



The Future of Aid for Trade at the WTO

Rapporteur's report



The Future of Aid for Trade was organised by Overseas Development Institute (ODI) in partnership with the Commonwealth Secretariat and South Asia Watch on Trade, Economics and Environment (SAWTEE), during the Trade and Development Symposium organised by ICTSD and coinciding with the ninth WTO Ministerial Conference in Bali 3-6 December 2013. The meeting was held on the 4 December 2013.

This report was written by Marie-Agnès Jouanjean - Research Officer, ODI

Introduction

The Future of Aid for Trade at the WTO meeting was held during the ICTSD Trade and Development Symposium in Bali, coinciding with the ninth WTO Ministerial Conference in Bali 3-6 December 2013. It was organised by the Overseas Development Institute (ODI) in partnership with the Commonwealth Secretariat and South Asia Watch on Trade, Economics and Environment (SAWTEE) to discuss the Future of Aid for Trade at the WTO.

The meeting brought together the Asian Development Bank, the Commonwealth Secretariat, ODI and (SAWTEE) and TPU (UK DFID/BIS). It was moderated by **Dr Dirk Willem te Velde**, head of the International Economic Development Group at ODI. He introduced the session by highlighting that Aid for Trade under the paragraph 57 of the Hong-Kong declaration had been successful, but that it now had to continue to evolve in a rapidly changing trade and finance landscape. How can the Aid for Trade initiative be reinvigorated so that it responds to the changes in a way that strengthens the WTO in years to come? How can Aid for Trade continue to support Less Developed Countries (LDCs) and be an effective tool for developing value chains? Suppose we were to write a new paragraph 57, what would be included?

Date: Wednesday 4th December 2013 11:45 – 13:15

Venue: Orchid Room, Bali International Convention Centre – The Westin Resort Kawasan Pariwisata Nusa Dua, Bali, Indonesia

Event participants:

Yurendra Basnett: Research Fellow, International Economic Development Group, ODI

Jodie Keane: Research Fellow, International Economic Development Group, ODI

Ratnakar Adhikari: Executive Director of the Executive Secretariat for the Enhanced Integrated Framework-World Trade Organization

Mohammed Razzaque: Adviser & Head, International Trade and Regional Cooperation Section, Economic Affairs Division-Commonwealth Secretariat, UK

Alisa DiCaprio: Asian Development Bank, Regional Cooperation Specialist

Eamon Cassidy: Head, Trade Policy Unit (Negotiations and Programmes)-Department for International Development/Department for Business, Innovation and Skills

The panel will be moderated by **Dirk Willem te Velde**, Head of Programme, International Economic Development Group, ODI.

Report of the event

The first presentation was by **Dr Yurendra Basnett** (ODI), who presented the results of a two year study by ODI on Aid for Trade (AfT) and on the issue of AfT effectiveness. He mentioned that those findings had already been shared at the AfT Global Policy Review 2013 in Geneva and in this presentation he looked into how to address future challenges.

There is not a single but rather multiple future directions for AfT. It has been a long time since AfT was defined by the Hong Kong ministerial and while AfT has been effective, there are new challenges due to the evolution of the aid and finance landscape. However, some issues still need to be addressed including the definition of AfT and its purpose.

He highlighted at least 8 areas for the future of AfT in an ODI report.

Two points highlighted the challenges that still need to be addressed:

- Maintaining flows.
- Increase effectiveness: Should there be a large agenda or a more focused one? The latter is more likely to produce effectiveness.

Further points presented the most important AfT areas of focus for the future including:

- Helping countries to reduce cost of trading
- Helping build productive capacity
- Strengthening capacities to benefit from Global Value Chains (GVCs)
- Leveraging other financial flows
- Deepening regional integration
- Improving management to deliver results on the ground

Donor-specific and investment specific factors play a large role in effectiveness and issues should be identified at the country level even if it is not clear how to make such assessments.

Finally, supporting the AfT agenda is important and country specific issues including governance are specific factors behind AfT effectiveness. Better focusing AfT at the country level will make it more effective.

The second intervention was by **Dr Mohammad Razzaque** of the Commonwealth Secretariat, who reminded the audience about the launch of the Commonwealth Secretariat/ODI-led book on the effectiveness of AfT at the last WTO trade review. He used the evidence available in the book to try to deduce implications about the future of AfT.

A multilaterally binding trade facilitation (TF) agreement in Bali will have a positive impact on South-South trade, particularly in Asia and South Asia. However, TF is only one component of AfT. At the WTO, only the red tape dimension is being negotiated. It can generate efficiency but in order to generate a supply response there is also a need to build hard as well as soft infrastructure such as developing

the banking system. Yet according to analysis not included in the Commonwealth book, AfT has not yet seemed to help achieve structural transformation.

The future of AfT depends on three pillars. The first is a balanced approach: AfT should be about TF but also other components such as infrastructure, facilities etc. The second is to support the development of productive capacity and the role of policy in building trade capacity to achieve structural transformation. Finally, the third is that market access is not only constrained by tariffs but also by NTBs. In conclusion, he reiterated the main message that AfT works but that the challenge is to achieve structural transformation.

