



Fact sheet on Aid for Trade

1 October 2008

Executive summary :

The present fact sheet prepared by the Commission's services provides answers to questions and concerns raised by the European Parliament in relation to the EU policy on Aid for Trade (AfT) and Trade-related Assistance (TRA). It pays special attention to the matter of financing EC Aid for Trade, showing that it is funded through the different Community financial instruments -without drawing on earmarked budget items- and mobilised through the usual processes and procedures applying to EC development assistance as for all other Official development assistance (ODA). *It explains that* there are no specific, identifiable line items in the Community Budget for "Aid for Trade", except the very small specific item for multilateral actions (20.02.03). Financing draws from *the* EDF and budget chapters for development co-operation, European neighbourhood policy and accession preparation, in particular.

The note also contains some details regarding present EC and EU financial commitments to Aid for Trade, for 2006/2007. This covers both TRA to which the EU Hong Kong pledge applies, and the total, wider AfT agenda, which includes TRA as well as wider productive sectors and economic infrastructure. In 2006 EC and MS TRA reached € 941 million and € 641 million respectively, and total EC and MS AfT amounted to €2,564 million and 4,715 respectively. The trend has been positive over the last years and EU AfT increased constantly since the pre-Hong Kong situation from €5,102 billion (average 2001-04) to €7,279 (2006) in line with increases of overall ODA. Concerns that increases in AfT would be to the detriment of other sectors are hence not justified.

1. What is Aid for Trade?

"Aid for Trade" (AfT) is the generic concept describing development assistance provided in support of partner countries' efforts to develop the capacity to expand their trade to foster economic growth and more effectively use trade in poverty reduction.

AfT has a rather broad scope, encompassing not only assistance to develop trade policies and promote the direct development of trade (so called Trade Related Assistance) but also the elements of the broader growth agenda such as trade related infrastructures and wider support to productive sectors (see Box below).

Box 1: Aid for Trade – 6 different categories

In 2006, the WTO AfT Task Force stated that "*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 specified 6 types of activities :

Trade Related Assistance (TRA):

1) Trade policy and regulations (e.g. trade policy and planning, trade facilitation, regional trade agreements etc.);

2) Trade development (e.g. investment promotion, analysis/institutional support for trade in services, market analysis and development, etc.);

Wider AfT agenda:

3) Trade-related infrastructure (e.g. physical infrastructure including transport and storage, communications and energy generation and supply; etc.);

4) Building productive capacity (e.g. business development, assistance to banking and financial services, agriculture, forestry, fishing, industry, mineral resources and mining, tourism, etc.);

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.

2. The EU Aid for Trade Strategy

The importance of trade for development was emphasised by the international community at the 2002 UN Conference on Financing for Development in Monterrey. Support to trade is one of the priorities for the EU development policy. Therefore, the 2005 **European Consensus on Development** highlights trade as a crucial element of the broader development policies pursuing the Millennium Development Goals.

In October 2007 the EU adopted a **joint Aid for Trade Strategy** to help developing countries to better integrate into the rules-based world trading system and to more effectively use trade in promoting the overarching objective of poverty reduction¹. This joint EU (Community and EU 27 Member States) policy initiative contains five sections: Quantitative ambitions; Pro-poor focus and quality; EU capacity; ACP specific angles (EPA context); and Monitoring and reporting.

In this strategy, the EC and MS reiterate their quantitative commitment to make available **TRA** to the collective amount of **€ 2 billion per year** (€1 billion per year each for the EC and the Member States) to partner countries **by 2010**². A special section focuses on the **ACP** needs in the regional integration and EPA context and provides details of EU ambitions in this respect. In particular, the EC and the MS undertake to make an amount in the range of **50 %** of the increase in TRA available for needs expressed by the **ACP**.

¹ EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries, doc. 14470/07 of 29 October 2007.

² Commitment made at WTO Hong Kong Ministerial Conference in 2005 following GAERC conclusions of 12 December 2005.

