news/bbc.co.uk/go/pr/fr/-/1/hi/business/5080848.stm>, accessed 20 July 2006.

<sup>3</sup> WTO (World Trade Organisation), *Recommendations of the Task Force on Aid for Trade*, WT/AFT/1, 27 July. Geneva: WTO, 2006, p.2.

This is in line with the Paris Declaration on Aid Effectiveness in that the onus has been placed on developing countries to determine their own areas of priority and develop aid for trade programmes. The WTO Task Force went on to identify six categories or areas of focus for aid for trade:

1. trade policy and regulations;
2. trade development;
3. trade-related infrastructure;
4. building productive capacity;
5. trade-related adjustment; and
6. other trade-related needs.

There has been some discussion on whether or not aid for trade is a new phenomenon or simply old news repackaged with a snappy title. Some argue that it is not new, that aid for trade projects have been part of broader development assistance packages for many years and that the WTO itself has long been discussing aid for trade in terms of trade-related technical assistance and capacity building. What does seem to be new is the scope of the aid for trade package currently being discussed, plus the emphasis placed on the need to assist developing countries to implement and take advantage of WTO rules. The starting point is now a recognition that liberalisation by itself is not sufficient, and that other conditions are needed if a country is to reap the benefits. A one-size-fits-all approach is no longer advocated, and it is widely acknowledged that a specific mix of regulation and policy will be required in each individual situation. This will need to meet the specific circumstances of the developing country and it is best if it is an indigenous solution.

Leaving aside the debate on the 'newness' of aid for trade, there is no doubt that the increased focus on the issue, especially the debate taking place in the WTO, provides a 'critical opportunity for coordinating, strengthening and expanding existing commitments to build the capacity of people in developing countries to participate in the multilateral trading system and benefit from markets'.<sup>4</sup> Aid for

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<sup>4</sup> ICTSD (International Centre for Trade and Sustainable Development), *The Architecture of Aid for Trade and the WTO: A Dialogue on the Key Issues – Description*, p. 1, available at <http://www.ictsd.org/dlogue/2006-07-17/200607-17-desc.htm>, accessed 20 July 2006.

trade is also a chance to 'rebalance' the WTO and the impact of its rules. If this opportunity is to be taken full advantage of, then it will be important for developing countries, particularly those from Africa, to engage actively in the debate and to have clear positions on the direction in which they, as beneficiaries, would like to see aid for trade moving.

This report is aimed at considering the approach of southern and eastern Africa to aid for trade and ways in which the region can best capitalise on developments in the WTO and other multilateral forums. The first section provides a brief background to the aid for trade debate. It is followed by detailed consideration of the work of the WTO Aid for Trade Task Force, including the role played to date by the African Group. Discussions in the context of the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF), as well as at the World Bank and IMF, are the focus of section IV. Given the current importance of the economic partnership agreement (EPA) negotiations under way between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries, section V looks at aid for trade in this context, as well as that of the free-trade agreement (FTA) negotiations between the Southern African Customs Union (SACU) and the United States. The report concludes by providing some recommendations on how the region can best address the implications of the aid for trade debate in the various forums.

## **II. BACKGROUND**

The concept of aid for trade has only recently entered the lexicon of trade officials, but, as discussed above, aspects of it have been discussed as part of the broader development assistance debate for a number of years. The components of aid for trade have been around for many years. Trade-related technical assistance and capacity building have been part of the work of the WTO since it was formed in 1995. The Bretton Woods institutions have also undertaken work in this area and have been actively involved in the development of infrastructure, as well as policies and regulations related to trade. Many of the poverty reduction strategy papers (PRSPs) prepared for low-income countries have included references to areas of need that are directly related to enhancing their participation in the global trading system. What is new in the last two years is the focus on improving the co-ordination and effectiveness of aid for trade initiatives.



In the lead-up to the five-year review of the Millennium Declaration and the MDGs, a High-Level Forum on Aid Effectiveness was convened in Paris on 2 March 2005. The focus of the meeting was on ensuring that aid effectiveness improved in line with increases in the volume of aid that had been pledged. It drew upon a vast body of best practices and experiences that had been gained under the development assistance programmes put in place in the past. The result was the Paris Declaration on Aid Effectiveness, which was adopted by many developed and developing countries, as well as multilateral and civil society development organisations.<sup>5</sup>

The principles of aid effectiveness that are outlined in the Paris Declaration can be summarised in five broad areas:

1. **Ownership:** Partner (or developing or recipient) countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions.
2. **Alignment:** Donors base their overall support on partner countries' national development strategies, institutions and procedures.
3. **Harmonisation:** Donors' actions are more harmonised, transparent and collectively effective.
4. **Managing for results:** This includes managing resources and improving decision making for results.
5. **Mutual accountability:** Donors and partners are accountable for development results.<sup>6</sup>

These principles can be represented in the pyramid given in Figure 1, developed by the Organisation for Economic Co-operation and Development (OECD).<sup>7</sup> Indicators have also been developed in order to measure progress at both the national and international levels. Targets to be achieved by 2010 are included.

Aid for trade will face the same challenges inherent to all aid delivery.<sup>8</sup> The

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<sup>5</sup> OECD (Organisation for Economic Co-operation and Development), *Paris Declaration on Aid Effectiveness*, DCD/DAC/EFF(2005)1/FINAL. Paris: OECD, 2005.

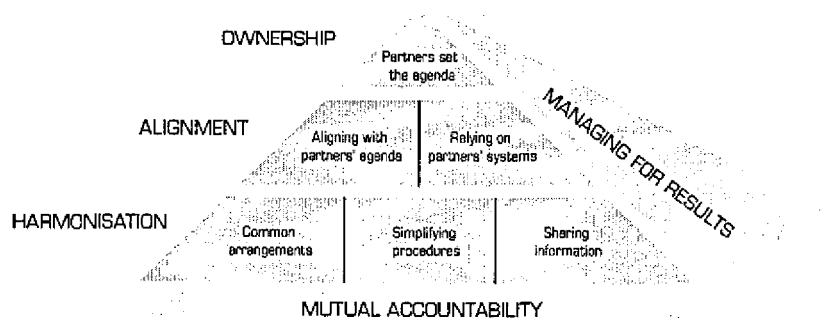
<sup>6</sup> OECD, *The Development Dimension: Aid for Trade: Making It Effective*. Paris: OECD, 2006a, p.49.

<sup>7</sup> Ibid., p.51.

<sup>8</sup> Ibid.

Paris Declaration therefore provides some useful guidance in the design and implementation of an effective aid for trade package. This has been specifically recognised in the recommendations of the WTO Task Force, which affirm that the Paris Declaration sets out the guiding principles for aid for trade. The OECD has pointed out that one of the main challenges for aid for trade will be 'to implement performance management and use effectively monitoring and evaluation tools'.<sup>9</sup> To date, donors and partners have not developed explicit targets or performance indicators for aid for trade projects. The OECD Development Committee is considering undertaking some work in this area in order to ensure that there are benchmarks and that it is possible to assess both the amount of resources contributed to aid for trade initiatives and their effectiveness. These ideas were discussed by OECD members and developing countries at a meeting held in Doha in November 2006. It was widely accepted by participants at the meeting that supply-side factors constrain the benefits that developing countries derive from their integration into the world economy. The urgent implementation of the Aid for Trade Framework agreed to by the WTO was called for at the meeting.<sup>10</sup>

**Figure 1: Partnership for aid effectiveness**



Source: OECD (2006a, p.51)

<sup>9</sup> Ibid., p.52.

<sup>10</sup> Evennet S, *OECD Policy Dialogue with Non-Members on Aid for Trade: From Policy to Practice: Rapporteur's Report*. Paris: OECD, 2006, p.2.

While the work on the Paris Declaration on Aid Effectiveness was being driven by the OECD, the WTO had for the first time placed development concerns at the heart of a round of trade negotiations. The Doha Development Agenda was christened and at the top of the list of issues were those of concern to developing countries in the areas of agriculture, labour-intensive manufacturing and access to patented drugs.<sup>11</sup> However, it soon became clear that it would be necessary for additional steps to be taken to ensure that all developing countries would be able to take advantage of any negotiated agreements on these issues. This sparked consideration of a variety of proposals, including special and differential treatment provisions for developing countries, as well as increased technical assistance and capacity-building activities.

Donors responded to the request for additional resources for developing countries both with political support, as is reflected in various statements and declarations, and with more funds. Following the start of the Doha Round in November 2001, the amount of trade-related technical assistance and capacity building increased by 50%.<sup>12</sup> Aid for trade capacity now accounts for 4.4% of the total aid commitments of the world's major contributors, and it is likely that this will increase in years to come.<sup>13</sup> For example, at the Hong Kong Ministerial Conference in December 2005, a number of developed country members of the WTO put forward proposals for significant spending on trade-related projects. This was one of the reasons that aid for trade found its way formally onto the WTO agenda. The following section discusses developments since Hong Kong.

### III. WTO AID FOR TRADE TASK FORCE

The debate on aid for trade resulted in the eventual inclusion of a separate paragraph on the issue in the Hong Kong Declaration adopted at the WTO Ministerial Conference in December 2005. Paragraph 57 of the Declaration reads:

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<sup>11</sup> Hoekman B & R Newfarmer, *World Bank Trade Note: After Cancun: Continuation or Collapse?* Trade Note 13, 17 December 2003. Washington, DC: World Bank, 2003, p.1.

<sup>12</sup> WTO, 'Aid for trade capacity in poorer countries up by 50 per cent since Doha', Press/427, 12 December 2005, p.1, available at [http://www.wto.org/english/news\\_e/pres05\\_e/pr427\\_e.htm](http://www.wto.org/english/news_e/pres05_e/pr427_e.htm), accessed 20 July 2006.

<sup>13</sup> Ibid.

We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. Aid for Trade should aim to help developing countries, particularly LDCs [least-developed countries], 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. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA [Doha Development Agenda], particularly on market access. However, it can be a valuable complement to the DDA. We invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans.

The Hong Kong Declaration also included a section on trade-related technical assistance provided by the WTO Secretariat and member countries. On aid for trade, there were essentially two key outcomes from Hong Kong – the formation of the WTO Task Force and the request to the director-general to consult on securing additional financial resources for aid for trade.

The path of the aid for trade debate is different to that of many other issues under negotiation in the WTO. Discussion has largely taken place outside of the main bodies of the WTO, in forums that have been driven by donor countries and other multilateral organisations, such as the OECD, World Bank and IMF. Some have suggested that there is even a view amongst participants in these discussions that the involvement of the WTO in development issues is an unnecessary intrusion. The trade negotiators of developing countries had not participated in these discussions to any great extent and initially met the proposal put forward in

the WTO with some suspicion.<sup>14</sup> Concerns were expressed about the motivation behind the offers of considerable funds for trade capacity-building programmes, as well as the way in which these resources would be used. At the outset, it was made clear by developing countries that aid packages should in no way be seen as replacing real development gains to be made from greater trade liberalisation in sectors of interest to developing countries, such as agriculture.

