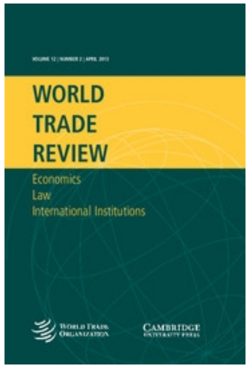

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The future of Aid for Trade: challenges and options

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Abstract: The Aid for Trade Initiative needs to be revamped. This article describes the challenges the Initiative faces and describes the pros and cons of possible reforms. The Aid for Trade Initiative succeeded in mobilizing quickly a large amount of financial resources. However, because the Doha Round talks stalled, the aid mobilized could not support the implementation of a multilateral agreement. Instead, it was spent on various projects, some of them not clearly related to trade. This affected developing countries confidence in the Initiative. To make matters worse, in the midst of a fiscal crisis that threatens development budgets, the Initiative had difficulties showing convincing results. In order to preserve resource mobilization, the WTO is expanding the scope of the Initiative to new areas only remotely related to trade and the trade and development nexus. This is unlikely to build confidence. The WTO should rather narrow the scope of the Initiative in order to make it more focused and efficient.

The Aid for Trade Initiative was launched in 2005 because the WTO and donors had converging interests. The WTO needed to mobilize financial resources to alleviate developing countries' concerns about the possible implications of a Doha Round agreement. Donors needed to scale up aid to meet the Millennium Development Goals and were ready to supplement their traditional activities with projects promoting trade as an engine of growth and poverty reduction.

Resource mobilization has been impressive but it can no longer be the metrics of success. Developing countries are questioning the reality and the purpose of aid for trade. Moreover, the Initiative is asked to show results but this proves difficult.

This article argues that to take on these challenges the Aid for Trade Initiative needs to be revamped. The best option is to narrow its scope and focus it more on projects that are clearly related to trade. This will help restore confidence in the Initiative and improve its efficiency.

Section 1 shows that the necessity to answer developing countries' requests for financial and technical assistance in the Doha Round led to the launch of the Aid for Trade Initiative. Section 2 explains why the Initiative was shaped to mobilize

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quickly a large amount of resources and shows it succeeded. This section also highlights a first challenge: building confidence that available resources will be spent on trade-related projects. Section 3 turns to a second challenge: showing convincing results. To take on these challenges, the Initiative needs to be revamped. Section 4 reviews the options and argues that the best approach is not to expand the scope of the Initiative but to narrow it.

1. From financial issues in the Doha Round to aid for trade[1]

In December 2005, at the WTO Ministerial Conference in Hong Kong, the international community launched the Aid for Trade Initiative. The Ministerial Declaration stressed the link between the Initiative and the Doha Round implementation. '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' (WTO, 2005). The Ministerial Declaration also instructed the WTO to take the lead in shaping the Initiative stressing the role of aid for trade in supporting the development dimension of the Round: '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' (WTO, 2005).

Traditionally, developing countries have been suspicious about the contribution of trade to development. This suspicion was at the root of the opt-out strategy they followed in the GATT rounds. However, 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 of countries like China.

Nonetheless, many developing countries remained hesitant in embracing trade liberalization. The memory of the failure of some past trade reforms remained vivid and the experience with the Uruguay Round prompted concerns about the impact of a Doha Round agreement.

The benefits expected from the Uruguay Round in terms of exports of agricultural goods and textiles and apparel had not materialized. The 'dirty tariffication' of non-tarriff barriers to agricultural trade,[2] the special agricultural

1 For more details, see Hallaert (2012).

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 measures is difficult.

safeguard combined with other protectionist devices such as quotas and tariff escalation, large subsidies and sanitary and phytosanitary standards (SPS) had limited their access to rich countries' markets. The phasing out of the bilateral MFA quotas that had distorted trade in textiles and apparel for decades was in practice delayed to 2005 and only a few countries were able to seize the opportunities of the liberalization. Therefore, in the Doha Round, developing countries requested support to build the trade capacity they need to turn the trade opportunities of a Doha Round agreement into trade.

In contrast, the implementation costs of the Uruguay Round agreement were visible. The Uruguay Round included agreements on SPS, trade-related aspects of intellectual property rights, or customs valuation. These agreements were costly and difficult to implement diverting limited resources and capacities from other projects that were arguably more important for development (Finger and Schuler, 2000). This experience prompted calls for financial and technical assistance so that developing countries could implement both the Uruguay Round commitments and the expected Doha Round commitments.

