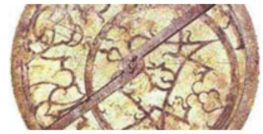
SciencesPo. GEM Groupe d'Économie Mondiale

Working Paper
June 14, 2012



Aid for Trade is reaching its limits, so what's next?

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The Aid for Trade Initiative has reached its limits and is in a need to be revamped. This article describes the political economy that led to the launch of the Initiative and explains why it focused on the mobilization of financial resources. The mobilization of resources has been impressive but, in the midst of a fiscal crisis and against the background of growing suspicion by developing countries, the Initiative is asked to show results. This proved difficult. As a result, in order to preserve resource mobilization and preserve donors' interest, the WTO is expanding the scope of the Initiative to new areas only remotely related to the trade and growth nexus. This article argues that this is unlikely to address the main challenge that the initiative faces: building confidence. As confidence is crucial for the future of the Initiative and for the negotiation of a Doha Round agreement, the WTO should rather follow the suggestion of some donors to narrow the scope of the Initiative in order to make it more focus, monitorable, and efficient.

The Aid for Trade Initiative was launched in 2005 because the WTO and donors had converging interests. The WTO needed to mobilize resources to address developing countries' concern about the possible impact of the Doha Round. Donors, needed to scale up aid to meet the Millennium Development Goals (MDGs) while improving aid effectiveness.

The objective of the Initiative is to use trade as an engine for development. However, in part because the task of operationalizing the Initiative was given to the WTO, Aid for Trade focused on the mobilization of financial resources. The issue of how best harness trade for development purposes was largely overlooked.

The mobilization of financial resources was impressive and became the metrics of the success of the Initiative. However, after six years and in the midst of a fiscal crisis that puts development budgets under pressure, the focus is changing. Aid for Trade is asked to show results. This proved difficult to do convincingly.

This article argues that unable to show meaningful results, with bleak prospects of mobilizing more financial resources, and with a monitoring and evaluation framework which, despite

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remarkable achievements, has not been able to build confidence, the Aid for Trade Initiative has reached its limits and is in a need of reinventing itself.

Actually, the reform is already underway. Illustrating a shift in the political economy of the Initiative, the WTO has started to expand of the scope of Aid for Trade in order to maintain donors' commitments. However, this article argues that the WTO should instead consider streamlining the Initiative to make it more focused and efficient. This would help increase developing countries' confidence that the Aid for Trade Initiative is able to help them face the adjustment and implementation cost of a multilateral trade agreement.

I. The Genesis of the Aid for Trade Initiative: WTO's Interest meets Donors' Interest.

Donors have always financed projects that have an impact on trade. But, except for a few of them, this impact was less perceived as an objective than as a side effect. Things evolved in the first half of the 2000s. Though for different reasons, both the WTO and developing agencies around the globe had strong incentives to emphasize the role trade can play in development and, by 2005, the political economy was ripe to launch an Aid for Trade Initiative.

Traditionally, developing countries have been suspicious about the impact of trade on development. This suspicion was at the root of the opt-out strategy they followed in the GATT rounds. Opting out from the GATT-WTO rules and relying on unilateral preferential market access had in practice limited their bargaining power in the multilateral trade negotiations but done little to foster their exports and even acted as a brake for their trade and for their export diversification.

When the Doha Round was launched in 2001, trade was increasingly appearing as a possible engine for growth and poverty reduction as the success of small export-oriented East Asian countries was followed by the success other countries like Viet Nam and large economies like China and India. Nonetheless, many developing countries remained hesitant in embracing trade liberalization without a "safety net." The memory of the failure of some past trade reforms and the disappointment with the Uruguay Round were vivid prompting fears about the potential adjustment costs of trade liberalization and of a Doha Round Agreement.

The benefit promised to developing countries during the Uruguay Round in terms of exports of agricultural goods and textiles and apparel had not materialized. The dirty tariffication of agriculture non tariff barriers,[2] the Special Agricultural Safeguard combined with other protection devices such as quotas and tariff escalation (Hallaert, 2005), large subsidies, and Sanitary and Phytosanitary Standards had in effect limited their access to rich countries agricultural markets. As for the expected benefit from the phasing out of bilateral quotas (the

[2] As part of the Uruguay Round, some members agreed to replace their non tariff barriers on agriculture with *ad valorem* tariffs. Estimating the *ad valorem* equivalent of non tariff measure is difficult and the tariffication was usually done in a way that the *ad valorem* tariff was very high and arguably increased protection.

Multi-fiber Agreement) that had distorted trade in textiles and apparel for decades, it was concentrated on few countries and especially on one new WTO member: China.

In contrast, the implementation cost of the Uruguay Round agreement were visible. Because the Uruguay Round created an international organization, the WTO, to replace the "temporary" GATT, all members had to accept all the provisions of the agreement. This included provisions such as the one on custom valuation procedures that was of great value for rich members but of little interests for the poorest ones. Often these agreements were costly and difficult to implement in an environment with limited resources and capacities, and often not the most important reform for their development (Finger and Schuler, 2000).

This prompted calls to both financial and technical support to implement the Uruguay Round agreement but also the expected Doha Round agreement. In the Doha Round, developing countries seek less than in previous Rounds special and differential treatment and preferential market access. Rather they request *actual* financial and technical help (and not *promises* of help in the form of "best endeavors" as in the previous Rounds) to implement trade agreements, cope with adjustment costs, and support reforms needed to increase their ability to exploit existing and prospective trade opportunities.

