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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Towards an EU Aid for Trade strategy – the Commission's contribution

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Towards an EU Aid for Trade strategy – the Commission's contribution

1. ORIGIN OF THE EU AID FOR TRADE STRATEGY

Trade is an important catalyst for growth and poverty reduction in developing countries. But successful integration of developing countries into world trade requires more than better market access and strengthened international trade rules. In order to fully exploit the benefits from trade, developing countries also need to remove supply side constraints and address structural weaknesses. This includes domestic reforms in trade-related policies, trade facilitation, enhancement of customs capacities, upgrading of infrastructure, enhancement of productive capacities and building of domestic and regional markets. Complementary efforts are required in areas such as macroeconomic stability, fiscal reforms, promotion of investment, labour policy, capital and product market regulations and institutions, and human capital development.

This is what Aid for Trade is for. Aid for Trade should have a global scope and support all developing countries, in particular the least developed, in their efforts to reform and to adjust to the world trading system, in the wider context of sustainable development. Aid for Trade is geared to generating growth, employment and income. It is therefore a contribution to the first of the Millennium Development Goals namely to reduce the proportion of people living on less than a dollar a day (MDG 1). It also supports MDG 8, which is to establish a global partnership for development, in particular to develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Aid for Trade is a key complement to trade negotiations. It is not a substitute for a pro-development outcome of these negotiations but should be delivered independently of progress in the negotiations.

The concepts behind Aid for Trade are well known to the EU. The EU is collectively the biggest donor in the field of Trade Related Assistance (TRA). The European Consensus for Development identifies trade and regional integration as an important area for Community action. One case in point are the ongoing negotiations of Economic Partnership Agreements (EPAs) with the African Caribbean and Pacific (ACP) countries. TRA commitments are also significant for other EU partner countries such as those in Asia or in Latin America.

This Communication is the Commission's contribution to further expanding EU support for Aid for Trade, with a view to adoption of a joint EU strategy by the Council in the second half of 2007, as agreed by the Council in October 2006¹. Anchored in well-established policy commitments, and building on the recommendations of a WTO Task Force², the value added of an EU Aid for Trade strategy lies in agreeing on the specific action to deliver. Such EU cooperation will reinforce the impact of EU Aid for Trade and contribute to the global debate on this topic.

¹ See background in Annex.

² See details in Annex.

2. OBJECTIVES

Aid for Trade has multiple objectives: to enable developing countries, particularly the least developed countries (LDCs), to use trade more effectively to promote growth, employment, development and poverty reduction and to achieve their development objectives; to help them build and modernise supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more; to help them implement and adjust to trade reform and liberalisation, including via labour market and social adjustments; to assist regional integration; to assist smooth integration into the world trading system and to assist with implementing trade agreements, all in the context of sustainable development, preservation of natural resources and the environment, and promotion of decent work.

Following the Council's guidelines, an EU Aid for Trade strategy can contribute to these objectives by addressing the following issues³:

1. Increasing the volumes of EU Aid for Trade, in particular by taking Trade Related Assistance up to € 2 billion a year by 2010; but also by promoting an effective response to wider Aid for Trade needs⁴.
2. Enhancing the quality of EU Aid for Trade, in particular by applying commitments to making development cooperation more effective.
3. Supporting effective monitoring and reporting.
4. Ensuring that Commission and Member States have sufficient capacity to implement the above mentioned objectives.

As the Council drew specific attention to the Aid for Trade needs related to the ongoing negotiations of Economic Partnership Agreements (EPAs) with ACP countries, the EU strategy should pay similar specific attention to these developments, in order to help realise the full development potential of EPAs. Aid for Trade is also an important element of EC assistance in Asia and in Latin America.