In line with the mandate from ministers, the WTO director-general established the Task Force on Aid for Trade in early 2006. It was composed of 13 members: Barbados; Brazil; Canada; China; Colombia; the EU; Japan; India; Thailand; the United States; and the co-ordinators of the ACP Group (Mauritius), the African Group (Benin) and the LDC Group (Zambia). The permanent representative of Sweden, Ambassador Mia Horn Af Rantzien, Chaired the Task Force. International organisations were invited to act in an advisory role and provided presentations on various aspects of the aid for trade debate. A number of Task Force members tabled position papers, including the EU and the African Group.

The report of the Task Force was presented to the General Council in the last week of July 2006. The next stage in the process will include discussions involving all WTO members based on the recommendations of the Task Force, together with any follow-up activities undertaken by the director-general. These discussions started in October 2006, when the General Council met again to consider the Task Force recommendations. This came at a time when the Doha Round of negotiations had been suspended, and it was not clear what progress could be made on other issues on the WTO agenda. As a result, at the meeting in October, no concrete decisions were taken, and members seemed to require more time to digest the recommendations. The director-general reported back on his discussions regarding the additionality of resources. He noted that there was a commitment to increasing aid for trade in the context of a projected overall increase in ODA, that the focus was on making existing mechanisms more effective and that the process needs to be owned by developing countries. Some delegates based in Geneva have mentioned the possibility that aid for trade will soon be transferred to the agenda of the Committee on

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<sup>14</sup> Ismail F, 'An assessment of the 6th WTO Ministerial Conference, Hong Kong, 13th–18th\* December 2005.' Unpublished paper, 2006, p.4.

Trade and Development (CTD). The CTD has traditionally been an ineffective body with very little real decision-making powers. Giving aid for trade to the CTD could spell the death of any real progress on the issue in the WTO.

It is not yet clear exactly what impact the suspension of the Doha Round of negotiations will have on the issue of aid for trade. Aid for trade is generally thought to be outside of the single undertaking, and therefore work could proceed. It is, however, likely that there will be some repercussions for any aid for trade package should negotiations on other issues resume in the near future. These could be positive, in that there will be more time to undertake preparatory work on aid for trade before the conclusion of the Doha Round. Delegations may also be better placed to participate in the discussions if there are fewer demands on their time. On the negative side, there is still a chance that some WTO members may seek to stall decisions being taken on any issues until the Doha Round negotiations resume.

### **Issues and debate**

As has been noted above, aid for trade is a broad concept that covers a wide range of issues. The job of the WTO Task Force on Aid for Trade was not an easy one, as it needed to distill all these issues into a series of recommendations that have a chance of being accepted by WTO members. The following are questions that were considered by the WTO Task Force, including some that were raised by member states, commentators or other stakeholders:

- What is aid for trade? What is the purpose of aid for trade? What is the scope of aid for trade?
- How will aid for trade be financed? Will additional resources be made available for aid for trade? Should there be a stand-alone fund for aid for trade? How will existing mechanisms and programmes be accounted for?
- How will aid for trade be dealt with in the WTO? Is there a need for a stand-ing body on aid for trade, or can it be included on the agenda of an existing committee?
- What is the relationship between the WTO and other multilateral agencies in the area of aid for trade, including the IF, the World Bank and the IMF? Who will oversee the aid for trade initiative? What is the role of the private sector?

- How will aid for trade be monitored and evaluated? How will the effectiveness of aid for trade be assessed? What are the benchmarks and performance indicators for aid for trade projects?

### **African Group position**

The African Group was quick to recognise the importance of the issue of aid for trade following the adoption of the Hong Kong Ministerial Declaration in December 2005. Since the launch of the Doha Round in November 2001, one of the major demands of Africa in the negotiations was for the enhancement of trade-related technical assistance and capacity building for developing countries.<sup>15</sup> The establishment of the WTO Task Force on Aid for Trade was therefore welcomed by the African Group and seen as a way to take this demand forward, as well as to achieve other objectives.

In order to ensure that the views of Africa were taken into account in the work of the Task Force, a meeting of African ambassadors, experts and stakeholders was held in April 2006. It was as a result of that meeting that an African Common Position on the Aid for Trade Initiative was developed. This position was subsequently endorsed by African Union (AU) ministers of trade in Nairobi, Kenya and then by AU heads of state in Banjul, The Gambia at their annual summit in July 2006. The African Common Position puts forward a number of general thoughts on the guiding principles of aid for trade. These are useful indicators of the broad direction in which Africa would like to see the initiative moving. It also provides scope for more detailed positions to be adopted in response to the recommendations of the WTO Task Force. The main ideas included in the African Group proposal are set out below.

1. African ownership of the aid for trade initiative is paramount.
2. The scope of aid for trade includes trade-related human and institutional capacity building, development of trade-related infrastructures, development of production and supply-side capacities, and costs of implementation.

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<sup>15</sup> AU (African Union), *AU Commission's Proposal on the WTO 'Aid for Trade' Initiative*, EX.CL/286(IX)Rev.1 Executive Council, Ninth Ordinary Session, 25-29 July 2006, Banjul, The Gambia. Addis Ababa, Ethiopia: AU, 2006, p.1.

and adjustment to WTO agreements. Preference erosion and adjustment costs should also be addressed.

3. Additional funds should be made available for aid for trade, with a clear distinction made between existing commitments and new ones. Aid for trade should not have an impact on existing national and regional development programme funding.
4. Funding should be in grant form, with no conditional ties. Transaction costs should be minimised.
5. Aid for trade should be supportive of regional integration initiatives.
6. Aid for trade is not a substitute for the development promises of the Doha Development Agenda, but is a complement. Aid for trade should not be linked to the Doha Round of negotiations.
7. Work already done in the context of the New Partnership for Africa's Development (Nepad) and by the Commission for Africa should form part of an aid for trade package for Africa.
8. Africa must have a strong voice in the governance structure of an aid for trade facility. African countries and institutions should be fully represented on an advisory group.
9. Co-ordination between key government agencies is required at the national level, as well as between regional agencies at the pan-African level.

## Recommendations

The WTO Task Force on Aid for Trade put forward a large number of recommendations to the General Council in its report published on 27 July 2006.<sup>16</sup> The following is a summary of the key points. The full text can be found in Annex A.

- Additional, predictable, sustainable and effective financing should be made available for aid for trade.
- Aid for trade should be guided by the Paris Declaration on Aid Effectiveness.
- The recommendations for an Enhanced IF should be implemented.
- National co-ordination mechanisms should be established in all developing countries, not just LDCs.

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<sup>16</sup> WTO, 2006a, *op. cit.*



- A system of data collection and analysis should be established at country level and at the global level. Mechanisms to enhance reporting to the global monitoring body should be put in place. Information collected by multilateral and regional actors should be exchanged freely.
- Efforts should be undertaken to identify regional, sub-regional and cross-border needs, including those related to regional integration. A regional aid for trade committee could be established.
- Donors should integrate trade and growth issues more effectively into their aid programming, including through the strengthening of trade expertise.
- Donors are urged to make targeted funds available for building infrastructure and removing supply-side constraints.
- Trade should be mainstreamed into national strategies, such as PRSPs.
- If necessary, a national aid for trade committee could be established in developing countries.
- South-South co-operation and private sector involvement should be promoted.
- The WTO should undertake a global periodic review of aid for trade that will include a debate in the General Council.
- The WTO director-general is invited to consult with the relevant agencies and to establish an ad hoc consultative group to take forward the recommendations.

It is worth noting that a number of the recommendations of the WTO Aid for Trade Task Force reflect the position put forward by the African Group, including the call for additional resources and the focus on regional projects. At the heart of the Task Force report is also recognition of the importance of aid for trade being driven by partner countries. The scope of aid for trade is largely left to developing countries to define in order to meet their own needs. It will be up to each individual country to identify its priority areas – for example, some may focus on adjustment programmes, like Mauritius, while others, like Zambia, may emphasise infrastructure needs. The Task Force recommendations are interesting for those suggestions that have not been made as much as for those that have. There are no specifics on the amount of additional resources beyond the mention of the need for them to be made available. Most striking, perhaps, is the absence of a recommended new fund for aid for trade. Such funds have been

proposed by a number of commentators in the past, including Page and Kleen,<sup>17</sup> who suggested that a new fund be established to deal with preference dependent economies, and Grynberg and Silva,<sup>18</sup> who suggested something similar called a special fund for diversification. It is understood that the Task Force did consider the merits of recommending a new fund, and that it was supported by some developing countries. Donors were, however, largely opposed to such an idea, and it was decided that the focus should be on strengthening existing mechanisms available to provide aid for trade funding.

#### IV. OTHER MULTILATERAL INITIATIVES

Aid for trade is a complex issue, not just because of the broad scope of the topic, but because there is a wide range of players involved. The focus in 2006 has been on the discussions taking place in the WTO. There are, however, a number of other multilateral agencies that have programmes in place that are of direct relevance to the aid for trade debate. These include the IF, the World Bank and the IMF.

#### Integrated Framework for Trade-related Technical Assistance

According to the IF website, the IF is

a multi-agency, multi-donor program that assists the least developed countries to expand their participation in the global economy whereby enhancing their economic growth and poverty reduction strategies. The IF program was first mandated by WTO Singapore Ministerial Conference in December 1996. The participating agencies are IMF, ITC,<sup>19</sup> UNCTAD,<sup>20</sup> UNDP,<sup>21</sup> World Bank and the WTO.<sup>22</sup>

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<sup>17</sup> Page S & P Kleen, *Special and Differential Treatment of Developing Countries in the WTO*. Report for the Ministry of Foreign Affairs, Sweden. Geneva: Overseas Development Institute, 2004.

<sup>18</sup> Cited in Stiglitz J & A Charlton, *Aid for Trade: A Report for the Commonwealth Secretariat*. London: Commonwealth Secretariat, March 2006, p.22.

<sup>19</sup> International Trade Centre.

<sup>20</sup> United Nations Conference on Trade and Development.

<sup>21</sup> United Nations Development Programme.

<sup>22</sup> <http://www.integratedframework.org>.

The three main objectives of the IF are to mainstream trade into national development plans, to assist in the co-ordinated delivery of trade-related technical assistance to LDCs and to develop the capacity of LDCs to trade. Implementation of the IF takes place in three phases that have been undertaken on different timelines in each LDC. The key phase is the preparation of a diagnostic trade integration study (DTIS), which is then translated into an action plan in phase 3. To date, at least 20 LDCs have validated their DTISs and are currently working on the implementation of priority projects.

The IF was first reviewed in 2000, but there continued to be calls for it to be made more effective. The IF had not been successful in dispensing funds, and much of the focus had been on completing DTISs. At the Annual Meetings of the World Bank and IMF in 2005, the Development Committee endorsed a proposal to enhance the IF, which included expanding its resources and scope, as well as making it more effective. A Task Force, under the leadership of Ambassador Stephenson of Canada, was established to discuss the best way to develop an Enhanced IF. The report of the Task Force was presented to the Steering Committee of the IF in July 2006.<sup>23</sup> It was adopted and a transitional team is being created in order to make the Enhanced IF fully operational. The key recommendations of the Enhanced IF Task Force included:

- an expanded coverage of the activities eligible for intervention under the IF;
- confirmation that the IF was only for LDCs;
- strengthening the mechanisms for implementation of the IF in LDCs, including through the formation of inter-ministerial committees and an enhanced role for the IF Focal Points;
- the development of a global template for guiding the DTIS process;
- the creation of a new Executive Secretariat for the IF that will be administratively housed in the WTO Secretariat (with a strong firewall around it);
- the development of an effective monitoring and evaluation system;
- greater predictability of funding; and
- an increase of funding to \$400 million over a five-year period.