These calls could not be ignored because developing countries were more active in the Doha Round and because, following the grandiose failure of the WTO Ministerial Conference in Seattle to launch the "Millennium Round" in 1999, the WTO Secretariat had emphasized the development dimension of trade to garner enough support for a new Round called the "Doha Development Agenda" (DDA) (Blustein, 2009). The development dimension of the Round was soon overlooked only to be harshly remembered at the WTO Ministerial Conference in Cancún in 2003. The Cancún Ministerial collapsed in part because developing countries became more vocal and stood ready to block an agreement on texts that did not reflect, in their views, their main concerns. They had changed their strategy in the multilateral negotiations and offering the smaller developing countries (with small markets and limited interest for exporters) a "round for free" (*i.e.* do not make any concession but do not block a deal) as the European Commission did in 2004 would not change this fact.

To answer meaningfully developing countries' request for technical and financial support, there was a perceived need to set up a mechanism that would be sufficiently large and operational quickly, in any event before the Doha Round was completed. But no adequate mechanism appeared available. The Integrated Framework (IF), which was set up in 1997 to help the delivery of trade-related technical assistance in response to needs identified by each LDC, was not operational, lacked financial resources,[3] and in need of a reform. It was agreed, at the 2005 IMF-World Bank annual meeting to provide the IF with 200-400 million US dollars in additional resources (IMF and World Bank, 2005a). However, the high-level pledging event for this "Enhanced" Integrated Framework took place only in 2007 (its

[3] On the eve of the WTO Ministerial Conference in Hong Kong, the IF had only given out a maximum of 1 million US dollars in aid to each country (Beattie, 2005).

operationalization will take even longer) and set a funding target of US$250 million over five years which was clearly not commensurate with the needs.

At the same time, the development community was facing calls to scale up aid dramatically to reach the MDGs but donors were also facing growing evidence that aid alone could not boost growth (Easterly 2001 and 2003; and Calì and te Velde, 2011) and could even make matters worse (Rajan and Subramanian, 2005). Thus donors were looking for ways to go beyond the double gap model (Chenery and Strout, 1966) emphasizing that money alone is not the answer and aid effectiveness is crucial (leading to the principles of the Paris Declaration on Aid Effectiveness in … 2005).

Aid for Trade had the potential to meet both goals. As trade attracted relatively little support, aid-for-trade related projects could be scaled up rapidly. Moreover it had the potential to be very effective not only because of developing countries were asking for it (satisfying the ownership principle of the Paris Declaration) but also because emerging empirical evidence from both the aid and growth literature and the trade and growth literature was providing new evidence on ways to increase the impact of both aid and trade on economic growth and poverty reduction.

The aid and growth literature showed that the impact of aid on economic growth and poverty reduction depends crucially of the environment and on other policies. There was emerging evidence that aid works in a good policy environment and the effectiveness of aid depends of "complementary policies" (De Lombaerde and Mavrotas, 2009, and Calì and te Velde, 2011).

The importance of complementary policies was echoed in the trade and growth literature. Complementary policies had long been recognized by trade economists as an important factor that determines the impact of a trade reform on both trade and growth. However, their role had been challenging to prove empirically in cross-country analysis. In the first half of the 2000s, development in econometrical techniques allowed to do so (Hallaert, 2006). Chang *et al.* (2005) found that the positive impact of trade on growth is larger if it is accompanied by increased education, infrastructure, deeper financial, but also institutional and regulatory reforms. Bolaky and Freund (2004) found that the impact of trade liberalization is increased if it is accompanied by a regulatory reform. This prompted trade economists to emphasize more vigorously the role of complementary policies and then of the role aid could play in improving the ability of developing countries to use trade for growth and poverty reduction (Hallaert, 2010; Hallaert and Hayashikawa, 2011; Hoekman 2007; Hoekman and Olarreaga, 2007; Hoekman and Prowse, 2005; Winters et al., 2004).

For all these reasons, the development community was ready to embrace the calls to supplement its usual activities with efforts to promote trade as an engine for growth and as a means to reach the MDGs. At the WTO Ministerial in Cancún, Kofi Annan, the United Nations Secretary-General, emphasized that "trade liberalization is no panacea for developing countries. For many of them, it involves considerable adjustment and social costs. There is a need for synergy and proper sequencing […]. Developing countries need aid for trade, and such aid must not come at the expense of aid for development" (WTO, 2003).

The rationale for an initiative that would focus on alleviating the constraints that within developing countries prevent them to benefit from trade opportunities and make trade a tools to get the growth necessary to achieve the Millennium Development Goal of halving poverty was developed in several high profile reports all released in 2005 such as the UN Millennium Task force on Trade report (UN Millennium Project 2005), a report supported by the U.K. Department for International Development (Zedillo *et al.,* 2005), the report of the Commission for Africa (2005), and a report commissioned by Sweden on developing countries and the WTO (Page and Kleen, 2005).

By 2005, the political economy was ripe to launch of an Aid for Trade Initiative. The intellectual advocacy was accompanied by commitments. In May 2005, the G8 heads of government committed "to increase our help to developing countries to build the physical, human and institutional capacity to trade, including trade facilitation measures" and "called on the IFIs to submit proposals to the annual meetings for additional assistance to countries to develop their capacity to trade and ease adjustment in their economies" (G8, 2005). A few weeks before, at the IMF-World Bank spring meeting, the Development Committee stressed the need for "aid for trade" and called "on the Bank and Fund to work with others to develop proposals to help developing countries adjust to and take advantage of the round, for consideration by our next meeting." (IMF and World Bank, 2005b). In September 2005, the IMF and World Bank staff proposal to provide more aid to trade capacity was endorsed (IMF and World Bank, 2005a). Eventually, at the WTO Ministerial Conference in Hong Kong in December 2005, the "Aid for Trade Initiative" was officially launched.