Developing countries also requested support to mitigate the perceived adjustment costs from an agreement. Mauritius, which was expected to be significantly affected by the reform of the trade in textiles and sugar, suggested the creation of a compensation mechanism to address the impact of preference erosion. Net food developing countries importers expressed concerns on the impact of a price increase following the negotiated elimination of agricultural subsidies.[3]

Finally, developing countries requested that the support they ask for takes the form of *actual* financial and technical assistance and not *promises* of help in the form of 'best endeavors' as in the previous Rounds.

The requests for assistance could not be ignored. Developing countries were more active in the Doha Round negotiations than in previous rounds and had demonstrated their readiness to block an agreement if they perceived that their interests and concerns were not sufficiently taken into account. Moreover, following the failure of the WTO Ministerial Conference in Seattle to launch the 'Millennium Round', the WTO Secretariat had emphasized the development dimension of trade to garner enough support for a new Round called 'Doha Development Agenda' (DDA) or the 'Development Round' (Blustein, 2009).

The WTO could not respond itself to the requests for financial support. The WTO is not an aid agency and both the link between trade and development and the management of adjustment costs belong on the agenda of other international institutions. Therefore answering developing countries calls for

The tariffication was usually done in a way that the tariff equivalent was high and arguably increased protection.

3 Although not related to implementation costs, the request by four African countries to establish a compensation fund to offset the damage caused to their cotton sector by rich countries' agricultural subsidies increased the importance of financial issues in the Doha Round.

assistance required cooperation with other organizations and the development community.

Other organizations and donors stood ready to help. For example, the IMF established in 2004 the Trade Integration Mechanism (TIM) to 'mitigate concerns that implementation of the WTO agreements might give rise to temporary balance of payments shortfall' (IMF, 2004).[4] Donors, as part as their effort to scale up aid to reach the Millennium Development Goals, were ready to provide additional financing to support trade policy reforms.

But no adequate delivery mechanism appeared available. The Integrated Framework (IF), which was set up in 1997 to help the delivery of trade-related technical assistance to Least Developed Countries, could only provide support to the poorest developing countries, was not operational, lacked financial resources, and was in need of a reform.[5] At the 2005 IMF–World Bank annual meeting, the international community agreed to provide the IF with 200–400 million US dollars in additional resources (IMF and World Bank, 2005). However, the high-level pledging event for the 'Enhanced' Integrated Framework took place only in 2007 (its operationalization would take even longer) and set a funding target of US$250 million over five years. This was clearly not commensurate with the needs.

Thus, to answer meaningfully developing countries' requests for support, there was a perceived need to set up a new mechanism, the Aid for Trade Initiative, that would mobilize adequate resources quickly, in any event before the Doha Round was completed.

2. Putting resource mobilization at the heart of the Aid for Trade Initiative

Against this background, asked to shape and define precisely the scope of the Aid for Trade Initiative, the WTO put resource mobilization at the core of the Initiative. As emphasized by Pascal Lamy at the Third Global Review of Aid for Trade, 'Resource mobilization was really the focus of our efforts from Hong Kong through to the Second Global Review in 2009. It must remain *central*'[6] (WTO, 2011a) and the WTO 'Aid for Trade Work Programme 2012–13' stresses that 'mobilizing

4 The IMF expected that preference erosion and fiscal revenue losses from tariff cuts would only be a problem for a few countries. Nonetheless, as these issues were a source of concern for negotiators, the IMF established the TIM with the view that it will act as an insurance mechanism and thus facilitate the Doha Round negotiations. The IMF assessment on losses from preference erosion was presented in communication to the WTO (IMF, 2003). Later, in response to the Hong Kong Ministerial declaration calling for more analysis of the scope of the tariff dependency problem, the Fund estimated fiscal revenue losses from various tariff cuts formulas considered in the negotiations (Elborgh-Woytek *et al.*, 2006). Only three countries requested support under the TIM (Bangladesh, the Dominican Republic, and Madagascar). In all cases, it was to mitigate the impact of a Uruguay Round agreement: the end of the MFA quotas.

5 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).

