3

How SVEs Access Aid for Trade

It is worth analysing the current structure of the provision of aid for trade. This section examines what institutions provide it, what type of AfT funds exist, what criteria must be fulfilled to access those funds and what types may be particularly relevant for SVEs. This information is important in order to operationalise any policy advice on AfT and how SVEs fit into this.

The work of the WTO AfT Task Force in 2006 has induced a sort of convergence in the general understanding and definition of AfT in the donor community among bilateral and multilateral agencies. The Task Force states:

> Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies.

It specifies six types of activities as constituting AfT:

1. **Trade policy and regulations** (e.g. trade policy and planning, trade facilitation, regional trade agreements (RTAs));
2. **Trade development** (e.g. investment promotion, analysis/institutional support for trade in services, market analysis and development);
3. **Trade-related infrastructure** (e.g. physical infrastructure including transport and storage, communications and energy generation and supply);
4. **Building productive capacity** (e.g. business development, assistance to banking and financial services, agriculture, forestry, fishing, industry, mineral resources and mining, tourism);
5. **Trade-related adjustment** (e.g. contributions to government budget for implementation of recipients own trade reforms and adjustments to trade policy measures by other countries);
6. **Other trade-related needs:** other trade-related support not captured under the categories above.

These activities are administered through programmes and projects funded by bilateral and multilateral donors (see below) and usually implemented by a variety of specialised agencies (e.g. UN agencies, international non-governmental organisations (NGOs), local NGOs, private contractors). From the discussion in Section 2, trade-related infrastructure, building productive capacity and trade-related adjustment may be particularly important in terms of SVEs' needs. Trade facilitation may also play a very relevant role as SVEs are more dependent on trade than other developing countries, and processing imports and exports efficiently is key. This paper focuses specifically on the impact of trade facilitation assistance in part of its empirical analysis.

3.1 Institutions offering aid for trade

Virtually all donors (bilateral and multilateral) have a more or less formalised trade-related programme. Bilateral donors have supported aid for trade activities for many years under the rubric of infrastructure projects, assistance to customs, support to productive sectors and similar headings. However, these activities have generally not been grouped under a single heading and are often carried out by different units within the same donor organisation. The AfT initiative has provided some momentum for donors to unify their trade-related activities within their internal structures (OECD, 2007). Nonetheless, the funds available for AfT are still usually scattered across the donor organisation. For example, the European Commission (EC) – the largest AfT donor as shown in the analysis below – funds aid for trade through a number of Community instruments under the regular Community budget (e.g. the Development Co-operation Instrument, the special budget line for multilateral initiatives) and the European Development Fund (EDF) (EC, 2008). These funding mechanisms are implemented by different units within the Commission. The USA provides AfT through different organisations, the main ones being the Millennium Challenge Corporation (MCC) and USAID.

Multilateral donors – and some specialised agencies in particular – are usually ahead of the game in terms of the organisation of AfT assistance. Some agencies have this type of assistance as their core mandate, for example the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the WTO. Others operate specific AfT programmes related to their core competencies. For example, the Food and Agriculture Organization (FAO) provides trade-related assistance for the agricultural sector. Table 3.1 presents the types of AfT provided by the various UN-related organisations.

Among the agencies with a trade-related mandate, UNCTAD is the organisation with the longest history of relating trade to development and has major current capacity building functions. It may also offer advice on how to ensure that developing countries participate actively and believe that they are involved in decision-making. All its projects and programmes are strictly related to aid for trade, although the scale of its activities generally depends on external funding. UNCTAD is mainly an implementing agency, which provides technical co-operation on the basis of projects planned by donors. Its main area of activities is trade policy and regulation.

The ITC also has a history of trade-related aid. Its main areas of intervention are concentrated in the broad categories (especially trade development and business participation in the trading system). The ITC has developed a role related to global products and networking among trade support institutions that complements the trade-

Table 3.1. Overview of UN-wide trade capacity building services

		Global advocacy	Trade policy and development	Legal and regulatory framework	Supply capacity	Compliance support	Trade promotion	Market and trade information	Trade facilitation	Physical trade infrastructure	Trade-related financial services	Others
Department and offices	UNDESA	X										
Programmes and funds	ITC	X	X	X	X	X	X	X	X		X	X
	UNCTAD	X	X	X	X			X	X	X	X	X
	UNDP	X	X	X								
	UNEP	X	X	X	X							
	UNHABITAT				X							
	UNRWA				X							
Regional commissions	UNECA	X	X	X			X	X				
	UNECE			X		X		X	X			
	UNECLAC		X	X	X	X	X	X	X			
	UNESCAP		X	X	X			X	X			
Specialised agencies	FAO	X	X	X	X	X		X				
	ICAO		X	X						X		X
	ILO	X	X	X	X							X
	IMO								X			
	UNIDO	X	X	X	X	X		X				
	World Bank	X	X	X	X	X		X	X	X	X	X
	WHO	X	X	X				X				
	WIPO			X								
Related organisations	IAEA				X	X						
	WTO	X	X	X				X				

Source: UNIDO (2008)

related technical assistance (TRTA) of the bilateral donors who support larger projects in developing and transition economies.