3. Community instruments financing Aid for Trade

The EU budget is organised according to the principle of “activity-based budgeting. It contains appropriations by policy areas, each of which is described within a title, such as External relations, Development or Trade. Each title is broken down into chapters (corresponding to activities), which in turn may be broken down into articles and items. Usually, the relevant Policy and geographical area is detailed and at times includes specific programme characteristics. Hence, the budget evidences the link between policies and the necessary resources to undertake them.

Since **AfT is a part of overall EC ODA**, it is financed via the **usual Community instruments** under the regular Community budget and the European Development Fund (EDF). While this development assistance is funded from different instruments and budget chapters, broadly similar principles and procedures apply to turn a financial allocation into a development programme on the ground. Total ODA allocations (including to Aid for Trade) over the programming period (2007/08-2013) are as follows:

- **EDF** – the European Development Fund (African, Caribbean and Pacific countries): 2008 – 2013. €22 682 million for 6 years – not included in Community budget
- **DCI** - the Development Cooperation Instrument (Latin America and Asia including Central Asia): 2007 – 2013: €16.897 billion for 7 years. – Budget line: Title 19 External Relations, Chapters 09 and 10
- **ENPI** – the European Neighbourhood Policy Instrument (Neighbourhood countries and Russia): 2007 – 2013: €11.181 billion for 7 years – Budget line: Title 19 External Relations, Chapter 8
- **IPA** - Pre-accession instrument (the Balkans and Turkey). 2007 – 2013: €11.468 billion for 7 years – Budget line: Title 22 Chapter 02
- The **special budget line for multilateral initiatives** with a global coverage of €4,5 million for the year 2008 - Budget line: Title 20 Chapter 02-03. It should be noted that this budget line covers only a small fraction of overall Community Aid for Trade. Most of the projects financed under this line relate to WTO or WTO-related initiatives, mostly implemented via a contribution to multilateral Trust Funds. The performance of the respective WTO programmes and funds is regularly monitored in the WTO. See box 2 for details.

Box 2: Initiative financed under the budget line Aid for Trade – Multilateral Initiatives	Indicative amount (average 2007/2008)³
Contribution to the Enhanced Integration Framework	€2.000.000
Contribution to the WTO DDA Global Trust Fund (DDAGTF – the WTO's main training and capacity building programme)	€1.000.000
Contribution to the 3 standard-setting bodies in the area of SPS (Sanitary- and Phyto-Sanitary Measures), to enhance participation from officials from developing countries: <ul style="list-style-type: none"> – OIE: Office International des Epizooties - animal health – Codex Alimentarius / FAO - food security – IPPC: International Plant Protection Convention 	€750.000

³ Note that the 2007 expenditure was financed on the budget line 20 0201 (External trade relations) due to problems related to the legal basis identified for the 20 0203 line in the 2007 budget. These concerns have been addressed in the 2008 budget.

Contribution to the Standards and Trade Development Facility (STDF – a WTO managed programme to coordinate SPS technical assistance)	€250.000
Contribution to the organisation of conferences or outreach events on Aid for Trade by important players such as OECD or WTO	€500.000
Contribution to WTO or other international Trust Funds in the area of Trade Facilitation or customs reform	

In summary, the Community budget does not include specific, identifiable budget articles or items on "Aid for Trade", except one regarding multilateral trade policy actions. The total EC AfT can therefore only be identified through ex post analysis of programmes programmed. The EU AfT Strategy includes a commitment to do so regularly. The first Strategy implementation report, the Commission's Staff Working Paper "Aid for Trade Monitoring Report," is publicly available and provides a good overview of the AfT and TRA commitments and activities of the EC and EU MS⁴.

4. How is European Community's Aid for Trade mobilised and channelled to developing countries?

As Aid for Trade is part of overall EC official development assistance (ODA), it is mobilised through the **usual processes and procedures applying to EC development assistance**, and with close adherence to the **Paris Declaration** on aid effectiveness of 2005⁵ (i.e. the overall policy framework which the International Community adopted for the effective delivery of international development assistance) . The key principles of this Declaration are "ownership" of actions by developing countries and "alignment" by donors on partner countries national development policies, strategies and systems.

