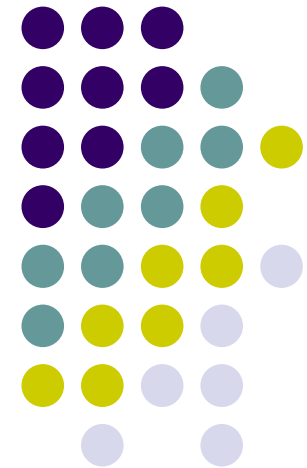
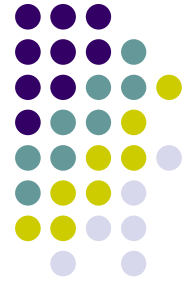


# Aiding Trade for Pro-Poor Growth

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ILEAP





# Core Principles for AFT

- Over-arching goal for AFT should be to enhance the **export capacity** of developing countries
  - Industries
  - SMEs
- Link programmes with broad development strategies
  - **Inclusive growth and poverty reduction (mainstreaming into PRSPs)**
  - Regional strategies (West Africa, etc)
- AFT should complement rather than replace other development priorities

# WTO African Group



- Three main pillars for AFT:
  - Capacity building to address **supply side constraints**
    - Building productive capacities and infrastructure
  - Meeting trade system costs, including adjustment and **implementation**
  - Support for trade policy development and **rule making**

- **Additionality**: AFT should supplement rather than replace existing aid commitments
- **Predictability**: AFT should provide a level of commitment to promises of assistance that gives poor countries some certainty about their funding. This should include a **monitoring** mechanism.
- **Country Ownership**: donors should be responsive to beneficiary countries' priority projects.
- **Coherence**: Effectiveness of AFT is dependent on the level of donor coordination with a broad national development strategy.
- **Private Sector participation**: AFT should identify and remove road blocks to PSD.
- **Available instruments**: AFT should achieve a good balance between loans and grants, particularly in relation to private sector (soft loans).



# AFT- A Complement to Market Access



- Lack of supply capacity: barrier to trade which limits market access for poor countries
- AFT should be viewed as essential component of market access offers to developing and least developed countries
  - AFT as a vehicle of ‘effective market access’
    - i.e. removing internal barriers to trade
  - Level the playing field



# AFT Broad Targets

- Increasing volumes and value-added of exports
- Diversifying export products
- Diversifying export markets
- Attracting foreign direct investment
- Generating jobs and exports

Coupled with:

- Institution strengthening and policy support

# Crucial Areas for AFT Interventions



- Adjustment Needs:
  - The adjustment process will impact particularly harshly on the people and governments of developing countries, particularly small developing countries
- Building Supply Capacity:
  - Market access alone is insufficient to bring benefits of trade to developing countries. New trading opportunities are meaningless without capacity to trade.
- Appropriate Instruments:
  - The many factors constraining pro-poor growth in developing countries require a multiplicity of instruments to address the constraints.



# 1. Adjustment Costs

- Fiscal Losses
  - **Tariff revenue**: small countries are the most reliant, particularly in Africa
  - Global trade reform has significant consequences for **fiscal structures** of developing countries
- Net-food importing countries
  - **Selective and gradual approach** to agricultural liberalisation may be needed
  - Considerable adjustment assistance may be necessary for negatively affected countries (poor farmers). AFT should help DCs to improve their **dynamic comparative advantage**.

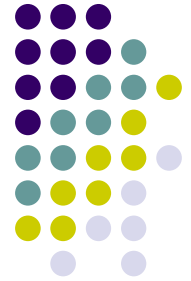




# 1 bis. Adjustment

- Preference Erosion:
  - Some critical industries face large negative consequences
  - Small group of **net losers** will need substantial assistance to manage adjustment
- Implementation costs:
  - Regulatory changes in UR imposed a large and unacceptable burden on developing countries; (e.g. **implementation costs** of WTO Customs Valuation Agreement: between US\$1.6 to US\$16.2 million)
  - Implementation of regulatory agreements often **draws money away from development budgets** of poor countries

## 2. Building Supply Capacity



- **Trade policy and regulations:** AFT should be provided to help countries participate in the multilateral trading system and reform their own trade policies
- **Enterprise development:** AFT should help private sector enterprises to trade and create a favourable business climate
- **Infrastructure:** AFT should assist in the identification of infrastructure bottlenecks and finance infrastructure projects

