

Aid for Trade: An UNCTAD perspective

1a. Current scope and content of UNCTAD's AfT programmes

UNCTAD has a wide-ranging experience and credibility amongst the whole spectrum of developing countries on trade and development capacity-building. The scale and scope of our activities provides our secretariat with a unique capacity to provide developing countries with appropriate and customized trade-related assistance. Our accumulated experience and outreach enhances our ability to have a multiplier effect across countries, thematic areas and sectors. Our comparative advantage has been that we provide developing countries with an integrated perspective on trade and development strategies and policies and promote coherence in this regard at national, regional and international levels. Our strength is also that we bring together policy makers with the private sector, academia and civil society to forge optimum solutions to specific trade and development problems. UNCTAD's technical cooperation and capacity-building draw upon, benefit from and contribute to intergovernmental policy dialogue and consensus-building as well as to sound research and policy analysis.

UNCTAD's aid for trade programmes cover broadly the following areas:

- trade policy formulation and coordination
- impact and needs assessments
- helping developing countries with trade negotiations
- supporting adjustment to trade reform
- supply capacity and competitiveness
- trade-related infrastructure-building

These programmes aim to set up and reinforce the necessary institutional, human resource, policy-making and infrastructure capacity of developing countries. They are accordingly geared to implementing the objectives set for AfT. UNCTAD has carried out AfT-related activities in specialized fields within its core competence and expertise and under its broad mandate at national, regional and international levels, as follows:

a. Advisory services on trade policy formulation and coordination of trade-related policies through a number of specific activities, including:

- setting up mechanisms for inter-ministerial coordination, giving due priority to trade vis-à-vis other policies in the larger context of development, and building sustained human resource capacity
- establishment of multi-stakeholder consultation mechanisms with the private sector and NGOs for effective trade policy formulation
- building trade-related institutional capacities and national focal points in Trade Ministries and specialized trade agencies (e.g. setting up and empowering trade focal points, tariff commissions, antidumping authorities, etc.)

In all these activities, UNCTAD has adopted an integrated approach to trade and development – an approach that reflects its interdisciplinary scope at both the national and sectoral level.

b. Assistance to developing countries on trade negotiations: UNCTAD has been building the capacity of developing countries to manage the complex task of promoting their national trade and development interests, in dealing with multilateral trade negotiations and balancing the competing requirements of their regional and subregional engagements (North-South FTAs, including EPAs, and South-South RTAs, such as SADC, COMESA, India-Mercosur, Afro-Asian initiatives, etc). In all these negotiating forums, UNCTAD has provided

specialized assistance on agriculture, NAMA and services negotiations, rules, antidumping, dispute settlement, TRIPS and development, trade facilitation and so forth. Particular attention has also been given to WTO accession negotiations, including for transition economies.

c. Supporting South-South trade, investment and technology transfer: At the regional level, UNCTAD has worked with regional integration secretariats and member countries in the context of South-South RTAs. In the interregional context of the new geography of international trade, UNCTAD has backstopped the third round of GSTP negotiations and the implementation of the Agreement. It has developed a "pro-active agenda" and action plan for South-South trade and investment in support of specific regional and interregional trade initiatives, including in the context of new and dynamic sectors.

d. National impact assessment studies of trade agreements on horizontal issues (duty- and quota-free market access, preferential market access, etc.) and sectoral issues (NAMA, agriculture, services), based on its expertise and using various in-house analytical tools and databases, including WITS, TRAINS and ATPSM. It is implementing an important services assessment programme for 30 countries in all developing regions and for two regional groupings (SADC, COMESA).

e. Assessing adjustment costs arising from trade reform, in particular the cost of multilateral trade liberalization and reform (e.g. implementation costs related to the Uruguay Round agreements, Doha work programme, the end of the ATC, preference erosion, net food-importing developing countries) at national and sectoral level (BoP implications, tariff revenue losses, cost of social safety nets, impact on food security, etc.). Several comprehensive studies have been undertaken, for such countries as Bangladesh, Brazil, Bulgaria, India, Jamaica, Malawi, Philippines and Zambia. These analyses have also identified possible solutions and mechanisms needed at national and sectoral level to cushion those likely to be affected by trade liberalization.