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<sup>23</sup> WTO, *Report of the Chairman of the Task Force on an Enhanced Integrated Framework Including Recommendations*, WT/IFSC/W/15, 29 June 2006. Geneva: WTO, 2006b.

The reaction to the recommendations for the Enhanced IF has generally been positive. It is seen as a compromise deal brokered between the demands of the LDCs and the constraints imposed by donors. Neither group achieved their full objectives, but it is acknowledged that improvements have been made, including the increase of funding to \$400 million. Some of the organisational changes, such as the establishment of an Executive Secretariat within the WTO, were not widely supported by the participating agencies. The WTO is not viewed as a development institution, and therefore its capacity to manage an initiative such as the IF has been questioned. It has been suggested that the World Bank and IMF were particularly unhappy with this recommendation and felt that the process of enhancing the IF had been hijacked by Geneva-based representatives.

The African Group has made it clear that the financial resources allocated to each country, under Window II of the IF, have been inadequate to cover country needs in the areas of capacity that were identified.<sup>24</sup> It did, however, note that both the IF and the Joint Integrated Trade Assistance Programme had improved the understanding of the rules and mechanisms of the multilateral trading system in developing countries.<sup>25</sup> The African Group is particularly supportive of steps to improve co-ordination among donors and to promote the ownership by beneficiaries of capacity-building activities.<sup>26</sup> These suggestions appear to be reflected in the broader recommendations by the WTO Task Force on Aid for Trade. The issue remains, however, that even the Enhanced IF is still not large enough to fund significant infrastructure projects. The infrastructure proposals made by LDCs under the aid for trade initiative will need to be considered under other existing mechanisms, such as the African Infrastructure Consortium that is being established under the auspices of the African Development Bank.

Proponents of the Enhanced IF, including Task Force Chairman Ambassador Stephenson, are keen to involve 'emerging' or non-traditional donors, including countries like South Africa, China, Brazil and India. It is argued that these countries could perhaps provide some financial resources, but, more importantly, they could also contribute assistance based on their own experiences as developing countries operating in the global trading system. This would

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<sup>24</sup> AU, *op. cit.*, Annex, p.2.

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*, pp.2-3.

be valuable for the LDCs and would be a concrete example of South–South co-operation. The Enhanced IF does not require large financial commitments by donors and may therefore also be a good starting point for emerging donors wishing to become engaged in the area of aid for trade. One specific suggestion made by Ambassador Stephenson was to encourage the G20 to discuss the Enhanced IF and ways in which it could contribute to it becoming an effective and efficient mechanism to assist LDCs. This could involve partnerships for development between the larger developing countries and donors.

## World Bank and IMF

Trade is part of the mandate of both the World Bank and IMF. For example, Article 1 of the Articles of Agreement of the IMF refers to the role of the IMF in facilitating the expansion and balanced growth of world trade. As a result, for a number of years now, both organisations have been undertaking activities that could fit within the concept of aid for trade. Over the last 25 years, it has been calculated that the World Bank has been involved in more than 500 lending operations in support of trade in developing countries. This amounts to more than 8% of its total commitments during that period.<sup>27</sup> Most recently, the focus of these loans has been on investment in infrastructure and institutional reform. The lending activities have been supplemented by research, capacity building and training.

The IMF is also engaged in such activities. It lists its work in the trade area as including policy advice and surveillance; programme work; research; technical assistance; outreach, communication and advocacy; and co-operation with other organisations, including the WTO.<sup>28</sup> More specifically, the IMF established the Trade Integration Mechanism (TIM) in 2004 to help countries meet the adjustment costs of multilateral trade liberalisation. To date, three countries have taken advantage of the TIM.

<sup>27</sup> Kritzinger-van Niekerk L, 'Aid for trade: Perspectives from multilateral organisations: World Bank.' Presentation made at the SAIIA, Commonwealth Secretariat and South African National Treasury workshop on aid for trade, 23 August 2006, Pretoria, South Africa.

<sup>28</sup> Burgess R, 'Aid for trade: Perspectives from multilateral organisations: International Monetary Fund.' Presentation made at the SAIIA, Commonwealth Secretariat and South African National Treasury workshop on aid for trade, 23 August 2006, Pretoria, South Africa.

Aid for trade, as a discrete subject, was introduced onto the agendas of the World Bank and IMF in 2005. A joint paper was submitted to the Development Committee and the Finance Committee of the IMF on progress in the Doha Round of negotiations, including on aid for trade. At the 2005 Annual Meetings, the proposals for an Enhanced IF were endorsed by ministers. Officials were also asked to prepare a report on the adequacy of existing mechanisms to address regional and cross-country aid for trade needs.

It is this aspect of a more regional approach to aid for trade that was the focus of discussion at the Annual Meetings held in Singapore in September 2006. A paper prepared by the World Bank and IMF Secretariats was presented to the Development Committee. In brief, it suggested three possible options for action on cross-border aid for trade projects – rely on existing mechanisms, provide additional ‘soft’ funding to assist in the preparation of regional projects or create a vertical fund to co-finance regional projects. In the view of Carlos Braga of the World Bank office in Geneva, as conveyed during an interview in September 2006, most donors support the first option and are unlikely to be in favour of taking the issue any further than consideration of ways to improve existing mechanisms to fund regional projects.

The relevant section of the Development Committee communiqué on the WTO Doha Round of negotiations is set out below:

The de facto suspension of the Doha negotiations represents a setback in our effort to make more rapid progress towards achieving the MDGs. We re-emphasized the importance of the multilateral trading system and called upon all WTO members to avoid backsliding and provide trade ministers with the necessary flexibility to resume the negotiations by the end of the year. We also called on the Bank and the Fund to continue their global advocacy role on trade and development, and to foster the integration of trade into country programs. While recognizing that aid for trade is not a substitute for trade liberalization, we reiterated our commitment to expanding the funding and strengthening the mechanisms for Aid for Trade. We welcomed the recommendations of the WTO Task Forces on Aid for Trade and the Integrated Framework (IF), both of which explicitly recognize the need to adhere to the Paris Declaration on aid effectiveness. We took note of the new governance mechanisms proposed for the enhanced IF, and reiterated the

importance of working through established channels with proven development expertise. We noted the interest in extending a similar process to other poor countries that are not Least Developed Countries. We urged the Bank to work with these countries to incorporate trade needs into their national development strategies. We also agreed on the need to improve existing instruments to address cross-country and regional projects and strengthen the monitoring of regional initiatives and funding.

In addition, the G24 (of which South Africa is a member) called on the World Bank and IMF to support initiatives proposed in the context of the emerging aid for trade agenda.

The Development Committee did not take any concrete decisions with regard to regional aid for trade initiatives. Endorsement of specific recommendations related to regional and cross-country aid for trade would have been a welcome contribution to the debate. The World Bank and IMF have traditionally operated at the country level, without much of a priority being placed on the benefits that can result from regional co-operation on trade-related projects. The WTO Task Force has highlighted the need for regional initiatives, and ways that these could be achieved is through improvements to existing grant instruments and the creation of dedicated funding mechanisms. Such steps would be particularly valuable with regard to the infrastructure aspect of aid for trade, where the Bretton Woods institutions will continue to play a pivotal role.

## V. AID FOR TRADE AND OTHER TRADE NEGOTIATIONS

There has been a proliferation of bilateral and regional trade agreements in recent years, especially given the difficulties faced in multilateral trade negotiations in the WTO. Many developing countries are now actively involved in such negotiations, and African countries are no exception. Initiatives are under way to improve regional economic integration on the continent, while at the same time individual countries and regional blocks are negotiating with third parties. Development issues are a feature of some of these negotiations, and aid for trade packages are being considered. The following section briefly discusses two examples – the EPA negotiations with the EU and the SACU-US FTA.

## Economic Partnership Agreements

A special relationship of co-operation has long existed between the EU and the ACP countries. In 1973 the first Lomé Convention was signed, and the ACP Group was formed as a result. It represented 'the world's largest financial and political framework for North-South cooperation'.<sup>29</sup> Some of the key features of the Lomé Conventions were equal partnership, predictable aid flows, non-reciprocal trade benefits, mechanisms to stabilise receipts from the export of commodities, trade protocols for specific products (e.g. sugar and bananas), and regular dialogue and joint administration.<sup>30</sup> It was more than just a trade agreement and involved significant development provisions. You could even say that Lomé was an early example of an aid for trade initiative.

Changes in political and economic circumstances in both the EU and ACP member countries began to place some strain on arrangements under the Lomé Convention in the late 1980s and 1990s. As a result, it was reviewed and replaced by the Cotonou Partnership Agreement, which came into force in 2000. Because it is a preferential agreement, Cotonou has come under some criticism from the members of the WTO for not being in line with Article XXIV of the General Agreement on Tariffs and Trade 1947. The EU and ACP were, however, granted a waiver by the WTO until the end of 2007. The aim now is to negotiate a replacement regime for the Cotonou Convention that will comprise EPAs. It is envisaged that EPAs between the EU and ACP countries will be completed by 2008 and that they will be WTO-compatible. One of the key principles for the EPAs is co-ordination of trade and aid.<sup>31</sup>

In order to facilitate the negotiation of EPAs, the ACP countries have divided themselves into six regional groups. Four of these groups are in Africa: the

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<sup>29</sup> ECDPM (European Centre for Development Policy Management), *Cotonou Infokit: History and Evolution of ACP-EU Cooperation*, Part 3. Maastricht: ECDPM, 2001.

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<sup>31</sup> United Nations Economic Commission for Africa Trade and Regional Integration Division, 'The economic and welfare impacts of the EU-Africa Economic Partnership Agreements', *Trade Negotiations Insight: From Doha to Cotonou*, 4, 5, September-October 2005, p.4, [http://www.ictsd.org/tri/tri\\_english/TNI\\_EN\\_4.5.pdf](http://www.ictsd.org/tri/tri_english/TNI_EN_4.5.pdf), accessed 3 November 2005.



Southern African Development Community (SADC) (Southern Africa),<sup>32</sup> the Eastern and Southern Africa (ESA) Group (East Africa),<sup>33</sup> the Economic Community of West African States (West Africa) and the Economic and Monetary Council of Central Africa (Central Africa). For both the SADC and ESA Groups, the development dimension is a key aspect of the EPA negotiations. It has been singled out as one of the subjects to be specifically dealt with and has been stressed as of fundamental importance for African countries. For example, the ESA–European Commission (EC) EPA is aimed at promoting sustained growth, increasing the production and supply capacity of the ESA countries, fostering the structural transformation of the ESA economies and their diversification, and supporting regional integration initiatives in the ESA region.<sup>34</sup> In many ways, this language reflects the aims of aid for trade.