3. INCREASING THE VOLUME OF EU AID FOR TRADE

3.1. A Roadmap for meeting the EU's financial commitments on trade related assistance

TRA comprises two categories: "trade policy and regulation"; and "trade development". The first refers to support for the effective participation of developing countries in multilateral trade negotiations, analysis and implementation of multilateral trade agreements, trade-related legislation and regulatory reforms (including Technical Barriers to Trade and Sanitary and Phytosanitary measures), tariff structures, support to regional trade arrangements, trade facilitation, including customs regimes and equipment, and issues such as security of the supply chain⁵. The second category covers business development and activities aimed at improving the business climate, business support services and institutions, access to trade finance, trade promotion and market development in the productive and services sectors, including at the institutional and enterprise level.

³ The strategy will have a much wider coverage than the recently created EC budget line on Aid for Trade.

⁴ See definitions in Annex.

⁵ In line with the World Customs Organisation Framework of Standards.

During the baseline period 2001-2004, the TRA commitments of Community and Member States were, on average € 840 million⁶ and € 300 million per year respectively. The Council requested a roadmap for delivering in 2010 on the Community's and Member States' commitment to take this volume to € 1+1 billion a year. After analysing the available figures, the Commission concludes that it is on track to meet its commitment. Due to lack of forecasting data, the Commission is however not in a position to assess whether Member States are collectively on track to attain their 2010 target⁷.

The Council decided that a substantial share of the increased EU TRA should go to ACP countries, in support of regional integration and EPAs. Guidance on the actual amounts involved is important for ACP partners at this point in time. On the basis of current plans the share of Community TRA which will go to ACP is expected to remain relatively stable. Whilst this reflects an increase in absolute terms, it means that the bulk of additional TRA resources for the ACP will have to come from the Member States.

EU Member States and the Community (as well as other donors) provide aid on the basis of priorities expressed by partner countries in their national development strategies. To deliver on their commitments the EU depends largely on the extent to which trade-related needs are articulated in these national strategies. Assisting developing countries with identifying and prioritising trade related assistance needs is therefore an integral part of meeting the EU's financial commitments. One key instrument for doing so is the Integrated Framework (IF) to which both the Commission and several MS are already contributing⁸. Key challenges are to enhance the IF agenda and impact and expand the approach to other developing countries. At regional level, effective approaches to trade needs assessments must be developed.

Commission recommendations

- A linear trend from the present situation to their 1 billion target would imply that the collective commitments to TRA by EU Member States should rise to at least € 600 million by 2008. The strategy should, however, consider which measures to take should TRA from the Member States fail to reach this level by 2008.
- The strategy should provide guidance on the amounts involved in the Council commitment to allocate a “substantial share” of the additional TRA to ACP countries, in support of regional integration and EPAs with a view to increasing the share of overall TRA allocated to the ACP.
- The EU strategy should underline the importance of integrating trade-related concerns into national development strategies and identify criteria for when it is acceptable to finance trade-related priorities in anticipation of national development strategies being updated. The strategy should demonstrate the EU's commitment to engage actively in the enhanced IF, in particular by active in-country participation; and to extend the IF methods to non-LDCs,

⁶ Includes funds both from the European Development Fund and the EC general budget.

⁷ See details on Member States in the Commission Staff Working paper accompanying the Monterrey report - SEC(2007) 415 - and details on EC commitments in Annex.

⁸ The IF is a multi-donor program whose objectives are to support LDCs mainstream trade into their national development plans; and to assist in the co-ordinated delivery of TRA in response to needs identified by the LDC. In August 2006, 42 LDCs were participating in the programme.

⁹ The IDA-only countries are: Mongolia, Tonga, Vietnam, Albania, Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Guyana, Honduras, Nicaragua, Sri Lanka, Cameroon, Republic of the Congo, Cote d'Ivoire, Ghana and Kenya.

including via a plan for joint EU engagement in the creation of an IDA-only⁹ mechanism.

- The strategy should outline how to support regional trade needs assessments in support of regional integration.