f. Assistance on commodity trade issues: UNCTAD has helped developing countries, especially the 50 commodity-dependent countries, to identify supply capacity constraints and opportunities; formulate viable commodity strategies (global value chain analysis, export diversification, particularly in Africa and Latin America); improve trade-related infrastructure and compliance with standards; and pioneer commodity finance schemes for small commodity producers, including risk management. UNCTAD's work on building commodity information platforms has been highly effective in providing transparency and access to vital market information for producers, traders and policy makers in commodity-producing developing countries. INFOCOMM, an UNCTAD Internet portal, provides pricing, product and market information on some 20 commodity sectors free-of-charge, and is being used by 12 to 15 million people worldwide. One example of this new potential is a technical assistance project called INFOSHARE, which gives commodity producers access to the information they need to negotiate better prices and get their produce into higher-paying markets. Success in helping set up commodity exchanges in countries like India has fuelled demand for UNCTAD's assistance to other countries. We are, for example, currently assisting the African Union in creating commodity exchanges in Africa.

g. Promoting the participation of developing countries in new and dynamic sectors of world trade, particularly by identifying trends, products and target markets in new and dynamic sectors of world trade; carrying out sectoral trade reviews to identify requisite policies promoting supply capacity, productivity, technological endowment and competitiveness; domestic and foreign investment; market access and entry conditions; changing demand and preferences; and regional division of labour. Based on these analyses, a

series of pilot projects for drawing up national and regional strategies on new and dynamic sectors is being implemented. For instance, UNCTAD is working with Southern African countries, in cooperation with the Phillips Corporation, to ensure their increased participation in electronics production and trade.

h. Developing and disseminating trade-related databases and analytical and benchmarking tools, such as comprehensive tariff and non-tariff databases (TRAINS) on developing-country exports. NTBs are moving towards centre-stage among the market access concerns of developing and developed countries alike. The UNCTAD Secretary General has accordingly set up an Eminent Persons Group on NTBs to develop a multi-stakeholder and inter-agency approach to collecting, quantifying, classifying and making available data on NTBs. This group includes members from the WTO, IMF and World Bank, as well as senior policy makers, prominent academics and civil society representatives. TRAINS-WITS enables developing-country policy makers to analyse the impact of various market access scenarios on their trade flows and tariff revenues. Overall, UNCTAD trains over 500 developing-country officials annually on trade-related databases, analytical and benchmarking tools. We are also seeking to meet the demand for more reliable and comprehensive data on services trade, services-related measures and regulations through our MAST database. Other UNCTAD tools now in use by developing countries include our new Trade and Development Index, services assessments, benchmarks and performance indicators.

i. Trade and environment issues: UNCTAD has helped more than 30 developing countries to adopt trade, environmental and development policies aimed at ensuring a triple-win outcome. These activities have promoted more pro-active, strategic national adjustment policies and the adoption of mandatory new environmental, health and safety requirements set by the private sector in key export markets for electronic and horticultural products. An open-ended consultative mechanism on environmental requirements and market access helps some 50 developing countries to anticipate, monitor, analyse and cope with such measures affecting their exports. UNCTAD has also supported new production and trading opportunities for organic agricultural products and has helped countries to design and implement effective and sustainable national wildlife trade policies and to gain access to environmentally sound technologies and know-how in the context of trade negotiations on environmental goods and services. UNCTAD is promoting trade in biodiversity products and services through its BIOTRADE programme and has launched a BioFuels Initiative that focuses on new trade and investment opportunities for developing countries, on implications for poverty reduction and on the supply-side constraints of increasing the production, use and trade of biofuels.

j. Trade and competition: UNCTAD helps over 50 developing countries build legislative capacity at national, regional and international levels to enable them to develop competitive markets. We review implementation of the only multilateral instrument on competition policy– the UN Set on Competition – which comprises non-binding international norms on countering anti-competitive practices. UNCTAD is assisting several regional groupings, including COMESA, SACU and CARICOM, to adopt regional competition and consumer protection rules. We have also developed a Model Law on Competition and launched demand-driven peer reviews to help developing countries improve their implementation of competition policies.

k. Trade facilitation: UNCTAD has a proven capacity to contribute to the implementation process of a number of the issues that are part of the ongoing Doha negotiating process on trade facilitation:

- Customs automation, through the implementation of ASYCUDA, which helps to enable compliance with such proposals as use of international standards (data elements, codes, documents, etc.), pre-arrival clearance, simplified clearance and release, post

audit, release time control, risk management systems and advance ruling (goods classification, customs duties and taxes), customs management of authorized traders, direct trader input – waiving customs brokers, customs interface with pre-shipment inspection procedures, customs clearance of express shipments); and

- Designing or improving efficient transit operation systems, including, information technology-based monitoring for transit, the use of single international documents, and integrated border crossing operations.