There has been much discussion about how exactly the development pillar of the EPAs will look in terms of the final agreements. The EU traditionally provides financing for co-operation activities through the Economic Development Fund (EDF). The EDF is an inter-governmental fund that is financed by contributions made by EU member states that are separate from the financial contributions made into the EU budget as a whole. The EC is tasked with the management of the EDF resources on behalf of the EU member states. Direction is provided to the EC via the EDF Committee. The 9th EDF is currently in place and is due to come to an end by 31 December 2007. This coincides with the deadline for the negotiation of EPAs. However, discussion of the 10th EDF is already well under way, and the level of resources available for the 10th EDF have already been determined as part of the budgetary processes of the EU that were finalised in December 2005. It was agreed to provide 0.02821% of EU gross national income for the 10th EDF. This works out to be approximately €22.6 bil-

<sup>32</sup> The SADC Group is made up of seven members: Angola, Botswana, Lesotho, Namibia, Mozambique, Swaziland and Tanzania. South Africa is an observer of the SADC EPA group.

<sup>33</sup> Members of the ESA Group include Burundi, Comoros, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

<sup>34</sup> EC (European Commission), *Trade Issues: Bilateral Trade Relations: Africa, Caribbean, Pacific: Negotiations of an EPA with East and Southern Africa – Joint Roadmap*, 2004, [http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/epa070204\\_en.htm](http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/epa070204_en.htm), accessed 16 February 2006.

lion. The European Investment Bank will also contribute €2 billion to the EDF, bringing the total budget to €24.6 billion over six years.

It is not yet clear exactly what the relationship will be between the EDF and the EPAs. The EU has said that it will take the needs arising from the negotiation and implementation of the EPAs into account in the programming of the 10th EDF. ACP countries have called upon the EU to make a binding commitment for additional resources for implementation of the EPAs beyond those available under the EDF. The EU has indicated that there may be additional resources under other programmes and has specifically referred to its aid for trade initiative, as well as funds that individual member states might also make available for EPAs under their bilateral development assistance programmes. The European Centre for Development Policy Management contends that it would be unlikely for any additional resources to be channelled through the EC besides what is set aside in the 10th EDF and the EU budget.<sup>35</sup> It notes that the EC has few other options available for financing development support to EPAs.<sup>36</sup>

The EDF has been fraught with administrative difficulties in recent years, and therefore the question arises as to whether the 10th EDF is the most effective mechanism for funding implementation of the EPAs. The EDF is not a user-friendly mechanism and is renowned for its cumbersome implementation procedures, as well as its poor organisation and a culture of risk-aversion inside the EC.<sup>37</sup> This is reflected in the difficulties that have been experienced by the EC in spending all the funds available under the EDF during each financial cycle. There is no doubt that ACP countries have some of these issues in mind when calling for alternative sources of funding for implementation of the EPAs.

In summary, the negotiation of the development pillar of the EPAs provides an interesting example of a specific aid for trade initiative and possibly a 'pilot project'.<sup>38</sup> There are lessons to be learnt from the experience of developing coun-

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<sup>35</sup> ECDPM, '2nd technical note on EU financing for development: The 10th European Development Fund: Development funding for EPAs', 2006, p.2, available at <http://www.ecdpm.org>.

<sup>36</sup> *Ibid.*, p.4.

<sup>37</sup> *Ibid.*, p.2.

<sup>38</sup> Pearson M, 'Aid for trade and economic partnership agreements.' Presentation made at the SAIIA, Commonwealth Secretariat and South African National Treasury workshop on aid for trade, 24 August 2006, Pretoria, South Africa.

tries with the EDF and the administrative difficulties that have been encountered. If any aid for trade provided under the EPAs is to be effective, then it must address these problems. The changes made under the 10th EDF are a step in the right direction. The 10th EDF is to focus on providing budget support, and there is also a contribution mechanism that should improve the flexibility with which funds can be disbursed. These changes are, however, unlikely to address the problems related to the bureaucracy behind the EDF and the difficulties faced by ACP countries in accessing funds. Power struggles are likely to continue to take place among different parts of the EC, as well as between the EC and EU member states.

The negotiating dynamic between the EU and its EPA partners also provides useful insights into some of the possible pitfalls ahead in the broader aid for trade debate. The EU has shown itself to be reluctant to commit additional resources under the development pillar of the EPAs, despite making strong calls in favour of the WTO aid for trade initiative. ACP countries, on the other hand, have clearly indicated that if they are to make market access concessions for the EU, then these steps must be accompanied by the necessary levels of support to ensure that the implementation costs involved do not have a negative impact on development. It is worth noting the AU view that

experience under ACP–EU Lome Conventions and AGOA [African Growth and Opportunity Act] has shown that African countries will not be able to take full advantage of market access opportunities . . . if the issues of trade capacity building and the removal of supply-side constraints are not effectively addressed.<sup>39</sup>

## US-SACU FTA

The Southern African Customs Union has been in discussions with the United States on a possible FTA. The negotiations have covered a wide range of issues, and there has been consideration of the possibility of accompanying an FTA with some sort of development package. SACU members have been asked to

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<sup>39</sup> AU, *op. cit.*, Annex, p.2.

identify specific areas of need that are trade-related and that could benefit from possible US funding. As the FTA negotiations are currently stalled, the work on the development aspect is also not proceeding. This does, however, provide another example of the many initiatives in the aid for trade area that are taken at a bilateral or regional level. Decisions made in multilateral organisations need to ensure that these are taken into account if effective co-ordination is to be achieved.

## VI. IMPLICATIONS FOR SOUTHERN AND EASTERN AFRICA

Aid for trade presents the countries of southern and eastern Africa with a number of opportunities and challenges. In the context of the WTO, it will be important to ensure that the momentum on aid for trade continues, despite the suspension of the Doha Round negotiations. As is recognised in the Hong Kong Ministerial Declaration, aid for trade has much to offer in terms of the implementation of existing agreements and the greater integration of developing countries into the global trading system. These processes should take place even if it is not possible to conclude negotiations on other substantive topics. It would also be useful to draw the separation between aid for trade and the other aspects of the Doha Round so as to ensure that the promise of additional development assistance is not made conditional upon greater market access or agreement by developing countries to disciplines in new areas. Delinking aid for trade from market access issues will go some way to ensure that aid for trade does not undermine the core functions of the WTO.

The AU has called for aid for trade to be owned by Africa.<sup>40</sup> If this is to be the case, then the African Group will need to continue to participate actively in the debate in the WTO. In the first instance, it should develop a co-ordinated response to the recommendations of the Task Force. By putting forward a clear position in a timely manner, the African Group will be able to influence the direction of future work. It will also be important to ensure that there is good African representation in the proposed ad hoc consultative group. Those who are chosen to represent Africa would benefit from being open to input from a wide range of stakeholders, including regional organisations, civil society and

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<sup>40</sup> Ibid.

the private sector. At a national level, positions should be discussed among finance and development officials, not only among trade negotiators.

The position taken in the WTO discussions should also be in line with that adopted in other multilateral forums, in particular the World Bank and the IMF. The recommendations of the WTO Task Force call for enhanced levels of co-ordination among all these organisations, which should be encouraged and also taken up by individual country delegations. The question of whether the WTO is the best place in which to pursue aid for trade will no doubt continue to be discussed as work progresses. There are both positives and negatives. Commitments made in the WTO are binding and are therefore subject to more rigorous implementation and monitoring. This could be useful for developing countries in ensuring that donors meet their obligations with regard to aid for trade. It could, however, also place a greater burden on developing countries, as they too would be held accountable. The WTO is also not a development agency. Its Secretariat is not large and its expertise is in the area of trade. Achieving the right balance among these factors will be important.

If Africa is to benefit, to the fullest possible extent from any aid for trade package, it will be necessary to have in place clear objectives, well-thought-through proposals and the appropriate structures to implement and monitor the resulting activities. To a large extent, much of the planning has already been done. Some would even argue that there has been too much planning and not enough action. African countries have been required to analyse their needs with regards to trade-related development assistance under a number of existing mechanisms, including the IF, PRSPs, national and regional development strategies, and Nepad. An aid for trade package that recognises what has already been done and attempts to fill the gaps rather than recreate the planning process will be of much more value than one that channels resources into this area, while already identified projects continue to go unfunded.

What might be useful in this regard is for countries in the region to consider the recommendation from the WTO Task Force to establish national aid for trade committees. Such bodies would ensure the necessary co-operation and co-ordination among a wide range of government agencies and other stakeholders. In the first instance, these committees could be tasked with pulling together existing proposals and programmes that fit within the defined scope of aid for trade. These could then be costed and easily assembled into an ini-

tial request for assistance. Such a co-ordinating committee could also play a useful role with regard to the implementation and monitoring of aid for trade initiatives. It could be the first point of contact for donors and enable a more transparent and accountable management regime. If such committees are to be useful, however, it is important to ensure that they are run efficiently and do not overburden already stretched officials and resources. In LDCs, the consultative committees set up under the IF could be used as the aid for trade committees as well. This may require some adjustment to the membership, but would ensure good levels of co-ordination among the initiatives.

The WTO Task Force suggested the establishment of a regional aid for trade committee. From the language in the report, the implication is that there will only be one regional committee, not one committee in each region. The common understanding among those who participated in the process in Geneva, however, is that there would be a committee for each region. It would certainly make more sense for Africa to have aid for trade committees at the level of each of the regional economic communities (despite the difficulties that might be experienced as a result of overlapping membership of regional blocs). These regional committees could be made up of representatives from each of the national committees. The focus would be on potential cross-border aid for trade initiatives. Such a mechanism would also ensure that any aid for trade package developed is supportive of regional integration objectives, as was recommended by the African Group.<sup>41</sup> Regional aid for trade committees could play a particularly valuable role with regard to trade-related infrastructure projects. Developing 'bankable' infrastructure projects can be difficult, but more attention is now being paid to the area of planning and preparation by the World Bank, IMF and regional development banks. This will include strengthening the capacity of regional economic communities.

In designing an effective aid for trade package for Africa, it will also be important to include some new ideas, especially in the area of trade policy and regulations. Traditional ways of delivering trade-related technical assistance and capacity building have included providing training workshops and conferences, and using the services of consultants to assist in implementing trade agreements. It is acknowledged that such activities have had some success in

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<sup>41</sup> Paper presented to the WTO by the African Group on aid for trade in 2006.

ensuring that there is now a much better understanding of the multilateral trading system in developing countries. There is, however, a point where it becomes more useful for officials to be focused on practical trade issues and for the training to be put into practice. The private sector could be engaged usefully in the discussion of creative solutions for trade-related problems that could be resolved with the help of some additional funding.

