V. Aid for Trade: Why, what, and where are we?[55]

Bernard Hoekman

1. Introduction

While differences in view persist on the appropriate role of government intervention, there is general agreement regarding the strong positive association between economic development and trade expansion. The World Trade Organization (WTO) promotes trade, and in that sense can be regarded as an institution that promotes development. However, despite the boom in world trade that has occurred in the last 30+ years – in part under the stewardship of the WTO (and before it the General Agreement on Tariffs and Trade) – and the increasing participation of many developing countries in world trade, many observers are concerned that the impact of the WTO – and trade agreements more generally – is asymmetric: poor countries may not be able to fully harness market opportunities because of a lack of competitiveness and inability to deal with adjustment costs (see e.g., Oxfam, 2002; Rodrik, 2005; Stiglitz, 2000). Even where it is agreed that specific disciplines are appropriate, the burden of implementation costs may fall disproportionately on poorer countries (Finger and Schuler, 2000).

One response to such concerns has been for high-income countries to provide assistance – either through preferential access and/or financial transfers. Preferential access can be regarded as a form of aid. Insofar as countries have preferred access to a protected market, this will generate rents (financed by consumers) for the preferred exporters. These are equivalent to a financial transfer. Official development assistance – direct financial transfers – delivered through development cooperation agencies working with recipient governments that may have trade expansion as an objective. Historically, however, there has been very little if any connection or interaction between development agencies and the GATT/WTO. This was by design: the GATT (now WTO) focuses on reducing international spillovers created by national trade policies by supporting the exchange of reciprocal commitments; development agencies focus on supporting unilateral efforts by individual governments to raise per capita incomes and improve human development indicators.

Since the launch of the Doha Round in 2001 there is an increasing recognition that this historical parallelism or independence may not be desirable. Efforts to mobilize more "Aid for Trade" – to allocate more development assistance to trade – reflected a view in parts of the development community (developing country governments, donors, aid agencies, development-focused NGOs) that there had been some neglect on their side of the potential power of trade as an instrument to reduce poverty. It also reflected a concern that more attention needed to be given to ensuring that trade agreements "make sense" from a development perspective. The result was greater engagement by development agencies in national trade policymaking in several traditional donor countries (e.g., Sweden, the United Kingdom) and an increased

[55] The views expressed in this paper are personal and should not be attributed to the World Bank. This paper was prepared in 2010 and updates and draws in part on Hoekman (2008). Thanks are due to Elisa Gamberoni and Richard Newfarmer for inputs.

emphasis on building capacity in developing countries to define and defend trade positions and priorities. Conversely, the trade community (trade ministries, negotiators) became more cognizant of the need to mobilize resources to support implementation of negotiated trade policy-related disciplines, and deal with the adjustment costs associated with trade reforms. More generally, starting in the early 2000s, there was increased recognition that better market access is not enough. To be able to benefit from improved market access firms in developing countries need to be competitive—that is, operate in a business environment that enables them to compete with firms in other markets.

The goal of this chapter is to discuss the genesis of the AfT initiative, how it came about, and where we are (progress to date). The chapter starts with a brief review of the status quo ante – the approaches that were pursued pre-Doha Development Agenda to address development concerns in the trading system (section 1). It then discusses the emergence of AfT as a complement to the traditional focus on (preferential) market access – using trade as a form of aid (section 2). This is followed by a discussion of the state of play on AfT and the some of the challenges and options for moving forward (section 3). Section 4 concludes.

2. The status quo ante

Given that the only instrument GATT/WTO members have at their disposal is trade policy, it is not surprising that efforts to address development concerns by the trade community have focused on the instruments they control. That is, the approach taken by the GATT/WTO can be characterized as an effort to use "trade as aid." There are two dimensions to this approach. On the one hand there is the focus of the institution on nondiscriminatory trade liberalization – which benefits all members, including developing countries, through better access to export markets and helping to lower own barriers to trade. On the other hand this effort to lower trade barriers on a MFN basis is complemented with positive discrimination in favor of developing countries through granting of *preferential* access to markets, as well as greater flexibility/opt outs for developing countries for specific GATT/WTO rules.[56]

A large literature has emerged since then analyzing the effectiveness and desirability of using such positive discrimination. Views differ.[57] Some argue that in principle the approach makes sense, but in practice has delivered limited benefits because of the way it has been implemented. For example, a good case can be made that the value of preferential access offered by developed countries was (greatly) reduced as a result of product exclusions and restrictive administrative conditions (rules of origin, quota limitations, etc. – see e.g., Hoekman, Martin and Primo-Braga, 2008).

Others are of the view that the use of trade preferences as a form of aid had significant downsides, in part because it slowed down general liberalization on a nondiscriminatory basis. A large body of research has shown that although a number of

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[56] This paper ignores special and differential treatment provisions in the WTO – see Hoekman (2005).

[57] See e.g., Johnson (1967) for an excellent contemporaneous analysis and discussion. Suwa-Eisenman and Verdier (2007) review the more recent literature on aid and trade.

countries benefited from preference programs as a result of being granted quota rents on traditional commodities such as sugar and bananas, this arguably worked against their export diversification. Moreover, the plethora of preferential access programs encouraged the proliferation of reciprocal trade agreements, further distorting world trade flows and moving the trading system away from non-discrimination.[58] The fact is that despite preferences and special and differential treatment of developing countries, many of the poorest WTO members saw their share of world trade stagnate or decline between the 1970s and today.

