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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Towards an EU Aid for Trade strategy – the Commission's contribution**

{COM(2007) 163 final}

## **1. LIST OF ACRONYMS**

ACP: African Caribbean and Pacific countries

CRS: Creditor reporting system (of the OECD)

EDF: European Development Fund

EPA: Economic Partnership Agreements

EU: European Union

IF: Integrated Framework for trade related assistance to least developed countries

ILO: International Labour Organisation

LDCs: Least Developed Countries

MDG: Millennium Development Goal

MS: EU Member States

OECD: Organisation for Economic Cooperation and Development

SPS: Sanitary and Phyto-sanitary Standards

SWAPS: Sector Wide Approaches

TBT: Technical Barriers to Trade

WTO: World Trade Organisation

## **2. ORIGIN OF THE EU AID FOR TRADE STRATEGY**

### *The WTO Task Force on Aid for trade*

Work on an EU Aid for Trade Strategy builds on the recommendations of the recent WTO Taskforce on Aid for Trade. The EU actively contributed to this Task Force which was mandated by the WTO Ministerial Conference in Hong Kong 2005 to "operationalise Aid for Trade" and to explore how Aid for Trade can contribute to a successful outcome of the Doha Development Agenda.

Since the early 2000', support to trade has been understood as comprising two areas of action: "trade policy and regulation", and "trade development", which are used to report assistance to the WTO/OECD Doha database<sup>1</sup>. In short, they have been referred to as "trade-related assistance" – TRA.

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<sup>1</sup> The "Doha Development Agenda Trade Capacity Building Database" (<http://tcbdb.wto.org>) was established jointly by the WTO and the OECD/DAC in November 2002. The database monitors the delivery of donor-funded Trade-Related Technical Assistance and Capacity Building (TRTA/CB) projects and programmes (incl. implementation of commitments registered in the Doha Ministerial Declaration).

The WTO Taskforce however highlighted the importance of supply side constraints and adjustment costs and proposed that the scope Aid for Trade should include not only these two existing TRA categories, but also "building productive capacities", "trade-related infrastructure", and "trade-related adjustment".

The WTO Taskforce also provided recommendations on how to improve the effectiveness of Aid for Trade, stressing the need for developing countries to integrate trade into their development strategies as well as the importance of local ownership. It proposed the creation of a review mechanism in the WTO to ensure proper monitoring of the implementation of its recommendations. On 10 October 2006 the WTO General Council endorsed the recommendations of the Aid for Trade Task Force.

### *EU Council Conclusions*

The EU reacted to the Task Force recommendations by adopting Council Conclusions on 16 October 2006. The Council endorsed the Taskforce recommendations. Furthermore, they reaffirmed the EU financial commitments taken in December 2005, when the Commission and Member States committed themselves to strive to increase their respective trade related assistance to € 1 billion annually by 2010, in order to reach a total of €2 billion annually in 2010. The commitments apply to trade related assistance (trade policy and regulation; trade development) as defined by the WTO/OECD for the purpose of reporting to the DOHA database. In addition, it indicated that a substantial share of this increase would be devoted to ACP countries.

To move things forward, the Council decided to adopt in 2007 a joint EU strategy on Aid for Trade. It was agreed that this Strategy should: set a road map for the EU to reach its financial commitments; based on Aid for Trade needs prioritised by partner countries identify modalities for coordination and response at various geographical levels; propose ways to strengthen EU capacity to deliver and monitor Aid for Trade; and address and set best practices on relevant effectiveness and quality issues.

### **3. CATEGORIES OF AID FOR TRADE**

Since the early 2000', support to trade has been understood as comprising two areas of action: "trade policy and regulation", and "trade development", which are used to report assistance to the WTO/OECD Doha database. In short, they have been referred to as "trade-related assistance" – TRA.

- Trade policy and regulation covers support for the effective participation of developing countries in multilateral trade negotiations, analysis and implementation of multilateral trade agreements, trade-related legislation and regulatory reforms (including TBT and SPS), trade facilitation including tariff structures and customs regimes, and support to regional trade arrangements.
- Trade development covers business development and activities aimed at improving the business climate, business support services and institutions, access to trade finance, trade promotion and market development in the productive and services sectors, including at the institutional and enterprise level.

