



Keep your promises on Aid for Trade

Dr Dirk Willem te Velde, 3 December 2007, presented at a European Parliament meeting organised by the Socialist Party on “Keep your promises on Aid for Trade”.

I will highlight four issues, with reference to Aid for Trade and in particular the role of the EC and EU: **History and rationale, Financial commitments, Effectiveness, and Composition**

1) History and rationale

The original purpose of A4T was to address preference erosion, adjustment to trade liberalisation and implementation of WTO agreements. This led to the adoption of paragraph 57 on A4T in the HK WTO ministerial declaration of December 2005. By 2006 A4T had become complementary to the round (because of stalled WTO negotiations). Now we are trying to understand why trade related assistance is good for development.

Aid for Trade contributes to a public good in three ways:

- **Governance** (current rules and regulation WTO negotiations with a purpose to restrict policy space and trade distorting practices);
- **Knowledge** (e.g. regional and global A4T meeting raise awareness on trade with donors and recipient countries on importance of supply side measures);
- **Individual components** (e.g. infrastructure) exhibit public good aspects.

In terms of expected effects: **A4T raises absorptive capacity** which reduces the possibility of Dutch disease effects (real effective exchange rate appreciation and loss of competitiveness).

2) Financial commitments

At current growth rates, a doubling of aid is needed every 10 years simply to maintain aid/GDP ratios in Africa.

Volumes of total aid by the Commission (budget and EDF) are increasing a little but largely fixed until 2013. However, at Gleneagles 2005 Barroso envisaged a USD 38 bn increase for **EU aid** by 2015. Such fixed **EC** allocations imply a decreasing share of EC in EU aid (just because of the aid architecture).

But another share is deteriorating for no particular reason. Despite the attention to A4T, the share of TRA in EC aid has fallen from 13.4% in 2001 to 11.6% 2006. This is simply because EC TRA (excl. infra) increased by 2.6% annually, while total EC aid rose by 5.5% annually.

What about the next 5 years? The EC has said TRA will increase to €1bn by 2010. But it was already €0.95bn in 2006, so there will only be **1.2% annual change until 2010**, and total EC aid will increase by more than that. EU member states on the other hand would have to increase TRA by 20% a year to reach their €1bn (additional €600mn). Those in Parliament and Commission convinced of the importance of AfT would be concerned that:

- 1) the share of EC TRA in EC aid is set to decrease further;
- 2) the relative importance of the EC in Global TRA is set to decline.

But there are other points raised in ODI's assessment of EC TRA. Even if developing countries would like to see an increase in EC TRA, in practice **TRA is hidden beneath levels of development planning**. Further due to **budgetary reasons**, TRA cannot be used easily for multilateral initiatives (**locked into regions**) – even if developing countries wanted it.

If MEPs desired to respond to developing countries' demands for additional support for trade adjustment, at a multilateral level, and they do not like to see the above share deteriorate, they need to examine what **additional financial mechanisms and budget lines** can be put in place. We estimate Africa alone needs an **additional USD 12-13 bn** a year on aid for trade (narrow TRA, infrastructure and re-training programmes).

3) Effectiveness

Evaluations of TRA suggest in general terms that TRA has led to **increased awareness and capacity building**, but there is **no proven link with trade** or intermediary factors such as the business environment. One exception is a study on trade facilitation. Generally, there seems to be a need for better data and quantitative evaluations of all TRA.

We also know that infrastructure is important for growth. And, as an example, DFI support for private sector operations reveals a private sector interest in aid for trade. The EU – Africa infrastructure fund might be useful in combining grants and loans; it may also be a useful way to leverage in additional A4T spending by the MS (given that EC aid is fixed).

ODI's study on TRA includes a number of key principles: TRA needs to build in-country capacity, move assistance towards supply side; EC is well placed in trade development, but there are challenges with respect to support for trade policy (which ideally needs an independent broker).

4) Composition

Finally some remarks on the composition of EC TRA.

There is a **gap** in terms of who is receiving aid for trade and those that “need it most”. The Med and South East Asia regions receive more TRA in terms of volume and per capita than Africa.

There are also **neglected sectors** in terms of trade development. Services are important for development (increasing share and responsible for most of African growth over past 5 years), so why has there been so little emphasis on TRA to services?

But too many constraints and restrictions can be harmful. While **EPAs** could lead to a better allocation of TRA, there is a perception that A4T is linked with EPAs. Any link with **existing** aid allocations needs to be avoided. The point is that new trade agreements should lead to additional A4T (as at the WTO)– and if this has to come from MS contributions it has to be set in stone.

In conclusion

A4T is now complementary to the WTO round. There are some worrying trends with respect to the role of the EC in TRA. This requires an examination of the **appropriateness of financial mechanisms** to secure sufficient aid volumes to trade and supply side purposes. There also needs to be more attention to **effectiveness** which should include a discussion about needs for **sectors and recipients**, and **quantitative** indicators.

	EC Aid (million €)	
	Trade Related Assistance (Submission EC to WTO Aid for Trade Review)	Total (net ODA, taken from DAC data)
2001	826	6160
2002	688	5465
2003	885	5705
2004	949	7006
2005	988	7555
2006	941	8129
Increase p.a. 2001 - 2006	2.6%	5.7%
2010	1000	EDF + Aid in EC Budget
Proposed annual increase, 2006-2010	1.2%	At least 20-40% if EC maintains 20% in total EU aid which would rise by USD 38 bn (Gleneagles) EDF rising from Euro13.5 bn over 2002-2007 to Euro22.4 bn over 2008-2013

Selected references:

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