As the aid for trade initiative is currently being presented, resources will be channeled via existing mechanisms rather than under a new stand-alone fund. Another useful step that could be taken by countries in the region would be to identify strengths and weaknesses of these mechanisms from the perspective of beneficiaries. Donors and multilateral organisations seem to be receptive to proposed ways to improve the operation of funding mechanisms, especially given the current focus on the effectiveness of aid following the adoption of the Paris Declaration. The EDF is one mechanism that is worthy of urgent attention, given the role it will be playing in the implementation of EPAs. Lessons learnt and improvements made to the EDF could be used to assist with other aid for trade initiatives.

## VII. CONCLUSION

The aid for trade discussions in the WTO have been described as a critical opportunity for the membership as a whole to provide greater assistance for developing countries to participate in the multilateral trading system.<sup>42</sup> With the current stalemate in the Doha Round of negotiations, it will be important for developing countries to keep the pressure on other WTO members to make good on their commitments with regard to aid for trade. Attempts to delay progress on the issue should be resisted, as it is commonly understood that aid for trade is outside of any single undertaking. If such a position were to be taken by WTO members, then it would again raise fears among developing countries that aid for trade is simply being used as a 'pay-off' for greater trade liberalisation concessions in the context of the broader negotiations.

As one of the largest developing country groupings in the WTO, and representing one of the poorest regions in the world, the African Group sees the

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<sup>42</sup> ICTSD, *op. cit.*, p.1.

aid for trade debate is especially important. To date, it has developed a clear position on the basic questions raised by aid for trade. This was influential in the work of the WTO Task Force on Aid for Trade, and the African Group position is reflected in a number of the former's recommendations. It is recommended that the African Group now assesses each of the specific recommendations of the Task Force and participates actively in the discussions that will start in October 2006. This will ensure that the issue is kept alive and that the opportunity provided by the aid for trade debate in the WTO is not lost. The upcoming meetings of the World Bank and IMF also provide a good chance for developing countries, including the African Group, to actively promote aid for trade in terms that are most advantageous to them. It will be useful to ensure that there is co-operation among both trade and finance officials, so as to have a co-ordinated approach in the WTO and other organisations. This was done by other regions, namely Asia and Latin America, prior to the September Annual Meetings of the World Bank and IMF. Africa could usefully do the same in the future.

African countries can also start preparing at the national and regional levels to ensure that they are well placed to take advantage of new aid for trade initiatives and possible additional funding. Much of this work has already been done, especially in the context of drafting PRSPs and development strategies. The recommendations of the WTO Task Force provide some useful additional clarification that will assist developing countries in identifying which of their development needs might fit within aid for trade. It is also suggested that a national co-ordination mechanism or a national aid for trade committee be established in each developing country. In LDCs, this could be the IF consultative committee. This would provide a valuable focal point for various government agencies and other stakeholders who can make a contribution in this area, such as the private sector and civil society. Specific discussions of aid for trade requirements at a regional level will also be necessary and could be co-ordinated under existing mechanisms within the regional economic communities in Africa.

In conclusion, Africa is well-placed to gain significantly from the emerging aid for trade initiative. It will be important, however, to take a fairly cautious approach at the outset that ensures that the benefits to be received outweigh the costs of implementation. The aim should be to draw on work that has



already been undertaken to identify the needs of developing countries through numerous existing processes, such as the PRSPs, the IF and national development strategies. The focus should remain on improving the effectiveness of aid, streamlining its administration and better co-ordinating the responses of donors. If this is done, then funds can be provided in a timely manner so as to ensure that the real development needs of African countries are met.

## **ANNEX 1: RECOMMENDATIONS OF THE WTO AID FOR TRADE TASK FORCE**

WT/AFT/1  
World Trade Organization  
Aid for Trade Task Force

27 July 2006  
(06-3617)

### **Recommendations of the task force on aid for trade**

#### **A. MANDATE**

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

#### **B. RATIONALE**

Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access. Effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries.

#### **C. FINANCING**

Additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid for Trade mandate. The effectiveness of the following recommendations for operationalising Aid for Trade requires substantial additional targeted resources for trade-related programmes and projects as pledged at the WTO's Hong Kong Ministerial Conference, and against the background of the

broader international commitment at the UN's Monterrey Conference and the G8 Summits in Gleneagles and St. Petersburg to significantly scale up development assistance by 2010. The Task Force urges the Director-General to seek confirmation from donors and agencies that funds are readily available for the implementation of the Aid for Trade initiative as part of his mandate to consult on "appropriate mechanisms to secure additional financial resources for Aid for Trade".<sup>43</sup> In order to measure additionality and the adequacy of funding available to meet the Aid for Trade needs of developing countries, including those associated with a successful completion of the DDA, an account of what is being done today needs to be established as part of that process. The Task Force urges donors and agencies to provide the necessary information in order to make it possible for the Director-General to fulfill his mandate.

#### D. SCOPE

The scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies. In this regard, it should be pointed out that while the PRSPs<sup>44</sup> reflect national development priorities for some countries, other development strategies are equally important and will need Aid for Trade financing. At the same time, clear and agreed benchmarks are necessary for reliable global monitoring of Aid for Trade efforts to ensure accurate accounting and to assess additionality. The fol-

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<sup>43</sup> In Hong Kong, Japan announced development assistance spending on trade, production and distribution infrastructure of \$10 billion over three years, the US announced Aid for Trade grants of \$2.7 billion a year by 2010, and the EU and its member States announced trade-related development assistance spending of €2 billion per year by 2010.

<sup>44</sup> Poverty Reduction Strategy Papers (PRSPs) describe the macroeconomic, structural and social policies and programmes that a low income country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing. They are country-led, country-written documents prepared by governments through a participatory process involving domestic stakeholders and external development partners, including the World Bank and the IMF.

lowing categories, building upon the definitions used in the Joint WTO/OECD Database, have been identified:

**(a) Trade policy and regulations, including:**

Training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to, and comply with, rules and standards.

**(b) Trade development, including:**

Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.

**(c) Trade-related infrastructure, including:**

Physical infrastructure

**(d) Building productive capacity**

**(e) Trade-related adjustment, including:**

Supporting developing countries to put in place accompanying measures that assist them to benefit from liberalised trade.

**(f) Other trade-related needs**

Reporting on categories (a) and (b) should follow the definitions in the Joint WTO/OECD Database. The activities that fall outside of the current Joint WTO/OECD Trade Capacity Building Database definition, i.e. category (c), (d) (e) and (f) should be reported as Aid for Trade when these activities have been explicitly identified as trade-related priorities in the recipient country's national development strategies, such as the PRSP.

## **E. CHALLENGES/GAPS**

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

- Low attention to trade as a tool for development in recipient countries and in donor agencies.
- Insufficient trade mainstreaming in national development strategies and PRSPs.
- Lack of private-sector involvement in identifying trade needs.
- Limited absorptive capacity in recipient countries.
- Inadequate linking mechanisms and lack of predictability in donor response to trade priorities identified at the national and regional levels.
- Lack of coordination and coherence in donors' trade-related response.
- Slow, duplicative and bureaucratic processes in the assessment and delivery of trade assistance, including burdensome parallel structures within recipient countries.
- Lack of data on, and analysis of, trade policies and their impact on development, lack of easily-available information on existing Aid for Trade instruments.
- Ineffective monitoring of trade-related country policies and donor activities; absence of rigorous, independent project and programme evaluation and impact assessment.
- Limited support for regional, sub-regional and cross-border trade-related programmes and projects.
- Inadequate support to address the adjustment costs of trade liberalization.
- Insufficient resources for infrastructure and productive capacity building.
- Uneven country coverage.

## **F. OPERATIONALISING AID FOR TRADE**

### **F.1 Objectives**

- To enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs).

- To help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more.
- To help facilitate, implement, and adjust to trade reform and liberalisation.
- To assist regional integration.
- To assist smooth integration into the world trading system
- To assist in implementation of trade agreements.

## **F.2 Guiding principles**

Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved (donors, agencies and beneficiaries), including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonisation of donor procedures, use of programme-based aid modalities, managing for result, transparency, and predictable and multi-year commitments, which should be built into all programming. Aid for Trade should be rendered in a coherent manner taking full account, *inter alia*, of the gender perspective and of the overall goal of sustainable development. Administrative costs associated with the delivery of Aid for Trade should be minimised to ensure that the resources go to the actual implementation of identified priority projects and programmes. The competence and skills of the human resources available at national and regional levels should be used in an optimal way.

## **F.3 Strengthening the "demand side"**

A commitment to country ownership and country-driven approaches – as well as a commitment of governments to fully mainstream trade into their development strategies – is key to the effectiveness of Aid for Trade. In some countries, the processes for mainstreaming trade into national development strategies, for formulating trade strategies, and for proposing priority trade projects for donor financing, need to be strengthened through technical assistance and capacity building to help developing countries put in place effective and sustainable trade policy frameworks and processes. Where consultative mechanisms already exist, they can be used – or improved upon. Value-chain analysis could be one valuable tool to identify trade needs.

**The Enhanced Integrated Framework (IF) for LDCs.** The purpose of the IF is to strengthen the LDCs' trade capacity, including the ability to identify their trade needs and to propose priorities to be supported by development partners. The recommendations on an enhanced IF, as agreed by the Integrated Framework Steering Committee (IFSC), will be an essential foundation for strengthening the demand-side of Aid for Trade in LDCs.

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

**Regional needs.** Some of the constraints facing developing countries are regional, sub-regional or cross-border in nature. These needs should be identified and properly addressed. Regional organisations, including regional banks, regional integration organisations and regional economic communities, may play a role in assisting countries to identify such needs.

#### Recommendations:

- Implement the recommendations for an enhanced Integrated Framework.
- Establish effective national coordination, involving all relevant stakeholders, including the private sector, with a view to identifying the strengths and weaknesses of economies as a whole, and the particular challenges facing the trade sector.
- Explore the necessity of establishing a similar, but separately funded, in-country-process for non-LDCs "International Development Assistance (IDA)-only" countries, if such mechanisms do not already exist or can be improved upon.
- Urge agencies, donors and governments in other developing countries to work together to establish similar processes if they do not already exist. These processes should be modeled to the specific circumstances and needs of the country concerned, building on what already exists where possible and appropriate.
- Urge donors and agencies, together with regional banks and organisations, to step up their efforts to identify regional, sub-regional and cross-border needs, including those related to regional integration.

- Establish a system of data collection and analysis at country level.

#### **F.4 Strengthening donor “response”**

**Donor policies.** Donors should give more attention to trade issues in their aid programming and strengthen their trade expertise both in the field and at headquarters. There is a need for improved coordination of staff working across sectors and for greater trade mainstreaming in aid agencies’ programmes.

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

**Donor response.** In allocating resources for Aid for Trade, donors and agencies should be guided by priority projects and programmes identified by developing countries, as well as by their potential merit in relation to the objectives of Aid for Trade. These priorities should be mirrored by donor and agency support. Each agency would need to determine how to deploy or re-orient its financial and technical assistance to support either capacity building or accompanying measures related to trade liberalisation.

