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Aid for Trade Architecture: The Why's, what's and How's – and who should deliver?

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I believe it is now understood by virtually everyone that the old slogan "Trade, not Aid" does not hold water. There is no quick fix. Trade does not suddenly happen with the opening up of markets. To reduce poverty we need Aid *and* Trade, and a number of other important measures. For market access to be utilized by the poorest countries, we also need Aid *for* Trade.

Fortunately, Aid for Trade is becoming a trendy topic. EU, the US and Japan have now come with their own development initiatives, but none of them are addressing the issues sufficiently, and none of them include serious aid-commitments. None of them are actually delivering, - at the moment. And it is getting late.

As a global community we should make sure that global trade rules work in favour of the poorest actors, and not the opposite. But even if so, the poorest would not be able to participate without assistance, without Aid for Trade.

Therefore, we need to agree on a substantive development package, of both trade rules and commitments to aid - combined. One will not work without the other. It is all the more strange that all the energy internationally has been focusing on the trade rules, and virtually none on how increased market access can be utilized by the countries concerned – and provide development benefits. As a new trade regime is negotiated – an aid for trade-framework of delivery should be put in place.

Indeed, there is no way the poorest countries can benefit from increased market access without trade related reform in their own policies – and without aid for trade. Here, the issue of preference erosion is a real one. There is a significant risk that some of the poorest countries may become net-loosers as a result of the WTO-negotiations. Others may be faced with even tougher international competition when accessing export markets. In my view the optimal solution in the WTO-negotiations would have been a more differentiated approach, introducing low-income countries as a separate category in WTO. This would give more tailored trade-rules, less preference erosion and better developmental impact. This is out of the question now, however. It is too late.

Partly to compensate for this, delivering on Aid for Trade is imperative, and needs urgent attention. The LDCs will most likely not benefit much from the WTO-round. They are also the countries that most desperately need Aid for Trade. Although all developing countries, to a varying degree, needs assistance in this area. How can this be done? Should an Aid for Trade Architecture be established? Let me say something about the why's first, - then the what's, the how's - how should we address this, and finally - a few words on who should deliver.

First, the why's – Why focus on Aid for Trade?

The GSP-system granted to the LDCs after the Uruguay Round – and the more recent Everything but Arms Initiative was supposed to increase exports to the world market. But we all know that implementation has been very slow. The full potential of the preferences have not as yet been utilized from the LDCs side. Even with full market access, the poorest countries have difficulties in accessing Western European markets.

Despite the restrictive approach to agriculture in the WTO-negotiations, and I have my own views on that, Norway has e.g. granted the most generous GSP-preferences on most products since 1996. As for the implementation of the EBA, we granted 100 % market access without quotas or tariffs for all LDCs, with no exceptions or transitional periods from July 1 2002. Results? Very little imports were registered, despite deliberate efforts to increase productive capacity, address some of the supply side constraints and establish export lines (alliances with import and marketing companies etc.).

For the LDCs, there is certainly no quick fix. Accessing the global market for the poorest countries takes time! They will not be able to deal with all their constraints in 2 – 5 years. And they will not be able to deal with them alone. This is a much longer process. And it needs partnerships with a coherent and coordinated international donor community. It is disturbing that virtually nothing has been done to address these issues the last years, despite the so-called Development Round-negotiations. Some of you will probably say that a lot has been done, relative to what was the situation – say 10 years ago. I will maintain that it is peanuts, and virtually nothing compared to the needs in this area.

The whats: What needs to be done?

We have to address the supply capacity constraints across the board. And now I get to the whats. There are mainly three types of constraints. Most of them takes time to deal with:

- *Production capacity* in terms of capital, relevance, quality and scale;
- *Physical infrastructural capacity*: from rural feeder roads, to national road/rail-networks, storage capacity, ports and transport capacity to the world market;
- *Institutional infrastructural capacity and human capacity* – in terms of quality of products, standardization, cutting red-tape, capacity to handle regulatory frameworks, customs and marketing on the global market.

This is all linked to governance issues and trade related policy reform in each country. Mainstreaming trade into the PRS and similar country programs - and the whole administration, ensuring national ownership of a coherent strategy to facilitate increased trade, is imperative. It is on the basis of such a strategy donors can come in and assist, in helping to build both the physical and institutional capacity for external trade. Individual projects from individual donors will not deliver if they are not part of such a strategy.