The Ministerial Declaration (WTO, 2005) reflects the interests and objectives of both the WTO and donors: "Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA."

It then gives to the WTO the mandate to operationalize and define the scope of the Initiative: "We invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations […] on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade."

II. Focusing the Aid for Trade Initiative on Resource Mobilization

The choice to give the WTO the responsibility to operationalize the Aid for Trade Initiative and to define precisely its scope is not surprising because it is in context of the Doha Round negotiations that developing countries requests for support were expressed. This choice had large implications.

The first implication was to put the emphasis on supporting trade and trade reforms rather than on establishing mechanisms that will increase the impact of trade on economic growth and poverty.[4] The trade impact of the Initiative was the main interest of the WTO but focusing on the trade impact had also an institutional rationale. The WTO is not a development agency and, often, its members remind the Secretariat of the scope of its mandate limiting its capacity to steer the Initiative and even its advocacy and analytical role. The WTO Secretariat role is thus rather limited: it coordinates the membership's views, calls for more resources, and monitors financial flows. In practice, the monitoring of aid-for-trade flows was outsourced to the OECD, which has the database (the Creditor Reporting System - CRS) to track flows and more freedom to analyze them.

Actually, the focus was less on trade than on exports. As the design of the Initiative was discussed within the WTO, the mercantilist approach of trade negotiators prevailed and the task force shifted the focus of Aid for Trade from *expanding trade* in the Hong Kong Declaration to *increasing exports* in the task force recommendations.[5] As a results, imports, an important avenue through which trade boosts economic growth in developing countries and reduces poverty, has been overlooked (Hallaert *et al,*. 2011 and OECD, 2011a).

The second implication was to shape the Initiative in a way that it maximizes the mobilization of financial resources. Mobilizing enough resources was crucial to facilitate the Doha Round negotiation. This was emphasized in the Hong Kong Declaration which specifically asked the task force to recommend "appropriate mechanisms to secure additional financial resources for Aid for Trade" (WTO, 2006a). To mobilize rapidly a large amount of financial resources, the task force adopted a broad definition of Aid for Trade and decided that Aid for Trade will remain part of regular Official Development Assistance (ODA) that will explain the initial success of the Initiative and the limit it has now reached.

According to the task force, Aid for Trade spans from obvious trade-related projects such as trade policy formulation and trade regulation to physical infrastructure, support to the financial sector, or support to the private-public sector networking. In fact, Aid for Trade can

[4] There are good reasons to expect that trade will have a positive impact on growth and poverty (Hallaert, 2006; Hallaert and Hayashikawa, 2011; Winters et al., 2004). Often Aid for Trade interventions focus on tackling the constraints that prevent developing countries to turn trade opportunities into trade assuming that the impact on economic growth and poverty reduction will automatically follow. However, while it is often the case, it is not always the case as this impact depends largely on complementary policies. Therefore, Hallaert (2010) argues that Aid for Trade interventions should not be limited to helping developing countries to trade but should also tackle the constraints that choke the impact of trade on economic growth.

[5] "Aid for Trade is about assisting developing countries to increase exports of goods and services" (WTO, 2006a).

cover anything a developing country is prepared to say is Aid for Trade as long as it does not relate to market access issues, which were left to the Doha Round negotiations.[6]

As discussed above, such a broad definition of Aid for Trade was needed by both the WTO and donors and is consistent with the fact that, in order for trade to have a meaningful impact on economic growth and poverty, trade reforms must be accompanied by complementary policies that can be very different across countries. In addition, a broad definition has the major advantage to make the Initiative appealing to the largest possible number of donors (each with its own priorities and activities) and thus increases the chance of a large and rapid mobilization of financial resources. The flip side was that the task force included in the definition of Aid for Trade and in its recommendations issues dear to the development community but only remotely related to trade or to policies supporting the trade impact on development, such as the "gender perspective." This will generate suspicion on the reality and the actual motivation of the Aid for Trade.

Moreover, the task force had to make recommendations on how Aid for Trade would be delivered. The issue was widely debated and involved virtually all donors (bilateral, multilateral, or regional) but also the Bretton Woods institutions, UN agencies, the Commonwealth Secretariat, and the OECD. The debate boiled down to the issue of creating a dedicated fund or leaving Aid for Trade as part of regular ODA. Eventually, the latter was chosen.[7] This choice again had the advantage of maximizing the resource mobilization as some donors may have political or institutional difficulties in funding a dedicated fund but could easily label as "Aid for Trade" regular aid projects that have a trade content and fit into the (broad) definition of Aid for trade. This labeling will be another source of suspicion on the reality of the resource mobilization.

In the debate on how to deliver Aid for Trade, the monitoring and evaluation framework took a particular importance. Luke *et al.* (2009) argue that the compromise was that Aid for Trade would remain part of regular ODA but that efforts would be made to make Aid for Trade more effective through "improved mechanisms for coordination." The "big idea" of the Task Force was its recommendation for the establishment of a global Aid for Trade monitoring and evaluation framework, expecting that it will build confidence in the Aid for Trade Initiative and provide donors with incentive to work together.