#### **Recommendations:**

Donors and agencies should:

- integrate trade and growth issues more effectively in their aid programming;
- further strengthen their trade expertise both in the field and in capitals;
- use needs-assessment processes (where available), and their results, as a basis for their programming;
- move towards a programme/sector/budget approach, if country owned, if mainstreamed in national development strategies and if a robust system of financial accountability is in place;
- make targeted funds available for building infrastructure and removing supply-side constraints – over and above capacity building and technical assistance – perhaps co-financing with multilateral development banks; and
- consider channeling Aid for Trade Funds multilaterally, when appropriate.



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

### *F.5.1 Country level*

**Matching.** Strengthened in-country structures, with improved links to donor financing, are needed to help move from trade-related diagnostics to implementation, and to maximise access to multilateral and bilateral resources. The task of matching demand for Aid for Trade projects with response could be addressed by strengthening national coordination through a "National Aid for Trade Committee", which would include recipient countries, donors, and other relevant stakeholders, such as the private sector, under the leadership of relevant ministries. This committee should complement – not replace – existing PRSPs and other coordination mechanisms. If needed, this process could be supported by agencies that could serve as a clearing house.

**Mainstreaming trade.** Effectiveness in implementing Aid for Trade will depend on many actors working together in a coherent way. It will involve, for example, the World Bank, the IMF, regional development banks, UN agencies and donors at the national as well as the international level, and trade, agriculture, development and finance ministries at the national level. It is the responsibility of donors, agencies and recipients to do their part in reforming how those entities integrate trade into development and national strategies.

**South-South cooperation.** Technical cooperation among developing countries is a valuable tool to deliver effective results because of their common experience and understanding of the challenges they face. The valuable technical expertise of the South could be used to implement projects through triangular schemes of cooperation.

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

### Recommendations:

- Recipient countries should mainstream trade into national strategies, such as PRSPs, formulate trade strategies, and propose priority trade projects for donor financing.
- The division of responsibility for funding and implementing Aid for Trade

projects and programmes should be addressed through country-based processes such as PRSPs or Consultative Groups, if necessary complemented with a partner conference focusing specifically on trade-related support, convened once countries have integrated trade into their national strategies.

- A National Aid for Trade Committee could be established, where necessary, to ensure trade mainstreaming in national development strategies, determine country needs, set priorities, assist in matching "demand" and "response", and help in evaluation. Tasks could include identifying co-financing or leveraging funds from other larger funds, as well as assessing adjustment needs and brokering financing for such programmes. Recipient countries could request agencies to perform a coordinating role.
- Partners should commit to contributing to the implementation of trade strategies and identified priority projects and programmes. The resulting plan should incorporate a results-based management framework resting on – and reinforcing – mutual accountability. Indicators of progress should be agreed.
- Promote the involvement of local, regional and private-sector actors, as well as South-South cooperation through triangular schemes.

#### *F.5.2 Regional level*

Many countries require cross-border infrastructure and regional policy cooperation to trade more effectively. The ability to identify cross-border and regional needs should be strengthened at the country, regional and multilateral level. Once needs have been identified, donors and agencies must improve their ability to respond. In particular, assistance in formulating and financing accompanying measures could help to make regional integration an effective building block for the multilateral trading system. At the forthcoming September Development Committee Meeting, strengthening support for regional, sub-regional and cross-border needs will be discussed.

#### Recommendations:

- Strengthen the following functions in relation to regional, sub-regional and cross-border issues:
  - diagnosis of needs;
  - costing of projects;
  - preparation of project proposals; and

- the coordination of donor response, including brokering and co-financing of needs that at present are difficult to finance through country-based processes (e.g., cross-border infrastructure and policy-integration projects).
- Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms, including those at the multilateral and regional level, before considering a new mechanism. In exploring the most efficient solution, the conclusions from the discussions at the forthcoming Development Committee should be taken into account. Any solution should involve all relevant stakeholders and give priority to existing regional integration programmes that lack funding.
- Explore the merits of establishing a Regional Aid for Trade Committee, comprising sub-regional and regional organisations and financial institutions, to oversee the implementation of the sub-regional and regional dimensions of Aid for Trade, to report on needs, responses and impacts, and to oversee monitoring and evaluation.

### *F.5.3 Global level*

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

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

**Knowledge creation and sharing.** Dissemination of Aid for Trade evaluation results, development of best practices and guidelines, and facilitation of information sharing, involving all relevant actors, needs to be improved at the global level, in order to ensure efficient use of Aid for Trade funds.

**Channeling donor funding.** Some donors might wish to direct Aid for Trade funds through multilateral channels, which would allow them to support Aid for Trade without having to build their own institutional capacity in this area and without getting involved at country level. This could include providing support for processes similar to the IF for non-LDC, IDA-only countries.

**Matching.** While a clearing-house function should in most cases be performed at the country and the regional level, sessions dedicated to specific

themes and groups of countries could be periodically organised to provide a platform for donors and developing countries to discuss specific gaps which may occur in the implementation of Aid for Trade. One important function could be to connect outstanding Trade Related Assistance (TRA) needs to donors willing to contribute to their fulfillment.

Recommendations:

- Strengthen the following functions in relation to global issues:
  - the collection and analysis of data on trade policies and their impact, the facilitation of knowledge sharing, and the development of guidelines. Funding for such activities needs to be secured;
  - provision of information on existing Aid for Trade instruments and expertise; and
  - matching and brokering unfunded TRA-needs and available donor funding for such projects and programmes.
- Assign responsibility for these functions. In doing so, priority should be given to improving and strengthening existing mechanisms before considering the establishment of a new clearing house at the global level.

**F.6 Strengthening monitoring and evaluation**

Monitoring and evaluating progress is essential in building confidence that increased Aid for Trade will be delivered and effectively used. It will also provide strong incentives to both donors and recipients to advance the Aid for Trade agenda. It is important to emphasize the need for concrete and visible results on the ground. All the providers of Aid for Trade and the recipient countries have the responsibility to report on progress and results.

**Monitoring.** In recipient countries, monitoring should cover trade mainstreaming in national strategies, such as PRSPs, the identification of priority needs, donor responses, progress in implementing trade-related projects and programmes, as well as the impact of these efforts. Donors who have made commitments to Aid for Trade should report on the content of such commitments as well as on how they plan to meet the targets for Aid for Trade that they have announced.

■ **Evaluation.** Rigorous Aid for Trade programme evaluation is particularly important because projected significant increases in Aid for Trade may stretch

the delivery capacity of donors and the absorptive capacity of recipients. In-depth country-impact evaluations of Aid for Trade programmes should be undertaken to build knowledge and facilitate a results-based approach to delivery. Evaluation of in-country processes should focus, *inter alia*, on progress in mainstreaming trade in national development plans. Evaluations should adopt a results-based approach in order to ensure effectiveness of Aid for Trade programmes in relation to the objectives.

Recommendations:

- A global periodic review of Aid for Trade should be convened by a monitoring body in the WTO, based on reports from several different sources, to be published if feasible on the WTO web page:
  - from the country level;
  - from donors;
  - from the regional level;
  - from relevant multilateral agencies; and
  - from the private sector.
- Mechanisms to facilitate reporting to the global monitoring body should be enhanced, including the possibility of a notification process for WTO Members.
- The global periodic reviews should be followed by an annual debate on Aid for Trade convened in the WTO General Council to give political guidance on Aid for Trade.
- Recipient countries should report on the trade mainstreaming in national development strategies, such as the PRSPs, the formulation of trade strategies, Aid for Trade needs, donor responses, and implementation and impact. The primary responsibility for reporting to the global monitoring body would lie with the National Aid for Trade Committee.
- Donors should report on funds dedicated for Aid for Trade, how they intend to meet their announced Aid for Trade targets, the Aid for Trade categories covered, and their progress in mainstreaming trade into their aid programming.
- Multilateral and regional actors should be encouraged to report regularly on their Aid for Trade activities, progress and impact. When appropriate these actors – including the OECD/DAC – should be asked to assist in pro-

viding input and in the organisation of the periodic Aid for Trade review in the WTO.

- The private-sector should be provided an opportunity to report on their Aid for Trade contributions.
- An assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews.
- Evaluation of country-needs identification, trade mainstreaming in national strategies and PRSPs, donor response and impact on the ground in relation to stated objectives, should be promoted and funded.
- The scope of the Joint WTO/OECD Database should be reviewed in light of the Task Force's definition of Aid for Trade. It should also be updated based on more accurate identification of needs (and the responses) by both providers and recipients of Aid for Trade.

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

Aid for Trade is important in its own right. It should assist developing countries to benefit from increased trade opportunities multilaterally (both from previous rounds and from the anticipated results of the DDA), regionally, bilaterally and unilaterally. The Task Force therefore recommends that Aid for Trade must be operationalised as soon as possible. At the same time, the Task Force affirms that Aid for Trade is a complement, not a substitute, for a successful Doha Round. Increasing trade opportunities for developing countries, in particular the least-developed among them, remains the most important contribution that the WTO can make to development. A successful conclusion of the Round will increase the need for assistance to implement new agreements (e.g., Trade Facilitation), to ease adjustment costs, and to make use of new market access. Aid for Trade is a complement to the Doha Round, but it is not conditional upon its success.

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#### **H. NEXT STEPS**

These recommendations are directed to many different actors. The Task Force suggests the following steps:

- urges Members to expeditiously implement the recommendations of the Task Force.
- urges the Director-General to use these recommendations in pursuing his mandate to consult on "appropriate mechanisms to secure additional financial resources for Aid for Trade" so that the joint mandate in Paragraph 57 of the Hong Kong Declaration can be implemented in a holistic manner.
- invites the Director-General to communicate these recommendations to relevant agencies and organisations and to urge Ministers at the upcoming Development Committee Meeting in Singapore to give consideration to these recommendations and to encourage the Bank and the Fund to ensure adequate follow-up and to report on the results at the 2007 Annual meeting.
- invites the Director-General to continue, under his coherence mandate, a dialogue on how recommendations targeted at the agencies could be implemented, including where responsibility for implementation should lie.
- invites the Director-General to establish an ad hoc consultative group to take forward the practical follow-up of these recommendations.
- invites the Director-General to begin examining how to implement the recommendations regarding WTO monitoring of Aid for Trade.
- invites the Director-General to convene, at an appropriate time, an initial review of Aid for Trade, with the participation of all relevant stakeholders.
- suggests, after the completion of the DDA, that the Secretariat conducts an assessment of associated Aid for Trade needs in developing countries, particularly those most affected, including LDCs, and of how Aid for Trade can contribute to the development dimension of the DDA.

## **Annexes:**

Paris Declaration on Aid Effectiveness

Joint WTO/OECD Trade Capacity Building Database

Paragraph 57 of the Hong Kong Ministerial Declaration

## **ANNEX 2: PARIS DECLARATION ON AID EFFECTIVENESS**

### **Paris Declaration on Aid Effectiveness Ownership, Harmonisation, Alignment, Results and Mutual Accountability**

#### **I. STATEMENT OF RESOLVE**

We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions, meeting in Paris on 2 March 2005, resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid as we look ahead to the UN five-year review of the Millennium Declaration and the Millennium Development Goals (MDGs) later this year. As in Monterrey, we recognise that while the volumes of aid and other development resources must increase to achieve these goals, aid effectiveness must increase significantly as well to support partner country efforts to strengthen governance and improve development performance. This will be all the more important if existing and new bilateral and multilateral initiatives lead to significant further increases in aid.