As developing countries have to deliver on reform, the donors also have to act. I am talking about delivery in two ways, in the volume of aid for trade, and in the quality, delivering on coherence and coordination of donor assistance. We have to avoid repeating the mistakes of the past! In both these areas donors are still not reforming sufficiently. Commitments to reform have been made, and ground rules have been agreed on in The Paris Declaration on Aid

effectiveness. The timetables and targets now have to be implemented on trade-related aid at country level.

In concrete terms, one can use the diagnostic studies from the Integrated Framework, and develop country-specific trade strategies anchored in the PRS' in all LDCs. The diagnostic studies provide information about trade potential in individual countries, where the bottlenecks are – and how they can be addressed. Similarly they focus on which capacity-constraints that prevent trade and exports, and what measures that should be taken. This should be the basis for the country-specific trade strategies. They should be tailored to country circumstances and cover measures and reforms along the whole chain. Donors should assist through capacity building and TA on this basis. Similarly, infrastructure programs and plans for other investments should be formed within this framework – and in cooperation with the IFIs. Here, the private sector also needs to be brought in. A framework of this kind is important to get the right sequencing of investments and ensure a broad based development focus. Only through holistic planning can one for example ensure that rural feeder roads will be constructed with the same priority as main roads or high-ways. They are equally important for agricultural trade, local and regional – and for the development benefits.

The implementation of trade related reforms and building of institutional infrastructure should run in parallel. Donors and multilateral trade institutions would have to be part and parcel of this process. They would have to be coordinated and put results in country first - and not their own flags. We cannot afford wasting donor resources through competition and national interest anymore, and least of all now – with the limited time at hand.

Let me then move to the Hows.

The hows: How should we achieve it?

Job number 1 is the strengthening the capacity of developing countries, and in particular LDCs, to participate in the WTO-negotiations. This is an important part of the Aid for Trade agenda. But I will not spend more time on that now.

On aid more typically, there are a number of mechanisms for trade-related support. However, rather than taking the global view, it must be the delivery at country level that defines the Aid for Trade-architecture, the measures and the mechanisms. That is the test. Rather than focusing on the architectural issues as such, one should focus on the delivery in country, on the ground. To be able to do so, we need to go through some of the mechanisms that are being used now. Some of them have been in existence for a long time, others are more recent. A number of organizations and institutions are responsible for such programmes. UNCTAD is one, ITC – International Trade Centre, is another. These two institutions' joint programme of cooperation in Africa, the JITAP is a third.

WTO has its own Advisory Centre for WTO Law, and has also started some assistance through the Doha Development Agenda Global Trust Fund. The World Bank and UNDP also have related funds for trade-related aid activities. A joint mechanism which brings most of these actors together, 6 core agencies, is the IF, Integrated Framework, was started after the Uruguay Round in 1997. It is financed through a Trust Fund under the UNDP. In addition, there is of course trade-related bilateral aid.

One might say that there is a kind of aid for trade-architecture already. However, these mechanisms are fragmented, limited in scope, most of them are dealing with TA only, - and with very little resources, both in terms of funding and human capacity. They are not linked up to national ownership and programmes, bilateral aid – or IFI-investments in infrastructure. Hardly any are working on regional trade. There is no coherence. The results in this area is – to put it mildly – mixed. Basically, status quo will not do, nor will it deliver. Serious scaling up and reform is needed in this area.

It is maybe illustrative of the size, magnitude and importance of these multilateral mechanisms that Norway is the largest contributor – in absolute terms. In 2004 we contributed more than the double of e.g. the US! If we don't see a dramatic change in Aid for Trade-efforts, the developmental impact of the so-called Doha Development Round will be non-existent for a number of countries. And as I already said, it may also be negative for some, the risks being high for some LDCs, some landlocked countries and small island states. That is why the issue of preference erosion and aid for trade is so important.

A Task Force is underway - by the Integrated Framework Group - to work on a new, enhanced IF. It will provide its recommendations by April 2006 - on strengthening the IF, improvements of decision-making and management structure, and more predictable and multi-year funding arrangements. The IF-framework has not delivered so far, however, and significant change is necessary. This is related both to the types of assistance and the level.