The third presentation by **Dr Ratnakar Adhikari**, Executive Director of the Executive Secretariat for the Enhanced Integrated Framework - World Trade Organization, covered three points:

- i) the future of AfT *per se* and how it should evolve;
- ii) examples of successful intervention under the enhanced integrated framework (EIF); and
- iii) where do we go from here?

On the first point, he highlighted the potential role for AfT in the post-2015 development agenda. It is likely that there will be more focus on inequality, sustainable development, and building capacity. He also hopes that the use of technology will be included in the agenda. He stated that AfT should continue as it is important to the development of infrastructure but more emphasis should be placed on supporting human and skills development in order to contribute to the development of productive capacity and structural transformation. He went on to highlight the issue of trade finance, technology transformation and the potential of locally generated technology and innovation. Finally, he mentioned that AfT was also an important tool to address policy failure.

On the second point, he said that AfT, and in particular EIF as an instrument, has been a vehicle to alleviate supply-side constraints. An AfDB report presents successes of AfT initiatives in LDCs. However, AfT works best in LDCs in an environment when institutional and human resources support the efficient use of aid and in which national objectives are aligned. The EIF Secretariat works on trade mainstreaming, helping to promote national ownership, institutional structure and human resource capability (EIF Tier 2 project). These systems are in place to contribute to the effectiveness of AfT. Regional integration and promoting regional value chains will help to achieve objectives, but there is still a need for more leveraging of resources.

On the third point on where we go from here, he highlighted that there has to be strong M&E system at the country level: there is evidence about the effectiveness of AfT at the global and regional level but not enough at the country level yet. In general, there is a need for a data revolution to measure the effectiveness of AfT.

He mentioned that there should be strong involvement from the private sector: according to ICTSD research, reaching effectiveness requires broad ownership by not only governments but also the private sector and other stakeholders.

Finally he mentioned the issue of the sustainability of AfT results and whether countries will be able to sustain positive impacts once aid dries up. For governments to take over there is a need for human resources sustainability in order to obtain institutionalised and broadly sustained results.

The fourth contribution was from **Jodie Keane**, Research Fellow, International Economic Development Group, ODI. She highlighted that the Doha agenda shifted to the Bali agenda with a TF component that could potentially lead to an agreement. However, in its original conception, AfT was created in 2005 with the idea of trade related adjustment which is still an important issue. Jodie asked whether AfT interventions focus on the right issues, in particular the potential negative impact of the next waves of plurilateral and mega agreements on GVCs and the necessity to adapt to those agreements. A shift in mind-set is necessary to think creatively on how to engage with new forms of trade and in particular to address LDCs trade challenges, left behind from GVCs, to understand how they can better engage in this new form of trade by addressing constraints such as Rules of Origins (RoOs) and other new drivers of trade.

A more objective assessment of needs and constraints could be implemented, supported by a dialogue with the private sector that the WTO would consider to take decisions. There is a need to address the issue of additionality, fungibility and sustainability. She mentioned her study about Kenya and GVCs and highlighted that even though the project seemed to have had good results in the short run, there are doubts about the sustainability of the it: will producers be able to maintain their position in the value chains? AfT is tied to the future of the WTO yet most of trade policy is occurring outside of the WTO. One possibility for the WTO secretariat would be to help in the undertaking objective assessments, analyses on best practice on RoOs and standards, policing the system and help on adaptation to GVCs.

Finally, the GVCs literature is increasingly recognised as having a focus on specific aspects such as power relationships. More analysis is necessary on other issues such as stages of production and whole of value chains approaches.

The next contribution was from **Alisa Di Caprio**, Regional Cooperation Specialist, Asian Development Bank. She developed three elements that, in the Asia pacific region, have implications for the future of AfT, drawing from a recent ADB supported report on AfT.

The first is the importance of public – private dialogue. Some ITC case studies provide evidence that public – private dialogue can work and that it is essential to enable business to contribute to government negotiation capacity.

The second is the need to go beyond infrastructure. Most AfT projects focus on physical infrastructure in response to recipient countries' demand. But there are little visible outcomes, for instance, for small islands. There is a need to think more creatively about how to link to GVCs, what the opportunities are to move up the GVCs and how AfT helps with this.

It is also important to better take into consideration and acknowledge the role of non-ODA flows (e.g. public loans, private loans & guarantees). AfT is only one of the many possibilities to increase trade related capacity and the increasing attention to the private sector puts more attention on those flows. It is not necessarily that AfT is leveraging but there is still a strong relationship between those flows. The ADB reports looks in particular at the prominence of South donors. However, it is difficult to measure and capture the nature of those flows.

In conclusion, there is in Asia a movement towards Investment for Trade rather than AfT with bundles of investment flows that engage the AfT community to be more creative.

The final presentation was by **Eamon Cassidy**, Head of the Trade Policy Unit (Negotiations and Programmes) at the UK Department for International Development/Department for Business, Innovation and Skills who presented UK experiences on AfT.