3.2. EU support to the wider Aid for Trade agenda

The Commission fully supports the wider Aid for Trade agenda identified by the WTO Task Force, i.e. inclusion of trade-related infrastructure, productive capacities and trade-related adjustment. This broad approach is reflected for example in the 2004 EU Commodity Action Plan. Although the EU Council did not set specific numerical targets on the new Aid for Trade categories, the EU is already providing substantial support to such areas. For instance, support for trade related infrastructure averaged € 1.480 billion a year from the Member States and € 1.290 billion a year from the Community during the period 2001-2004.

There is some lack of clarity in the new Aid for Trade categories, and some overlaps with the already existing categories of TRA¹⁰. This has to be tackled if monitoring and reporting are to be developed usefully for Aid for Trade. This is recognised by the Aid for Trade community, including within the EU, and work is in progress, in particular within the OECD/DAC, to clarify and simplify the scope and use proxies from longstanding ODA categories. The EU, as a key partner in the Aid for Trade initiative, should participate in the unfolding discussions.

In this regard, the Commission considers that economic infrastructure is a helpful proxy for trade related infrastructure. For productive capacities, existing reporting categories can be used. In the context of trade-related adjustment, the Commission considers that this should include support to fiscal reforms aiming at introducing more sustainable forms of tax systems¹¹. Linked to this, budget support can be an appropriate means to tackle falls in customs revenue following trade liberalisation, or to support trade-related social safety nets to facilitate adjustment to trade opening and globalisation.

Commission recommendations

- In addition to TRA, the EU strategy should include a political commitment to strengthen EU support for trade-related infrastructure, productive capacity and trade-related adjustment, starting by supporting good coverage of such issues in trade needs assessments. This is particularly relevant for small, vulnerable and land-locked economies, many of which are ACP.
- The EU strategy should state the intent to develop coherent EU reporting practices for all categories of Aid for Trade and to continue to participate actively and jointly in relevant discussions at international level. The strategy should make it clear that the intent of the EU financial commitment to TRA is solid and will be maintained regardless of the evolving international debate.

¹⁰ See discussion in Annex.

¹¹ In line with the principles of good governance in the tax area.

4. ENHANCING THE QUALITY OF EU AID FOR TRADE

Increasing levels of Aid for Trade raise the questions of quality and effectiveness. Without due attention to these matters, additional financial resources will not bring about the improvements desired by partner countries.

The EU strategy will not be starting from scratch. Based on the conclusions of the EU Ad Hoc Working Party on Harmonisation, the EU made a substantial contribution to the Paris Declaration on Aid Effectiveness. It is already fully committed to the Paris principles and has gone further to act on several of these. In particular, in April 2006, the Council agreed on principles and a format for joint programming and issued a mandate for further work on complementarity and co-financing¹².

The EU Aid for Trade strategy should offer a practical application of the agreed principles, focusing on five quality aspects: poverty and Aid for Trade; ownership and participation; sustainability; joint analysis, programming and delivery; and effectiveness of regional Aid for Trade.

4.1. Poverty and Aid for Trade

Within each category of Aid for Trade, choices made will have an impact on poverty levels. Sometimes, there are trade-offs between indirect and direct poverty reduction effects. The Commission has noted that the poverty linkages are not always well articulated in trade development strategies and Aid for Trade operations, in particular for traditional TRA.

Deeper reflection on how to ensure poverty reduction through Aid for Trade is necessary, for each category of Aid for Trade. More could be done to identify the areas of Aid for Trade which bring about the widest and most sustainable reduction in poverty. In individual operations, the EU should support analysis of implications on poverty and incorporate conclusions in a transparent way. Efforts should specifically include the gender dimension.

The decent work agenda¹³ is of relevance here, to address trade related issues of labour market and social adjustment. Similarly, the strategy should confirm support for the world-wide implementation of ILO's core labour standards. Voluntary initiatives giving consumers assurances relevant to sustainable development, such as Fair Trade, eco-labels, and comparable corporate schemes, are also important instruments with potential for reducing poverty and promoting socio-economic development, which a joint EU strategy should address.