At this High-Level Forum on Aid Effectiveness, we followed up on the Declaration adopted at the High-Level Forum on Harmonisation in Rome (February 2003) and the core principles put forward at the Marrakech Roundtable on Managing for Development Results (February 2004) because we believe they will increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs.

#### **Scale up for more effective aid**

We reaffirm the commitments made at Rome to harmonise and align aid delivery. We are encouraged that many donors and partner countries are making aid effectiveness a high priority, and we reaffirm our commitment to accelerate progress in implementation, especially in the following areas:

- i. Strengthening partner countries' national development strategies and associated operational frameworks (e.g., planning, budget, and performance assessment frameworks).



- ii. Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- iii. Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- iv. Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- v. Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- vi. Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

We commit ourselves to taking concrete and effective action to address the remaining challenges, including:

- i. Weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies.
- ii. Failure to provide more predictable and multi-year commitments on aid flows to committed partner countries.
- iii. Insufficient delegation of authority to donors' field staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries.
- iv. Insufficient integration of global programmes and initiatives into partner countries' broader development agendas, including in critical areas such as HIV/AIDS.
- v. Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems.

We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities

of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.

In following up the Declaration, we will intensify our efforts to provide and use development assistance, including the increased flows as promised at Monterrey, in ways that rationalise the often excessive fragmentation of donor activities at the country and sector levels.

### **Adapt and apply to differing country situations**

Enhancing the effectiveness of aid is also necessary in challenging and complex situations, such as the tsunami disaster that struck countries of the Indian Ocean rim on 26 December 2004. In such situations, worldwide humanitarian and development assistance must be harmonised within the growth and poverty reduction agendas of partner countries. In fragile states, as we support state-building and delivery of basic services, we will ensure that the principles of harmonisation, alignment and managing for results are adapted to environments of weak governance and capacity. Overall, we will give increased attention to such complex situations as we work toward greater aid effectiveness.

### **Specify indicators, timetable and targets**

We accept that the reforms suggested in this Declaration will require continued high-level political support, peer pressure and co-ordinated actions at the global, regional and country levels. We commit to accelerate the pace of change by implementing, in a spirit of mutual accountability, the Partnership Commitments presented in Section II and to measure progress against 12 specific indicators that we have agreed today and that are set out in Section III of this Declaration.

As a further spur to progress, we will set targets for the year 2010. These targets, which will involve action by both donors and partner countries, are designed to track and encourage progress at the global level among the countries and agencies that have agreed to this Declaration. They are not intended to prejudge or substitute for any targets that individual partner countries may wish to set. We have agreed today to set five preliminary targets against indicators as shown in Section III. We agree to review these preliminary targets and to

adopt targets against the remaining indicators as shown in Section III before the UNGA Summit in September 2005; and we ask the partnership of donors and partner countries hosted by the DAC to prepare for this urgently<sup>45</sup>. Meanwhile, we welcome initiatives by partner countries and donors to establish their own targets for improved aid effectiveness within the framework of the agreed Partnership Commitments and Indicators of Progress. For example, a number of partner countries have presented action plans, and a large number of donors have announced important new commitments. We invite all participants who wish to provide information on such initiatives to submit it by 4 April 2005 for subsequent publication.

### **Monitor and evaluate implementation**

Because demonstrating real progress at country level is critical, under the leadership of the partner country we will periodically assess, qualitatively as well as quantitatively, our mutual progress at country level in implementing agreed commitments on aid effectiveness. In doing so, we will make use of appropriate country level mechanisms.

At the international level, we call on the partnership of donors and partner countries hosted by the DAC to broaden partner country participation and, by the end of 2005, to propose arrangements for the medium term monitoring of the commitments in this Declaration. In the meantime, we ask the partnership to co-ordinate the international monitoring of the Indicators of Progress included in Section III; to refine targets as necessary; to provide appropriate guidance to establish baselines; and to enable consistent aggregation of information across a range of countries to be summed up in a periodic report. We

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<sup>45</sup> In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b) and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 59th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).

will also use existing peer review mechanisms and regional reviews to support progress in this agenda. We will, in addition, explore independent cross-country monitoring and evaluation processes – which should be applied without imposing additional burdens on partners – to provide a more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.

Consistent with the focus on implementation, we plan to meet again in 2008 in a developing country and conduct two rounds of monitoring before then to review progress in implementing this Declaration.

## **II. PARTNERSHIP COMMITMENTS**

Developed in a spirit of mutual accountability, these Partnership Commitments are based on the lessons of experience. We recognise that commitments need to be interpreted in the light of the specific situation of each partner country.

### **Ownership**

Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions.

Partner countries commit to:

- Exercise leadership in developing and implementing their national development strategies<sup>46</sup> through broad consultative processes.
- Translate these national development strategies into prioritised results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets (Indicator 1).
- Take the lead in co-ordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

Donors commit to:

- Respect partner country leadership and help strengthen their capacity to exercise it.
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<sup>46</sup> The term 'national development strategies' includes poverty reduction and similar overarching strategies as well as sector and thematic strategies.

*Alignment*

Donors base their overall support on partner countries' national development strategies, institutions and procedures.

*Donors align with partners' strategies.*

Donors commit to:

- Base their overall support – country strategies, policy dialogues and development co-operation programmes – on partners' national development strategies and periodic reviews of progress in implementing these strategies<sup>47</sup> (Indicator 3).
- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results.

*Donors use strengthened country systems*

Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament. Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.

Diagnostic reviews are an important – and growing – source of information to governments and donors on the state of country systems in partner countries. Partner countries and donors have a shared interest in being able to monitor

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<sup>47</sup> This includes for example the Annual Progress Review of the Poverty Reduction Strategies (APR).

progress over time in improving country systems. They are assisted by performance assessment frameworks, and an associated set of reform measures, that build on the information set out in diagnostic reviews and related analytical work.

Partner countries and donors jointly commit to:

- Work together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency and accountability of country systems (Indicator 2).
- Integrate diagnostic reviews and performance assessment frameworks within country-led strategies for capacity development.

Partner countries commit to:

- Carry out diagnostic reviews that provide reliable assessments of country systems and procedures.
- On the basis of such diagnostic reviews, undertake reforms that may be necessary to ensure that national systems, institutions and procedures for managing aid and other development resources are effective, accountable and transparent.
- Undertake reforms, such as public management reform, that may be necessary to launch and fuel sustainable capacity development processes.

Donors commit to:

- Use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures (Indicator 5).
- Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes (Indicator 6).
- Adopt harmonised performance assessment frameworks for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets.

*Partner countries strengthen development capacity with support from donors*

The capacity to plan, manage, implement, and account for results of policies and programmes, is critical for achieving development objectives – from analysis and dialogue through to implementation, monitoring and evaluation. Capacity development is the responsibility of partner countries with donors playing

a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources.

Partner countries commit to:

- Integrate specific capacity strengthening objectives in national development strategies and pursue their implementation through country-led capacity development strategies where needed.

Donors commit to:

- Align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly (Indicator 4).

#### *Strengthen public financial management capacity*

Partner countries commit to:

- Intensify efforts to mobilise domestic resources, strengthen fiscal sustainability, and create an enabling environment for public and private investments.
- Publish timely, transparent and reliable reporting on budget execution.
- Take leadership of the public financial management reform process.

Donors commit to:

- Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules (Indicator 7).
- Rely to the maximum extent possible on transparent partner government budget and accounting mechanisms (Indicator 5).

Partner countries and donors jointly commit to:

- Implement harmonised diagnostic reviews and performance assessment frameworks in public financial management.

#### *Strengthen national procurement systems*

Partner countries and donors jointly commit to:

- Use mutually agreed standards and processes<sup>48</sup> to carry out diagnostics, develop sustainable reforms and monitor implementation.

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<sup>48</sup> Such as the processes developed by the joint OECD-DAC – World Bank Round Table on Strengthening Procurement Capacities in Developing Countries.

- Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
- Share feedback at the country level on recommended approaches so they can be improved over time.

Partner countries commit to take leadership and implement the procurement reform process.

Donors commit to:

- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes (Indicator 5).
- Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

*Untie aid: getting better value for money*

Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. DAC Donors will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (Indicator 8).

### **Harmonisation**

Donors' actions are more harmonised, transparent and collectively effective.

*Donors implement common arrangements and simplify procedures*

Donors commit to:

- Implement the donor action plans that they have developed as part of the follow-up to the Rome High-Level Forum.
- Implement, where feasible, common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. Increased use of programme-based aid modalities can contribute to this effort (Indicator 9).
- Work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews (Indicator 10); and promote joint training to share lessons learnt and build a community of practice.



*Complementarity: more effective division of labour*

Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.

Partner countries commit to:

- Provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level.

Donors commit to:

- Make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.
- Work together to harmonise separate procedures.

Incentives for collaborative behaviour

Donors and partner countries jointly commit to:

- Reform procedures and strengthen incentives—including for recruitment, appraisal and training – for management and staff to work towards harmonisation, alignment and results.

*Delivering effective aid in fragile states<sup>49</sup>*

The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state and other country institutions. While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.

Partner countries commit to:

- Make progress towards building institutions and establishing governance structures that deliver effective governance, public safety, security, and equitable access to basic social services for their citizens.
- Engage in dialogue with donors on developing simple planning tools, such as the transitional results matrix, where national development strategies are not yet in place.

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<sup>49</sup> The following section draws on the draft Principles for Good International Engagement in Fragile States, which emerged from the Senior Level Forum on Development Effectiveness in Fragile States (London, January 2005).

- Encourage broad participation of a range of national actors in setting development priorities.

Donors commit to:

- Harmonise their activities. Harmonisation is all the more crucial in the absence of strong government leadership. It should focus on upstream analysis, joint assessments, joint strategies, co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.
- Align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems.
- Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.
- Use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions.

*Promoting a harmonised approach to environmental assessments*

Donors have achieved considerable progress in harmonisation around environmental impact assessment (EIA) including relevant health and social issues at the project level. This progress needs to be deepened, including on addressing implications of global environmental issues such as climate change, desertification and loss of biodiversity.

Donors and partner countries jointly commit to:

- Strengthen the application of EIAs and deepen common procedures for projects, including consultations with stakeholders; and develop and apply common approaches for "strategic environmental assessment" at the sector and national levels.
- Continue to develop the specialised technical and policy capacity necessary for environmental analysis and for enforcement of legislation.

Similar harmonisation efforts are also needed on other cross-cutting issues, such as gender equality and other thematic issues including those financed by dedicated funds.

## Managing for results

### *Managing resources and improving decision-making for results*

Managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making.

Partner countries commit to:

- Strengthen the linkages between national development strategies and annual and multi-annual budget processes.
- Endeavour to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies; and that these frameworks should track a manageable number of indicators for which data are cost-effectively available (Indicator 11).

