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Implementing Aid for Trade (AfT) to Reduce Poverty

Acronyms

ACWL- Advisory Centre for WTO Law

ACP – African, Caribbean and Pacific countries

AfT- Aid for Trade

AITIC- Agency for International Trade Information and Cooperation

CAFTA – Central America Free Trade Agreement

EC- European Commission

EPA – Economic Partnership Agreement

EU- European Union

GNP – Gross National Product

HTF – Hunger Task Force

IAASTD – International Assessment of Agricultural Knowledge, Science and Technology for Development

JITAP – Joint Integrated Technical Assistance Programme

LIC – Low Income Country

LDC – Least Developed Country

ODA – Overseas Development Assistance

OECD – Organisation of Economic Cooperation and Development

UNCTAD – United Nations Conference on Trade and Development

WTO – World Trade Organisation

Introduction

Speaking at the Institute of European Affairs in Dublin in 2003, Pascal Lamy, then EU Trade Commissioner spoke of the value to the global economy of concluding the Doha Trade Round as 'huge'.[1] As negotiations have stalled the ambition and potential gains of a new trade Round have diminished. In 2008 the World Bank estimated that the very meagre benefits that might accrue to developing countries would be largely captured by just eight countries, none of which are Least Developed Countries (LDCs).[2] This confirms other eminent research findings which have consistently pointed to the likelihood of the biggest losers from a 'development' Round being the very poorest countries.[3] Such an outcome would deepen the inequality associated with more than two decades of trade liberalisation where the share of world trade held by businesses in Low Income Countries (LICs) had fallen by 2006 to roughly half of its 1980 level.

There are two main reasons for such disappointing outcomes from trade liberalisation for poorer countries. The first, imbalanced trade liberalisation, where barriers to trade created by the protective rules and practices of

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developed countries favour developed producers and the second, those challenges which derive from the fact of being a poor country and the additional challenges this presents to local producers. **AfT is intended to address the second of these reasons.**

Given AfT's potential to support production and trade in developing countries, AfT on a much larger scale should have accompanied the liberalisation processes of the last twenty years. As **Box 1** illustrates underdevelopment imposes very real costs to local producers competitiveness.

1 Speech by Commissioner Pascal Lamy to the Institute of European Affairs, Dublin, 21 November 2003
2 RIS Policy Briefing No. 36, April 2008
3 E.g. Winners and Losers: Impact of the Doha Round on Developing Countries by Sandra Polaski (Carnegie Endowment for International Peace, 2006)

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Box 1 Trying to Trade/ Select illustrations of Competitiveness and Underdevelopment

- **A business loan will cost over 25% interest per annum in Liberia and the maximum term will be just one or two years, while Irish competitors face just a quarter of this interest rate.[4]**
- **Gaining the permits needed to open a warehouse will cost 18 times more relative to GNP per capita in Guatemala than in an OECD country.[5]**
- **Power cuts cost the average company in Tanzania 5% of sales while 90% of Nigerian companies employing more than 20 people must generate their own electricity. That power costs them 2.5 times as much as grid electricity.[6]**
- **In Liberia transport on unpaved roads costs 40% more per km than on paved roads. Rural producers are accordingly disadvantaged.[7]**
- **To move a container of goods from Rwanda to the port costs three times as much per km as from Kampala with its rail link to the coast. [8]**
- **In Central America the average business pays 56% of its profits in tax and spends twice as many work hours to make the payment than in an OECD country.[9]**

Initiatives to reduce such costs increase the ability of developing country producers to participate in markets. While the merits of aid to help LICs take better advantage of trading opportunities are real, AfT is not a panacea for the systemic and persistent flaws affecting the participation of developing countries in the global trading system. To harness the full potential of trade for development requires systemic fairness and targeted AfT initiatives.