Both sides agree that a major factor impeding the use of preferential access programs is a lack of competitiveness and supply capacity in many of the beneficiary countries. That suggests that using other instruments that provide direct assistance to improve the competitiveness of firms and farmers would do more to improve trade performance of the poorest countries. To a significant degree this insight underpinned the move to put AfT on the agenda of the WTO and international policymaking.

3. The emergence of Aid for Trade on the policy agenda

What follows discusses some of the major forces that led to the emergence of AfT on the international policy agenda.[59] As an organizing device, the discussion distinguishes between considerations that were particularly prominent in the trade community and those that influenced the development community.

3.1. Trade community perspectives

From a trade community/WTO perspective, two types of concerns proved important. The first revolved around what can be called the “Uruguay Round hangover” – the gradual recognition on the part of many developing countries that the results of the Round and the entry into force of the WTO entailed numerous implementation obligations, some of which may require substantial financial and human resources. An influential paper by Finger and Schuler (2000) highlighted that the costs of implementation, if defined not just narrowly in terms of required legal and regulatory changes, but in terms of what is necessary to benefit from a specific WTO set of rules, could be high.[60] However, the primary instrument used in the WTO to address implementation problems was to grant transition periods to developing countries. Assistance to meet the costs of implementation was a matter for governments to request from national and international development agencies.

Relatively rapidly after the entry into force of the WTO it came to be recognized that there was a need for coordination between such agencies and the WTO, and that it would be beneficial to create a mechanism to assist WTO members in obtaining assistance to address implementation challenges. This was the genesis of the

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[58] See, for example, the survey of the literature and the readings in Hoekman and Ozden (2007).

[59] This does not imply the Doha Development Agenda – as discussed below, there is no formal linkage between aid for trade and the DDA. See Finger (2008) for a complementary discussion.

[60] Implementation concerns and a widespread perception that the Uruguay round had been (and the trading system was) unbalanced (Stiglitz, 2000), were factors that led the Doha negotiations to focus on development and lead the negotiations to be called the Doha Development Agenda.

Integrated Framework (IF) for Trade Related Technical Assistance – a result of the 1996 WTO Ministerial in Singapore. Basically a coordinating device involving the WTO and 5 international agencies active in trade and development – the IMF, ITC, UNCTAD, UNDP and the World Bank – the aim of the IF was to help the least-developed countries (LDCs) undertake needs assessments for trade-related technical assistance. The intention was that these needs would be addressed as part of the regular delivery of assistance by the agencies and/or bilateral donors. Essentially an unfunded mandate established by trade ministers, the IF achieved little in its early years. Over time its functioning was improved as the development community began to devote greater attention to the trade agenda. One important change was the creation in 2001 of a dedicated trust fund to finance trade diagnostic activities and small technical assistance projects. While this helped to cover the costs of identifying trade-related priorities in LDCs, financing of projects and activities to address these priorities was left to existing mechanisms for the allocation of development assistance.

A perception on the part of LDCs that the IF was primarily a mechanism for studies as opposed to an instrument to deal with identified priorities led to calls on their part for strengthening the mechanism and giving it substantially greater resources. A 2006 taskforce recommended that the IF be enhanced with a dedicated secretariat and a funding mechanism for its work program (to be undertaken by the agencies and contractors). This fund was recommended to be on the order of $200-400 million. As of 2010 the Enhanced Integrated Framework (EIF) was fully operational, providing assistance to national focal points in LDCs to define and identify trade priorities and integrate these into national development and poverty reduction strategies. The IF – the first formal effort to bring development agencies into the trade (WTO) picture – was an initiative that came from the trade community, not the development community.[61]

A second factor that increased the attention given by the trade community to aid (fiscal transfers) was the increasing difficulty in overcoming resistance to expanding the coverage of the WTO through the DDA. The standard GATT/WTO approach is to define a negotiating agenda that spans many areas. This helps to mobilize more support for reforms in "sensitive" areas such as agriculture by creating new opportunities for workers and firms that operate in other sectors (manufactures, services, etc.). Through the reciprocity mechanism negotiators then seek to achieve enough concessions from trading partners to induce those groups that would gain (exporters) to balance the domestic political opposition by groups that would lose protection.

Many smaller/poorer developing countries have little to offer in the reciprocal negotiations game. They have no market power and cannot affect their terms of trade. Many were also worried about the potential adjustment costs associated with global liberalization on a MFN basis. Developing countries that benefit from extensive preferential access to OECD markets stand to lose from nondiscriminatory trade

[61] The same was true of another initiative that was launched around the same time as the IF – the Joint Integrated Trade Assistance Program (JITAP). JITAP was a joint venture between the ITC, UNCTAD and the WTO, and was more narrowly focused on the delivery of trade-related technical assistance. As noted by Cameron and Njinkeu (2008), JITAP was more limited in terms of its country coverage (16 beneficiary countries), but in contrast to the IF was not restricted to LDCs. JITAP interventions aimed primarily at trade ministries and their immediate constituencies.

liberalization. Global liberalization may also increase the prices net importers pay for certain staples. (This can occur if production subsidies in rich countries are removed if these subsidies suppressed world prices). For poor countries that have not diversified their economies and that depend on preferential access to major markets, there may be little immediate gain from multilateral trade reforms, especially if they do not undertake reforms of their own in trade and domestic economic policy to improve their competitiveness (Hoekman, 2002).[62]