Donors commit to:

- Link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance indicators that are not consistent with partners' national development strategies.
- Work with partner countries to rely, as far as possible, on partner countries' results-oriented reporting and monitoring frameworks.
- Harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries' statistical, monitoring and evaluation systems, with partner countries to the maximum extent possible on joint formats for periodic reporting.

Partner countries and donors jointly commit to:

- Work together in a participatory approach to strengthen country capacities and demand for results based management.

### **Mutual accountability**

#### *Donors and partners are accountable for development results*

A major priority for partner countries and donors is to enhance mutual accountability and transparency in the use of development resources. This also helps strengthen public support for national policies and development assistance.

Partner countries commit to:

- Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.
- Reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.

Donors commit to:

- Provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

Partner countries and donors commit to:

- Jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments. (Indicator 12).

## III. INDICATORS OF PROGRESS

## To be measured nationally and monitored internationally

## OWNERSHIP

- 1 *Partners have operational development strategies* – Number of countries with national development strategies (including PRSPs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.

## TARGET FOR 2010

At least 75% of partner countries have operational development strategies.

## ALIGNMENT

- 2 *Reliable country systems* – Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.
- 3 *Aid flows are aligned on national priorities* – Percent of aid flows to the government sector that is reported on partners' national budgets.
- 4 *Strengthen capacity by co-ordinated support* – Percent of donor capacity-development support provided through coordinated programmes consistent with partners' national development strategies.

## TARGETS FOR 2010

(a) Public financial management – Half of partner countries move up at least one measure (i.e. 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance.

(b) Procurement – One-third of partner countries move up at least one measure (i.e. from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.

Halve the gap – halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).

50% of technical co-operation flows are implemented through co-ordinated programmes consistent with national development strategies.

## PERCENT OF DONORS

Score*	Target
5+	All donors use partner countries' PFM systems.
3.5 to 4.5	90% of donors use partner countries' PFM systems
5a <i>Use of country public financial management systems</i> – Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	

## SOUTHERN AND EASTERN AFRICA, THE DOHA AGENDA AND AID FOR TRADE

		<b>PERCENT OF AID FLOWS</b>	
		Score*	Target
		5+	A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems
		3.5 to 4.5	A one-third reduction in the % of aid to the public sector not using partner countries' PFM systems
		<b>PERCENT OF DONORS</b>	
		Score*	Target
5b	<i>Use of country procurement systems</i> – Percent of donors and of aid flows that use partner country procurement systems which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	A	All donors use partner countries' procurement systems.
		B	90% of donors use partner countries' procurement systems
		<b>PERCENT OF AID FLOWS</b>	
		Score*	Target
6	<i>Strengthen capacity by avoiding parallel implementation structures</i> – Number of parallel project implementation units (PIUs) per country.	A	A two-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems.
		B	A one-third reduction in the % of aid to the public sector not using partner countries' procurement systems.
7	<i>Aid is more predictable</i> – Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	
8	<i>Aid is untied</i> – Percent of bilateral aid that is untied.	Halve the gap – halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
		Continued progress over time.	

## HARMONISATION

- 9 *Use of common arrangements or procedures* – Percent of aid provided as programme-based approaches
- 10 *Encourage shared analysis* – Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint.

## MANAGING FOR RESULTS

- 11 *Results-oriented frameworks* – Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.

## MUTUAL ACCOUNTABILITY

- 12 *Mutual accountability* – Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.

## TARGETS FOR 2010

66% of aid flows are provided in the context of programme-based approaches.

- (a) 40% of donor missions to the field are joint.
- (b) 66% of country analytical work is joint.

## TARGET FOR 2010

Reduce the gap by one-third – Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.

## TARGET FOR 2010

All partner countries have mutual assessment reviews in place.

*Important Note: In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30–31 May 2005 and on 7–8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 59th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).*

*\*Note on Indicator 5: Scores for Indicator 5 are determined by the methodology used to measure quality of procurement and public financial management systems under Indicator 2 above.*

## **APPENDIX A:**

### **Methodological Notes on the Indicators of Progress**

The Indicators of Progress provides a framework in which to make operational the responsibilities and accountabilities that are framed in the Paris Declaration on Aid Effectiveness. This framework draws selectively from the Partnership Commitments presented in Section II of this Declaration.

**Purpose** – The Indicators of Progress provide a framework in which to make operational the responsibilities and accountabilities that are framed in the Paris Declaration on Aid Effectiveness. They measure principally collective behaviour at the country level.

**Country level vs. global level** – The indicators are to be measured at the country level in close collaboration between partner countries and donors. Values of country level indicators can then be statistically aggregated at the regional or global level. This global aggregation would be done both for the country panel mentioned below, for purposes of statistical comparability, and more broadly for all partner countries for which relevant data are available.

**Donor/Partner country performance** – The indicators of progress also provide a benchmark against which individual donor agencies or partner countries can measure their performance at the country, regional, or global level. In measuring individual donor performance, the indicators should be applied with flexibility in the recognition that donors have different institutional mandates.

**Targets** – The targets are set at the global level. Progress against these targets is to be measured by aggregating data measured at the country level. In addition to global targets, partner countries and donors in a given country might agree on country-level targets.

**Baseline** – A baseline will be established for 2005 in a panel of self-selected countries. The partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) is asked to establish this panel.

**Definitions and criteria** – The partnership of donors and partner countries



hosted by the DAC (Working Party on Aid Effectiveness) is asked to provide specific guidance on definitions, scope of application, criteria and methodologies to assure that results can be aggregated across countries and across time.

**Note on Indicator 9** – Programme based approaches are defined in Volume 2 of *Harmonising Donor Practices for Effective Aid Delivery* (OECD, 2005) in Box 3.1 as a way of engaging in development cooperation based on the principles of co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme based approaches share the following features: (a) leadership by the host country or organisation; (b) a single comprehensive programme and budget framework; (c) a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; (d) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation. For the purpose of indicator 9, performance will be measured separately across the aid modalities that contribute to programme-based approaches.

## APPENDIX B:

### List of Participating Countries and Organisations

#### Participating Countries

Albania	Australia	Austria
Bangladesh	Belgium	Benin
Bolivia	Botswana	(Brazil)*
Burkina Faso	Burundi	Cambodia
Cameroon	Canada	China
Congo D.R.	Czech Republic	Denmark
Dominican Republic	Egypt	Ethiopia
European Commission	Fiji	Finland
France	Gambia, The	Germany
Ghana	Greece	Guatemala
Guinea	Honduras	Iceland
Indonesia	Ireland	Italy
Jamaica	Japan	Jordan
Kenya	Korea	Kuwait
Kyrgyz Republic	Lao PDR	Luxembourg
Madagascar	Malawi	Malaysia
Mali	Mauritania	Mexico
Mongolia	Morocco	Mozambique
Nepal	Netherlands	New Zealand
Nicaragua	Niger	Norway
Pakistan	Papua New Guinea	Philippines
Poland	Portugal	Romania
Russian Federation	Rwanda	Saudi Arabia
Senegal	Serbia and Montenegro	Slovak Republic
Solomon Islands	South Africa	Spain
Sri Lanka	Sweden	Switzerland
Tajikistan	Tanzania	Thailand
Timor-Leste	Tunisia	Turkey
Uganda	United Kingdom	United States of America
Vanuatu	Vietnam	Yemen
Zambia		

\* To be confirmed.

More countries than listed here have endorsed the Paris Declaration. For a full and up to date list please consult [www.oecd.org/dac/effectiveness/paris-declaration/members](http://www.oecd.org/dac/effectiveness/paris-declaration/members).

## Participating Organisations

African Development Bank

Asian Development Bank

Consultative Group to Assist the Poorest (CGAP)

Economic Commission for Africa (ECA)

European Bank for Reconstruction and Development  
European Investment Bank (EIB)  
(EBRD)

Global Fund to Fight Aids, Tuberculosis and Malaria G24

Inter-American Development Bank

International Monetary Fund (IMF)

Islamic Development Bank

New Partnership for Africa's Development (NEPAD)

Organisation for Economic Co-operation and  
Development (OECD)

OPEC Fund for International Development

United Nations Development Group (UNDG)

Arab Bank for Economic Development in Africa

Commonwealth Secretariat

Council of Europe Development Bank (CEB)

Education for All Fast Track Initiative (EFA-FTI)

European Investment Bank (EIB)

International Fund for Agricultural Development  
(IFAD)

International Organisation of the Francophonie

Millennium Campaign

Nordic Development Fund

Organisation of Eastern Caribbean States (OECS)

Pacific Islands Forum Secretariat

World Bank

## Civil Society Organisations

Africa Humanitarian Action

Bill and Melinda Gates Foundation

Comité Catholique contre la Faim et pour le  
Développement (CCFD)

Comisión Económica (Nicaragua)

EURODAD

Japan NGO Center for International Cooperation  
(JANIC)

Tanzania Social and Economic Trust (TASOET)

AFRODAD

Canadian Council for International Cooperation  
(CCIC)

Coopération Internationale pour le Développement  
et la Solidarité (CIDSE)

ENDA Tiers Monde

International Union for Conservation of Nature and  
Natural Resources (IUCN)

Reality of Aid Network

UK Aid Network

## **ANNEX 2**

### **Joint WTO/OECD Trade Capacity Building Database<sup>50</sup>**

The Trade Capacity Building Database (TCBDB) has been established by the WTO jointly with the OECD to provide information on trade-related technical assistance and capacity building projects. It covers national as well as regional projects. It is an on-going activity and the 2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building was circulated in December 2005. At present, the period of coverage is 2001 to 2004 and partial 2005 and beyond. Data is reported from bilateral donors and multilateral/regional Agencies.

### **TRADE-RELATED TECHNICAL ASSISTANCE AND CAPACITY BUILDING CATEGORIES**

#### **Trade Policy and Regulations**

Dispute Settlement

Customs Valuation

Technical Barriers to Trade

Sanitary and Phytosanitary Measures

Trade Mainstreaming in PRSPs/development plans

Trade-Related Intellectual Property Rights

Agriculture

Services

Tariff Negotiations - Non-Agricultural Market Access

Rules

Trade and Environment

Trade and Investment

Trade and Competition

Trade Facilitation

Transparency and Government Procurement

Accession

Tariff Reforms

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<sup>50</sup> <http://tcbdb.wto.org>

Trade-Related Training Education  
Negotiation Training  
Regional Trade Agreements (RTAs)

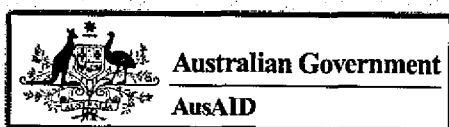
**Trade and Development**

Trade Promotion Strategy Design and Implementation  
Market Analysis and Development  
Business Support Services and Institutions  
Public-Private Sector Networking  
E-commerce  
Trade Finance  
Infrastructure  
Infrastructure – data from the OECD Creditor Reporting System

The Trade Policy Reports series examines topical issues concerning South Africa's international trade relations. Coverage ranges from the World Trade Organization, through regional economic integration, to South Africa's bilateral free trade area negotiations. Reports are written in an accessible manner for non-specialist but concerned readers, contain cutting edge analysis, and put forward recommendations for improving South Africa's international economic positions through the use of trade policy.

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