6 Emphasis added.

additional, predictable, sustainable and effective financing remains *at the heart* of the Aid-for-Trade Initiative' (WTO, 2011b).[6,7]

The Hong Kong Declaration had explicitly instructed the WTO Director-General to pay a particular attention to resource mobilization[8] because showing that financial resources are available was important to facilitate the Doha Round negotiations. There was also an institutional motivation for the WTO to focus on resource mobilization. The WTO is not a development agency and often its members remind the Secretariat of the limits of its mandate. Therefore, the Secretariat cannot influence the allocation of aid-for-trade resources, even implicitly through analytical work, but it can lobby for more resources and has the mandate to monitor financial flows.[9]

The task force created by the WTO Director-General took two decisions that also contributed to put resource mobilization at the heart of the Initiative. It adopted a broad definition of aid for trade and decided that aid for trade would be delivered through existing channels.

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 (WTO, 2006). In fact, aid for trade can 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.[10]

A broad definition of aid for trade was needed to address all the various forms of financial and technical support expressed in the Doha round. It also had the advantage to make the Initiative appealing to the largest possible number of donors (each with its own priorities and activities). Thus, it increased the chances of a large and rapid mobilization of financial resources. The flip side was that the task force included in the scope of aid-for-trade issues only remotely related to trade or to policies supporting the trade impact on development. This prompted confusion about what aid for trade is really about and over time to suspicion on the reality of the reported aid-for-trade flows.

7 Resource mobilization is the centerpiece of the joint OECD–WTO monitoring reports and is always the number one item on the agenda of the WTO Committee of Trade and Development meetings on Aid for Trade.

8 The Ministerial declaration 'invited' the head of the WTO 'to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks . . . on appropriate mechanisms to secure additional financial resources for Aid for Trade' (WTO, 2005).

9 In practice, the monitoring of aid-for-trade flows has been outsourced to the OECD, which has the database (the Creditor Reporting System) to track flows and has the resources to analyze them. The OECD also analyzes the answers to the questionnaires sent to donors and recipient countries. The financial flows and the questionnaires form the core of the joint OECD–WTO flagship report on monitoring: 'Aid for Trade at a Glance' (OECD–WTO, 2009 and 2011b).

10 '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, 2006).

The task force was also asked 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 IMF, UN agencies, the Commonwealth Secretariat, and the OECD. The debate boiled down to the issue of creating a dedicated fund or delivering aid for trade through existing channels. Eventually, the latter was chosen.[11] This choice again had the advantage of maximizing 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 was another source of confusion and suspicion.

When the Doha Round stalled, depriving the Initiative of its core objective of implementing a multilateral agreement, the emphasis put on resource mobilization increased to the point that it became an objective in itself and the metric of success of the Initiative.

By the metric of resource mobilization, the Aid for Trade Initiative has been a success. The OECD estimates that commitments were, in real terms, almost 60% larger in 2009 than before the launch of the Initiative and that 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 increased every year[12] and, starting in 2007, the OECD monitors projects and programmes that help cope with 'trade related adjustment'. Even when the impact of the improved coverage is taken out, the Aid for Trade Initiative 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 on aid-for-trade flows is larger than officially reported. Commitments of 'traditional' donors (the one considered for the baseline period of 2002–05) declined by 0.5% in 2009. Expanding the donor coverage provides a better, though somewhat biased, picture: if only the donors monitored in 2008 are considered, commitments increased by a paltry 0.7% in 2009[13] and the growth of 2% (after 28% in 2008) reported by the OECD and the WTO (OECD–WTO, 2011) is explained by the inclusion of three new donors.

However, the reality of the resource mobilization has been questioned. With the Doha Round negotiations stalled, aid-for-trade resources could not be used for the initial purpose of supporting the implementation of a multilateral agreement.

11 For details, see Hoekman (2007) and Luke *et al.* (2009).

12 The OECD's Creditor Reporting System database used to monitor aid-for-trade flows does not capture the activities of several donors, notably emerging donors such as China and Brazil.

13 This number is likely to be an overestimate. The 0.7% growth is driven by the 67% increase in South 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%.

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

	2002–2005	2006	2007	2008	2009
Commitments	**25,106**	**27,266**	**30,731**	**39,352**	**40,116**
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 commitments 1/	**25,106**	**27,104**	**30,063**	**38,370**	**38,181**
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 commitments 2/					**39,614**
Annual growth (in percent					0.7
Growth since 2002–05 (in percent)					57.8
Disbursements		**20,747**	**23,049**	**25,911**	**29,136**
Annual growth (in percent)			11.1	12.4	12.4
At 2006 perimeter disbursements		**20,747**	**22,870**	**25,647**	**28,574**
Annual growth (in percent)			10.2	12.1	11.4
At 2008 perimeter disbursements					**28,903**
Annual growth (in percent)					11.5

Notes: 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.

Source: Author's calculation based on OECD–WTO (2011b).