The WTO is the only international organisation that deals with the global rules regulating trade among nations. Its main objective is to ensure that trade flows as smoothly, predictably and freely as possible. It does this through a number of activities: administering trade agreements; acting as a forum for trade negotiations; settling trade disputes; and reviewing national trade policies.

Other major multilateral organisations providing AfT include the World Bank, the IMF, the regional development banks and other specialised UN agencies. They mainly operate through specific AfT programmes, some of which are reviewed in the next sub-section. The Commonwealth Secretariat deserves a particular mention: through the Commonwealth Fund for Technical Co-operation (CFTC) it provides capacity-building and institutional strengthening assistance to developing member countries, especially small states and least developed Commonwealth members. This not only covers AfT, but is the only development programme that includes AfT and specifically targets SVEs.

In general, both bilateral and multilateral donors do not have an institutional focus on specific subsets of countries, although some of the programmes do have a special focus. However, some bilateral donors have a regional or thematic focus, e.g. Japan concentrates on Asia, the EC on Africa and UNCTAD on LDCs. No donor has a specific focus on SVEs, although the rationale for AfT is particularly clear for these countries.

3.2 Types of programmes available

Let us turn to the description of some of the major AfT programmes available from bilateral and multilateral donors. The last part of the section will examine those most relevant to SVEs' needs.

Main multilateral AfT programmes

A number of multilateral (and regional) organisations are involved in providing AfT programmes either individually or jointly.

The **Integrated Framework (IF)** is perhaps the most relevant AfT programme. It is the product of the joint efforts of six multilateral institutions (IMF, ITC, UNCTAD, UNDP, World Bank and WTO). It has two main objectives: to integrate trade into national development plans such as the poverty reduction strategy papers (PRSPs) of LDCs; and to assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified by recipient LDC. In 2007 an Enhanced Integrated Framework (EIF) was launched. This is considered to be AfT under the definition provided by the IF Trust Fund. The IF has recently started to provide trade-related funding of its own with the creation of an IF Trust Fund. It can only identify needs, through its diagnostic trade integration studies, not meet them, due to its relatively low level of funding (US$170 million for the five-year life of the EIF). This has given rise to criticism that it is highly administration intensive for little or no return and has reduced the interest of potential recipients in participating in it, thus weakening its status (in aid policy terms) as a country-led programme based on a country's own identification of its needs. LDCs do not want the IF to be extended to non-LDCs because it provides a very limited amount of money.

WTO technical assistance is a form of AfT devoted to training activities on WTO-related matters. The initiative has a small budget and its present structure, based on unbound contributions from member countries, could not be massively scaled up; it has no real capacity to determine needs for trade-related supply side assistance. It does, however, have a direct link to the WTO. It has a direct link with Articles in WTO agreements that call for greater assistance in implementing trade agreements. It has been criticised by recipients because its relationship to the WTO means that it is unable to offer advice on how to minimise compliance with WTO rules

The Joint Integrated Technical Assistance Programme (JITAP) is a programme run jointly by the WTO, UNCTAD and the ITC to help African country partners benefit from the new multilateral trading system.[5] JITAP focuses mainly on trade-related capacity building. The programme is much smaller in scale than the EIF (currently amounting to US$10 million). Its size effectively restricts it to small projects, particularly capacity building.

The Standards and Trade Development Facility (STDF) is an example of a programme (also run by the WTO) created to tackle one of the main non-tariff barriers to developing countries' access to developed regions' markets: meeting and implementing international sanitary and phytosanitary standards (SPS). The STDF explicitly targets adjustment costs, mainly through the provision of technical assistance and related capacity building.

A particularly interesting example of an AfT programme at regional level is the trilateral scheme run by the Inter-American Development Bank (IDB), the UN Economic Commission for Latin America and the Caribbean (UNECLAC) and the Organization of American States (OAS) to provide Latin American and Caribbean countries with assistance in negotiations and regional integration. This was initially only for the Free Trade Agreement of the Americas (FTAA) negotiations, but has been extended to others. If meeting regional needs is one of the gaps identified, there could be a role for regional organisations. The range of programmes has allowed the IDB to provide support for all the types of trade need identified here, and it is one of the few multilateral donors with a regional focus.