Adjustment costs are an inevitable outcome of ambitious trade reform, whether global or national. Addressing such costs, and putting in place a policy environment that assures households that the reforms will result in new job opportunities, is therefore an important political imperative (Bhagwati 2004; Sutherland et al. 2004; Zedillo and others 2005). Trade policy changes have important distributive consequences within and across countries. Some countries and many individuals in all countries may experience losses as a result of trade liberalization. In principle, aggregate gains will exceed aggregate losses[63], so that it is possible to redistribute incomes to compensate the losers while still generating net overall benefits from the reform. In practice, however, political and technical constraints preclude full compensation. Political constraints include equity considerations—should those who introduced past trade-distorting policies at the cost of society as a whole be compensated? Technical constraints include limitations on the ability to tax and redistribute, and, more important, on the ability to identify losers and design compensation programs in a way that does not distort the incentives to adjust (Verdier, 2005).

Adding financial transfers/aid to the mix of instruments available to negotiators can help address these types of concerns. The implication is to bring those who control financial instruments into the picture. However, in the event, much of the push for more AfT came from the development side of the house, not the trade community.

3.2. Development community perspectives

Support for integration into the world economy through liberalization of trade-related policies was a major aspect of the lending programs and activities of the IMF and World Bank in the 1980s: In the 1990s there was a significant shift in the focus of these institutions towards improving access to health and education, and working more closely with governments to implement national poverty reduction strategies. A result of this shift in focus and modus operandi was that a larger share of development assistance was

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[62] Recent research on this topic suggests that for most poor countries the aggregate impact of preference erosion would be limited. Administrative requirements (rules of origin), the exercise of market power by importers (retailers, distributors), product exclusions, and low MFN tariffs for most manufactures and natural resource-based products all imply that the effective value of preferential access is limited. Preference erosion is an important issue for some countries, but they are mostly middle-income economies. See Francois, Manchin and Hoekman (2006) and the contributions in Hoekman, Martin and Primo-Braga (2008).

[63] Losses being the sum of adjustment costs and the present discounted value of the difference between the pre-reform and post-reform incomes of those individuals unable to ever find employment that pays wages at or above their pre-reform levels. Adjustment costs may be generated by own liberalization commitments that result in greater imports, or reflect preference erosion resulting from liberalization on an MFN basis by countries that have nonreciprocal trade preference programs (Hoekman and Prowse, 2009).

directed towards social services and public expenditure management, with less resources going to support infrastructure, agriculture and trade. In the early 2000s, many developing country governments argued that more attention and resources be devoted to stimulating economic growth. This view was supported by several major taskforce reports. Thus, the UN Millennium Taskforce on Trade stressed that trade could do much to help achieve the Millennium Development Goal of halving poverty by generating higher growth rates (UN Millennium Project 2005). The same message came from the Commission for Africa (2005).

The renewed recognition of the importance of trade for development led to an increased focus by the *development* community on removing barriers in export markets for firms and farmers in developing countries. However, the support for global liberalization was accompanied by a strong emphasis on the need for complementary policies and investments in low-income developing countries to improve the competitiveness of firms and offset adjustment costs. The magnitude of the gains to poor countries from global trade reforms depend on actions to create new jobs, raise wages, and move producers out of subsistence agriculture. Global trade reform by itself will not ensure these outcomes.[64] Domestic supply constraints and high operating costs are the main reason for the lack of trade growth and diversification in many of the poorest developing countries. Without action to improve supply capacity, reduce transport costs from remote areas, facilitate movement of goods across borders, connect farmers to markets, etc. trade opportunities cannot be fully exploited and the potential gains from trade will not be maximized (Prowse 2006).

The agenda is huge. Among possible complementary reforms, research in this area identifies in particular actions to move households out of subsistence production and to improve productivity. Given that poverty is concentrated in rural areas that depend heavily on agriculture, trade opportunities can raise incomes but only if products are produced for the market. This may require active intervention to help households to make the switch—through extension services, access to credit, and investments in infrastructure. Poor roads and ports, poorly performing customs, weaknesses in regulatory capacity, and limited access to finance and business services are all factors determining trade performance. They are all also areas where development assistance can help support reform efforts of governments and enhance the capacity to trade.

The World Bank Group regularly collects data on key trade-related regulatory costs in both developing and high-income countries, including through the *Doing Business* report and a variety of *Logistics Performance Indicators.* These data reveal that red tape-related trade costs – both monetary and expressed in terms of time – are higher in developing economies, with low income countries often having the worst performance indicators (Table 1). The trade-impeding effect of these costs is frequently greater than the restrictive impact of traditional border barriers such as import tariffs.

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[64] See e.g. the contributions in Hoekman and Olarreaga (2007) and Hertel and Winters (2006).

Table 1. Measures of domestic trade costs (averages by country group)

	High Income	Middle income	Low income
Logistics Performance Index (LPI) (score)	3.9	3.0	2.8
Doing Business import cost (US$)	813.6	1024.2	1212.0
Doing Business export cost (US$)	774.4	867.2	949.3
Trade Facilitation (score) (Wilson et al, 2005)	6.1	4.2	3.7

Source: Hoekman and Nicita (2011).
Notes: Higher scores and lower US$ figures are better. Doing Business monetary measures reflect the average cost of shipping a standardized container to or from the port to warehouse.

