Oxfam Briefing Note

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Scaling up aid for trade: how to support poor countries to trade their way out of poverty

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Trade can be an engine for growth that lifts millions of people out of poverty, but many developing countries face constraints that prevent them from participating in the global trading system. Even if trade rules are radically reformed and a pro-development round is achieved at the WTO Ministerial in Hong Kong in December 2005, current 'behind the borders' problems mean that poor countries will continue to lose out on the potential benefits of global trade.

Aid to address these constraints was a key promise of the Uruguay and Doha Rounds, but donor efforts to date have been wholly inadequate. More money to help countries strengthen their ability to trade is urgently needed. Oxfam believes this assistance must be recipient-driven, additional to existing development aid, free of economic conditions, adequate, predictable and complementary to — rather than a substitute for — better and fairer trade rules.

However, the current World Bank/IMF proposal will not meet these criteria, and instead could be used to coerce countries to liberalize their trade regimes. Therefore Oxfam believes the proposal for an enhanced Integrated Framework needs considerable reform if it is to deliver real aid for trade.

What is aid for trade?

Much broader than simple technical assistance or training of trade negotiators, 'aid for trade' describes several categories of trade-related assistance to developing countries. Its objectives include enhancing worker skills, modernizing customs systems, building roads and ports, and improving agricultural productivity and export diversification. Aid for trade should also help countries to meet the adjustment costs of implementing

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trade agreements, together with preference losses and more expensive food imports. Essentially, its aim is to help countries to adapt to the global trading environment.

Box 1: Types of aid for trade

Capacity to supply: Assistance to help producers overcome supply-side barriers and benefit from trade opportunities by improving physical infrastructure (roads, harbors, airports, etc.); providing reliable inputs (water, electricity, seeds, fertilizers); and improving agricultural productivity and access to credit.

Capacity to trade: Assistance to reduce non-tariff barriers to trade by modernizing customs and tax systems and improving standards and certifying bodies.

Capacity to formulate trade policy: Support for developing country governments to determine appropriate trade policies.

Capacity to participate in trade negotiations: Supporting trade negotiators to actively participate in international negotiations.

Capacity to implement trade agreements: Helping countries to translate international rules into national laws and institutions.

Adjustment costs: Assistance to implement new trade rules, and compensation for the negative impacts of trade liberalization.

Oxfam believes that to genuinely assist poor countries, aid for trade monies must not only be additional to development aid and meet standards of aid effectiveness, such as those outlined in the Cotonou Agreement or the OECD DAC Paris Declaration on Aid Effectiveness, but they should also complement a pro-poor round of trade negotiations that puts development at the heart of the talks.

Aid for trade is needed to…

…ease supply-side constraints

While trade has been a key driver of growth in many parts of the world, the composition of Africa's exports has remained largely unchanged. This has reduced the continent's share of world trade from 6 per cent in 1980 to less than 2 per cent in 2002.[1]

Much of this lost opportunity is due to supply-side constraints. For example, Mali is a competitive producer of cotton but faces many obstacles to improving productivity. Rich country subsidies remain a major barrier, but Mali's exporters are also hindered by high transport costs due to the country's poor infrastructure and its landlocked location. In addition, its farmers need better technical assistance and access to credit.[2]

Aid for trade is key to assisting poor countries to overcome such constraints and take advantage of the opportunities provided through global trade.

Box 2: Aid for trade and poverty reduction[3]

In Ghana, many small farmers rely on pineapple exports for their livelihoods. Ghana holds 10 per cent of the EU market for pineapples, but it could be more competitive. Farmers in Ghana are faced with many supply-side constraints: poor access to credit and inputs, high handling costs at ports and airports, and strict standards in export markets on pesticide levels in fresh fruit.

Through funding from USAID and the World Bank, development agencies have provided technical assistance to teach pineapple farmers how to produce their crops organically and how to gain organic certification. After just one year, farmers were able to turn their fruit into juice and earn an average of $300 apiece, a 36 per cent increase over their previous year's income.