In the absence of consensus on what a WTO 'development' Round should look like, greater attention has focussed on increasing AfT. The AfT task force established after the Hong Kong WTO Ministerial (2005) expanded the working definition of AfT. Alongside the traditional understanding of AfT i.e. the provision of assistance towards negotiating and implementing international trade agreements, the task force added trade related infrastructure, building productive capacity and trade related adjustment as new AfT categories. (**Box 2**)

Box 2 AfT Categories

1. Trade policy and regulations

This includes technical assistance for training and analysis both for negotiation of trade deals and for their implementation

2. Trade development

This area covers the institution building in support of trade e.g. boards for the promotion of exports or investment, market analysis assistance and representative bodies for productive groups

3. Trade related infrastructure

Physical infrastructure of trade i.e. transport, telecommunications and utilities such as electricity

4. Building productive capacity

This involves the broad area of support to producer groups

5. Trade related adjustment

This involves support to countries to deal with the shocks caused by trade agreements- loss of earnings due to preference erosion, loss of tax revenue and the ensuing impact on balance of payments. It may be in the form of compensatory payments or programmes to assist producers find other sources of income

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4 Liberia Trade Feasibility Study:Soya and Light Processed Goods prepared for Trocaire by Conall O'Caoimh (2007). Based on Bank of Ireland business loan rate, November 2007

5 World Bank, Doing Business www.doingbusiness.org

6 Bernard Hoekman in Njinkeu and Cameron et al (2008), Aid for Trade and Development, Cambridge University Press, page 36

7 Kite (2007) Using Soya Bean to Create Quick Economic Opportunities for Rural Liberian Women. Transport per tonne on unpaved roads costs $0.56 per kilometre and $0.40 on paved roads.

8 Ernest Vitta Mbuli (2007), for UNCTAD, Improving Transit Transport in East Africa:Challenges and Opportunities

9 World Bank, Doing Business www.doingbusiness.org

The First Global Review of AfT

A first Global Review of AfT was jointly convened by the OECD/WTO in 2007. This review was essentially a stock take of what AfT is happening and how it is operated. The Review noted the difficulty caused by the **imprecise nature of AfT** resulting in donors attributing the trade related aspects of their programmes differently. The review did indicate a steady increase in AfT spending since 2001.

The largest AfT donors by volume were identified as Japan, the US and the EC respectively, with Ireland ranked second last by proportional contribution amongst OECD countries.[10]

Of all AfT as much as half is given in the form of loans. The Review found that while total AfT is increasing, it is doing so against a backdrop of declining overall aid budgets, indicating that AfT is displacing existing priorities. The expectation of the Review that overall aid budgets would increase and that AfT would therefore not displace existing priorities will need to be reassessed in light of the financial crisis and associated recession in many donor countries.

The EU's AfT strategy commits the Union to channelling more resources to AfT based on increases in total ODA. The EU pledge of €2 billion per annum by 2010, broken down as €1 billion from the Commission and the other billion from member states reveals the Commission's component refers solely to the traditional areas of AfT, sometimes referred to as 'narrow' AfT, referring to categories 1 and 2, half of which is earmarked for ACP processes, i.e. in support of Economic Partnership Agreement (EPA) implementation.

Irish Aid's funding to categories 1 and 2 has been concentrated upon a number of multilateral agencies: the Doha Development Agenda Global Trust Fund (GTF), the International Trade Centre, UNCTAD, the Agency for International Trade Information and Development (AITIC), the Advisory Centre for WTO Law (ACWL) and the

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Joint Integrated Technical Assistance Programme (JITAP).

Other than through international agencies, Irish Aid's engagement with AfT has been through elements of its bilateral programmes, parts of its emergency and recovery work and its support to NGOs such as Fair Trade Ireland. It is intended that private sector development plans will also be prepared in each of its programme countries.

Ireland's multilateral contributions have fluctuated widely from year to year reflecting the absence of an articulated strategy. An outline of how Ireland will meet its AfT commitments[11], what categories of AfT will Ireland prioritise and how these interventions are congruent with the wider poverty reduction focus of the Irish Aid programme are yet to be clearly stated.

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[10] Aid for Trade at a Glance 2007, 1st Global Review (OECD/WTO) p.10

[11] Aid for Trade at a Glance 2007:Country and Agency Chapters (OECD/WTO) Ireland pages 83- 87