Table 2 reports the predicted effect on trade if low-income countries were to converge to a set of policies that would generate the observed average levels of some of the indicators in middle-income countries (as reported in Table 1). These estimates are based on a gravity regression—details of the methodology used can be found in Hoekman and Nicita (2011). Their results suggest that reducing real trade costs will have a bigger impact on trade flows than a reduction in applied tariffs to a uniform 5% equivalent level. The predicted increases in trade volumes of low-income countries of this convergence experiment are substantial. The largest increases in trade are associated with actions to improve the logistics/trade facilitation scores (as measured by the Logistics Performance Index). Improving performance on the Doing Business indicator "trading across borders" (which measures the actual cost of getting a standardized container from/to the port) would have an effect that is similar to what could be obtained by reducing all applied tariffs to the 5% level.

In general terms, these results indicate that administrative and regulatory policies are an important factor in impeding trade. This type of data collection and associated research greatly increased the focus of governments on facilitating trade and taking action to reduce trade costs. A key question for policymakers is of course how performance can be increased – what needs to be done, what are the priorities? While this requires country-specific analysis, a major dimension of facilitating trade is action to reduce the incidence of internal tax/customs/police controls. Addressing this source of operating cost – which increases the time needed for transport (an indirect cost) and often requires bribes to officials – would have a high return (Wilson, Mann and Otsuki, 2005; Ikenson, 2008). Djankov, Freund and Cong (2006) conclude that each day of delay reduces export volumes by 1% on average. For example, if Uganda reduced its factory-to-ship time from 58 days to 22 (the average for the world), exports may increase by 36%. This is equivalent to bringing Uganda 3,600 km closer to its trading partners – the distance from Kampala to Dubai.

Table 2. Effects of convergence by low income countries to middle income average

Indicator/policy area	Increase in Imports	Increase in Exports
LPI Score	15.2%	14.6%
Doing Business, cost of trading	7.4%	4.1%
Uniform tariff equivalent for low income countries reduced to 5%	5.7%	

Source: Hoekman and Nicita (2010).

The delays just discussed are due to administrative hurdles – customs and tax procedures, clearance requirements and cargo inspections – often before the containers reach the port. In addition to dealing with red tape, the trade agenda spans actions to improve access to finance, telecommunications and power as well as transportation infrastructure. Currently, the road transport network is so poor in much of Africa that its diverse regions remain largely isolated from one another. Overland trade between West Africa and South Africa is practically nonexistent. Within many countries, fertile soil lies fallow because hauling produce to market is too expensive, time-consuming and difficult. Much of the behind the border competitiveness agenda is services-related and goes beyond transport. Power outages cost the median firm in Tanzania 5% of sales. Firms try to cope by providing their own infrastructure: in Nigeria, over 90% of firms with more than 20 employees have generators. But the marginal cost of such power is about two and half times higher than power from the grid, and the capital cost of a generator is equal to about 20% of the total cost of machinery and equipment. Unreliable infrastructure can be most problematic for small firms, who are less likely to be able to cope. Aid for Trade in all these areas can have a high payoff in terms of supporting greater trade.

Another potential barrier to export growth and diversification is product standards. Estimates of the investment costs for export industries of complying with market product standards can be as high as 1% to 3% of the value of the trade flows concerned (Maskus and Wilson, 2001). Firms in Africa report that product quality standards rank just behind freight and transport charges as the most important factor blocking export success (Wilson and Abiola, 2003). Case studies focusing on the costs and benefits of health and safety standards come to similar conclusions, but also demonstrate that the overall gains from making the associated investments can be significant.[65] This is another area where "Aid for Trade" can have a major impact on the ability of countries to benefit from trade opportunities: by helping firms to upgrade so as to satisfy prevailing market standards. One response to this agenda was the creation of the Standards and Trade Development Facility (STDF) in 2004, a joint venture between FAO, OIE, World Bank, WHO, and the WTO. The STDF aims to assist developing countries implement and satisfy sanitary and phytosanitary measures through projects and capacity building programs in the areas of food safety and plant and animal health.

4. Progress and challenges in moving forward

The factors discussed above all had a role in building support for an effort to expand AfT. The IF, JITAP, and the SDTF were three small-scale efforts to move forward, the first two largely driven by Geneva-based agencies, the third the initiative of the World Bank. The WTO hosted both the IF and the SDTF, and was an active participant in JITAP (which included only the three Geneva-based trade agencies—ITC, UNCTAD, WTO). In addition to these initiatives, increasing donor support came to be allocated to capacity building efforts, especially for negotiations and for supporting institutions based in Geneva (e.g., ICTSD, which publishes the very informative

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[65] Food Safety and Agricultural Health Standards: Challenges and Opportunities for Developing Country Exports, Report No. 31207, World Bank, January 10, 2005.

newsletter *Bridges*). Missing – especially from the perspective of developing countries – was a substantial expansion in the magnitude of dedicated resources allocated to the trade agenda.

Arguments for increased focus on – and resources for – the national trade agenda in low-income countries were developed in a number of major reports and related taskforces. These included the UN MDG taskforce on trade (UN, 2005), a follow-on project supported by the UK Department for International Development focusing on the global trade architecture (Zedillo and others, 2005), the Commission for Africa (2005) report, a report commissioned by Sweden on developing countries and the WTO (Page and Kleen, 2005), and a study by the Commonwealth Secretariat (Grynberg and Silva, 2004).