The WTO Taskforce highlighted the importance of supply side constraints and adjustment costs and proposed that the scope of Aid for Trade should include not only these two existing TRA categories, but also "building productive capacities", "trade-related infrastructure", and "trade-

related adjustment". These five areas of action can now be said to comprise the "Aid for Trade" agenda.

There is a certain lack of clarity in the scope of the new Aid for Trade categories. The main difficulties are differing interpretations and thus reporting practices for "trade development", overlap between existing and new categories (in particular "trade development" and "productive capacity"), and diverging understanding of some of the new categories (such as "trade related adjustment"). Furthermore, even with a clear definition, new delivery modalities such as general budget support may complicate reporting, as this does not at present allow specifying support to trade related sectors. Reporting can be compromised by practical difficulties to identify trade related support within programmes covering a wider range of activities.

Work is presently ongoing, in particular within the OECD/DAC to clarify and simplify the scope and using proxies from longstanding existing ODA reporting categories, in particular as outlined in the Creditor Reporting System<sup>2</sup> (CRS) database managed by the OECD. As concerns the 3 new categories, the following can be said:

- Building productive capacities is closely linked to the category of trade development. Existing guidance for reporting trade development to the Doha database refer specifically to the productive capacities categories of the CRS system, but requests the identification of components specifically seen to develop trade.
- As for trade related infrastructure, a consensus appears to be emerging that the CRS categories for economic infrastructure could be used as a proxy for support provided to this.
- As concerns trade-related adjustment, there is at present no consensus as regards coverage. There are suggestions to use total general budget support, another existing CRS category, as a proxy, but this would include much aid which is not specifically trade related. This said, linked to fiscal reforms, budget support could be an appropriate means to tackle falls in customs revenue following trade liberalisation, or to support trade-related social safety nets to facilitate adjustment to trade opening and globalisation.

#### 4. OVERVIEW OF EC TRADE RELATED ASSISTANCE

The Commission has been contributing on regular basis to the OECD/WTO Doha Database and has submitted its annual TRA commitments since the creation of the database. The submissions covered the years 2001-2005. The figures for 2006 are still under review and not included in this overview.

The multi-year exercise to assess the amount of EC trade related assistance committed during the years 2001-2005 resulted in a total project value of approximately €4.3 billion for some 624 operations. The sources of assistance are both the general budget of the EC and the European Development Fund

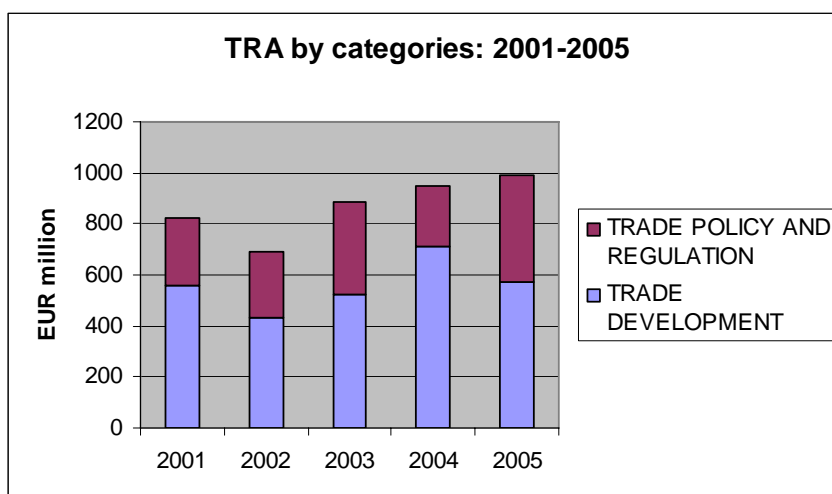
	2001	2002	2003	2004	2005
<b>Total amount of TRA (€million)</b>	825.8	688.3	885.2	948.8	988.0

<sup>2</sup> The OECD CRS Aid Activity database provides a set of basic data that enables analysis on where aid goes, what purposes it serves and what policies it aims to implement, on a comparable basis for all DAC members.