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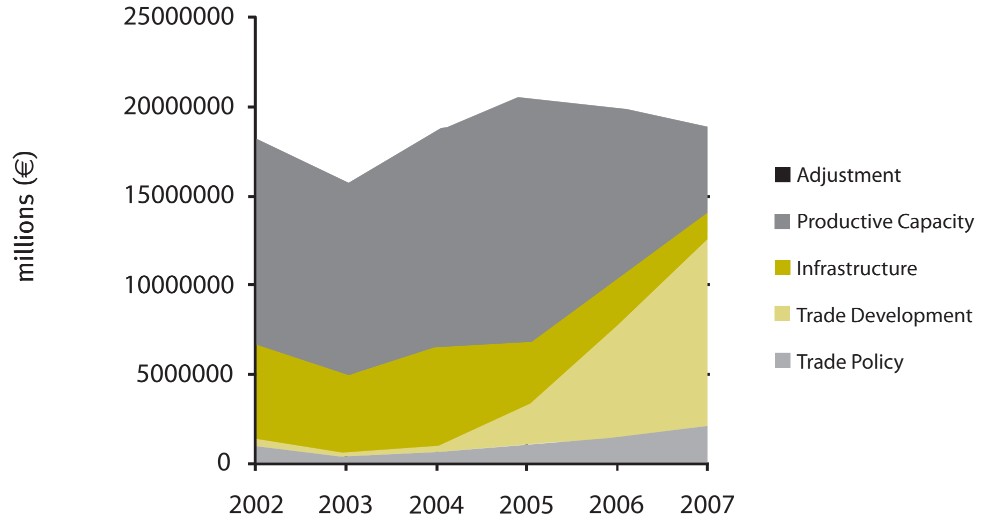
Table 1 Ireland's cumulative allocations by AfT categories[12]



"For LDCs, AfT was less in 2004 than in 2001"

The Review noted that around 10% of all AfT is targeted at regional and multi-country programmes drawing attention to the oscillation in funding from year to year reflecting one off large projects instead of ongoing strategies. Significant disparities in the distribution of AfT were also identified. **The top ten recipients of AfT receive 46% of total AfT.**[13] With the exception of Serbia, the top ten recipients are populous developing economies. Seven of the top ten AfT recipients are located in Asia (i.e. Vietnam, India, Indonesia, Pakistan, Bangladesh, China and Sri Lanka). Ethiopia, with 2.3% of total AfT, is the only country from Sub-Saharan Africa in the top ten. For LDCs, AfT was less in 2004 than in 2001. [14]

The Second Global Review of AfT

The convening of a second Global Review in mid 2009 provides an opportunity for assessing the validity of previous assumptions and progress towards commitments made. The Review is also an opportunity for countries who previously have not detailed their AfT strategy, including Ireland, to present progress made since 2007. Amongst the issues highlighted from the 2007 review which countries need to consider as they develop their AfT strategies are:

i) how to interpret the imprecise nature of AfT in a way which maximises its contribution to development objectives and
ii) how to ensure AfT finance is provided on sufficient scale and duration in challenging economic times without displacing spending on other priority development sectors.

A 'development' interpretation of AfT

The defining aspect of AfT according to the WTO task force report is:

'Projects and programmes should be considered as AfT if these activities have been identified as trade related development priorities in the recipient countries national development strategies'.[15]

This is a rather broad definition, encompassing any area that a country says will contribute to its trade capacity. For operationalising AfT the task force recommended the guiding principles of the

[12] Data provided by Irish Aid

[13] The review notes that 'massive amounts of aid', much of which could be categorised as trade related was provided to Afghanistan, Iraq and Turkey but that their inclusion would make the analysis of patterns in the allocation of aid for trade biased.

[14] J.Michael Finger in Njinkeu and Cameron et al (2008), Aid for Trade and Development, Cambridge University Press, page 84

[15] WTO (2006) Recommendations of the AfT Task Force, Article B

Paris Declaration on Aid Effectiveness apply. The first of these principles, ownership affirms the right of developing countries to shape their own processes of development. Ownership of AfT processes can only come about where countries have the policy space to set their own national strategies and their trade policies. Where trade negotiations or donor conditionality reduce that space they undermine the processes which could lead to ownership. Ownership is also dependent upon participative planning processes within a country, with the involvement of all stakeholders. The increased attention to AfT indicates pursuit of a more outward looking model of economic growth and development driven by trade. But this should not be interpreted strictly as support for export driven trade alone. Such a focus poses the threat of concentrating resources to support participation in external markets when much remains to be done in policy areas to enhance production and develop domestic supply chains for local markets.