In a broader perspective, beyond the measures currently considered in the context of the WTO and in which AfT would also be called for, UNCTAD has built up the capacity to:

- Assess needs, programme the sequencing and resources, and conduct the implementation of comprehensive trade and transport facilitation projects;
- Design solutions adapted to local conditions which enable interested parties to comply with international recommended practices and standards – in this case, WTO binding rules, if required;
- Set the stage for an encompassing environment in which technology-based solutions, human and institutional capacity-building and regulatory measures are made complementary to ensure effective coherence across the board; and
- Support hardware development projects, such as those concerning infrastructures for transport and services, by means of management solutions involving users and providers alike from both private and public sectors, including cross-border arrangements as appropriate.

1. Other trade-related technical assistance activities cover a wide range of topics, such as:

- Science and technology policy for trade and development
- Investment policies and strategies and investment promotion activities
- Enterprise development activities (EMPRETEC, establishing specialized trade finance services, building up a regulatory environment and key institutional set-up of modern ICT-based trade-related finance.)
- Transport and trade logistics (linking national/regional systems to global transport operators and networks)
- ICT activities (promoting the use of ICTs for improved economic performance and trade competitiveness in developing countries, E-tourism initiative)

1b. Lessons learned from these activities

Over the years, we have realized that there are several key elements for maximizing the impact of technical assistance and capacity-building on the ground:

- There is a significant rise in the demand for UNCTAD's technical assistance support. However, due to resource limitations, we cannot currently respond to all requests for TRTA. Nevertheless, within available resources, we have attempted to cover all developing regions, with particular attention to LDCs and African countries and to those with specific special needs.
- Training activities are essential to empower trade-related institutions in developing countries. UNCTAD is therefore prioritizing human and institutional capacity-building activities in its technical assistance.
- Increased efforts are needed to improve trade-related "global public goods", such as trade databases and analytical tools, that could help developing countries to better assess the opportunities offered by the international trading system. But the provision of such "goods" requires considerable additional resources, inter-institutional cooperation and the establishment of a network of country-level focal points. For

instance, although UNCTAD TRAINS is the most comprehensive NTB database available today, its coverage and classification system are still far from satisfactory.

- Our findings show that adjustment to trade reform is costly, and resources are needed to cover the complementary measures that will ensure that trade liberalization leads to a win-win outcome. Trade adjustment should be part of systemic needs assessment exercises (at national and sectoral level). At the moment, the demand for such needs assessments – an area we are prioritizing – far exceeds our capacity.
- Trade-related technical assistance requires collaboration and pooling of synergies of all implementing partners and relevant international organizations, each according to its comparative advantage, and drawing lessons from existing delivery instruments or frameworks, such as JITAP and the IF.
- Country ownership and demand-driven activities have greater development impact. In this regard, multilateral organizations like UNCTAD that are perceived as "honest brokers" are better placed to partner developing-country governments. However, communication gaps between governments and the private sector and among private-sector enterprises can undermine the efficacy of trade policy initiatives. We are thus increasingly emphasizing the need for North-South partnerships and for dialogue among all stakeholders in order to identify the reasons for the lack of competitiveness, and to devise solutions. We consistently include both public and private sector participants in our activities.
- Our experience on commodity issues in particular has shown that market-based finance needs public seed money to share the initial risk and costs. This investment in turn has a long-term multiplier effect. A similar multiplier effect could be generated by the newly-established International Task Force on Commodities.
- Country-specific needs assessments (no "one-size-fits-all" approach) are crucial for an adequate development impact. Such activities should be underpinned by empirical research and analytical capacities and by feedback and endorsement received through our intergovernmental deliberations and our related mandates.
- TRTA needs to respond both to both immediate needs, such as trade negotiations, and to medium- and long-term needs for capacity-building, including supply capacity and adjustment support.
- Customized trade-related assistance (sectoral, national, regional) is most appropriate in keeping with the development and poverty reduction priorities of developing countries.
- Building local institutional capacities in Trade Ministries is important, as in most developing countries these institutions are weak, undermining their ability effectively to formulate and implement trade policy, develop trade negotiations strategies and absorb trade-related technical assistance.
- Greater use of and partnering with local institutions and human resources in developing countries helps build capacities, transfer knowledge and expertise, minimize costs and facilitate exchange of experience and networking between countries and their policy makers.
- Whilst national- and regional-level technical cooperation is important and has immediate impact, exchanges of experiences and best practices, along with a multi-stakeholder policy dialogue at global level, are also key to improving the quality and impact of policy advice at country level.

