



## New EU Aid for Trade Strategy: a window of opportunity?

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In October 2007, the European Union (EU) adopted the 'EU Strategy on Aid for Trade', aimed at enhancing its support for developing countries' capacity to benefit from international trade<sup>1</sup>. This strategic framework has to be seen in the context of the World Trade Organization (WTO) 'Doha Development Round' and the Economic Partnership Agreements (EPAs) currently being negotiated between the EU and the African, Caribbean and Pacific (ACP) countries. The EU Strategy to deliver more and better aid for trade (AfT) was adopted a month before the WTO Global Review of Aid for Trade in Geneva (20-21 November 2007) and during the final stages of the heated EPA negotiations.

After the launch of the AfT initiative at the WTO Ministerial Conference in Hong Kong (December 2005), expectations rose very high but uncertainty has prevailed on the thematic and geographic scope of AfT as well as the financial resources available for it. What seems to emerge from the recent Global Review, mainly a pledging exercise for donors, is that such initiative in the multilateral context will not take the form of a new aid envelope or a specific delivery mechanism. The WTO will most likely remain a simple forum for monitoring the disbursement of global commitments on AfT, with different donor and recipient countries opting for different types of programmes and AfT delivery mechanisms.

Given the modest outcome of the Global Review and the continued difficulties to substantiate the WTO process on aid for trade, the implementation of the EU Strategy can be regarded as a concrete test on whether AfT is going to be 'business as usual' or an innovative instrument for more effective trade-related assistance. This is particularly relevant for those ACP countries that will sign an EPA, since the Strategy will have to respond immediately to specific trade-related needs, though AfT is not and should not be conditional to the conclusion of an EPA.<sup>2</sup>

<sup>1</sup> "EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries", 15 October 2007, available at <http://register.consilium.europa.eu/pdf/en/07/st14/st14470.en07.pdf>

<sup>2</sup> In October 2006 the EU formally decided to address EPA-related adjustment needs within the broader framework of AfT; see "Conclusions on Aid for Trade", 12 October 2006, Council of the European Union (<http://register.consilium.europa.eu/pdf/en/06/st13/st13882.en06.pdf>).



### *Quantity & Quality: what does the EU AfT Strategy entails?*

The EU Strategy is a policy framework on aid for trade building on important principles such as “enhancing the pro-poor focus and quality of” and “increasing EU-wide and Member States’ donors capacity for” AfT. Given that its objectives and approaches apply to 27 EU Member States (MS) and the European Commission (EC), such framework provides an opportunity to establish a common and integrated EU implementation of AfT.

Another important dimension is that, based on a demand-driven approach, the AfT Strategy builds on all existing EU commitments on policy coherence, enhanced division of labour and the Paris Declaration on Aid Effectiveness.

Some skepticism springs however from the use of reservations and safeguards in the AfT Strategy.<sup>3</sup> Compromises among the EU MS and the EC have resulted in a Strategy that will depend entirely on voluntary actions by EU capitals and their implementing agencies. Too many EU strategies based on ‘best-endeavour’ language now collect dust in forgotten archives.

The EU has to overcome a number of challenges to ensure effective use of the AfT Strategy. In terms of quantitative commitments, the EU member states are in the spot light as they will have to increase their trade related aid to euro 1 bn by 2010 (50% of the overall EU commitment should come from EU MS aid budgets). The EC is on safe territory due to the recently negotiated 10<sup>th</sup> European Development Fund (2008-2013), which brings the EC’s AfT contribution already very close to the target (euro 1 bn, the other 50% of the overall EU commitment).

That being said, diplomats and politicians often fall into the trap of lobbying for additional financial resources. Money is important but aid is far from the most critical issue when it comes to enabling developing countries to benefit from world trade. Rather, the key will be better mainstreaming of trade into development plans and enhanced ‘quality’ of trade-related financing (including timely delivery of external aid from donors like the EU).

### *Mainstreaming trade and stocktaking aid – the responsibility of developing countries*

The EU Strategy follows a demand-driven approach, aimed at ‘*delivering an effective response to countries own trade-related priorities*’. Developing countries will have to mainstream trade into national and regional development plans in order to articulate their needs and demands. The ball is squarely in their camp to identify a realistic set of priorities, based on political choices and sound analysis of existing efforts. A demand-driven approach will not trigger effective aid for trade without ownership,

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<sup>3</sup> The Strategy deploys a ‘best-endeavour’ terminology, referring for instance to the financial resources as being “*potentially available*” or to the fact that the EU will “*explore possibilities for*” delivering on the outlined activities. The Strategy explicitly states that the use of ‘*the EU will*’ has to be ‘*understood as referring to Member States and the Commission acting on a voluntary and flexible basis, fully respecting existing competences.*’



since the EU will only act upon convincing proposals by proactive developing countries.

This requires potential recipients firstly to take stock of existing aid programmes, identifying both financing gaps and needed improvements in delivery mechanisms. In addition to better targeting and avoiding duplications, independent assessment by recipients of aid inflows being disbursed at country-level would contribute to a more sound reporting and monitoring of AfT.<sup>4</sup>

Thematic and geographic priorities should guide the scope and specific sectoral allocations of AfT. For instance, cross-border initiatives based on national plans seem likely to attract EU (and in particular EC) AfT, so national and regional interventions will have to be effectively coordinated and integrated.

