

AID-FOR-TRADE CONCEPT PAPER AND TIMELINE FOR 2006

PREPARED BY THE WTO SECRETARIAT
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Following the Director-General's discussion with the heads of the IMF, UNDP and World Bank on Aid-for-Trade and the inclusion of Aid-for-Trade in the Hong Kong Ministerial Declaration, this paper is being circulated for comment with the aim of agreeing on a common basis for follow-up.

Mandate – WTO Hong Kong Ministerial Declaration on Aid for Trade, paragraph 57

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

Summary

The Hong Kong Declaration endorsed efforts to enhance the Integrated Framework (IF) and it created a new WTO work programme on Aid-for-Trade that aims "to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade".

The objective is to have in place and operational by end-2006 an enhanced IF and secure, multi-year commitments from the main bilateral donors (U.S. E.U. and member states, and Japan) of substantial, additional Aid-for-Trade. The target is to double Aid-for-Trade by 2010, with additional resources of \$2 billion in 2007 rising to \$5-6 billion a year by 2010.¹

The Director-General will consult this Spring on "appropriate mechanisms to secure additional financial resources for Aid-for-Trade". His consultations will focus in particular on how the WTO can best cooperate with intergovernmental agencies and donors to support the expansion of their programmes of assistance for trade-related projects, particularly supply-side capacity and infrastructure, and to help developing countries and LDCs strengthen their ability to attract and absorb substantially increased quantities of Aid-for-Trade and allocate it to viable trade-related projects.

Enhanced Integrated Framework (IF)

The enhanced IF for LDCs will provide one vehicle for LDCs to access the large-scale financing of trade-related projects which Aid-for-Trade aims to mobilize. The enhanced IF will

¹ That amounts to 10-12 percent of the G-8 Gleneagles commitment to provide an additional \$50 billion annually in ODA by 2010.

continue to focus on helping LDCs prepare diagnostic trade integration studies (DTIS) to mainstream trade into their PRSPs, provide additional financing for small-scale projects identified in the DTIS, and prepare the ground for attracting financing from donors for large-scale projects through Aid-for-Trade.

Work on the enhanced IF is already well-advanced. The IF Task Force will present recommendations by April 2006 on the three elements that constitute the enhanced IF. The enhanced IF is to enter into force by 31 December 2006.

Aid-for-Trade

The political objective of the WTO work programme on Aid-for-Trade is to contribute to the development dimension of the DDA, by helping developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. The General Council will discuss this in July, on the basis in particular of recommendations from the Task Force on Aid-for-Trade that the Director-General has been mandated to set up². By the end of the Round, there will need to be evidence that "secure", "additional" and "predictable" Aid-for-Trade is being provided. The appropriate mechanisms to guarantee this will emerge from the DG's consultations and will be an issue for discussion by WTO Members in the context of their efforts to conclude the Round.

At a minimum, developing countries and LDCs will expect evidence that substantial fresh money is being made available. They expect Aid-for-Trade to go well beyond the scope of the IF, and help them to cover the costs of implementing WTO Agreements, macroeconomic adjustment, training and institution-building, and supply-side capacity and infrastructure. In general terms, the main bilateral donors have supported those expectations. Their Hong Kong statements indicate that the amount of new money they are prepared to commit to Aid-for-Trade is potentially much larger than for the IF³.

The question that needs to be answered early on in order to design the deliverable for the end of the Round is how additional Aid-for-Trade will be raised, managed and disbursed.

Trade facilitation

One area where Aid-for-Trade will make an important contribution is in trade facilitation. Technical assistance and capacity building will be essential to implement the results of the negotiations and reflect the trade facilitation needs and priorities of developing countries and LDCs.

Aid-for-Trade deliverables

The adequacy of existing mechanisms for providing Aid-for-Trade was discussed at the IMF/World Bank Development Committee in September 2005 and the OECD DAC in October 2005.

² The role of intergovernmental agencies in the work of the Task Force – perhaps in an advisory capacity, for example – will be discussed with WTO Members of the Task Force.

³ In Hong Kong, Japan announced spending on trade, production and distribution infrastructure of \$10 billion over three years, the U.S. announced Aid-for-Trade grants of \$2.7 billion a year by 2010, and the E.U. and its member states announced trade-related spending of €2 billion per year (up by 600 million) by 2010. Calculations on which G-7 Finance Ministers based their statement of support in early-December 2005 involved doubling Aid-for-Trade by 2010 to \$12 billion a year, with an additional \$2 billion a year for "trade policy, regulation and development" (policy formulation, implementing trade agreements, export promotion, and standards) and an additional \$4 billion a year for supply-side capacity and infrastructure. The separate component of adjustment assistance is tied more directly to the results of the Doha Round than other forms of Aid-for-Trade – whether the amount needed will exceed the resources available through existing programmes, notably the IMF's Trade Integration Mechanism, will have to be assessed at a later stage.