2. Trade-related needs not currently met

In our view, the following are the most critical trade-related needs, which have also been identified in the São Paulo Consensus:

1. Trade-related supply capacity-building:

- a. Institutional and physical infrastructure: transport and trade logistics, linking national/regional systems to global transport operators and networks, product standards, etc., as well as needs assessment
- b. Strengthening productive capacities and competitiveness: production development activities, supply chain management, diversification and export-value added (e.g. in commodities and in new and dynamic sectors of world trade)
- c. Trade policy and negotiation level: institutional development and regulation, designing domestic trade policies, building regional coordination mechanisms, policy research and identification of constraints, helping developing countries overcome non-tariff barriers, including technical regulations and standards, helping with trade negotiations in the WTO and regional contexts and coping with the impact, developing services supply capacities and competitiveness

2. **Trade adjustment support:**

- a. addressing implementation and adjustment costs arising from the Doha Round outcomes, including:
 - i. implementation costs in the main negotiating areas arising from NAMA, agriculture, services, trade facilitation
 - ii. adjustment costs (erosion of preferences, tariff revenue losses, unemployment, etc.)

It is our assessment of these needs, as well as of the ongoing trade negotiations, that the needs are inadequately met at the present time in terms of the scale and scope of resources deployed, targeted delivery and country coverage.

3. **Has trade been adequately addressed in countries' development plans and PRS's? If not, why not, and how can this be corrected?**

Trade needs to be better integrated into development strategies that promote poverty reduction, particular in the LDCs. However, this objective is barely being met, as reflected in the lack of specific focus on trade in most PRSPs. This may be explained by serious institutional and human capacity constraints on the ability of many countries to undertake in-country trade policy formulation. The lack of institutional and process linkages between trade policies and national development strategies further impedes their mutual integration. In the particular context of IF, the DTIS could link trade policy analysis and needs assessments to poverty reduction objectives in national development strategies or PRSPs. Overall, appropriate donor priority to this issue and adequate funding are called for.

4. **Identifying trade-related needs and priorities**

Trade-related needs and priorities should be determined in a genuinely demand-driven fashion. In countries whose trade-related needs and priorities have not been identified, a first step could be for the Government to conduct appropriate national needs assessments, involving consultations with all relevant stakeholders. Some countries may require technical and financial support for this process, which should be provided on a timely basis.

Such needs assessment and priority identification should be based on the identification of development priorities and strategies, including evolving trade priorities. Trade priorities and strategies would in turn be based on an assessment of comparative advantages, existing and potential, with goal- and target-setting in terms of overall trade performance and sectoral development. Based on this, there is a need to identify capacity and resource gaps and to conduct an audit of the TRTA already available to the country concerned. This would then

lead to recommendations as to what specific additional assistance is required and how differently it is to be targeted and delivered in the context of AfT. Once the priorities and needs have been assessed and identified, they should then be endorsed by the financing mechanisms to be set up for AfT delivery.

UNCTAD has already conducted trade-related needs assessments at national, regional and sectoral levels. In the context of AfT, more comprehensive and in-depth assessments could be undertaken, directed specifically at establishing priorities and resource needs.

5. Is the existing system of delivery mechanisms for AfT adequate? If not, where are the gaps, and what might be done to address these gaps?

A distinction needs to be made between funding and implementing mechanisms of delivering AfT. Currently, AfT is delivered through a variety of mechanisms, most of which combine the two functions:

- Bilateral donor programmes;
- Multilateral, multi-donor funded programmes, e.g. IF and JITAP;
- Individual international organizations and agencies' programmes; and
- Regional organizations and regional financial institutions, such as development banks.