Commission recommendation

- The strategy should stress the importance that the EU attaches to the impacts of Aid for Trade on poverty, and lay down steps to ensure that the activities undertaken under the strategy deliver in this regard.

4.2. Ownership and participation

Ownership and participation are two aid effectiveness principles of special importance to Aid for Trade. Better ownership, manifested by integration of trade-related issues into poverty reduction and equivalent strategies, is necessary for increasing Aid for Trade. Identifying pertinent trade priorities, building consensus for reform policies and developing effective remedies to address

¹² See Annex for details.

¹³ Cf. Council Conclusions on Decent Work for All of 1 December 2006, and the Commission Staff Working Paper on Promoting Employment through EU development cooperation.

bottlenecks to trade require active participation by the private sector, social partners and civil society. Often, partner governments need assistance to manage such consultation processes. Effective participation of a wide range of stakeholders can *inter alia* be facilitated by strengthening intermediate organisations such as chambers of commerce.

Commission recommendation

- The EU strategy should emphasise the key role that the private sector and civil society can play in Aid for Trade. It should outline ways of supporting the capacity of governments to manage consultation processes, and of weaker interest groups to engage in these processes.

4.3. Sustainability

Sustainability is the underpinning principle of the EU Aid for Trade strategy and should be dealt with in all its dimensions - institutional, financial/economic, social and environmental.

The key to institutional and financial sustainability of programmes lies in ensuring stakeholder **capacity-building** and ownership in all operations, as discussed elsewhere in this Communication.

To fully integrate both social and environmental considerations into Aid for Trade programmes, existing **impact assessment regulations and procedures**, both of partners and donors, need to be applied. Sustainability impact assessments of trade policies and agreements should be further developed and the results better used both by the EU and partners.

As regards environmental issues specifically, EU Aid for Trade should help partners develop more **sustainable production methods** and assist producers in complying with (public and private) health, safety and environment standards in export markets and improve the capacity of customs to help implement trade-related aspects of Multilateral Environmental Agreements.

Other important related issues are the promotion of decent work and the development of effective labour market and social adjustment mechanisms. For example, the EU will continue to assist producers in complying with recognised labour standards, practices and regulations and in promoting occupational health and safety.

Commission recommendation

- The EU strategy should promote the sustainability of Aid for Trade, including by foreseeing support to stakeholder ownership, capacity building and participation; pursuing social and environmental goals; applying EU and partner countries' tools and procedures for environment, social, gender and sustainability impact assessments; integrating results from such work into in-country trade needs assessments; promoting sustainable production methods; and helping comply with relevant product standards in exports markets.

4.4. Joint analysis, programming and delivery

Recent trends in EU development aid all point in the same direction: greater complementarity and cooperation is needed between EU partners, across all stages of the programme cycle and for all types of instruments. This must also apply to Aid for Trade¹⁴.

As regards **joint analysis** of trade related needs, IF processes should be the preferred framework for EU coordination in LDCs. Similar processes should be developed for joint analysis in other countries. In ACP regions, Regional Preparatory Task Forces are important complements, in the context of EPAs.

As a further step, there is scope for the EU to **coordinate better its response strategies** in countries and regions. The Joint Trade and Development Expert Group could develop into an informal coordination forum for multilateral initiatives.

Opportunities for joint delivery will depend largely on progress in working through **sector wide approaches** (SWAPs), as these are one of the preconditions for embarking on **sector budget support**. Good trade needs assessment processes and in-country coordination will help prepare the ground for successful SWAPs.

The possibilities for use of **general budget support** in Aid for Trade should be examined, including the issue of developing appropriate indicators. Finally, **EU co-financing** of Aid for Trade could allow increasing Aid for Trade without stretching partners' absorption capacity, by opening up existing EC programmes to Member States or by allowing some Member States to take the lead based on their comparative advantage and expertise.