An important step towards mobilizing additional resources to bolster trade capacity was the commitment by the G-8 heads of government in May 2005 to increase aid to developing countries to build physical, human, and institutional capacity for trade, and to grant additional support to build developing countries' capacity to take advantage of the new opportunities for trade that would result from a positive conclusion of the Doha Round.[66] At the September 2005 IMF/World Bank annual meetings, agreement was reached on expanding the Integrated Framework by providing it with additional resources to analyze trade needs and to ensure that these needs are considered by governments and donors through existing development assistance mechanisms—poverty reduction strategy papers and consultative groups/donor roundtables (IMF and World Bank, 2005). There was also agreement to consider extending the approach to span additional countries, and recognition of the need to consider whether there should be a mechanism to support regional integration, rather than just country-specific actions.

Prospects for mobilizing the needed assistance increased with the support expressed for allocating additional aid to support trade capacity at the 2005 Hong Kong Ministerial meeting of the WTO. That meeting called for a task force on AfT to be established to recommend how to move forward in operationalizing this agenda. In its report (WTO 2006), the taskforce sketched out a number of the key elements of operationalizing a concerted effort to expand aid to strengthen trade capacity and performance. This included mechanisms to better define priorities and to ensure that funds and expertise be made available to address demands. The taskforce also stressed the importance of more regular monitoring of AfT that is provided to developing countries. Three key challenges were identified: determining trade priorities at the national and regional level; responding to this through assistance and financing; and effective monitoring and evaluation of both process and outcomes.

4.1. Determining trade priorities

The key challenge in operationalizing AfT is at the national level. There must be constituencies that push for *their* trade agenda and work to make this a priority for the government and the private sector. These groups should encompass both exporters and importers, as they have common interests when it comes to the various factors that

[66] See G-8 Declaration, Gleneagles, 2005, Africa text: paragraph 22 (a).

affect the cost of trade transactions. They need to organize and have an interlocutor in- or outside the government that will work to identify the priority areas for action, cost these, and make the case that these are *national* priorities. Once priorities have been identified and accepted by the government/parliament, it is necessary help ensure that the case is made to the donor community, that projects are developed and financed, etc. Monitoring of the follow-up process and continued engagement is important.

An effective system at the national level is by far the most important dimension of operationalizing AfT. It is critical to solve a host of subsidiary issues related to delivery of assistance – who (which agency, firm etc.) should do what; ensuring that suppliers of assistance work together and complement each other; ensuring coherence with what is done at the regional level, be it through North-South cooperation (e.g., the Economic Partnership Agreements) or South-South cooperation (e.g., through the regional economic communities in Africa), and so forth. The importance of this national challenge is recognized in both the AFT taskforce report and the creation of the Enhanced IF. The establishment of an earmarked trust fund of some $400 million for the EIF will help finance the activities of national focal points in governments that will raise the profile of trade interests in national fora, work with trade constituencies to identify priorities for action, and follow up on the action plans that are agreed. The effectiveness of the EIF to deliver the desired coordination will depend in part on engagement with the private sector – the trade constituency in each country.

According to the OECD/WTO Partner Country Questionnaires almost all countries receiving aid (79 of 83) have national development strategies, and more than half (43) have "mainstreamed" trade in these strategies in the sense of having identified trade-related priorities and action plans (OECD/WTO 2009). Another 32 developing countries have partially mainstreamed trade activities, meaning that trade issues are mentioned in national strategies, but there is an absence of operational targets/goals and programs. A recent review of trade in World Bank Country Assistance Strategies (CAS) found that AfT is now on the agenda of the majority of the Bank's clients (65% of CASs) (Strachan, 2009). This is translating into increased operational support to help countries in the trade area (see World Bank, 2009).

Although much of the trade agenda at the country level will be sector- or activity specific and revolve around enhancing competitiveness and bolstering the "supply side," there is also an equity dimension to the AfT agenda (Hoekman and Prowse, 2009). Here the needs revolve around both ex ante identification of possible vulnerable groups that may be negatively affected by liberalization – whether external liberalization or own reforms – and design/financing of assistance, and ex post monitoring of impacts.[67]

As many if not all countries are active members of regional trade agreements it is important that the process of setting trade priorities at the national level attention

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[67] The IMF and World Bank offer facilities to help countries finance adjustment shocks. The IMF's Trade Integration Mechanism (TIM) was created to provide for assistance in meeting balance of payments needs that might arise from multilateral trade liberalization. An Exogenous Shocks Facility was recently created by the IMF to provide policy support and financial assistance to low-income countries facing exogenous shocks, including sudden trade-related shocks.