Multiannual programming: Country and Regional Strategy Papers (CSPs/RSPs)

In order to mobilise funding from its external assistance instruments, the European Commission and each partner State and region negotiate multi-annual programming documents. This is done through an inclusive, participatory consultation process involving also non state actors as well as other donors. The resulting "Country or Regional Strategy Papers" (CSPs/RSPs) start from a shared analysis of the specific situation and needs of a country or region and define the priority sectors of assistance, in line with the partner countries' development strategies.

These Strategy Papers also include National or Regional Indicative Programmes (NIPs/RIPs) that fix indicative allocations of financial resources to be made available over time. A concentration of around 85% of resources on two or three main sectors is sought, for the sake of effectiveness and impact. Consequently, these Strategy Papers are the key instruments in matching national and regional development policies with aid flows and in ensuring that aid is delivered on the ground. Member

⁴ SEC (2008) 431 April 2008

⁵ The Paris Declaration commits donors and partner countries as well as international aid agencies to a series of principles to improve the process and results of aid delivery.

States and European Parliament, are involved in the decision-making, through the scrutiny procedures, before the Commission and the Partner State sign the CSP/RSPs.

Formulating programmes and/or projects by sectors, including trade and economic issues

Upon the adoption of Strategy Papers, specific support programmes or projects are identified and formulated in every sector. They are linked as closely as possible into the action and expenditure plans of the national government or regional organisation concerned. Such an appraisal process gives way to the preparation of one Action Plan per year and country including a number of projects or programmes. Member States and European Parliament are also involved in the screening of these, before a financing decision is taken by the Commission.

Trade and economic development issues are key priorities addressed by the Commission in its policy dialogue with partner countries. However, trade-related support can only be made available if it is taken up in the Strategy Paper as a priority. This, in turn, will only be the case if the country concerned considers it to be essential to its own national development agenda. Therefore, the particular challenge in fulfilling the commitments undertaken in the EU's AfT strategy is about how to create solid demand in Aid for Trade.

In summary, EU AfT is delivered in close adherence with the internationally agreed Paris Declaration on Aid Effectiveness. Effective delivery of trade-related support requires effective demand by partner countries. The EU makes efforts to create increased demand for AfT through its policy dialogues with partner countries and by providing support to trade needs assessments and to mainstreaming of trade into development strategies, but it will not deliver AfT unless this is expressed as a priority by the partner countries.

5. How are European Community's AfT funds disbursed?

Once Financing Decisions are taken by the European Commission, a project or programme will be implemented. Usually the Partner Government will, under the supervision of the Commission, award contracts with third parties to carry out certain actions required. Some projects may also be undertaken directly by the partner country itself. The contractor will receive payments on the basis of services delivered or works performed.

Increasingly, programmes are implemented through direct budget support to Governments. In these cases, the Commission and the Partner Government negotiate performance criteria – in the form of policy results. These results are monitored regularly and once they are met, the Commission directly transfers these resources to the Government.

6. Present EU commitments to TRA and AFT (2006/2007)

The EU AfT Strategy builds on an already strong performance by the EU in this field, consistent with its role as the largest global provider of overall ODA. The Commission, using Community funds, is the world's largest donor of Trade Related Assistance, while individual EU Member States are relatively more active in other Aid for Trade fields. The EU provides around 1/3 of total AfT ODA flows. Between 15 and 20 % of the EU development assistance are allocated to AfT sectors; however this allocation varies strongly among countries.

According to the Commission's Staff Working Paper "Aid for Trade Monitoring Report" of April 2008⁶, the EU TRA amounted to € 1.58 billion in 2006. EU AfT (including TRA) for that same year was € **7.28 billion**. EU Member States TRA in 2006 totalled at € 641 million, having increased from an average of 358 million between 2001 and 2004. EC TRA in 2006 was € 941 million, having increased from an average of € 890 million between 2001 and 2004. According to these figures, the EU appears to be making good progress in its efforts towards reaching its TRA targets of €1 + 1 billion by 2010.