III. Success and Limits of the Aid for Trade Initiative.

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[6] "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" (WTO, 2006a).

[7] For details, see Hoekman (2007) and Luke *et al.* (2009).

A natural consequence of designing the Initiative for maximizing resource mobilization is to put the financial dimension of at the core of the monitoring and even to make it the metrics of success.[8]

Resource mobilization is the core of the joint OECD-WTO monitoring reports. It is also the everlasting number one item on the agenda of the WTO Committee of Trade and Development meetings on Aid for Trade, and of the WTO "Aid for Trade Work Programmes." In the latest of these work programmes, the WTO Secretariat argues that the "Third Global Review [held in July 2011] advanced the debate on Aid for Trade from one based on discussion of priorities and resource mobilization to one which also now includes examination of the effectiveness of Aid for Trade," but emphasizes that "mobilizing additional, predictable, sustainable and effective financing remains at the heart of the Aid-for-Trade Initiative" (WTO, 2011).

By the metric of resource mobilization, Aid for Trade has been a tremendous success. The OECD estimates that commitments were, in real terms, about 60% larger in 2009 than before the launch of the Initiative (2002-05) and disbursements grew by more than 10% each year (Table 1). In fact, part of the increase is due to a welcome improvement in the monitoring of the aid-for-trade flows. The number of donors monitored has increased every year[9] and, starting in 2007, the OECD monitors project that help cope with "trade related adjustment." Even when the impact of the improved coverage is taken out, Aid for Trade has been successful: at a "constant perimeter," commitments were in 2009, 52% larger than in 2002-05, and disbursement still grew at over 10% per year in real terms. Nonetheless, it should be stressed that the impact of the current crisis is larger than officially reported: after growing by about 28% in 2008, aid-for-trade commitments only increased by about 2% in 2009 because of the inclusion of three new donors. If only the donors captured by the database in 2008 are considered, commitments increased by a paltry 0.7% in 2009[10] and even declined by 0.5% if only the donors considered for the baseline period of 2002-05 are considered.

However, over time, the reality of resource mobilization was questioned. The broad definition of Aid for Trade led to confusion about what Aid for Trade is about. Another source of confusion was that, because Aid for Trade was part of regular ODA, donor labeled regular projects as aid-for-trade projects. This inflates the reported aid-for-trade flows but is not visible on the ground: for local project managers and their official counterpart an infrastructure project is an infrastructure project and not an abstract aid-for-trade project.

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[8] It is noteworthy that this approach is at odds with the development community principles to assess the success of aid not on the money spent but on its results.

[9] The CRS database was created by and for the members of the OECD Development Assistance Committee and does not capture the activities of several donors, notably the emerging donors such as China and Brazil.

[10] Even this number is likely to be an overestimate. The 0.7% growth is driven by the 67% increase in Korea's commitments. The problem is that part of the increase in Korea's commitments is "artificial": Korea's official reporting started in 2009 and data for previous years "may be partial" (OECD-WTO, 2011b). Excluding Korea, commitments did not grow by 0.7% but fell by 0.3%.

As a result, “less than 20% of partner countries […] recognise the donor data reported in their CRS profiles, while another 20% do not. The remaining two-thirds of partner countries are unable to respond either way” and “it is clear that much more effort is needed to clarify the scope and definition of aid for trade. Indeed, several partner countries […] report that they did not receive any aid for trade. This may be because some understand aid for trade to be a new and separate vertical fund rather than additional donor funds for trade-related assistance disbursed through existing channels.” (OECD-WTO, 2009).

Over time, confusion grew into suspicion. As early as September 2009, an informal aid-for-trade donors meeting took place at the German Federal Ministry for Economic Cooperation and Development to discuss, inter alia, “How do we assess the performance of WTO and OECD? […] Which role should WTO-OECD have in the future, also in cooperation with other international organization?”

Table 1. Resource Mobilization (in constant 2009 US dollars)

	2002-2005	2006	2007	2008	2009
Commitments	**25106**	**27266**	**30731**	**39352**	**40116**
Annual Growth (in percent)		8.6	12.7	28.1	1.9
Growth since 2002-05 (in percent)		8.6	22.4	56.7	59.8
At 2002-05 perimeter 1/					
Commitments	**25106**	**27104**	**30063**	**38370**	**38181**
Annual Growth (in percent)		8.0	10.9	27.6	-0.5
Growth since 2002-05 (in percent)		8.0	19.7	52.8	52.1
At 2008 perimeter 2/					
Commitments					**39614**
Annual Growth (in percent)					0.7
Growth since 2002-05 (in percent)					57.8
Disbursements		**20747**	**23049**	**25911**	**29136**
Annual Growth (in percent)			11.1	12.4	12.4
At 2006 perimeter					
Disbursements		**20747**	**22870**	**25647**	**28574**
Annual Growth (in percent)			10.2	12.1	11.4
At 2008 perimeter					
Disbursements					**28903**
Annual Growth (in percent)					11.5

Source: Author's calculation based on OECD-WTO (2011).
1/ Excludes better coverage in terms of donors:
Since 2006: Korea
Since 2007: FAO, IMF, ITC, UNESCAP, UNESCWA, and WTO
Since 2008: UNECE and UNIDO
Since 2009: Czech Republic, Turkey, and United Arab Emirates (2009)
and in terms of activities: trade related adjustment since 2007.
2/ Excludes Czech Republic, Turkey, and United Arab Emirates.