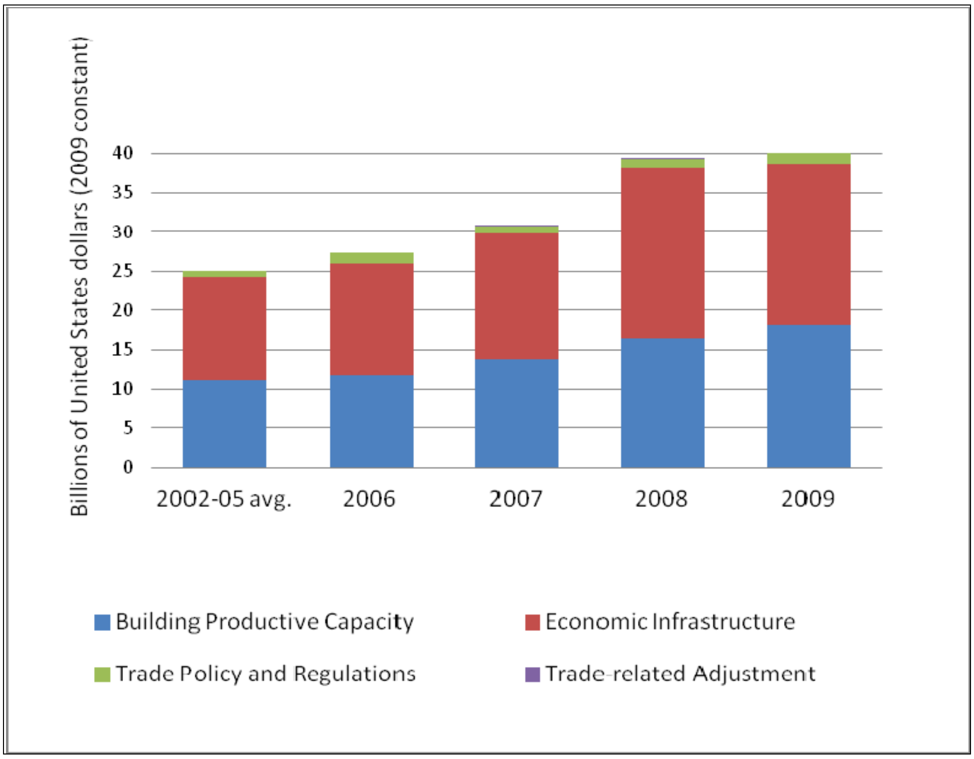
also identifies regional trade priorities. Given that regional activities or projects must be consistent with national priorities, a conscious effort to integrate the regional agenda – including both North-South and South-South arrangements – into the national priority setting process will often be needed. Most of the focus of development support is at the national level; instruments to support multi-country projects and programs are much less well developed (Hoekman and Njinkeu, 2008).

4.2. Financing the identified priority areas

The supply of AfT has been increasing over the 2002–9 period (figure 1). Aid for Trade, according to the definition of the OECD/WTO, comprised about 23% of total development assistance and about 33% of aid that donors and governments allocated to particular sectors on average over that period. (This 'sectoral allocable aid' excludes funds for debt relief, administrative costs and budget support.) Aid for Trade increased 60% in real terms between 2002–5 (the baseline) and 2009, with commitments totaling some $40 billion in 2009.

AfT in each year goes largely to aid for building productive capacity and aid for economic infrastructure, in approximately equal proportions. Low-income countries saw their share of total AfT increase from 44% to 54%, while 59% ($4.7 billion) of the additional funds went to sub-Saharan Africa (OECD/WTO 2009). It should be noted that the OECD definition used here is a broad measure of for trade, in that it includes all financing of infrastructure except water and sanitation. The reason for this is that it is very difficult to distinguish to what extent specific forms of infrastructure support tradable, as opposed to non-tradable, activities. However, it clearly overstates the overall magnitude of AfT. It should also be noted that the OECD/WTO numbers exclude development assistance provided outside of the framework of the OECD Development Assistance Committee, and thus do not cover assistance provided by countries such as China.

Figure 1. Aid for Trade (ODA), 2002–9 (constant 2009 $ million)



Source: OECD World bank (2009).
Note: Data are from the OECD-DAC CRS database and are based on the OECD/WTO definition of AfT. Following Development Assistance Committee practice, ODA data exclude non-concessional multilateral and bilateral lending. Building Productive Capacity includes trade development activities which are identifiable in the CRS since 2007 flows. Trade-related adjustment data are available since 2007 flows.

Middle-income countries are the largest recipient of AfT provided by bilateral donors (including the European Commission), whereas multilateral aid agencies such as the World Bank allocate some 80% of AfT to low-income countries. This raises the question whether the 'right' countries get AfT. Gamberoni and Newfarmer (2009) created a measure of potential demand for AfT based on ten indicators of trade performance and trade capacity. Trade performance variables included export growth, improvements in global market share, and increasing diversification. Trade capacity included variables that were shown to affect trade growth controlling for other factors, including incentives, infrastructure quality, and effectiveness of trade-related institutions. Controlling for per capita income and the quality of the legal system as a measure of creditworthiness, they find that countries with the greatest potential demand—those that scored in the lower quintiles of these ten measures—on average receive the most AfT. But they also note that the match between supply and demand is far from exact: some countries received far less AfT than their potential demand would otherwise indicate, based on their trade performance and capacity.

Donors provided low-income countries, including LDCs, with AfT of about $15.6 billion in 2008. This amounted to some 40% of the total $39 billion in concessional AfT commitments in 2008. The LDCs received about a quarter of AfT commitments.[68] Donors provided about half of AfT commitments to middle-income countries, mostly from bilateral sources. One generalization of importance is that multilateral assistance (assistance through the International Development Association and the regional development banks) on average channeled a far higher proportion of their AfT concessional assistance to low-income countries than bilateral donors do. Some 83% of every AfT dollar goes to low-income countries ($5.8 billion of a total of $7.1 billion in assistance). Bilateral donors gave 30% of their AfT to low-income countries. Lending and projects supported by the World Bank group demonstrates a similar upward trend to AfT overall in the 2002–8 period.