…help countries adjust

As the Zedillo Commission[4] highlights, despite expected overall gains, not everyone will win from global trade reforms. Therefore, any gains should be used to offset some of the losses. And, to ensure rich countries meet their obligations to help poor countries, any trade agreement must be complemented by 'a concerted effort to enhance [developing countries'] ability to exploit more trade opportunities'.[5]

Preference erosion — the trade losses resulting from liberalization in other countries — is a serious concern for many poor countries. Many African nations currently benefit from trade preference schemes such as the US African Growth and Opportunity Act and the EU Everything But Arms agreement. However, tariff reduction, a central aim of the round, will undermine the benefits of these preferences, lessening the competitive advantage currently granted to poor country recipients.

Additionally, after liberalization, net food-importing developing countries (NFIDCs) are likely to find it more difficult to afford necessary food imports, because world prices will rise as rich country agriculture subsidies are reduced. These additional costs threaten food security and add to existing balance of payments difficulties.

Liberalization may also entail significant losses of government revenue: many developing countries rely on import tariffs, not taxes, for their income. Countries already struggling to stay afloat will lose precious resources by having to lower tariffs. And fiscal reforms will not make up the shortfall — studies[6] indicate that even in the best circumstances, fiscal reforms produce only $0.30 for every $1 previously earned from tariffs.

Joining the WTO and complying with subsequent agreements has required significant and costly reforms. Countries already struggling under the burden of debt and the fiscal as well as human costs of disease, starvation, and illiteracy, simply cannot meet these expenses on their own. Therefore, additional aid is needed to help countries meet these adjustment costs.

Aid for trade is needed now…

…to meet the MDGs

If poor countries are to overcome poverty and achieve the Millennium Development Goals (MDGs) by 2015, fairer trade, more and better aid, and debt relief are urgently needed.

The UN Millennium Project and the Commission for Africa both stress that the MDGs are still achievable, but only if sufficient aid for trade, as well as development aid and pro-development trade rules, are delivered to developing countries, especially LDCs in Africa. The World Bank and the UN estimate the cost of achieving the MDGs by 2015 at $50bn–$70bn extra per year now and increasing to $135bn in 2015, when the absorptive capacity of developing countries is expected to improve.[7] Present aid flows of around $80bn a year are thus completely insufficient.

In spite of commitments by rich countries to address these issues, progress so far has been unsatisfactory. The $16bn of new money committed at the 2005 G8 summit was welcomed, but clearly nowhere near the $50bn needed initially to attain the MDGs.

...because rich countries promised it

Promises of aid for trade for poor countries have been plentiful. In the Uruguay Round, WTO members agreed that LDCs would receive aid for trade.[8] The Marrakech Agreement included specific measures for addressing the possible negative effects of trade reforms on LDCs and NFIDCs and technical barriers to trade, and for recognizing the special needs of LDCs.

Compensation for preference erosion, higher food import costs, and implementation adjustments was promised in previous rounds — and it is critical to achieving a pro-poor development round. LDCs were promised 'substantially increased technical assistance', 'appropriate mechanisms to ensure that the implementation of the Uruguay Round on agriculture does not adversely affect the availability of food', and 'the financial and technical assistance necessary to enable least-developed countries to respond adequately to any new measures'.[9]

However, delivery on these promises was negligible. So, when the Doha Round was dubbed 'the development round' by rich countries, to reflect the commitments of all members to integrate poor countries into the multilateral trading system, poor countries thought their needs were finally going to be prioritized.

Members agreed that the new round would not only address the development dimension of trade, but would put developing country concerns — special and differential treatment, assistance for trade facilitation, challenges faced by net food importing developing countries, and losses from preference erosion — at the heart of the talks.

The G8 leaders at Gleneagles in June 2005 once again made strong promises. They committed themselves to offering additional aid to developing countries 'to build the physical human and institutional capacity to trade, including trade facilitation measures' and committed 'to granting additional support for trade capacity building to assist LDCs, particularly in Africa, to take advantage of the new opportunities to trade'. Yet the recent World Bank/IMF proposal to address the calls of the G8 risks failing to deliver on these promises.

…because poor countries demand it

Poor countries argue that, without additional trade-related support, they will not be able to benefit from new trade rules, *even with* special and differential treatment.