In line with the definitions used in the DOHA database, TRA has been grouped under two basic headings: support for **trade policy/regulation**, and support for **trade development**. Overall, about one third of the total value amount can be considered as assistance under the narrower category of support to trade policy/regulation while the remaining two thirds went toward trade development and broader trade-related support for the private sector.

In terms of activities the EC is providing support through the whole spectrum of these two categories, ranging from the preparation of countries for accession to WTO, to the compliance with quality standards, the development of export capacities and small and medium enterprises and the implementation of international trade agreements. Other prominent themes are trade facilitation/customs, sanitary and phytosanitary measures as well as technical regulations and standards.

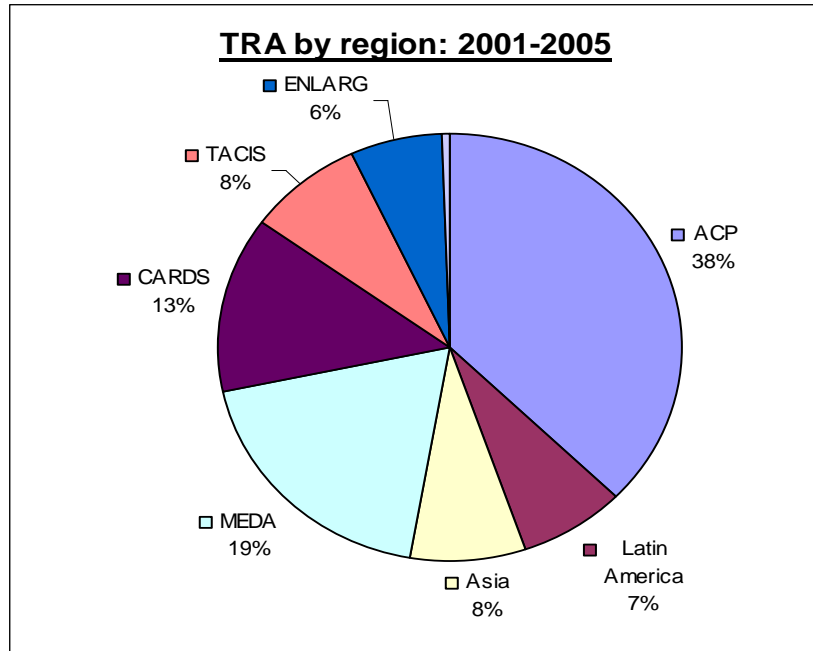
The chart below presents the trend in the EC's trade related assistance in both trade policy/regulation (TPR) and trade development (TD) categories: €271 million TPR vs. €555 million TD in 2001, €259 million vs. €429 million in 2002, €359 million vs. €526 million in 2003, €236 million vs. €713 million in 2004, and €361 million vs. €627 million in 2005. In relative terms, the percentage splits are 33/67, 38/62, 40/60, 25/75, and 37/63, respectively. Fluctuations from one year to the other as well as between the categories are due to the nature of commitment cycles<sup>3</sup>.



However, even with the WTO methodology and categorisation, it is not easy to determine the exact amount of TRA provided. The Commission as a global donor handles an important number of large integrated programmes where it is not always possible to single out only export-related activities. Moreover, the line between the two categories of trade policy/regulation and trade development is very often blurred. The amounts of TRA per category should therefore be interpreted with caution.

In terms of distribution by beneficiary regions, EC TRA has a global scope. As demonstrated by the graph below, for the total period 2001-05 the ACP (Africa, Caribbean and Pacific) group is the largest beneficiary in absolute terms, followed by the Neighbourhood regions (formerly MEDA and TACIS). These two regions are also the largest recipients of EC assistance in general. Asia, Latin America and the Western Balkans (CARDS countries) received comparable amounts of TRA.

<sup>3</sup> Large development projects committed in any given year distort the figures. Such projects generally stretch over a subsequent multi-year period. While in terms of commitments they appear to belong to one year only, in terms of expenditure and effects on the ground they have an impact over several years.