A study by the World Bank and the IMF proposed the establishment of a Fund of 200 – 400 mill. USD for an initial period of 5 years. The figure covers mainly capacity building – and does not include various indirect costs. Still, it seems to be at the lower end. A similar fund for eight countries in South-East Europe under the auspices of the World Bank mounted to 180 mill. USD over 3 – 4 years. And these countries are not LDCs. We are talking of at least 300 – 500 mill. USD. This does not include trade related infrastructural investments either - only project preparation, and not adjustment costs of developing countries.

Adjustment costs is a totally separate issue, as they are expenses or losses as a consequence of negative effects of new trade rules. Aid for trade should cover measures to be able to utilize new opportunities in trade only.

On the mechanisms it seems that the alternatives are either an enhanced IF, or the establishment of a World Trade Fund. The latter, a WTF, mainly for capacity building in trade, is advocated by the Bank and Fund-staff. I will caution against thinking that new funds solve everything, though. A critical issue will be what the fund should cover. Here, the distinction between (i) trade facilitation and trade related capacity building (e.g. TA and project preparation on the infrastructure side – ref. the figures mentioned) and (ii) more indirect developmental investments in infrastructure and (iii) adjustment costs - must be made. Such a fund should focus on the first. The other two should be funded through other mechanisms. The infrastructure side should be covered through ordinary aid mechanisms, while adjustment costs in my view should be financed through a separate mechanism.

In my view, adjustment costs is not aid, it is compensation. These should not be mixed. Aid for trade is exactly that - aid to be able to utilize trade opportunities. Compensating losses of countries due to the change of trade rules can never be defined as aid – aid for trade. Here, one must be quite clear. This is also important for reasons related to additionality. Compensation

should not be paid through ODA. Defining the funding of adjustment costs outside the aid-term will also protect additionality best. One should therefore use separate mechanisms.

If the adjustment costs are considered for inclusion in the trust fund or a possible WTF, that should at the minimum be done through an entirely separate window. It will be totally unacceptable if adjustment costs are to be paid from aid budgets aimed at the same developing countries that have suffered losses. In reality, that implies that the developing countries will have to pay the bill twice. Or indeed, that other developing countries are paying the bills for compensating the losses of others, while the rich countries go free. There is no doubt, additionality must be protected.

Another key issue is the scope, whether an enhanced IF or a new fund. LDCs are strongly against an expansion of the number of recipients – for good reason. There is a clear danger that resources will go to better off countries.

One should either retain the IF as an LDC only-mechanism or do a very limited enhancement, including countries with special needs, such as landlocked countries and small-island states. Criteria have to be established to this effect. The maximum expansion should be low-income countries. In that case two windows should be created – with the biggest one being LDC-only assistance. Middle-income countries should clearly not be included, they can buy the capacity they need.

Aid-commitments are seldom legally binding, they are at best indicative. The only exception are the multi year-commitments made to IDA (World Bank). No other aid mechanisms have to date managed to establish any similar legally binding arrangements. I don't think it is worthwhile to try that with regard to an enhanced IF, a new Fund – or other funding mechanisms on Aid for Trade. It will be blocked.

It is possible to work for a mechanism which is based on multi year-pledges, however. And the pledges will have to be at the estimated level according to needs. Depending on how much and how many the Trust Fund or Fund (on capacity building etc.) should cover, I believe one needs to prepare for a figure of at least 500 mill. USD. I am then referring to the limited fund, covering primarily the capacity building costs. At the same time, IFIs should commit to infrastructural investments in the LDCs to facilitate trade. Here, the necessary investments have to be much higher. Pressure on donors to deliver on infrastructural investments at the country- and regional levels will be important. They have to be based on the individual country's development plan or PRSP and its trade strategy. Regionally there are also priorities that have been set. Sequencing infrastructural investments will be important here to ensure that the bottle-necks are being dealt with. The IFIs are giving priority to infrastructure now, but they need to do it in the right way – and with the right pace. This risk of repeating old mistakes is high.

A separate solution must be found for the covering of adjustment costs. As I see it, - that issue belongs to the WTO-negotiations as such. The compensation should be negotiated, and a mechanism for its delivery found.