Given the multiplicity of programmes, the obvious and most acknowledged problem is fragmentation and lack of coordination among the different players. A second problem is the absence of a common set of agreed priorities to be addressed by the different players at any given time. The third problem is to know at any given time what is available in the financial kit for AfT to meet identified needs. The fourth, and related, problem is predictability of the funds available for AfT. The fifth is the timing of delivery. And the sixth has to do with mechanisms for monitoring, at country and international levels, what is being delivered under each of the delivery mechanisms and what are the unmet needs. Taken together, these could be considered the limitations of existing delivery mechanisms.

Addressing the limitations of current delivery mechanisms

On funding, a predictable stream needs to be established of earmarked and sufficient resources for a multi-year implementation of AfT programmes, with the maintenance of effort commitment on the part of donors, beneficiaries and implementing agencies.

Secondly, a clear division of labour is desirable between the funding agencies and mechanisms on the one hand, and the implementing agencies on the other. In order to ensure effective delivery at the implementation stage, implementation is best entrusted to those agencies with core competencies in particular areas.

With regard to funding mechanisms, three main options were identified in the joint UNCTAD/COMSEC meeting on AfT (Geneva, March 2006). One option, proposed there by Professor Stiglitz, is to establish of a “**Global Trade Facility**” (GTF) of around US\$ 5 billion, similar to the “Global Environment Facility”. However, doubts were expressed at the meeting as to whether key donors would support the creation of such a new mechanism.

The second option would be a consolidated mechanism for funding – a sort of "umbrella facility" or "consortium" of AfT funding mechanisms, which would regroup existing, separate funding mechanisms into a forum to provide a coordinated response to country-specific needs and requests for AfT. This would function like a donor conference, but on less of an ad hoc basis than the current mechanism. Such a consortium would include the existing multilateral

trade capacity-building trust funds (such as IF, JITAP and the WTO Trust Fund); international financial institutions, such as the World Bank, IMF and regional development banks; and bilateral donors that have made pledges on AfT. Relevant implementing agencies should also be part of this, as should beneficiary countries presenting proposals for AfT.

The third option is "business as usual" – building on existing TRTA databases but with enhanced transparency, involving notification requirements and more active consultation mechanisms among funding mechanisms, implementing agencies and beneficiaries.

On implementation mechanisms, it is important to identify a core set of agencies through which AfT implementation would be principally channelled. This would ensure greater coherence and effectiveness in AfT delivery within the overall framework of principles and objectives established for AfT.

6. Is there a need to strengthen monitoring and evaluation? If so, how?

Monitoring and evaluation are key to ensuring that whatever mechanism is used, AfT will deliver the expected results. Monitoring and evaluation is to be seen at two levels: overall AfT disbursement and utilization of resources and delivery of programmes; and monitoring and evaluation of specific AfT projects.

In respect of the first level, there would presumably be a need for annual reporting to a WTO body like the CTD on overall implementation, in keeping with pledges made. In the context of its policy dialogue and consensus-building functions, UNCTAD could also contribute to the overall monitoring and evaluation.

In respect of the second level, there is a need for *ex ante* consensus among all parties involved in AfT (donors, beneficiaries, implementing agencies, etc.) on the benchmarks for assessing and monitoring the performance of AfT activities and their development impact. A growing number of programme-level evaluations are now using results-based frameworks. These evaluations tend to recommend that programmes adopt management practices, which should also be more businesslike, and develop performance indicators related to outcomes rather than outputs alone. Like many other international development agencies, UNCTAD has extensive experience in monitoring and evaluating technical assistance activities, based on a thorough needs assessment that identifies bottlenecks and crucial project-related variables.

In the case of AfT, a results-oriented approach should be adopted from the outset in designing a more responsive and effective programme, with evaluations conducted by external evaluators at various intervals of the AfT initiative. Realistic targets and indicators of achievement should, to the extent possible, be identified with appropriate country-level management strategies and measurement tools to ensure country-level results.