All four LDC trade ministers' declarations[10] recall 'the commitments made *inter alia* at Marrakech, Singapore, Geneva, and Brussels by the international community in assisting LDCs', and call upon all WTO members to provide 'aid for trade as an additional, substantial, and predictable financial mechanism to strengthen supply-side and infrastructure capacity, diversification of trade in LDCs, and address adjustment challenges and costs'.[11]

But despite the insistence by LDCs on the need for special consideration and additional aid, their proposals are fiercely contested. Rich countries question the need for specific solutions to preference erosion, implementation, and other development interests highlighted by LDCs during the Doha Round.[12] And while the July 2004 Framework Agreement attempted to address these issues, it states merely that 'the development issues should be taken into consideration'. Hardly forceful or resolute — but unless these claims are taken seriously, many LDCs see little value to the round.[13]

Of the 80 proposals put forward by developing countries on special and differential treatment in the Doha Round, more than half requested assistance to address adjustment costs, capacity building needs, and the impacts of preference erosion and liberalization on NFIDCs.[14] Yet promises by the developed members have amounted to little more than 'best endeavor' language, as rich countries continue to block progress by raising new objections.

Where aid for trade stands

Currently, some aid for trade is being delivered via a variety of bilateral and multilateral donors. Combined bilateral and multilateral aid flows have increased in recent years, from $2bn in 2001 and 2002 to $2.7bn in 2003.[15] This accounts for around 4 per cent of all development aid, yet funds have been insufficient and painstakingly slow to arrive.

While there are no firm estimates on how much it might cost to overcome the obstacles to trade detailed above, $2bn annually, spread across more than 100 developing and least-developed countries, is clearly not enough.

There are also problems with the way in which such aid is delivered. The process lacks ownership by recipient countries, lacks a strong focus on poverty reduction, and fails to properly engage civil society and the private sector. Critics argue that such aid is:

- Biased — reflecting mainly donor country interests;
- Tied — requiring that certain percentages of aid providers, goods, and services are from the donor country;
- Ineffective — often taking a 'one-size-fits-all' approach and marginalizing large segments of poor populations, such as rural communities and women;[16]
- Poorly targeted — a vast majority of expenditures go into the facilitation of negotiations on infrastructure, energy, and trade — which is needed, but which often overshadows needs more strongly linked to poverty reduction.

Box 3: Shortfalls of the Integrated Framework

The Integrated Framework (IF) was set up to assist developing countries to identify barriers to trade and to mainstream trade capacity building needs into the country's development strategy. Launched in 1996, and jointly handled by the WTO, UNCTAD, UNDP, ITC, World Bank, and IMF, (although in reality dominated by the World Bank), the IF has to date delivered very little.

In nearly a decade of operation, donors have scraped together just over $19.3m to fund diagnostic trade integration studies (DTIS), which have cost an average of $300,000–$400,000 per country. Only $8m has actually been disbursed to fund small trade capacity-building projects (which are capped at $1m per country).

Despite the IF's claim to be recipient-driven, transparent, and encompassing of civil society concerns, it has no explicit mandate for ensuring that these principles are carried through. Co-ordination has been dominated by the World Bank, an agency with a chequered history of persuading countries to liberalize inappropriately, rather than nurturing a multi-donor and multi-stakeholder approach.

For example, IF teams do not require representation from the client country. While stakeholder input is welcome, there is no specific requirement for civil society or private sector consultation. The diagnostic phase of the DTIS conducted in Ethiopia 'did not include an active participatory process of all stakeholders [and] the ownership of the DTIS among the private and civil society [was] limited'.[17]

In addition, efforts to disclose the findings of diagnostic studies to the general public are limited, and there is nothing to prevent the findings conflicting with a country's existing poverty reduction goals.

What's on the table…

In response to requests made by the G7 Finance Ministers in February 2005, and again by the G8 leaders in June 2005, the joint staffs of the World Bank and the IMF prepared a proposal on how to scale up aid for trade.[18]

The 'enhanced IF' proposes increased funds of around $200m–$400m for a larger group of developing countries, over a period of five years. However, in the words of the Zambian trade minister, this amount, spread over five years and 40 countries — averaging $1m–$2m per country per year — 'can hardly be called a significant enhancement'.[19] It is not only insufficient to carry out the mandate of the IF — it will barely begin to help countries to overcome their constraints to trade.