Commission recommendations

- The strategy should lay down actions to facilitate the EU leading the way on coordinated response strategies in Aid for Trade. This could include preparing an overview of partner countries with a strong EU Aid for Trade presence, and assigning EU Aid for Trade contact points to facilitate in-country EU coordination and joint identification.
- Looking ahead to future opportunities to engage in Joint Programming (such as those related to the mid term review of the Commission's country strategies, including for the 10th EDF), the strategy should prepare the ground for good coverage of trade-related issues in the countries concerned.
- The strategy should lay down actions to further develop use of SWAPs in Aid for Trade. It should propose measures to build the confidence which is needed to facilitate application of joint delivery methods such as budget support and co-financing.
- The strategy should highlight the role that the Joint Trade and Development Expert Group could play in coordination for multilateral initiatives.

¹⁴

See Annex.

4.5. Aid effectiveness in regional Aid for Trade

Support for regional integration is a distinctive feature of EU development cooperation and relations with non-EU countries, in particular through trade and customs policy. The regional level is therefore important for the delivery of Aid for Trade, in particular for regions deeply engaged in regional integration efforts. This corresponds to the growing number of regional trade and cooperation agreements, the growing interest on the part of developing country partners in regional integration and the priority given to regional integration in the European Consensus for Development, the Cotonou Agreement and the EC Development Cooperation Instrument.

Programming and delivery at regional level are not different in nature from that at national level. The same aid effectiveness principles should be applied, although this could be more challenging at regional level. Key actions for aid effectiveness at regional level include:

- **supporting regional partners' capacity to own and lead Aid for Trade efforts**, in particular by building regional organisations' capacity to assess the implications of trade or regional integration and/or trade agreements with third countries and strengthening their capacity to monitor and implement commitments, including for issues such as fiscal reforms;
- **coordinating programming in support of regional and trade integration.** Joint EU efforts could be developed to assess needs and identify areas where the EU could support the integration agenda of the region concerned, including on issues of economic and social integration. Much can be done at regional level by building on existing efforts on private sector development, productive capacity and infrastructure;
- **pursuing more streamlined methods of delivery.** The strategy should define enhanced coordination modalities with a view to stepping up collective mobilisation of AfT finance. Regional methods of delivery equivalent to budget support and co-financing should be developed. For example, the Commission is developing contribution agreements to facilitate financial management of its regional cooperation. Some ACP regions have begun to create regional funding mechanisms to facilitate management of regional programmes, including contributions from the Commission and, possibly, other donors in support of EPAs;
- **enhancing cooperation with other donors.** The Commission and the Member States should jointly encourage non EU donors to consider increasing their support to regional trade integration. Regional development banks and international financial institutions are particularly important.

Commission recommendations

- The EU strategy should underline the EU's commitment to applying aid effectiveness principles at regional level by supporting regional partners' capacity to own and lead Aid for Trade, coordinating programming, pursuing more streamlined delivery modes and enhancing cooperation with other donors.
- Having regard to the ongoing EPA negotiations, the EU strategy should indicate a priority for regional interventions in the EPA context, particularly as regards coordinating programming and supporting regionally owned initiatives, such as regional EPA funds.

5. SPECIFIC ACP ANGLES OF THE PROPOSALS

The October Council paid specific attention to the EPA-related Aid for Trade agenda in ACP countries. The measures outlined above are all essential for supporting ACP regions and countries in the context of the EPAs. Some recommendations are particularly important; they are repeated below:

Commission recommendations

- The EU strategy should provide guidance on the amounts involved in the Council's commitment to allocate a “substantial share” of the additional TRA to ACP countries with a view to increasing the share of overall TRA allocated to the ACP.
- The strategy should include a political commitment on the part of the EU to strengthen its support for trade-related infrastructure, productive capacity and trade-related adjustment, starting by supporting good coverage of such wider issues in trade needs assessments.
- The strategy should support, as a priority, integration of trade-related concerns into ACP national development strategies.
- The strategy should outline how to strengthen support to regional trade needs assessments, in support of regional integration. In the EPA context, this includes a particular emphasis on the EPA Regional Preparatory Task Forces.
- The strategy should underline the commitment of the EU to applying aid effectiveness principles at the regional level by supporting regional partners' capacity to own and lead Aid for Trade, coordinating programming, pursuing more streamlined delivery modes and enhancing cooperation with other donors.
- The strategy should indicate a priority to EPA regions as regards coordinating delivery modes and supporting regionally owned initiatives, such as regional EPA funds.