Making pledges on Aid for Trade in the WTO itself, however, has never been done, and would not be natural. One could establish a pledging-mechanism linked to the WTO-process, however, - after the Task Force has completed its work, and there is agreement on the way

forward. That is a possibility, and references to this process could and should be made in the WTO-negotiations. On this basis a donor's conference could then be convened. Rather than back to back, it would be preferable to conduct the meeting ahead of the appropriate WTO-ministerial.

One could agree on the mechanism, level of funding, size and scope, and the pledging arrangements. Donors would then be expected to come with clear multi-year commitments. A monitoring mechanism should also be established. This would add on to the pressure to deliver. References to these commitments could be made in the WTO ministerial declaration, making it more difficult for countries not to deliver.

If one wants to really make this an issue, developing countries could make new liberalization, commitments contingent on donor commitments and the flow of resources – in accordance with the agreed need of aid, for example in terms of multi-year funding. It is possible to link such delivery to the length of the transitional periods. If aid is not provided, the rich countries have not paid their part of the bill, and developing countries could conclude that it prevents them from taking on their obligations too.

For this to be an effective option, and in fact – whatever one chooses to do - preparations on the aid mechanism has to run in parallel with the actual negotiations, and should be completed ahead of the final negotiations. It is urgent! Similarly, as a separate non-aid issue, clear conditionality could be established on the financing of the adjustment costs and on ensuring additionality. Developing countries could very well block the negotiations on a lack of commitment from donors to fund adjustment costs linked to the changes in the trade regime.

If this kind of pressure is to be mounted, Middle Income Countries must be willing to put the interests of the LDCs up front. It might be easier to get all the developing countries united behind such a strategy on adjustment costs than on more aid-related concerns. This, however, remains to be seen.

At the same time, donors have to reform the way they operate, not least in the areas of capacity building and infrastructural development. What we do not need now, is a new round of fly in fly out consultants, and a new round of donor-driven, stand-alone and tied aid-projects. Another aid for trade donor circus may be worse than not doing anything. In other words, there has to be delivery not only in quantity, but also in quality. The commitments have been made in Paris, now it is up to everyone to implement them, in accordance with the targets and the timetables. And we have seen that donor reform is possible - if we want to.

In conclusion, what would the Aid for Trade architecture look like ?

- **At the global level**, a financial and pledging mechanism should be agreed, and donors would make clear multi-year commitments at a donor's conference linked to the negotiating process. The level of funding has to be at the estimated need, whether 500 mill. USD or higher. A monitoring mechanism has to be established to ensure that the funds will be provided. A process to monitor the provision of other related funds for infrastructure through the IFIs and bilaterals should also be put in place. We have to see delivery also in this area. In addition, a commitment should be made on quality, to implement the Paris Declaration on Aid Effectiveness and its targets and timetables in the area of Aid for Trade. This should be done by bilateral and multilateral donors alike. I am deliberately not

addressing adjustment costs under this paragraph, as this should be addressed outside the so-called aid-architecture.

- **At the country level**, this commitment on quality has to be translated into good donor practices. This implies establishing country based processes to develop and implement trade strategies in the LDCs and low-income countries. Only through country tailored efforts based on national ownership and coordinated donorship can supply side constraints be dealt with and trade and exports increase. Such processes, on trade facilitation and capacity building and increased trade, - supported by donors - should be jointly planned and implemented in complementarity. The countries have to take the lead in this. The areas of infrastructural development and capacity building are the least coordinated of all aid-areas. This has to be addressed up-front. Without increased national ownership and aid effectiveness in these areas efforts to increase aid for trade will never succeed.

And in this way, I think I have answered the question, **Who should deliver?**

As we agreed in Monterrey, this is a global bargain, a partnership. Both developing countries and donors and development actors have to deliver. Only when this partnership is at work, changed trade rules will deliver trade also for the poorest countries. Only then will trade deliver development – development in terms of economic growth for the country, and poverty reduction for the poor. Both are necessary.

This may all seem unrealistic under current circumstances. But if the world community is serious in wanting a Development Round and a development result – this is where we have to go – combined with development oriented trade rules. The main responsibility does, however, rest on the rich part of the world. It all boils down to leadership. It is possible to deliver if we want to.