Harnessing AfT for Rural Development

Three of every four poor people in developing countries live in rural areas – 2.1billion living on less than $2 a day and 880 million on less than $1 a day – and most depend on agriculture for their livelihood. Farming generates employment, creates incomes and increases the ability of poor people to secure and create further assets. Farming is key to the viability of rural communities, food security and the reduction of rural and urban poverty. Apart from the importance of investment in agricultural production, the promotion of off-farm employment creates additional income generating opportunities in rural areas. Value addition, processing, packaging and trading activity compliments agricultural production and can allow small scale producers to move up the value chain.

Important options for enhancing rural livelihoods include increasing access by small-scale farmers to land and economic resources and to remunerative local urban and export markets; and increasing local value added and value captured by small-scale farmers and rural labourers[16].

Limited inputs such as tools, technology, education and capital constrain their production while poor transport infrastructure makes reaching markets a struggle **(Box 3).**

BOX 3 Getting to markets[17]

In developing countries 16 percent of the rural population live in areas with poor market access, requiring five or more hours to reach a market town of 5,000 people or more. About half the agricultural area in these remote regions has good agricultural potential but lacks the infrastructure to integrate into the wider economy. In Sub-Saharan Africa, the percentage of the population with poor market access is much higher. In Ethiopia, 68 percent of the rural population lives in medium to high rainfall areas, but farm households are on average 10 kilometres from the nearest road and 18 kilometres from the nearest public transport.

Apart from infrastructural deficiencies, supply side constraints which hinder production amongst small-scale producers and their ability to trade include poor access to a number of support services, such as provision of seeds, fertiliser and other inputs, advice and extension services, logistics services and quality control. Many of these services were in the past provided by state or parastatal institutions. The dismantling of such institutions was carried out in the expectation that the private sector would fill the resulting gap and do it more efficiently. However, in most cases the private sector has proved unable to do so. The absence of support services is further compounded by the difficulty small producers have to accessing finance.

[16] International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) Executive Summary of the Synthesis Report, page 7

[17] World Bank, 'Agriculture for Development', World Development Report, October 2007, pages 54-57

Further challenges are meeting market entry requirements and then having access to market information systems. UNCTAD specifically recommends that the AfT initiative should assign particular importance to improving competitiveness of small-scale commodity producers and enabling them to participate in supply chains.[18]

Reprioritising Agriculture

A declining proportion of both public and donor spending has been directed towards agriculture in recent decades. Agriculture's share of ODA fell from 17 percent in 1980 to 3 percent in 2006. This decline is all the more striking because it happened in the face of rising rural poverty. Now both donors and recipients are reprioritising support to agriculture. Ireland in its 2006 White Paper on Irish Aid highlighted hunger and food security as essential elements in meeting development goals. Arising from the White Paper a Hunger Task Force (HTF) was commissioned to investigate how Ireland could make a positive impact in mitigating the causes of hunger and promoting food security. Amongst the 3 priority responses where the HTF believes Ireland could play an effective role is increasing the productivity of small producers, in particular women farmers, in Sub- Saharan Africa. Ireland's AfT strategy is a potentially important instrument to support the delivery of objectives set out in the HTF report addressing production constraints by supporting grass roots producers integration into supply chains and stimulate export producers to use local inputs.

A 'poverty' focussed AfT strategy

The balanced development of an economy requires that local markets in which poorer groups participate be developed in tandem with export growth. For this potential to be harnessed AfT needs to be interpreted in a manner which includes the strengthening of local commerce among its core functions. For AfT to be narrowly interpreted as increasing exports, then

> "the AfT initiative should assign particular importance to improving competitiveness of small-scale commodity producers and enabling them to participate in supply chains"

programmes would target groups and countries closest to export readiness-probably producers who are already free from vulnerability to poverty. Programmes which have poverty reduction as their primary focus will be designed differently and come closer to the needs of small producers. This does not mean that smallholders only benefit from initiatives which directly target them. The institutional, policy and infrastructural environment in which they operate largely determines their opportunities to gain a livelihood. Poverty reducing AfT programmes need to be designed in a way which bring tangible benefits to small producers. Where AfT seeks only to increase trade then a prioritisation of efforts towards large and strong actors is unsurprising. However, as part of a wider poverty reduction approach focussed AfT programmes must prioritise the targeting of resources towards the poorest countries and the poorest producers within those countries.