Instead, resources supported other projects. Even if the trade impact of these projects was unclear, the broad definition adopted by the task force allowed reporting them as aid for trade. Moreover, because aid for trade is disbursed through existing channels, donors can brand many projects as aid-for-trade projects. This inflates the reported aid-for-trade flows but, on the ground, an infrastructure project is an infrastructure project and not an aid-for-trade project.

This caused confusion about what aid for trade is about. One striking conclusion of the 2008 OECD–WTO survey was 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. For example, at the 'Expert Group Meeting and Workshop on Aid for Trade and Africa's Trading Capacity' organized by the UNECA in June 2010, African countries criticized the monitoring of aid-for-trade flows, suggested that aid-for-trade delivery is not immune from political conditionality, and recommended that recipient countries take the lead in evaluating the impact of the aid for trade (UNECA, 2010). Suspicion was also expressed one year later at the Third Global Review of Aid for Trade prompting the WTO, in its Aid for Trade Work Programme 2012–13, to stress the need to strengthen ‘confidence in the reporting system’ (WTO, 2011b).

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

Although self-assessments lead to see aid for trade through rose-tinted glasses, they provide valuable insights when donors’ answers to the questionnaires are compared with recipient countries’ answers. The monitoring reports highlighted that developing countries do not recognize the aid-for-trade flows reported by donors (OECD–WTO, 2009), do not expect from the Initiative the same results as donors, and feel aid for trade has not (yet) delivered the trade impact they were expecting (OECD–WTO, 2011b).

In sum, the monitoring exercise is not able to build confidence in the Initiative and address suspicions. Impact evaluations could help but, as described in the next section, are lacking.

3. Talking about results or showing them?

When the financial and economic crisis of 2007–08 also became a fiscal crisis, aid budgets were under pressure. Resource mobilization could not remain the metric of success and calls to show results became pressing. In the summer of 2010, 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.

If the Doha Round negotiations had been concluded, criteria for assessing the success of the Initiative would be obvious: has aid for trade successfully supported the implementation of the multilateral commitments? Has it helped manage the adjustment costs? Has it helped developing countries seize the gains from trade offered by the agreement?

But, in absence of a multilateral agreement, how could results be measured? Should results be measured by the trade impact or by the development (growth and poverty) impact? Obviously, the WTO tends to look at the trade impact while donors focus 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, 2006). Nonetheless, the practical question on how to define a result was left unanswered.

In this context, much was said about results at the Third Global Review of Aid for Trade but little was shown. The best way would be to gather evidence from impact evaluations, but little impact evaluation is available.

Methodological problems only partially explain why 'impact evaluation is conspicuous for its absence in the Aid for Trade debate' (Cadot and Newfarmer, 2011). Aid for trade covers very diverse areas of interventions, making impossible a common evaluation framework or a single impact evaluation. Moreover, the causality chain is longer than for many other aid projects. It is often difficult methodologically to assess robustly the trade impact of aid but in the context of aid for trade, one need to go one, very difficult, step further: evaluate if the change in trade contributes to development.[14] Thus, 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).

Another reason for the lack of impact evaluation is that incentives to evaluate aid-for-trade projects are insufficient. Evaluations are undertaken by donors more for 'accountability' reasons than for investigating the impact of a project.

The conclusions of a meta-evaluation of aid-for-trade projects conducted for the OECD 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.'

14 For more details on the conceptual difficulties of evaluating aid for trade, see OECD (2011).

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.'

Besides impact evaluation (i.e., do aid-for-trade projects achieve their goals?), another important aspect of evaluation is to assess if aid-for-trade resources are allocated effectively (i.e., do they go where they are needed? Do they finance the right projects?). But again as for impact evaluation, this type of evaluation is rare.

Hallaert *et al.* (2011) show econometrically that country needs (defined as their constraints to trade expansion) differ between groups such as small and vulnerable economies, landlocked countries, or commodity exporters. In a follow-up unpublished analysis, they look if reported aid-for-trade 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.'

As impact evaluation, research on the allocation of aid for trade needs to be ramped up. However, independent bodies must conduct such research as neither the WTO nor the OECD can or have an incentive to do so. A major obstacle to such analysis has been lifted since the OECD has made the Creditor Reporting System database accessible[16] allowing researchers to gather data on the flows and details on the various projects.