Both favoured the improvement of existing mechanisms rather than the creation of new ones. Both endorsed the enhancement of the IF. The Development Committee concluded that there was no need to create a new fund to address trade-related adjustment costs but it left open the possibility to create a new financing mechanism for regional or cross-country projects. Fund/Bank staff will report on this at the Committee's September meeting. Ensuring an appropriate mechanism to secure additional financial resources for Aid-for-Trade for regional and cross-country projects that facilitate regional integration is of particular interest to WTO Members in the context, for example, of building large-scale trade infrastructure that can serve the needs of more than one country.

The surest way for the WTO to reach a successful and operational end-of-the-year result on Aid-for-Trade is to work with multilateral, regional and bilateral donors under the WTO's coherence mandate to increase flows of technical and financial assistance to trade through existing channels. In his consultations, the Director General will invite individual agencies and donors to comment on their ability to raise, manage and disburse substantial increases in financial resources for Aid-for-Trade, and on their mandates, procedures and criteria that determine how and when they provide assistance.

The main role the WTO can play this year is one of advocacy – with agencies and donors, to encourage them to increase the resources they devote to Aid-for-Trade on favourable terms, and with trade ministries in developing countries and LDCs to encourage them to work domestically for trade to receive a higher profile in the process of attracting and allocating ODA at the national level.

But the WTO will clearly need the support of the IMF, World Bank, regional development banks, OECD DAC and other relevant international agencies to buy into the WTO work programme on Aid-for-Trade and to bring their expertise and influence to bear in encouraging their own memberships to expand the financing they make available for trade-related programmes.

Since the WTO has no in-country representation, the support of these agencies will be needed in particular to assist developing countries and LDCs to integrate viable trade-related projects into their development programmes and poverty reduction strategies for which they are seeking ODA assistance. This is currently a weak link in the Aid-for-Trade chain, and strengthening it will be as important for the end result as making sure that additional financing is in place. Attention will be given to increasing the role of the WTO's Trade Policy Review Mechanism in that regard.

One aim of the Director General's consultations will be to strengthen the dialogue between trade, finance and development officials on key principles of aid effectiveness – such as local ownership and integrating trade into country programmes – and on the role that trade infrastructure can play in meeting international development goals alongside, and without diminishing, ODA spending on social infrastructure.

The end-year result in the WTO on Aid-for-Trade will be judged on three criteria: how much new money is made available for trade (without cutting into other ODA flows), what is the nature of the money (how much is provided in grants or on concessionary terms), and what policy conditionality is attached to its disbursement.

For the General Council meeting in July 2006, where this political dimension of Aid-for-Trade will receive its first airing by WTO Members, the Director-General will aim to present a clear picture of what mechanisms exist to deliver Aid-for-Trade at multilateral, regional and bilateral levels, what Aid-for-Trade flows are taking place, what conditions (financial and policy) are attached to them, and what additional financing is available or can be anticipated. The WTO will start work straight away to try to compile a comprehensive inventory by inviting the OECD to provide us with data on bilateral Aid-for-Trade flows (to be supplemented, as necessary, by information from individual donors, particularly on their commitment to increase their financing of Aid-for-Trade), as well as asking the IMF, World Bank and regional development banks to provide us with data on their Aid-for-Trade activities.

2006 Aid-for-Trade Timeline

January

- WTO DG establishes a Task Force of WTO Members to provide recommendations to the General Council on "how to operationalize Aid-for-Trade" and on "how Aid-for-Trade might contribute most effectively to the development dimension of the DDA".
- WTO DG consults with heads of IMF, World Bank, and UNDP on common approach for broader consultations (concept paper finalized).

February

- WTO DG starts consultations more broadly with other IGOs and with Members "on appropriate mechanisms to secure additional financial resources for Aid-for-Trade".
- Start compiling an inventory of Aid-for-Trade financial commitments by agencies and donors.

March

- Large consultation on "appropriate mechanisms" with senior representatives of agencies in Geneva.

April

- Integrated Framework Task Force completes its recommendations
- Finalize inventory, conclude consultations, and prepare DG's report to the General Council "on appropriate mechanisms to secure additional financial resources for Aid-for-Trade".

May

- WTO General Council - discuss DG's report.
- Integrated Framework Steering Committee endorses Integrated Framework Task Force's recommendations.

July

- WTO General Council – discuss Task Force recommendations

September/November

- WTO advocacy with IFIs, RDBs, and bilateral donors to operationalize the Aid-for-Trade Task Force's recommendations.

December

- Aid-for-Trade programme and enhanced IF become operational at WTO Ministerial Conference to conclude the DDA.