Systemic Trade Justice

A 'poverty' focussed AfT strategy alone is insufficient to ensure small producers realise the potential benefits created from increased production and ability to reach markets. In a situation where developed country agricultural policies cost developing countries about $17 billion per annum, a cost equivalent of about five

[18] UNCTAD, Enabling Small Commodity Producers and Processors in Developing Countries to reach global markets, 2006, page 19

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times the level of ODA to agriculture,[19] political commitment to work towards a more equitable Agreement on Agriculture in the WTO which prioritises the interests of small producers is essential. Otherwise how can poor rural producers realistically compete with heavily supported agribusinesses?

In Central America overall levels of AfT funding vary widely from one country to another and from year to year, demonstrating an unpredictability which militates against good quality programming. Both US and EU announcements of AfT funding have coincided directly with the negotiation of free trade deals undermining the claim that AfT is not used as a bargaining chip in negotiations.

Civil society groups express a high level of dissatisfaction with both the processes and outcomes of AfT planning in the region. They have few opportunities for meaningful input to programme design and express the concern that programmes target those who are already well resourced – to the neglect of small producers and the poor.

Ensuring effective and predictable AfT finance

Aid flows are historically prone to fluctuations. But for aid to be effective it needs to be long term and predictable. AfT must be of a sufficient scale and duration in order for developing countries to adjust to the shocks of trade liberalisation and avail of new market opportunities. The AfT reviews are a way of monitoring the quantity of financial flows, but lack a binding mechanism.

The position of donors that increased AfT resources would come from rising ODA budgets and therefore have limited impact on existing aid programmes is also highly problematic. AfT should not be at the expense of existing aid programmes. Many of the existing areas of aid spending - including education and health - are essential to increasing productive capacity. Others such as promoting good governance and building civil society are necessary for the benefits of trade to be shared in an equitable manner through society. Finally, AfT programmes and projects should be driven by the needs of recipients, in consultation with civil society in each country.

"developed country agricultural policies cost developing countries about $17 billion per annum, a cost equivalent of about five times the level of ODA to agriculture"

[19] World Bank, 'Agriculture for Development', World Development Report, 2007, page 103

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"the development potential of AfT programmes are very much dependent upon complimentary 'development' trade justice rules"

Pointers for development focused AfT strategies

- Trade could be more effective to poverty reduction when increased trade opportunities for developing countries are accompanied by comprehensive AfT programmes. However, the development potential of AfT programmes are very much dependent upon complimentary 'development' trade justice rules in multilateral and bilateral trade agreements.
- Building national ownership of AfT agendas includes building the participation of all stakeholders including civil society in their design.
- Well designed AfT (directly addressing distributive issues) could potentially play an important role in reducing the tendency of trade liberalisation towards increasing inequality within a country and between countries.
- AfT needs to be firmly rooted in development principles, identifying and advancing trade systems built on the participation of poor people in market systems.
- Given the importance of local markets for strengthening the livelihoods of the poorest groups, AfT must be interpreted in a manner which includes the strengthening of local commerce. Particularly important to improve the competitiveness of small-scale commodity producers and enabling them to participate in supply chains.
- AfT must be of sufficient scale and duration in order for developing countries to adjust to the shocks of trade liberalisation and avail of new market opportunities.
- AfT must not divert resources from existing aid priorities.

Recommendations for Ireland's AfT strategy

1. Ireland must ensure that EU positions in trade negotiations do not erode developing countries policy space. Developing countries must be able to set the pace of trade liberalisation according to their development needs.

2. AfT strategies should include measures to strengthen the capacity of affected sectors, especially small producer organisations, to engage in participative planning processes that exist within countries.

3. Ireland's AfT strategy should identify a niche area of expertise and concentrate support in that area. This area should reinforce the aid programme's commitment to poverty reduction and inclusive growth. Specific consideration should be given to opportunities that support Ireland's HTF initiative, targeting production systems, value addition and market access for small producers in our priority countries.

4. Multilateral agency AfT funding should have a thematic and geographical congruence with the Irish Aid programme ensuring coherence with wider development objectives including poverty reduction and equality.

5. Delivery of donor AfT strategies requires dedicated attention to trade in aid programming which may demand a strengthening of Irish Aid's capacity to manage AfT programmes.

For further information please contact Michael O'Brien, Trade Policy Officer

TRÓCAIRE
Maynooth
Co. Kildare
Ireland
Tel. + 353(0)1 629 3333
www.trocaire.org
info@trocaire.ie