Main bilateral AfT programmes[6]

Most bilateral donors have already developed an AfT strategy.[7] However, only a few donors have specific trade-related programmes in place. A number of donors fund AfT programmes managed by other institutions, such as the Africa Enterprise Challenge

Fund (AECF), a US$100 million private sector fund hosted by the Alliance for a Green Revolution in Africa (AGRA) that aims to support the African private sector, and the Emerging Africa Infrastructure Fund (EAIF), that seeks to provide soft loans and equity investments for infrastructure development in Africa.[8]

The EC Proinvest scheme for African, Caribbean and Pacific (ACP) group countries provides direct support for the private sector. The mechanism interacts with the private sector. Support may consist of a technical or financial diagnostic study of the enterprise, market surveys, feasibility studies, partner searches, financial forecasts for a project, assistance for project implementation, marketing assistance, training of enterprise staff, training of enterprise management or other technical assistance. The scheme also finances financial intermediaries.

Trade assistance under USAID is an example of a bilateral programme which has grown as new areas were identified. It has combined general support with specific assistance in taking advantage of US trade programmes such as the American Growth and Opportunity Act (AGOA). It has assisted both the public and private sectors. The private sector in African countries has found it more active and useful than programmes from other trade partners in helping them to access trade preference schemes. It has provided very extensive support to ministries in their trade work. It is not clear what mechanisms are in place to keep these at arms length from US interests.

Main programmes of relevance to SVEs

Some of the programmes are particularly relevant to the needs of SVEs. Annex 1 presents a list of AfT projects (excluding trade-related infrastructure) funded since 2006 to support some SVEs. It includes a wide variety of projects, the majority of which are of small size (below US$200,000). On the one hand, this reflects the absence of infrastructure projects from the list; these projects are usually large as they may entail large capital investments. Conversely the rest of trade-related assistance is inherently targeted to specific recipients (e.g. trade ministries, border post authorities, chambers of commerce) and does not usually include large fixed investments. On the other hand, small projects are more typical of assistance to small economies, such as SVEs.

The larger projects in the list are geared towards trade development through strengthening both sectoral and general competitiveness, and assisting in the adjustment process following preference erosion in key agricultural sectors, such as sugar, bananas and rum. The latter programmes are funded by the European Commission and aim to both strengthen the sectors that are going to be exposed to competition and help diversify economies away from those sectors. The strengths and weaknesses of some of these programmes are reviewed below.

The European Union (EU) **Special Fund for Rum** was intended to help a sector damaged by trade reform in the EU. It was unusual in that it provided direct assistance to the private sector. It attracted a high degree of regional ownership (private sector) and because of this had some success. It was, however, transitional and ended after its planned time schedule.

The EU **Special Framework of Assistance for Bananas** is an example of an assistance programme designed to meet the costs of countries damaged by trade reforms, which could assist other developing countries. It faces the potential difficulty of choosing the most appropriate means of adjustment for sectors that start to be exposed to competition (see below for a review of its effectiveness).

The EU **Action Plan for Sugar**, which from the beginning allowed for adjustment through increasing productivity, finding related production or bringing about a total change in production attempted to avoid the problems of the banana scheme. Like the rum and banana schemes, it is an example of aid that provides adjustment assistance for countries which suffer losses because of trade reforms. It is an interesting precedent because it solves the problem that compensating ACP farmers for changes in European sugar policy is not strictly speaking aid by giving it a separate budget line. It also uses grants and bases eligibility on adjustment need, not on need for infrastructure.

The **Trade Integration Mechanism (TIM)** run by the IMF was established explicitly to deal with preference erosion, implementing commitments made by the IMF and the World Bank before and at Cancún. As SVEs are among the largest losers of preferences (in relative terms), such a scheme may be particularly relevant to them. It represents the clearest recognition by an international agency outside the WTO that a legitimate aid problem has arisen as a consequence of WTO obligations. It offers loans, rather than grants. Mitchell and Hoppe (2006) cite the IMF compensatory financing facility as another potential source of funds, but this also is loan-based (as part of the IMF).

Finally, as mentioned above, the CFTC specifically targets SVEs, although it covers other areas as well as AfT.

3.3 Eligibility criteria and implementation

Some programmes are aimed specifically at certain countries, e.g. EIF for LDCs, JITAP for Africa. Others have certain specific requirements, such as the MCC, which requires countries to demonstrate a commitment to policies that promote political and economic freedom, investments in education and health, the sustainable use of natural resources, control of corruption, and respect for civil liberties and the rule of law, as measured by 17 different policy indicators.