4. Reinventing the Aid for Trade Initiative

As designed, the Aid for Trade Initiative has reached its limits. In the absence of a Doha agreement, it cannot fulfill its initial core mandate. The

16 The database can be accessed at www.oecd.org/dac/aidfortrade/aid-for-tradestatisticalqueries.htm.

monitoring exercise cannot be expanded further. Evaluations are lacking or are not able to provide robust evidence of results. Therefore, suspicion on the reality of resource mobilization remains high and showing results remains an elusive endeavor.

There is a need for the Aid for Trade Initiative to reinvent itself. What can be done? Currently there are two main options: expanding the scope of the Initiative to foster resource mobilization and maintain the donors' interest or conversely narrowing its scope to make it more focused and efficient.

The WTO favors the first option. Under the name 'Deepening Coherence', the WTO's Aid for Trade Work Programme for 2012–13 covers new issues such as 'gender empowerment', 'green growth', and 'climate change' (WTO, 2011b). It also gives a higher profile to topics, such as trade finance and the role of the private sector in development, that have always been part of the Initiative but have recently attracted more attention. Trade finance became a high profile issue during the 'great trade collapse' of 2008–09. The WTO Secretariat lobbied for international initiatives that would increase the availability of trade finance and, in November 2008, Pascal Lamy claimed in his report to the WTO General Council that the World Bank trade finance guarantee was 'aid for trade in action'.[17] As for the role of the private sector in development, 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 particular attention at the Third Global Review of Aid for Trade thanks in part to the complementary case story exercise led by the World Bank and aiming at highlighting the active role of multinationals in aid for trade.

At first glance, expanding the scope of the Initiative has two advantages. First, it would increase the apparent mobilization of resources, which in the WTO Secretariat's own words 'remains at the heart of the Aid-for-Trade Initiative' (WTO, 2011b). 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 to take into account the financial constraints imposed on donors by the fiscal crisis as well as the change in their 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, 2011b).

However, by extending the aid for trade to new areas, this strategy will compound evaluation issues. Because the new areas are only remotely related to

17 The World Bank support to trade finance was announced in 2009 on the side of the Second Global Review of Aid for Trade. Hallaert (2011) describes how the Aid for Trade Initiative provided the WTO with extra leverage to promote its trade finance agenda.

trade, it will be even more difficult to show that aid for trade has an impact on trade and, through trade, on development.

Moreover, this strategy is likely to make the confidence problem worse. Past experience shows that reporting year after year increases in financial resources is not enough to address developing countries' suspicions. It does not give developing countries confidence that the real purpose of aid for trade is to build trade capacity and confidence that aid-for-trade resources are additional and not regular aid branded as aid for trade. In fact, expanding the scope of the Initiative will give additional reasons for suspicion because the new areas have only remote relations (if any) with trade or with the trade and development nexus, are more likely to be tainted by political considerations and conditions, and are not among development priorities for most developing countries. Developing countries' confidence that aid for trade will not only be available but is truly intended to address their trade constraints and to help them implement a multilateral trade agreement remains important in the Doha Round negotiations and, beyond the negotiations, that trade can be a tool for development; a tool that donors are ready to support.

Therefore, instead of expanding the scope of the Initiative, the WTO should streamline it and make sure that aid for trade is more efficient. The World Bank pushed this idea at the Seoul G20 meeting in 2010. Under the title 'Aid for Trade Facilitation', the World Bank called to focus aid for trade more on services and network infrastructure (Hoekman and Wilson, 2010).[18]

A streamlined Aid for Trade Initiative should focus on clearly trade-related projects. This has two implications.

First, providing financial resources to support the implementation of trade agreements and to cope with adjustment costs should remain the core mandate of the revamped Aid for Trade Initiative. Concluding the Doha Round negotiations is likely to take time but, in the meantime, aid for trade can be more focused on helping implementing other trade agreements. In doing so, it will build trade capacities that will be useful for the implementation of future multilateral agreements. For WTO members, aid for trade can support unilateral trade and customs reforms and the implementation of regional agreements which often require changes in the trade and customs regime. For countries that have recently joined the WTO, aid for trade can help implement WTO rules and accession commitments. Finally, aid for trade can help countries negotiating their accession to the WTO to understand the implications of membership and build the trade policy infrastructure they lack but is needed, among other things, for the accession process. In doing so, aid for trade would demonstrate its capacity to support implementation of trade agreements and address suspicions on its real purpose.