Developing countries' suspicion was more explicit. For example, the communiqué issued after the "Expert Group Meeting and Workshop on Aid for Trade and Africa's Trading Capacity" organized by the UNECA in June 2010, criticized the monitoring of aid-for-trade flows and mentioned that aid-for-trade delivery was not immune from political conditionalities, and suggested that African countries should take the lead in the evaluation of the aid-for-trade impact (UNECA, 2010 and OECD, 2011a). Suspicion was again expressed in July 2011 at the Third Global Review prompting the WTO, in its Aid for Trade Work Programme 2012-13, to stress the need to strengthen "confidence in the reporting system" (WTO, 2011).

While the need to strengthen confidence is obvious, it is difficult for both the WTO and the OECD to go beyond what has already been done. The OECD-WTO monitoring exercise has, in fact, reached its limits. Despite undeniable achievements, the global monitoring and evaluation framework could not, as expected by the Task force, build confidence in the Initiative nor could it dispel suspicions.

One weakness in the monitoring of Aid for Trade is that it is based on self reporting and self-assessments. No stakeholder has an incentive to report failures or problems. Donors want to herald their successes (especially when the fiscal crisis threatens aid budgets). Recipient countries are afraid that reporting problems would lead to a reallocation of resources. The WTO needs to show success (especially when the Doha Round faces a difficult time). This flaw in the monitoring framework was particularly visible in one of the innovations of the 2011 monitoring exercise: the case stories. About 270 case stories were submitted but it is hard to find critics or failures reported. At best, this "beauty contest" allowed learning from success but not from failure (OECD-WTO, 2011a).

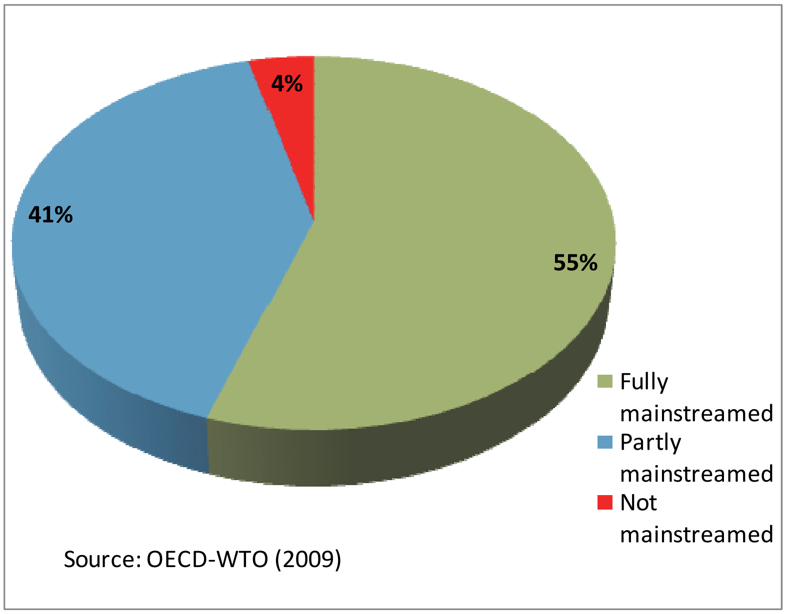
Although self assessments lead to see the Aid for Trade through rose-tinted glasses, they provide valuable insights when donors' answers to the questionnaires are compared with recipient countries' answers. For example, this highlighted that developing countries do not recognize the aid-for-trade flows (OECD-WTO, 2009) or that developing countries feel they have not get from Aid for Trade the trade impact they were expecting (OECD-WTO, 2011). In short, the monitoring exercise is able to report problems but is not able to build confidence in the Initiative and address suspicions.

Besides resource mobilization, raising awareness of developing countries (and of many development bodies) of the role trade can play in development is another much touted success of Aid for Trade. As part of the 2009 monitoring exercise, the WTO and the OECD asked recipient countries to evaluate the role given to trade in their development strategy (OECD-WTO, 2009). The answers, reported in Figure 1, suggest that the awareness of trade as a development tool is extremely high, reaching levels unthinkable only two decades ago.

However, that 96% of developing countries have mainstreamed trade in their development strategy contrasts with the more nuanced assessment of outsiders such as the IMF and World Bank joint assessments of the Poverty Reduction Strategy Papers.[11] Similarly, UNCTAD wrote at the time the survey was conducted: "Mainstreaming trade into national development strategy is a major concern of UNCTAD particularly because, so far, only a minority of country-level plans include trade-related policies and assistance among their priorities" (UNCTAD, 2009).

Figure 1. Mainstreaming Trade in Development Strategies

[11] See the "Joint Staff Advisory Notes (JSAN)" and the "Progress Reports" published on the IMF website. For an evaluation of the (lack of) mainstreaming of trade in development strategy when the Initiative was launched, see WTO (2006b).



IV. Talking about Results or Showing Them?

When the financial and economic crisis turned into a fiscal crisis, aid budgets were under pressure. Resource mobilization could not remain the sole metric of success and calls to show results became increasingly pressing. In the summer of 2010, WTO DG Lamy explained to the WTO membership that it was politically necessary to hold the Third Global Review of Aid for Trade in 2011 instead of 2012 in order to show the results of the Initiative and thus shelter Aid for Trade from budget cuts.