In terms of channels of TRA delivery, the EC uses three main channels with the bulk of the funding going through the bilateral and regional levels:

- **Bilateral:** The European Commission negotiates multi-annual framework documents with each partner country where the priorities for allocation of aid resources are decided and the sectors of concentration are chosen. These documents are known as *Country Strategy Papers (CSP)* and are the key vehicles for translating EU policy into concrete assistance programmes.
- **Regional:** On a regional level, the Commission prepares *Regional Strategy Papers (RSP)* with the goal of ensuring that trade-related assistance is integrated in the wider development strategy of the region.
- **Multilateral:** such as through the Integrated Framework (IF) and the Doha Development Agenda Global Trust fund

Beyond the quantitative commitments described above, the Commission has also undertaken important efforts to improve the quality of its TRA:

Several EU policy documents recognise trade and development as priority areas of EU development policy. Trade Related Assistance is considered as a priority area in view of the EC competence and value added in the trade field. Against this background, the Commission has launched a number of initiatives, such as the setting up of an informal expert group on Trade and Development with the Member States, the establishment of an inter-service Task Force on Trade and Development within the Commission to promote further collaboration among the different Directorates General of the RELEX family, the preparation of guidelines for EC TRA, thematic evaluations on EC TRA as well as an ambitious training programme on TRA for Headquarter and Delegation staff.

## 5: AID EFFECTIVENESS

### *EU Commitments on Aid Effectiveness*

In 2005, the International Community signed the Paris Declaration on Aid Effectiveness. The five Paris Principles are Ownership, Alignment, Harmonisation, Managing for Results and Mutual accountability. Their implementation is measured via 12 indicators which include: Ownership – Operational Poverty Reduction Strategies; Quality of Public Financial Management (PFM) systems; Quality of Procurement systems; Aid reported on budget; Coordinated capacity development; Use of country PFM systems; Use of country procurement systems; Parallel Programme Implementation Units; In-year predictability; Untied aid; Use of programme-based approaches; Coordinated missions; Coordinated country analytic work; Sound performance assessment framework; Reviews of mutual accountability.

When signing the Paris Declaration, the EU furthermore declared that it was going to go further, by ensuring that Capacity building assistance will be provided through coordinated programmes and multi-donors arrangements; government-to-government assistance will be channelled through country systems as well as budget support or sector wide approaches; the number of un-coordinated missions will be reduced by 50%; new project implementation units will be avoided.

### *Programme based modalities*

**Sector Wide Approaches** (SWAPs) are important to ensure coherence and effectiveness of interventions and avoid fragmentation of aid efforts. They are often rather complex to achieve, largely because of the need to involve many different government agencies and the need for sufficiently advanced sector strategies at country level. Significant preparation is required to support capacity building in ministries to enhance ability to ensure the management of a SWAP. In the area of aid for trade, processes such as the Integrated Framework for trade related assistance to LDCs, if properly carried out, can help prepare the ground for successful SWAPs in the areas by helping to establish a trade strategy, supporting linkages between the strategy and expenditure frameworks, building institutional capacity and supporting donor coordination.

**Budget support** as a delivery mode allows for close alignment with partner countries financial systems and procedures. Trade-related budget support could be pursued either as sector budget support, or as general budget support. There is some experience of **sector budget support** relating to Aid for Trade which can be further developed – for example in support of infrastructure. There are some first experiences with sector budget support for trade policy and regulation and trade development. Advancing on sector budget support requires advancing in the area of SWAPs, as discussed above. **General budget support** is at present largely focussed on supporting social sectors and the existing indicators are not adapted to the promotion of trade-related policies. Advancing on trade related general budget support would therefore require work and agreement to establish suitable criteria and indicators.

**EU co-financing** in support of Aid for Trade could allow increasing aid without stretching partners' absorption capacity. It also presents a more flexible way of providing EU Aid for Trade, for example by opening up existing EC programmes to Member States or by allowing some Member States to take the lead based on their comparative advantage and expertise. Co-financing mechanisms for Community funds will be possible under the new financial instruments from 2007 onwards pending revision of the Financial Regulation and its implementing rules.