Virtually all donors require *ownership* as the main requisite of providing trade-related assistance. Trade must be prioritised in governments' planning documents, such as national and regional indicative programmes, in order for countries to receive AfT. An example of this are the criteria set out by the EC in its AfT strategy. The EU and its member states claim that trade-related support can only be made available if it is taken up as a priority in country or regional strategy papers. According to the EC (2008), this demonstrates that the country concerned considers trade-related assistance to be essential to its own national development agenda. The EC goes so far as to state that a 'major challenge in fulfilling the commitments undertaken in the EU's AfT strategy is about how to create solid demand in Aid for Trade' (EC, 2008: 5). This donor-induced concept of ownership does not sit easily with the original spirit of the Paris Declaration in emphasising genuine ownership.

Aside from ownership, programmes differ in terms of eligibility criteria and geographic implementation. The information for trade-related funds is summarised in Table 3.2. Some funds have emerged out of specific concerns, e.g. the Sugar Action Plan to provide payments to ACP Sugar Protocol countries that need to adjust after sugar sector reform and the TIM to provide temporary cushions to deal with preference erosion. Others are more general, e.g. the MCC focuses on growth and poverty reduction. Several funds provide a diagnosis of what trade measures are required (e.g. the Integrated Framework, part of EC trade-related assistance and JITAP), but far fewer programmes address supply-side constraints directly (though the MCC and the EAIF have the potential to do so) or the implementation costs of trade agreements (though current WTO assistance might cover this, as could the EU Sugar Action Plan). Thus there are significant gaps that the debate on AfT can address.

The funds have very different ways of operating. Some take time to come to fruition, while other can do so more quickly. EC procedures tend to be slow, while those of other bilateral funders tend to be faster. The EC in its turn has much of its trade-related aid integrated in country programmes (through country strategy papers), while for others this seems less the case (e.g. MCC). But the disadvantage of the EU-type approach is that it is impossible to secure quick and targeted disbursement for immediate trade or supply needs if developing countries wanted this.[9]

This review suggests that only a handful of trade-related programmes are not available to some SVEs, such as the EIF (unavailable to non-LDC SVEs), JITAP and EAIF (unavailable to non-African SVEs). On the other hand, some of the funds are particularly accessible to SVEs, as they target some of the trade-related needs specific to (some of) the SVEs, such as the EC Sugar Action Plan and the Special Framework of Assistance for Bananas, the TIM and IADB trade-related activities (directed in particular at smaller Latin American and Caribbean countries). Thus, despite the absence of a specific fund addressing all the special needs of SVEs, there seems to be plenty of scope to access AfT for SVEs that are able to articulate their trade-related needs consistently. The next section examines to what extent this potential for assistance has turned into actual AfT for SVEs in the past and what forms this assistance has taken.

Table 3.2. Eligibility and implementation of trade related programmes

Programme	Eligibility	Actual implementation
IF	All LDCs	Mainly sub-Saharan Africa (+ Cambodia and Nepal)
JITAP	African countries	Six developing countries and 10 LDCs
WTO technical assistance	Developing and transition countries (with special focus on Africa)	
UNCTAD	LDCs and transition economies	Eligible countries + some developing
ITC	Developing countries	Strong focus on Africa (42% of funds)
TIM	Any country facing balance of payments problems because of trade liberalisation	Dominican Republic and Bangladesh
STDF	All WTO member states (for all low-income countries the project grants cover 90% of cost; for the rest, the grant must be 25% financed by the recipient body)	To date projects funded in Benin, Cambodia, CARICOM, Cameroon, Djibouti, Guinea, Malawi, Mozambique, SAARC and Yemen
IADB trade activities	Latin American and the Caribbean countries	Particularly directed to smaller countries
Special Fund for Rum	West Indies	
SFA for Bananas	12 traditional ACP banana-producing countries	Allocated to countries on the basis of the size of the banana industry within the ACP country and a competitiveness gap formula
PROINVEST	ACP countries	
EU trade-related assistance	All developing countries	Africa (40%), Mediterranean region (19%), Western Balkans (14%), Asia (8%), Latin America (8%) and the TACIS regions (8%)
USAID trade capacity building	All developing countries	Based on countries in which USAID operates and those that meet certain governance and macroeconomic criteria
MCC	All developing countries fulfilling certain policy measures	About ten countries have started the implementation phase and another eight have signed a compact (as of January 2009)

Source: Calì *et al.* (2006)