In practice, how should results be measured? Should results be measured by the trade impact or by the development (growth and poverty) impact? The WTO tends to favor the trade impact while the development community focuses on the development impact. There is not necessarily a tension between these two approaches as Aid for Trade is not about supporting trade *per se* but trade *inasmuch* as it contributes to growth and poverty reduction and both dimensions were reflected in the Task Force's recommendations: "effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries" (WTO, 2006a). Nonetheless, the practical question on how to define a result was left unanswered.

To make matters worse, the monitoring exercise highlighted that donors and developing countries do not share the same definition of result. "Donors consider aid for trade a success when it boosts trade, long-term growth and reduces poverty" (OECD-WTO, 2011b) but developing countries focus on exports. Moreover, while developing countries "expect aid for trade to boost trade,[12] they note that achievements to date relate more to raising awareness

[12] More precisely export expansion and diversification.

about the role of trade, improving aid delivery, and increasing resources" (OECD-WTO, 2011b). The answers to the questionnaires do not allow concluding unambiguously if, as argued by the OECD and the WTO, it is "likely" a matter of time before developing country get from Aid for Trade what they expect[13] or if there is a structural issue in the design and implementation of Aid for Trade that will persist.

In this context, much was said about results at the Third Global Review but little was shown. To be fair, showing robust results is difficult. The best way would be to gather evidence from impact evaluations, but that proved impossible. Aid for Trade covers very diverse areas of interventions making impossible to have a common evaluation framework and even more a single impact evaluation. Moreover, a robust impact evaluation is very difficult methodologically as it is difficult to attribute the growth and poverty changes to the change in trade and this change in trade to a specific aid-for-trade intervention.[14] However, methodological problem only partially explain why "impact evaluation is conspicuous for its absence in the Aid for Trade debate" (Cadot and Newfarmer, 2011).

Truth is, impact evaluations do not provide clear and robust evidence of the impact of aid-for-trade interventions on trade and even less on development for three main reasons. First, methodological problems limit their capacity to show results. Second, evaluations are undertaken by donors more for "accountability" reasons than to investigate the impact of a project. Third, and related to the two previous points, very few rigorous "evaluations" of trade-related projects are undertaken. "For instance, a review of 85 recent World Bank trade-related projects […] revealed that only five of them included rigorous evaluation components. Worse, those few evaluations relied on crude before–after comparisons, which are known to be vulnerable to confounding influences." (Cadot *et al*., 2011).

The conclusions of a meta-evaluation of aid-for-trade projects conducted by Delpeuch *et al.* (2010) illustrates these shortcomings:

- "Not only was the trade impact of operations clearly not the main focus of evaluators' work, but — in a number of cases — it is not even addressed." [15]
- "The evaluations usually did not clarify the policy linkages which matter most to policy makers."

[13] "This difference between expected results and observed outcomes likely reflects a time lag between aid delivery and its impact" (OECD-WTO, 2011b).

[14] See for example the difficulties highlighted in Brenton and von Uexkull (2009) for a type of aid that is probably among the easiest to evaluate: "product specific technical assistance for exports." For more details on the conceptual difficulties of evaluating Aid for Trade, see OECD (2011a, 2011b).

[15] More specifically, "evaluations of Aid for Trade operations do not say much about trade. The terms trade and exports are not among the most frequently mentioned, and the WTO or regional trade agreements are largely ignored by the evaluators. Even more importantly from an economic point of view, the word imports is even almost completely ignored."

- "In sharp contrast with the surprising silence on trade-related issues, the evaluations referred extensively to broad, development-related concepts, such as gender or poverty reduction, but without clearly defining these terms. This tendency to favour generic concepts over precise terms often meant that the evaluations were vague and ill-focused."
- "The evaluations often lacked an adequate or realistic timeframe for measuring results […]. Following DAC guidelines, most evaluations assessed whether project implementation deadlines were met and budgets were respected, and whether the overall operations' were relevant, efficient and sustainable. However, medium- to long-term impacts were never properly measured."
- "The evaluations' conclusions provide little insight as to whether aid for trade works and why. Indeed, evaluators were rarely able to identify causal links between operations and performance."

Another important aspect of the monitoring and evaluation exercise is to assess if Aid for Trade resources go where they are needed. There is a large demand for such assessments. UNCTAD (2009), noting "that the structure of aid for trade across regions varies considerably," stresses the need of "further research on whether or to what extent this diversity in aid for trade utilization is related to differences in the needs or request of aid for trade recipients or rather reflects variances in donor priorities" (UNCTAD, 2009). This concern echoes those expressed by developing countries that do not recognize the flows. But again there is a dearth of such "evaluation."

Hallaert *et al.* (2011) show econometrically that country needs (defined as the main constraints to trade expansion) differ not only geographically as indicated by UNCTAD but between groups such as Small and Vulnerable Economies, landlocked countries, or commodity exporters. In a follow-up analysis (unpublished), they look if aid flows to the various country groups match the identified needs and conclude that there is room to better align Aid for Trade on country needs. Gamberoni and Newfarmer (2009) do not look at the specific needs of countries but rather, using a cross-country analysis, assess if the amount of money is proportionate to a "potential demand" they construct using various indicators. They also conclude that the targeting of Aid for Trade could be improved: "While aid for trade supply is broadly correlated with potential demand, still, several countries that have the highest potential demand are receiving less-than-average levels of aid for trade."