2006 figures (mill. €)	EC	Member States	EU (EC+MS)
TRA	941	641	1,582
AfT (including TRA)	2,564	4,715	7,279

7. Is EU Aid for Trade additional? Does it come at the expense of other sectors?

Additionality is measured by comparing actual TRA or AfT delivered to that of a baseline situation. Since EU commitments were made - on the TRA concept - at the WTO Hong Kong Ministerial Conference in 2005, we compare actual TRA to the average of TRA delivered over the period 2001-2004 and on this basis draw the conclusion that it is increasing.

EU TRA (mill. €)	Average 2001-2004	2005	2006
EC	890	983	941
MS	358	408	641

With respect to overall AfT (including TRA), the trend is also positive (see table below). Overall EU AfT increased from 5,102 million (2001-04 average) to 6,560 million in 2005 to 7,279 million in 2006. EU total Official Development Assistance over the period increased as well. According to the Commission's Staff Working Paper on the "Monterrey process on Financing of Development"⁷, the EU (25/27 MS and the EC) increased its assistance from € 34.7 billion in 2004 to € 47.7 billion in 2006. Concerns that increases in AfT would be to the detriment of other sectors are hence not justified.

⁶ SEC (2008) 431

⁷ SEC(2008) 432/2

EC & MS	2001	2002	2003	2004	2005	2006	Total
TPR ⁸	68	194	236	146	229	484	1,358
TRI	2,303	2,269	2,551	2,166	3,451	3,255	15,995
BPC	2,785	2,747	2,486	2,458	2,879	3,539	16,894

According to the (as yet unpublished) figures of the EC, the Community met already in 2007, its €1 billion share of the 2010 collective target for TRA. Total AfT also increased in 2007 to more than € 3.26 billion. Member States figures are not yet available, since OECD did not yet publish records.

8. Geographical repartition of EU Aid for Trade

In terms of destinations of EU AfT, the following tables shows that **Sub-Saharan Africa receives most of the AfT flows**, followed by Asia, the Mediterranean countries, Europe and America.

EU (EC & MS) AfT	Mill.€ - Average 2001-06	In % of Total
Sub-Saharan Africa	1,718.7	39.5
Asia+Pacific	1,216.0	27.9
Mediterranean	518.2	11.9
Europe	457.6	10.5
Latin America+Caribbean	442.7	10.2
	4,353.2	100.0

9. Future AfT commitments

It is difficult for the EC to indicate precise AfT flows for the future. This is due to a number of reasons:

- AfT is financed from a large number of the more than 140 on-going Indicative Programmes covering the present financial perspective until 2013. However, not all of these programmes are currently finalised and approved. In addition, some programmes provide only for indicative allocations until 2009 (Enlargement countries) or 2010 (Asia and Latin America).
- In a significant number of programmes, allocations are expressed as ranges, or amounts are not attributed per year.
- NIPs and RIPs include a number of focal areas that do not always give a clear view as to whether they qualify or not as AfT. Examples include: local development, social cohesion, regulatory reform.
- Allocations are indicative and may be increased, cancelled, postponed, moved forward etc.

However, taking into account that the EC already reached the target of €1 billion in 2007, that the Commission strengthened the focus on AfT through policy dialogue

⁸ TPR (Trade Policy and Regulation), TRI (Trade Related Infrastructure) and BPC (Building Productive Capacity) The table includes only AfT categories 1, 3 and 4. Since the concept was only defined in 2006, the CRS database which records overall development assistance flows was not yet adapted to include or show the other concepts.

and in programming negotiations with partners, that support is provided to trade needs assessments and mainstreaming of trade in development strategies, one has good reasons to expect increasing TRA and AfT flows over the coming years.

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