Overall, he thinks the focus of the WTO ninth ministerial conference in Bali on TF is positive and that there is trust among partners that the funding on AfT will continue. Ministers are very committed to AfT support and to the issue of growth for poverty reduction for which trade is a fundamental driver.

There are competing interests within donor agencies, making evidence that programmes work essential in order to justify the use of tax payers' money. Therefore numbers and evidence that AfT works is necessary.

AfT competes well compared to other aid programmes. However, it is difficult to prove that AfT works and efforts should be made in order to provide clearer attribution of AfT effect versus other sources. Even though it is not different from an education programme on this issue, there is an opportunity cost to AfT and it is more popular for ministers to do education programmes. Providing strong evidence is not impossible but it is necessary, not only to attribute successes but also to learn from mistakes and non-successful projects. For this, it is important to build strong processes of M&E. In particular, it is necessary to take action and close programmes when they don't show results.

It is important to base intervention on a clear understanding of binding constraints by talking to the private sector and governments in order to have strict prioritisation. Governments in recipient countries need to be committed with clear ownership and political will. As such, AfT should be part of a broader policy framework.

There is a need to make sure aid is provided in the most effective way following the Paris Declaration principles. In particular it is important for donors to have a good understanding of the binding constraints they wish to address. There is still too often a lack of harmonisation across donors.

Finally, while in Bali the focus is on TF, the WTO needs to include AfT in a broader framework including policy, reform in the transport sector and so on. Policy reform and advice needs to be proactive: beyond the national scale it is important to think regionally as well as globally in order to understand how developing countries can better join GVCs.

Questions from the audience:

The audience felt that the message was a little ambivalent with demands for a more focused definition of AfT for the sake of efficiency on the one hand and a broader on the other. In particular, there was an impression that AfT was entangled in a vicious circle: there is a need to focus on where AfT is effective and what works, but at the same time it should cover a large range of issues.

One participant wondered whether it was reasonable to go back to trade adjustment and trade facilitation. Another highlighted that the trade negotiating community focuses on one issue at a time and that the focus on TF agreement was a breakthrough with the idea that it not only facilitates exports but also imports.

For another participant, AfT was a distraction from the purpose of what the WTO should have been doing. If there are supply side constraints, they should not be the

burden of the multilateral system and government policies should address them and focus on the real market access barriers and their political economy.

On the issue of ownership, it was mentioned that if national ownership was important, sectoral ownership was important too, and it was important to understand how the trade sector should interact with others.

On the issue of the sustainability, a participant highlighted that this was an excellent point and provided the example of the EU short term impact evaluation of projects for which it is difficult to assess the sustainability. More emphasis should be given to evaluation in the design of projects.

Another participant felt it was important to recognise AfT and AfTF and the progress that has been seen in LDCs such as Bangladesh and their export performance. If there should be a focus on improving trade logistics and infrastructure, there is often little focus on trade policies. Distortions and anti-export bias were cited as important examples.

The example of small economies focussing on the delivery of aid without linking to complementary policies was given. Most of the adjustment in response to trade erosion has been within sectors but AfT cannot be transformative if it invests in inefficient industries. A participant gave the example of successful countries such as Vietnam and Peru, for which success was not inspired by AfT but by strong government leadership.

AfT has to adjust to a new global reality with the accent on GVCs and standards, innovation, in other words, more network economy. For instance, there needs to be more examples of countries successfully improving their standards capacity.

Finally, a participant highlighted that the focus was always on competitiveness, but that facilitating was not relevant when there was no competitiveness.

The chair summarised the discussion briefly on the basis of two bracketed paragraphs on the future of AfT : (i) Aid for Trade (with capital letters) that focused on reducing trade costs and adjustment to trade and (ii) aid for trade that covers a wide range of challenges and is seen in the context of post-2015. Panellists were asked to choose between the two.

Panel answers:

Dr Yurendra Basnett suggested that challenges are different in each country specific context and that AfT is part of a larger basket of which ODA is only a part. Therefore there is a need and possibility to be creative in order to be more effective.

Dr Mohamad Razzaque highlighted that, on the issue of the scope of AfT, the point of departure is to use the broad WTO definition and that the OECD transformed the definition so that countries can link it to their ODA database.

On TF, it should not be forgotten that when the management of TF is improved, it will be of benefit for landlocked countries. Finally, increasing the flow of assistance to trade policy and regulation has positive impact.

Dr Ratnakar Adhikari mentioned that supply side constraints are indeed the major problem for LDCs, but this is not why AfT is there.

According to **Jodie Keane** large infrastructure projects in Asia and Africa are designed very differently. One stop border posts are linked to existing value chains and future ones, and it is important to think about priority products in the future. In Asia, analyses are done at the product level.

Alisa DiCaprio mentioned that AfT going to hard infrastructure is falling compared to soft infrastructure. Building trade capacity is important, but the output is more volatile than hard infrastructure.