Credibility and predictability of funding is critical to induce the level of engagement that is needed to identify national trade-related priority areas for action. Previous "best endeavor" promises to provide assistance for trade were only partly realized, and more promises provide little assurance to low-income countries that their concerns will be addressed. Various options have been proposed for financing AfT, of which only the Enhanced Integrated Framework has become a reality.[69] While the EIF has funding available to support the process of identification and follow-up activities, much (most) of the financing for trade-related projects and programs will continue to come from and through existing mechanisms through which aid is allocated. There is therefore no guarantee that once projects and priorities have been identified, the financial resources needed for larger trade-related investments will be available.

This is often a major concern of proponents of AfT, but if the national-level process works, this should not be a problem. That process should be able, in principle, to work with the various agencies and actors that provide assistance, be it bilateral or multilateral. Managing and controlling this process is a major challenge that requires dedicated resources at the country/government level, but as long as this can be done, existing instruments can deliver. In the case of the World Bank, for example, there has been a significant increase in financing for trade projects in response to demand from developing countries.

World Bank trade-related lending has more than tripled since 2002, rising to some $27 billion in 2010 from about $7.2 billion in 2002 (figure 2). This is based on a broad definition of trade-related lending, to correspond more closely with the OECD/WTO definition, and includes the sectors of agriculture, energy and mining, industry and trade, information and communication, and infrastructure. On the basis of the World Bank's own, more restrictive, classification of lending activities, in fiscal year 2010 the World Bank provided a total of $1.8 billion in trade-related lending. This is narrowly defined to cover only lending that is coded to the World Bank's trade and integration themes: export development and competitiveness; regional integration; technology diffusion; and trade facilitation and market access. It excludes infrastructure projects and trade finance. Based on this definition again, World Bank lending in fiscal year 2010 represented a three-fold increase from fiscal year 2003 levels, when it amounted to $566 million.

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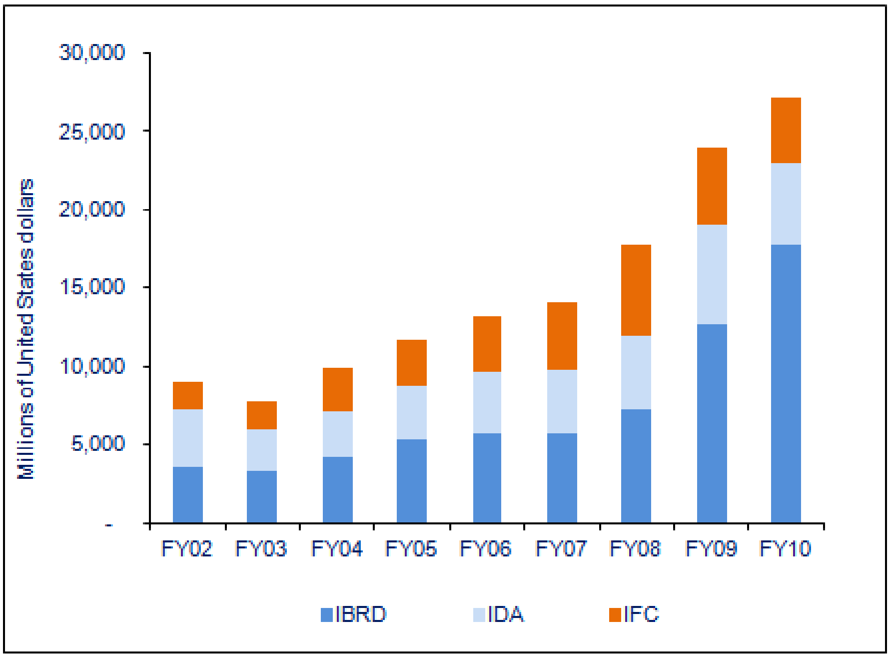
[68] According to ESCAP calculations in 2009 this share increased to 30%. LDCs from Asia and the Pacific received 8% of the total commitments or 26% of the commitments received by all LDCs.
[69] See Zedillo et al. (2005), Page and Kleen (2005), Grynberg and Silva (2004) and Prowse (2006).

Figure 2. Trends in World Bank trade lending, 2001-09



Source: World Bank

As noted previously, increasingly the trade policy and competitiveness agenda is being pursued through regional integration and cooperation efforts. Hoekman and Njinkeu (2008) argue that existing instruments to support regional cooperation are inadequate, resulting in the under provision of financing and assistance for multi-country trade-related projects. Existing support mechanisms, including the EIF, center on countries. For many developing countries, regional cooperation is an important objective. It is also high on the agenda of the European Union and the United States, which are increasingly negotiating reciprocal free trade agreements with developing countries. The EU sees these agreements as instruments to encourage the formation of economic integration arrangements among subsets of African, Caribbean, and Pacific (ACP) countries.