7. Private sector's role in identifying needs and implementing responses

The private sector in developing countries, and particularly in the LDCs – which for the most part comprises SMEs – faces a variety of constraints in enhancing its export capacity and competitiveness, ranging from inadequate finance and technology and inadequate infrastructure to high intermediary costs and regulatory red tape. Its involvement in aspects of the AfT initiative is therefore essential, especially as regards production, exports, infrastructure and institution-building. The private sector can be a beneficiary of AfT as well as a contributor in public-private partnerships, and enterprise development should accordingly be a key AfT component. The private sector needs to be involved not only in delivery but also in the designing and planning stages, and a key question raised in this context is how best to

support it. AfT funding should go towards reinforcing government programmes for private-sector development, including infrastructure provision, credit risk coverage and concessional lending, technology acquisition and training. AfT funding directed at the private sector could also be channelled through EXIM banks and the national development banks of beneficiary countries.

The private sector's role in trade facilitation could be threefold:

1. As the main direct beneficiary of the facilitation: the private sector can act as a counterpart or partner of the government agency implementing the formal simplification process, particularly in the design of the solution;
2. As a direct actor of the facilitation exercise: the trading community and the providers of trade support services – including all auxiliary services, such as transport, freight forwarding, banking and insurance – can improve their commercial practices and thereby contribute to lower transactions costs and times; and
3. As financial contributors to the implementation of technology-based and capacity-building solutions: the private sector has shown initiative in relevant, if infrequent, cases where their contribution, both financial and in kind, has helped to develop advanced systems and train government officials in the use of modern trade-monitoring management techniques.

8. How should AfT reinforce the principles of aid effectiveness and coherence, as agreed in the Paris Declaration and as embodied in individual PRS's?

The principles guiding the new AfT initiative (namely, “secure”, “additional” and “predictable” funding) and the Paris Declaration principles should be mutually reinforcing. On the issue of **secure and predictable funding**, we would also suggest that security and predictability be accompanied by the provision of adequate levels of resources commensurate with the needs of developing countries. The overall level of AfT resources to be made available must reflect the growing demands of developing countries, in particular the LDCs, and their genuine trade-related needs (e.g. costs of implementation, adjustment, training and institution-building, as well as supply-side capacity and infrastructure) and not be subsumed under wider adjustment programmes.

In addition, **the principle of country ownership** will be critical for the success of the AfT initiative, and particularly for aid effectiveness. In our view, ownership would include *inter alia* assessment and articulation of country needs, including priority-setting, integrating the priorities into development plans and PRS's, and effective participation in the governance structure for managing the AfT initiative. Accessibility, user friendliness and non-debt-creating aspects are vital for a successful impact of the AfT fund.

9. Other important gaps in the delivery of AfT

a. Insufficient resources are being made available on a sustained basis to meet the trade-related needs of developing countries. It is therefore critical to adhere to the principle of additionality and adequacy in AfT, as discussed above.

b. A coherent approach to AfT delivery is missing as well. This applies to country, donor and international agencies:

1. **At the country level**, coherence is needed for beneficiary countries to ensure that trade is mainstreamed into development objectives. This would require inter-ministerial coordination, particularly between the trade and finance communities, as well as multi-stakeholder consultations involving the private sector and civil society.

This is a prerequisite for a successful AfT, as needs and priorities, by virtue of country ownership, would have to be ascertained by the beneficiary countries themselves.

2. **At the donor level**, multilateral, regional and bilateral donors need to coordinate their efforts, both among themselves and with beneficiary countries and implementing agencies, in order to map out developing countries' needs according to their national development strategies, including those drawn up through the PRSP process. They must also address well-defined areas in full coordination among themselves and with beneficiary countries. Such coherence is essential. It is also critical that assistance be given within the framework of the national development strategy and plan, and not outside of it.
3. **At the international agency level**, coherence and harmonization of AfT deliverables are other prerequisites for efficient results. Also considering the complexity and importance of the work ahead on AfT, a proposal has been made to establish an Advisory Group to the WTO Task Force on AfT. Such a group would ensure institutional coherence and maximize synergy between agencies in conceptualizing the AfT initiative. Now that both the DG of the WTO and the Chair of the Task Force have carried out extensive consultations and solicited the views of the agencies concerned, this need may no longer be relevant. However, once an AfT funding mechanism is established, there will still be a need for a steering committee of implementing agencies to assess needs and evaluate implementation at the technical level. Such a committee could be modelled on the IF Steering Committee.

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