Developing countries will also have to decide what instruments can deliver more effectively the proposed AfT, bearing in mind that these should be innovative and flexible, for instance to allow for co-financing with the private sector when external aid resources are insufficient. Urgent establishment or strengthening of such home-grown AfT 'vehicles' is an important milestone for effective use of EU AfT. In this regard, developing countries should exploit the possibilities for alignment, harmonization and mutual accountability embedded in the Paris Declaration on Aid Effectiveness.

National and regional AfT committees to identify the preferred scope of and delivery mechanisms for AfT should be established.<sup>5</sup> This is particularly urgent in the case of the ACP countries if they want to tap the opportunities offered by the EU AfT Strategy to address their possible EPA-related needs.<sup>6</sup>

#### *The EU side: from commitments to implementation*

In 2006, the EC and EU member states spent respectively € 960 million and € 370 million on 'trade related assistance' (covering two of the five categories of AfT as defined by the WTO: 'trade policy and regulations' and 'trade development').<sup>7</sup> The EC is close to reaching its commitment but some EU member states have a long way to go before they deliver their part of the € 2 billion commitment. It is now time to deliver, both on quantitative and qualitative targets, taking into account that the € 2

<sup>4</sup> During the WTO Global Review it was highlighted that for various reasons often the aid levels reported by donors do not match with the resources actually programmable in-country. Without proper stocktaking and monitoring by developing countries, parts of donors' pledges may not translate in actual AfT.

<sup>5</sup> This may require for some countries technical and financial assistance both to establish AfT committees and build the capacity of local stakeholders to identify and design AfT priorities programmes. The EU Strategy provides for this: "EU will support the technical capacity of regional and national ACP institutions for identifying, prioritising, designing, implementing and monitoring AfT regional programmes".

<sup>6</sup> Some countries have already identified their AfT strategies and linkages with EPAs, at national (e.g. Mauritius) and regional (e.g. UEMOA) levels, as well as preferred delivery mechanism, as in the case of the COMESA Fund. Those experiences may be useful and could be considered as templates for other ACP countries and regions in the process of identifying AfT priorities.

<sup>7</sup> Data from the OECD Creditor Reporting System.



billion commitment refers to 'trade related assistance' only, while the most urgent needs of potential recipients as well as the highest shares of current AfT disbursed by EC and EU are in the other three AfT categories ('building productive capacity', 'trade related infrastructure', and 'trade adjustment'). The EU member states and the EC are currently engaged in intensive technical discussions on how to exploit the windows of opportunities established by the AfT Strategy, starting with the needs of ACP countries and regions arising from EPA. The success or failure of the EU MS and EC to agree on concrete AfT to ACP regions will show to what extent the EU can exploit the existing windows of opportunity. Some of the main issues which the EU will have to face up to include:

- Allocation by EU MS of their promised AfT resources. It may be difficult for EU trade administrations to persuade the agencies responsible for the 'ODA' envelopes to shift resources to AfT on the basis of existing commitments. Hopefully some EU MS will succeed but others are likely to masquerade statistical data (in the OECD Creditor Reporting System database) in order to satisfy political promises without actually increasing AfT.
- Criteria for allocation of AfT resources to different recipients should be transparent. Each donor (EC and EU MS) should clarify how much of the total promised AfT will be directed to one or the other country or region, also to avoid 'aid orphans'.<sup>8</sup>
- Establishing a common EU approach to regional AfT. In the case of the six ACP regions, for instance, few EU MS are active at regional level whereas the EC is a major provider of regional programmes. This offers an opportunity to ensure an effective division of labour, especially if EU MS can overcome their reluctance to rely on other EU administrations in regions where they are not present.
- Decision to make use of EU co-financing, voluntary contributions and joint implementation arrangements, especially at the regional level. It has to be seen whether EU MS and the EC can agree to pool their resources and thus exploit these possibilities for better division of labour in the name of increased aid effectiveness.
- Harmonization and alignment. The former could be strengthened by using the concept of lead donors (or spokes), to ensure that the EU speaks with one voice when it comes to regional AfT; the latter by supporting regionally owned AfT mechanisms as key delivery modalities.<sup>9</sup>

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<sup>8</sup> The EU AfT Strategy envisages that the share of funds to support the ACPs needs should be "in the range of 50% of the increase" in overall AfT resources. However, how much of this will be earmarked for each ACP region and country, and according to what criteria, remains unknown.

<sup>9</sup> The EC is currently enhancing the use of sectoral and general budget support to implement EDF 10. Similar efforts to enhance and improve the use of aligned aid modalities at the regional level (e.g. contribution agreements) will be an important element in increasing effectiveness of EU AfT.



### *What way forward?*

Despite the limitations outlined above, the EU AfT Strategy is a good start. Success will depend on implementation of it. In the case of the ACP countries, the window of opportunity exists due to the political attention to EPAs but concrete steps are urgently needed before attention shift to other priorities. Political will must be combined with efforts by EU capitals and implementing agencies as well as ACP AfT Committees to identify priorities and effective delivery channels. Otherwise in coming months the window risks to close down, with AfT remaining 'business as usual'.

Martí D and F. Rampa. 2007. *Aid for Trade: Twenty lessons from existing aid schemes*, ECDPM Discussion Paper 80 with the South Centre, Maastricht, The Netherlands: European Centre for Development Policy Management, [www.ecdpm.org/dp80](http://www.ecdpm.org/dp80) and [www.southcentre.org/publications/occasional/DP80-ECDPM-Aid-for-Trade-20-lessons.pdf](http://www.southcentre.org/publications/occasional/DP80-ECDPM-Aid-for-Trade-20-lessons.pdf)

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