Dedicated funds to support regional cooperation, covering both software (regulatory institutions, policy changes) and hardware (infrastructure to support cross-country flows of goods, services and people) could help to fill the gap that currently exists. A concerted focus on identifying and financing regional projects that would help to address the national priorities could also help overcome resistance to beneficial regional market integration (beneficial in the sense of helping to attain the competitiveness objective). A practical way forward would be for a proportion of donor funds for AfT to be allocated to regional development banks, as well as to multilateral agencies for regional projects. [70] Most regional and multilateral institutions already have trust funds through

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[70] While proposals for earmarked funds are controversial, as earmarking can be inconsistent with aid effectiveness (the activities for which funding is earmarked may not be a priority in individual countries), the creation of a mechanism that earmarks an overall amount for trade does not need to imply that countries must identify trade as a priority; it simply provides greater credibility to countries that if they decide that trade projects are a priority, development assistance will be available.

which such resources could be channeled. The regional agenda can in principle also be met through existing instruments such as the EDF.[71]

4.3. Monitoring and evaluation of Aid for Trade

As donor commitments to increase AfT will not be implemented through a multilateral fund or through other forms of pooling funds for this purpose, effective monitoring of delivery of AfT and the extent to which it responds to national priorities as defined by recipient governments is important. Effective monitoring is also important to allow accurate assessments and evaluation of outcomes. The WTO Aid for Trade taskforce (WTO 2006) called for multilateral monitoring of donor "performance" – the delivery of resources to fund the priority trade projects identified by developing countries. Concretely, it suggested the WTO organize an annual review of AfT. Such global reviews were held in late 2007 and mid 2009, in addition to a series of regional AfT reviews.

While aid and the aid business is not an area where the WTO has expertise, as the world's trade body the institution does have a clear interest in monitoring and discussing what its high-income members have done to support trade competitiveness of lower-income members. It therefore seems appropriate that the WTO take on this role, working with international development agencies and bilateral donors to compile and report data on AfT projects. Much of the required data is already collected by the Development Assistance Committee of the OECD and reported in a joint DAC/WTO database.

Although much emphasis has been put on the need to agree on a common classification and monitoring of AfT flows, an OECD-WTO driven process of annual summaries and scrutiny of aid delivery can only be of limited utility if it does not engage national government agencies, local donor representatives and the private sector. Data must be complemented by analysis of outcomes and assessments of impacts. To be most useful the information on aid must be related to the priorities and objectives that were identified by governments. Is the aid going to address those needs? Was the aid effective in helping to attain the objectives? If not, why not? The payoffs to such scrutiny will be at the national level, suggesting that monitoring and evaluation needs to take place locally and feed into the process and deliberations that inform the national prioritization processes. There is a major role here for local and regional think tanks and research networks. The funding of such bodies should be a priority in the allocation of AfT.

5. Conclusion

The AfT initiative was adopted remarkably rapidly by the trade and development communities. One reason for this is that the rationale and objective is greater trade; the aim is to maximize/leverage trade opportunities by enhancing

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[71] For ACP countries, the Ninth European Development Fund (EDF) was to provide a total of € 20 billion through 2007. While this is intended for all types of development programs, the EDF offers a potential vehicle to address specific trade capacity concerns.

competitiveness. While the substance of the "AfT" agenda is certainly not a new one – indeed, all of the areas for potential intervention have been pursued by developing country governments and donors over many years – what is new about the recent focus on this agenda is the recognition that these are matters that concern both the international trade and development communities.

The implementation of the AfT initiative builds on existing mechanisms for the delivery of assistance. By design, there is no central entity or global financial coordination mechanism that takes the lead or is the focal point for delivering AfT.[72] Instead, AfT is supplied through already existing country-based allocation mechanisms by bilateral donors and international development agencies, supported by a combination of smaller earmarked funds (most notably the EIF). The main objective of the EIF is to assist LDC governments in identifying trade projects that can be considered in the overall process of defining aid allocation priorities at the national level.

The country-centric approach is a major strength of the AfT initiative as it helps ensure that aid targets priorities that have been identified by governments, but it has somewhat reduced the "visibility" of the initiative. The recipient country-cum-donor community-centric focus of the initiative arguable also reduces the potential impact of the enterprise. Thus, there is relatively little engagement by and with the private sector, and few mechanisms that transfer resources from middle income countries to low-income economies (e.g., investment, knowledge). Developing such mechanisms and greater involvement of the private sector could do much to enhance the effectiveness of AfT in supporting trade and employment growth in low-income developing countries.

One can argue with the benefit of hindsight that a downside of the initial response of the trade community to the need for AfT was the IF, as this instrument is limited to the LDCs. The reason for this is that the LDC group is the only subset of developing countries that is formally recognized in the WTO, and that this therefore was seen as the only practical way of targeting assistance to a set of countries that needed it the most while allowing other more advanced countries to be excluded by donors. A result was that a number of countries that are in great need of assistance are excluded from the EIF. The resulting gap can be filled through bilateral action to support similar activities in non-LDCs, but the coverage of such assistance is unlikely to be as comprehensive and coordination more difficult to achieve.

An important corollary of the emergence of the concept of AfT is that the WTO membership has recognized that trade liberalization (market access and rules) alone is not enough to benefit poor countries, and that promises to provide technical assistance are an inadequate response to concerns about adjustment and implementation costs of trade agreements. The emergence of AfT is also a signal that the development community is according greater importance to the role that trade can play in fostering higher growth rates in low-income countries. The AfT initiative can therefore be seen as a move in the direction of greater international policy coherence. It appears

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[72] In contrast to other areas that have recently been singled out as priorities for development assistance at a global level – such as the Global Agricultural and Food Security Program (GAFSP) that was established in 2009 with earmarked funding of $1 to $1.5 billion to scale-up agricultural assistance targeted to the food security of low income countries – donors decided there was no need for such a mechanism in the trade area.

increasingly unlikely that the DDA will be brought to a successful conclusion. Although a failure of the round would be a major setback for multilateral cooperation, the AfT effort that was spawned by Doha is one concrete way in which the negotiations will have contributed in a positive way to helping developing countries to leverage available trade opportunities.

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