6. MONITORING AND REPORTING

Monitoring and reporting are the key to making progress in the areas discussed above. Both process monitoring and outcome monitoring is necessary, according to criteria to be agreed. The global monitoring and reporting foreseen within the WTO/OECD framework and the EU level monitoring of implementation of the EU Aid for Trade strategy are closely interlinked.

Monitoring and reporting at the global level

The **global review mechanism** proposed by the WTO Task Force on Aid for Trade should assess Aid for Trade delivery both quantitatively and qualitatively:

- Quantitatively: Monitoring should include global Aid for Trade flows as reported to the WTO/OECD by donors plus reports by beneficiaries on the implementation of their trade capacity building strategies. The Commission does not intend to duplicate the WTO/OECD work in compiling quantitative data on Aid for Trade but could, with the Member States, use the existing data for analysis at EU level to deepen understanding of efforts already made and planned.

- Qualitatively: The global review should also provide a platform for discussing all issues relevant to the effectiveness of Aid for Trade, building international consensus on these issues, and exchanging experience between donor and partner countries. It should monitor adherence to agreed processes recognised important to aid effectiveness, and outcomes. Monitoring should support **results-based management** of Aid for Trade, in particular by promoting development of clear and measurable objectives and indicators. Impacts on poverty deserve special attention. The review mechanism should also help increase understanding of the most efficient ways of spending funds on Aid for Trade, including the nexus between domestic markets, demand and institutional capacities, and the ability of developing countries to participate in international trade, the importance of the policy framework, the sequencing of trade liberalisation and Aid for Trade, the best way of integrating Trade issues into poverty reduction strategies etc.

Support for beneficiary countries' own monitoring and evaluation frameworks for Aid for Trade will be crucial.

Monitoring and reporting at EU level

The EU will need to report on implementation of the EU Aid for Trade strategy, for example to the European Parliament. Progress on implementing the EU strategy should be assessed yearly by the Council, on the basis of a progress report by the Commission and Member States. Joint programme evaluations should be promoted. If necessary, the strategy should be adjusted.

Commission recommendations

- The EU strategy should actively contribute to monitoring and reporting at global level, including by supporting developing countries in their reporting and monitoring.
- The strategy should assist in streamlining Commission and Member States reporting of quantitative Aid for Trade flows to the Doha database so that the data can be used for deeper analysis at EU level.
- The EU strategy should lay down action to support results-based management and commit the EU to carry out annual joint programme evaluations in the area of Aid for Trade in order to assess progress in the priority areas of the EU strategy and in those agreed internationally.

7. EU CAPACITY FOR AID FOR TRADE

Building human capacity in donor organisations, both at headquarters and in the field is a precondition for scaling up Aid for Trade. Without this capacity, trade will figure less prominently in the policy dialogue and donor organisations will find it more difficult to respond to the needs of partner countries. Capacity means both numbers of staff and skills.

The specific needs to scale up capacity will differ between Member States and depend on the manner in which Member States have chosen to expand their Aid for Trade. Implementing the aid effectiveness agenda will be staff-intensive. However, sharing expertise could also help to reduce the need for an increase in human resources in the field.

Commission recommendations

- The Commission recommends taking stock of the EU's existing Aid for Trade capacity and expertise.
- The EU strategy should explore joint EU initiatives to develop and share expertise, such as trainings on Aid for Trade.