Research on the distribution of Aid for Trade needs to be ramped up. Such research, however, must be conducted by independent bodies as neither the WTO (because of a lack of resources and political issues) nor the OECD (because its members are major donors) can or have an incentive to do so. A major obstacle to such analysis has been lifted since the OECD has made the CRS database accessible freely over the internet allowing researchers to gather data on the flows and details on the various projects.

V. What's Next? Reinventing the Aid for Trade Initiative.

The monitoring and evaluation framework has reached its limits and cannot be meaningfully expanded. Although its achievements are impressive, it has not, as expected by the Task Force, provided enough incentives for donor to better coordinate aid nor been able to build confidence in the Initiative. Suspicion on the reality of the resource mobilization remains high and showing results is difficult. Thus, there is a clear need for the Aid for Trade Initiative to reinvent itself.

The first best would be to improve the coordination and the sequencing of aid delivery so that complementary policies could effectively and meaningfully be implemented to increase both the impact of reforms on trade and the development impact of trade. This idea underpins the logic of the Initiative since its inception, but it has proven elusive because it means substantial reforms in the way donors deliver aid.

A way to increase coordination would be to create an institutional mechanism, such as a dedicated fund. A dedicated fund would also make the monitoring and evaluation easier and address developing countries suspicion more easily. However, donors have no more appetite for this option than they had in 2006 and such a fund would likely face insufficient funding. Moreover, past experience shows that coordination or close working between international entities with different priorities, mandates, and expertise is seldom a formula for addressing a problem in a timely and effective manner.

Short of this first best, what can be done? Currently there are two schools of thoughts for reforming Aid for Trade: expanding the scope of the Initiative to foster resource mobilization and the interest of donors in the Initiative or conversely narrowing its scope to make it more focused and efficient.

The WTO and the OECD favor expanding the scope of Aid for Trade. Under the name "Deepening Coherence," the WTO's Aid for Trade Work Programme for 2012-13, cover new issues such as "gender empowerment", "green growth," and "climate change" (WTO, 2011). It also gives a higher profile to topics that have always been part of the Initiative such as trade finance[16] and of the role of the private sector in development. The Arab Spring showed that the alignment on countries priorities, a key principle of the Paris Declaration on Aid Effectiveness, may be difficult to implement as government and the civil society may have diverging "priorities." This prompted Robert Zoellick to mention that the World Bank should start putting money into the civil society (Harding, 2011). The role of the private sector is also increasingly recognized: the recent Fourth High Level Forum on Aid Effectiveness in Busan emphasized that the private sector is essential to move from "aid effectiveness" to "development effectiveness." In this context, the role of the private sector was given a particular attention at the Third Global Review of Aid for Trade thanks in part to

[16] The WTO Secretariat needs to show, especially when trade negotiations show little progress, that it promotes a well functioning trading system. Aid for Trade is part of this objective as was the WTO lobbying to change the Basel III rule on trade finance and advocating boosting the availability of trade finance during the "great trade collapse" of 2008-09. Hallaert (2011) describes how the Aid for Trade Initiative provided the WTO with extra leverage to promote its trade finance agenda.

the complementary case story exercise led by the World Bank and aiming at highlight the active role of multinationals in Aid for Trade.

At first glance, expanding the scope of the Initiative has two practical advantages. First, it would increase the apparent mobilization of resources, which in the WTO Secretariat's own word "remains at the heart of the Aid-for-Trade Initiative" (WTO, 2011). Second, it would maintain the interest of donors and development agencies in an Initiative that encompasses more of their objectives. Expanding the scope of the Initiative is a way for the WTO and the OECD to take into account the financial constraints imposed on donors by the fiscal crisis as well as their change in priorities. "The Third Global Review highlighted that more than half of donors are in the process of revising, or are planning to revise their Aid-for-Trade strategies. Economic growth, poverty reduction and regional integration remain the main focus of policy, but other priorities from the broader coherence agenda are increasing in importance in donor strategies." (WTO, 2011).

However, this strategy would hardly help meet the confidence issue that is the main challenge the Initiative faces. As past experience showed, increasing financial resources will not address developing countries' suspicion on the reality of aid-for-trade resources. Worse, expanding the scope of the Initiative is likely to foster this suspicion because the new areas have only remote relations (if any) with trade or the trade and development nexus, will not provide the export growth and diversification developing countries expect from the Initiative, are more likely to be tainted by political considerations and conditions, and are not development priorities for most developing countries.

Developing countries' confidence that Aid for Trade will not only be available but also able to address their constraints to trade and the implementation of a multilateral trade agreement is important to facilitate the conclusion of the Doha Round and for the WTO. Therefore, instead of expanding the scope of the Initiative, the WTO should support its streamlining and make sure it is more efficient.

At the Seoul G20 meeting in 2010, under the header "Aid for Trade Facilitation," the World Bank called to focus Aid for Trade more on services and network infrastructure (Hoekman and Wilson, 2010).[17] This idea is not new. As early as 2007, Hoekman (2007) argued that "particularly important from the perspective of the *complementary* agenda […] is liberalization in the service sector" (emphasis added) and reviewed the empirical literature to strengthen the point that such a liberalization would improve the quality of products, lower the production cost, "enhance the ability of households and firms to exploit opportunities and to increase growth." This is indeed the idea underpinning the Aid for Trade Initiative.