# Trade Policy and Regulations

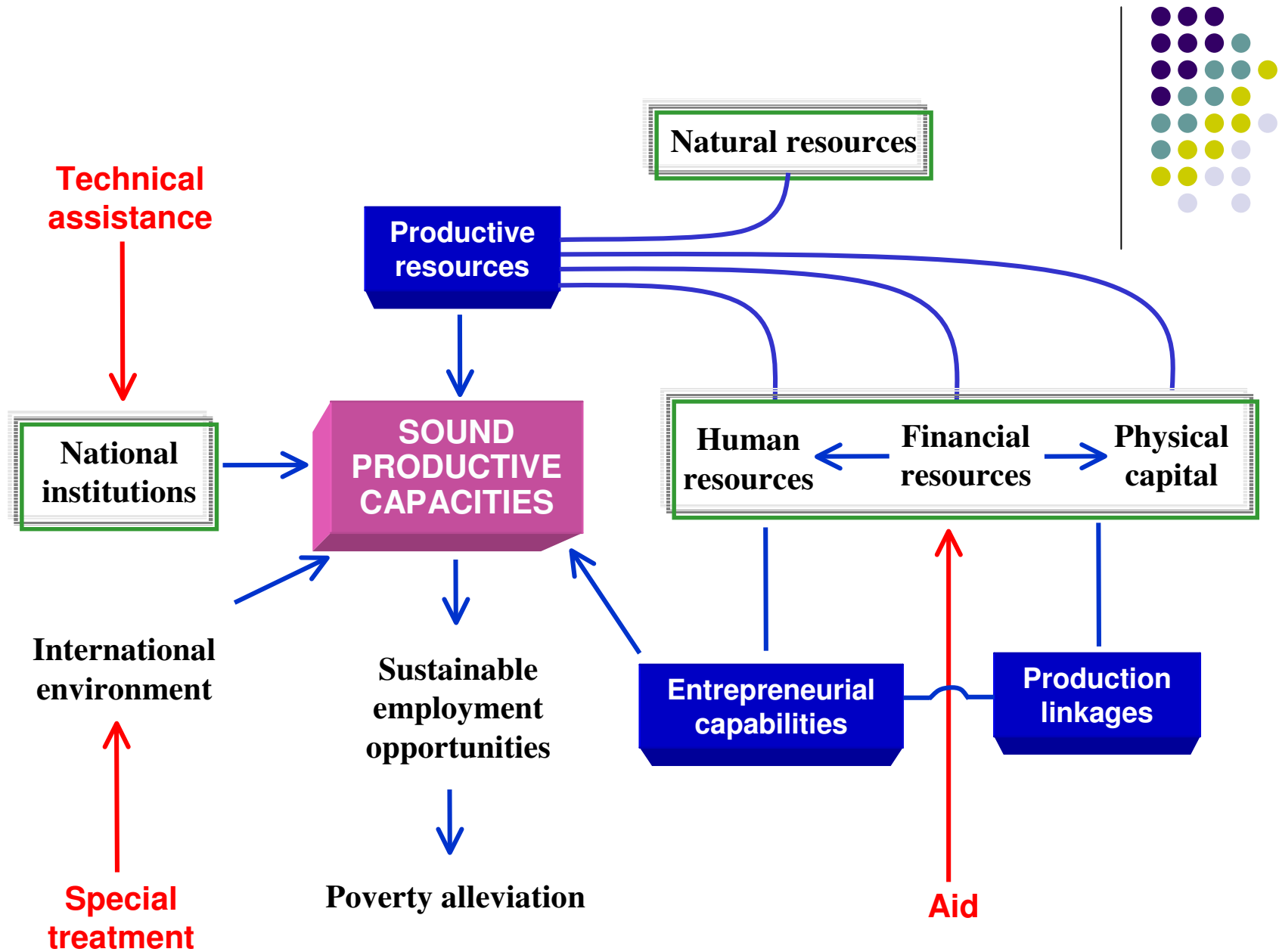


- Focus on assistance that helps developing countries to **redesign their development policies** in ways that are consistent with their broad **development and social agendas**:
  - Research (to back up policy formulation)
  - Training
  - Institution strengthening/coordination
  - Creation of trade knowledge networks
- AFT should lead to long term results



# Enterprise Development

- Enhance the capacity of the private sector to develop into **new markets**
  - Development of new productive capacities – value chains
  - R&D/science/innovation/technology transfer
- Expand exports
  - Enable companies to adequately respond to **export opportunities**
    - Access to (export) finance
    - Compliance with standards/technical requirements
- Develop competent **support institutions**
  - Chambers of commerce, customs/port authorities, investment/export development authorities





# Infrastructure

- Improved infrastructure combined with strong macroeconomic conditions complements investment in supply capacity building and increases **export competitiveness**:
  - Good **transport systems**: help farmers to access large domestic markets and international ports
  - Excellent **storage facilities**: reduce inventory costs
  - Efficient **water and power supplies**: boost production and reduce costs
  - Well-organized **customs procedures**, inspections and certifying bodies: reduce overall trade costs associated with institutional capacity
- Must be coupled with good policy framework.



## 3. AFT Instruments

- Focus on private sector development by facilitating the improvement of the business environment for exporters and creation of effective credit markets.
  - Improve credit markets through creation of new multilateral instruments to **mitigate risk**,
    - e.g. multilateral **credit insurance facility** that would subsidise financial guarantee insurers - providing access to 'monolines' that would facilitate access to large volumes of credit.
    - **Securitisation facility** – bundle cash flow streams into one single asset against which can borrow at lower rate
  - Improve local financial markets
    - Encourage bond markets in local currencies and/or baskets of local currencies



## 3 bis. Which Instruments?

- Financing infrastructure:
  - Choice of instruments should be driven by local users (bottom up approach)
  - Public/private partnerships – to expand finance
  - Subsidies (for some sectors) – to assure universal access
- Reducing the knowledge gap:
  - Facilitating technology transfer (research centres, standards centres)
  - Global internship programmes
- Tax structures:
  - Efficient and effective progressive taxes to make up for revenue losses (e.g. progressive excise taxes)





## New Mechanism for AFT?

- Stiglitz: establish Global Trade Facility (GTF) under UNCTAD
- Build on Enhanced Integrated Framework
- Additional funding as part of binding Doha Round agreements, enforceable in WTO
- Finance technical assistance, capacity building, enterprise development and infrastructure projects through a combination of grants and concessional loans.



# Central Messages

- (Increased) **Aid is central to trade** – without it, market access is meaningless
- Linkages between **trade, aid and broader development policies** and reform are critical
- Aid promises must be backed up with **commitment and enforcement**
- AFT agenda should stress **donor coordination and coherence** with national policies and priorities
- AFT should build on progress of **existing programmes** and **leverage capacity** of existing institutions. It should not stand alone.

## For more information:



Further Reading: Dominique Njinkeu and Hugo Cameron (eds), ***Aid for Trade and Development***, 2008

Also: [www.ileap-jeicp.org](http://www.ileap-jeicp.org)