The enhanced IF would retain the same narrow mandate — assisting with project preparation — as its predecessor, signalling that there has been no attempt to address poor countries' concerns about the process. For instance, the proposal does not expand assistance to large-scale capacity-building projects identified in the diagnostic studies, as has been requested by LDCs. Reforms will not reduce the dominant role of the World Bank, to allow developing countries to drive the process themselves. Nor does the proposal guarantee that projects will ever receive funding, even if they are included in a country's development strategy. This is left up to the goodwill of donors at a later date.

Furthermore, the World Bank and IMF opposed creating a large new facility to address adjustment costs, suggesting instead that the Fund's Trade Integration Mechanism (TIM) — designed to assist countries with balance of payment difficulties — would do the trick. Yet the TIM does not assist with some crucial adjustment costs of trade reform, such as employment and competitiveness, and countries must already be engaged in an IMF program to receive this assistance. Such help is subject to multiple conditions, may only be offered under concessional terms, and may not even be guaranteed.

Providing this meagre assistance in the shape of loans, and not grants, presents another series of challenges for already indebted developing countries. Such countries, struggling with scarce resources and high levels of debt service, should not be forced to divert aid resources from humanitarian development needs for needs related to trade.

Even more worrying, however, is that the proposal explicitly emphasizes the need for developing countries to embrace liberalization and 'be prepared to lower — and bind — their NAMA[20] tariffs'. This suggests that countries may be coerced into liberalizing their markets outside of the WTO negotiations, in order to receive trade-related assistance. Putting pressure on developing countries to conform to economic policy prescriptions in sensitive areas, such as liberalization and privatization, should not be a function of any type of assistance.

And because this assistance is not guaranteed — developed countries will have an easy means of reneging on their commitments by deferring their responsibilities to the IFIs — the poor countries could also be coerced into making more concessions in the trade round, for nothing in return.

To prevent this worst-case scenario, it is imperative that the concerns of poor countries are addressed within the talks and that aid for trade is not used as an instrument to coerce developing countries into a trade agreement that does not address their development needs.

Summary and recommendations

Whether or not trade helps to lift millions of people out of poverty depends on the ability of developing countries to actively participate in the multilateral trading system and to effectively pursue their national development agendas. A major challenge is the inadequacy of trade-related assistance and capacity building for developing countries. Many poor countries will be unable to take advantage of trade opportunities even with fairer trade rules. Therefore, aid for trade is urgently needed for developing countries, especially the poorest, so that they can benefit from trade to promote economic growth and reduce poverty.

Oxfam supports aid for trade, but this aid must be recipient-driven, additional, adequate, predictable, free of economic conditions and complementary to — and not serving as a substitute for — better and fairer trade rules.

Increase aid for trade: Currently proposed funding levels, even combined with past levels, are insufficient to effectively assist poor countries. The World Bank/IMF proposal for an enhanced Integrated Framework envisions spending between $200m and $400m over five years. Far greater sums are needed to genuinely address the problems faced by poor countries attempting to trade.

Make aid for trade additional: Aid for trade budgets should be additional to existing development aid, rather than displacing or diverting current aid commitments from humanitarian and development priorities such as health, education, and rural development.

Make aid for trade fair: Aid for trade should not be used as an instrument to coerce developing countries to liberalize or to accept a trade agreement that does not promote their development interests. No amount of aid can compensate for fundamentally unfair and harmful trade rules.

Make aid for trade recipient-driven: Recipient countries should drive the process to establish priorities for the use of funds rather than responding to donor priorities.

Provide aid for trade in grants, not conditional loans: Poor, indebted countries, already struggling with scarce resources and high levels of debt to service, should not be forced to incur more debt to address their trade-related needs.

All donors need to act: Donors, including developed country governments, the IFIs, business, and the private sector, must provide more and better aid for trade, rather than relying on the IFIs to manage the process. If trade-related development concerns are left to the IFIs to manage, there is no guarantee that donor countries will follow through on their commitments.