Obviously, the crucial question is how much should the Initiative be narrowed? Or, in other terms, to what areas should Aid for Trade be limited? Clearly services and network infrastructure are important for increasing the impact of trade on growth…but so are other

[17] Echoing some of the problems mentioned in this paper, the World Bank also suggested providing resources for better monitoring and evaluation.

areas of the Aid for Trade agenda and a vast empirical literature can also be cited in their support. The areas that will remain covered by the Initiative should be important (i) for most if not all developing countries and (ii) for trade and, through trade, on growth and poverty reduction. Hallaert *et al.* (2011) quantified the relative importance of various constraints to trade of developing countries and their impact on economic growth (both directly and through trade). The results show that developing countries share some constraints to trade (for example electricity supply and reliability) suggesting that narrowing the Initiative is possible without losing effectiveness. However, the results also show the relative importance of the constraints to trade differ across countries suggesting that the Initiative should not be narrowed too much.

Moreover, to be able to provide an answer to the concerns of developing countries about the conclusion of the Doha Round, the Aid for Trade Initiative should retain two of its core elements. First it should remain able to support complementary policies. For example, in contrast to the World Bank proposal, the suggestion to focus the Initiative on infrastructure would be too narrow. Infrastructure already accounts for the largest share of Aid for Trade[18] but experience has shown that increasing the quantity of infrastructure (or improving its quality) will not have a significant impact on trade and through trade on economic growth unless it is accompanied by services and regulation reforms (Hallaert *et al.* 2011, OECD, 2011a). Second, the streamlined Initiative should remain able to finance projects and programmes helping developing countries to cope with the adjustment cost of a trade reform. Otherwise, the Aid for Trade Initiative would not be able to provide an answer to the concerns of developing countries about the conclusion of the Doha Round possibly making an agreement even more difficult.

The purpose of narrowing the scope of Aid for Trade is to increase its focus on key elements of the trade and development nexus in order to make it more effective and thus address suspicion and secure donors financing. But, in itself, this may not be sufficient as the Initiative must show convincingly results. The streamlining of activities needs to be complemented by robust evaluations. The previous section showed that relying on donors' own evaluations is not an option. Thus, it may be useful to consider setting up an independent body able to undertake impact evaluation. This body needs to be as immune as possible from the accountability issues and political imperative that affect current evaluations. It also needs enough funding as well as the expertise to overcome methodological issues. The WTO does not have such resources or the backing of its members to create such a body. Thus, one possibility may be to host it at the World Bank that is developing expertise in this area.

Conclusion

[18] Infrastructure accounted for about half of aid-for-trade commitments and disbursements during 2006-09 (OECD-WTO, 2011b).

The Aid for Trade Initiative was born because WTO's interests and donors' interest were converging. The WTO needed to raise money to alleviate concerns from developing countries on the adjustment and implementation costs of a Doha Round and donors were looking for ways to scale up aid while improving its effectiveness.

The task of defining and operationalizing the Initiative was left to the WTO. Reflecting its priorities, the WTO designed the Initiative in order to mobilize quickly a large amount of financial resources. Measured by the metrics of resource mobilization, Aid for Trade is indeed a success. However, the reality of the resource mobilization has been increasingly questioned and, after six years and in the midst of a fiscal crisis that threatens development budgets, success could not be defined anymore by resource mobilization. Aid for Trade was asked to show results but this proved difficult for methodological and institutional reasons.

With bleak prospects to raise additional resources, with a monitoring and evaluation framework that has reached its limits without being able to address the suspicion of developing countries or provide incentive for donor to coordinate more, the Aid for Trade Initiative is in a need of reinventing itself.

The first best would be to improve the coordination and sequencing of aid delivery so that complementary policies could effectively and meaningfully be implemented. This idea underpins the logic of Aid for Trade since its inception, but, because it means deep reforms for donors, has not been put into action.

Short of this first best, what can be done? Currently there are two schools of thoughts for reforming the Aid for Trade Initiative: narrowing its scope to make it more focused and efficient or expanding its scope to maintain donors' interest by covering some of their emerging priorities and thus increasing available resources.

The WTO is favoring the expansion of the scope of Aid for Trade and has already started doing so in its Work Programme 2012-13 (WTO, 2011). However, increasing financial resources and expanding the scope of the Initiative would hardly help meet the challenge the Initiative faces i.e. addressing developing countries' suspicion on the reality of aid-for-trade resources by increasing its effectiveness and showing convincing results. On the contrary, expanding the scope of the Initiative is likely to further increase the suspicion of developing countries because the new areas have only remote relations (if any) with trade of the trade and development nexus, will not provide the export growth and diversification developing countries expect from the Initiative, are more likely to be tainted by political considerations and conditions, and are not development priorities for most developing countries.

Because developing countries' confidence that Aid for Trade will be not only available but also able to address their constraints to trade and the implementation of a multilateral trade agreement is important to facilitate the conclusion of the Doha Round, the WTO should instead favor a streamlining of the Initiative. This article argues that there is scope to narrow the Initiative although it should retain two core elements of the rationale underpinning the Aid for Trade Initiative. First, the Initiative should remain able to support complementary policies that are crucial for the effectiveness of Aid for Trade. Second, the Initiative should remain able to finance projects and programmes helping developing countries to cope with the adjustment cost of a trade reform. Otherwise, the Aid for Trade Initiative would not be able to provide an answer to the concerns of developing countries about the conclusion of the Doha Round possibly making an agreement even more difficult.

Although streamlining the Aid for Trade Initiative will help increase its effectiveness, this in itself will not be enough to show the results needed to secure donor financing and boost developing countries' confidence. Thus, setting up an independent body to undertake impact evaluation should be considered.

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