Match new WTO commitments to resources: costs linked with new commitments by developing country members, such as in the trade facilitation negotiations, should be matched with resources.

Address development in the talks: By addressing developing country concerns as part of the talks at the WTO, rich countries can be held accountable to provide the aid needed for poor countries to compete in a multilateral trading system. Otherwise, developing countries are simply looking at another round of unfulfilled promises and exacerbated barriers to trade, with no-one to turn to for help.

Reform the Integrated Framework: The IF could be an appropriate mechanism for disbursing aid for trade, provided it is reformed along these lines and becomes a truly multi-donor and multi-stakeholder effort, rather than being dominated by the World Bank.

Notes

[1] 'In our Common Interest', Report of the Commission for Africa, March 2005, pp.255-6.

[2] WTO, 'Market Access for Exports of Goods and Services of the Least Developed Countries: Barriers and Constraints', WT/COMTD/LDC/W/11/Rev.1, 14 December 1998.

[3] Source: UNDP, TechnoServ.

[4] The UN Task Force report, which lays out a vision of how the trading system could contribute to achieving the MDGs, was followed up by a research program funded by the UK's Department for International Development (DFID). The steering committee was headed by Ernesto Zedillo, Chair of the Yale Center for the Study of Globalization.

[5] 'Strengthening the Global Trade Architecture for Economic Development: An Agenda for Action', main findings of the research for the Global Trade and Financial Architecture Project, 2005.

[6] T. Baunsgaard and M. Keen (2004), 'Tax Revenue and (or?) Trade Liberalization', IMF Working Paper, draft version, September 20, 2004, available at: www.imf.org.

[7] Sachs, Jeffrey, 'The Year of Development', World Vision International, Second Quarter 2005, at: Hwww.globalfutureonline.orgH.

[8] 1994 Decision on Measures in Favor of Least-Developed Countries, WTO. WTO members agreed that: 'least developed countries shall be accorded substantially increased technical assistance in the development, strengthening, and diversification of their production and export bases including those of services… to enable them to maximize the benefits from liberalized access to markets.'

[9] 1994 Decision on Measures in Favor of Least-Developed Countries; 1994 Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food Importing Developing Countries; and 2001 Decision on Implementation-Related Issues and Concerns.

[10] LDC declarations were adopted at Zanzibar (2001), Dhaka (2003), Dakar (2004), and Livingstone (2005). Accessible at: Hwww.wto.orgH.

[11] Livingstone Declaration, 2005.

[12] Negotiating Group on Market Access: Minutes of Meeting, WTO, TN/MA/M/9, 19 December 2003.

[13] Non-LDC developing countries demand that the development issues be addressed within the talks, for instance in the most recent G20 Ministerial Declaration, adopted in September 2005, which states: 'Ministers recognized that preferences…are being eroded… Ministers also agree that, in accordance with the provisions of the "July Framework", preference erosion should be addressed in the negotiations.'

[14] Prowse, Susan, 'Aid for Trade: Increasing Support for Trade Adjustment and Integration, A Proposal', April 2005.

[15] 'Commitments of TRTA/CB by Donor from 2001-2003', WTO/OECD Trade Capacity Building Database.

[16] 'What is Trade Capacity Building?', Trade Capacity Building Fact Sheet #1, Inter-Action, 2005.

[17] Liebrechts and Wijmenga, 'Evaluation of the Integrated Framework for Trade Related Technical Assistance to the Least Developed Countries: Country Reports of Ethiopia and Yemen', IOB Working Document, June 2004.

[18] 'Trade Progress Report: Doha Development Agenda and Aid for Trade', Development Committee Meeting, 25 September 2005.

[19] 'WTO LDC group coordinator calls for improvement in "scaling up" of aid-for-trade,' press release from the Hon. Dipak K.A. Patel MP, Minister of Commerce, Trade, and Industry, Lusaka, Zambia, 10 October 2005.

[20] Non-agricultural market access.

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For further information on the issues raised in this paper or the Make Trade Fair campaign, please e-mail: advocacy@oxfaminternational.org or visit: www.maketradefair.com.

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