18 The World Bank also suggested providing resources for better monitoring and evaluation.

Second, projects that do not have a clear trade impact should not be considered as aid for trade. So far, 3.5% of aid for trade has been devoted to 'trade policy and regulations' (which includes trade facilitation projects) and 'trade-related adjustment' (OECD–WTO, 2011b). This small share is in part due to the absence of a Doha Round agreement to implement, but also shows that helping developing countries to 'benefit from WTO agreements and more generally to expand their trade' (WTO, 2005) means that aid for trade should go beyond facilitating the implementation of trade agreements. Nonetheless, the current scope of the Aid for Trade Initiative is too broad. Aid for trade should help build trade capacity, but trade capacity does not include projects that, however important for development, are not clearly related to trade. This is the case of support to productive capacities, to gender issues, and to some infrastructure projects. Empirical evidence shows that infrastructure is a crucial condition for trade expansion in developing countries. However, currently, the monitoring exercise considers that all types of infrastructure except water infrastructure are aid for trade. This is so broad that a large urban transportation project in Istanbul made, suddenly, Turkey the third largest recipient of aid for trade in 2008 and largely explains the increase of reported aid for trade to Europe and upper-middle income countries. The same year, a tramway project in Morocco was one of the main reasons for the increase of aid for trade to Africa, masking the fact that commitments to Sub-Saharan Africa were stagnating. It is difficult to argue that urban infrastructure projects are trade-related and should be reported as aid for trade.[19]

Beyond the obvious cases just mentioned, it may not always be straightforward to determine if projects have a trade impact or are trade-related. In such cases, for monitoring purposes, it is probably better to give the benefit of the doubt and continue rely on donors' assessment of the trade objective of each project. For the allocation of aid-for-trade resources, analytical works, which are almost as rare as robust impact evaluations, should provide guidance on the projects that are likely to have the largest impact. For example, Hallaert *et al.* (2011) quantify the relative importance of various constraints to trade of developing countries and their impact on economic growth (both directly and through trade). They find that developing countries share some key constraints to trade. This kind of analysis suggest that narrowing the scope of the Aid for Trade Initiative is possible without losing effectiveness and more importantly identifies areas where aid for trade is likely to have the largest impact.

The purpose of narrowing the scope of the Initiative is to increase the focus on key elements of the trade and development nexus in order to make aid for trade more effective, build confidence, and secure donors financing. However, this may

19 For the monitoring, streamlining the scope of the Initiative means reducing the list of activities (or CRS codes) of the OECD database that are considered as proxies of Aid for Trade. The list of CRS codes is published in the 'aid for trade at a glance' reports (OECD–WTO, 2011b).

not be sufficient. The Initiative must also show convincing results. Thus, the streamlining of the Initiative needs to be complemented by robust evaluations. The previous section showed that relying on donors' own impact evaluations in their current format is not a possible option. Thus, it may be useful to consider setting up an independent body able to undertake impact evaluations. This body needs to be as immune as possible from the accountability issues and political imperative that affect current evaluations and be able to publish its evaluations. It also needs enough funding as well as the expertise to overcome complex 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 the area of evaluation.

Conclusion

Developing countries' requests for financial and technical assistance acquired a high profile in the Doha Round negotiations. To answer them, the WTO had to cooperate with other donors and international agencies. In the first half of the 2000s, donors facing calls to scale up their aid to achieve the Millennium Development Goals were ready to support trade reforms. This convergence of interests led to the Aid for Trade Initiative.

The Aid for Trade Initiative achieved some success. It has increased donors' and developing countries' awareness of the role trade can play in development. Aid for trade has also probably contributed to an increase in aid to build trade capacities. Although it is unlikely that the increase in aid for trade reported by donors is entirely new money, the Initiative has helped to increase donor financing to the productive sector of the economy at a time when the overall resource envelope was expanding.

These achievements are at risk. With the multilateral negotiations stalled, aid for trade grew increasingly de-linked from the Doha Round. Resources could not be allocated to the implementation of the Doha Round agreement but, thanks to the broad definition aid for trade, financed other projects, some of them only remotely related to trade. This prompted developing countries' suspicion on the reality of the reported flows of aid for trade. Suspicion increased further when aid for trade could not show convincing results. For many donors, in the absence of a Doha Round agreement, trade capacity building is increasingly falling out of favor as new priorities emerge. The threat to the resource mobilization is further increased by the fact that the aid envelope is not growing anymore. On the contrary, development budgets are under pressure because of the fiscal crisis experienced by most donors.

The successes of the Aid for Trade Initiative are worth preserving, but with bleak prospects to raise additional resources, with a monitoring framework that has reached its limits without managing to build confidence, and lacking robust evaluation all mean that the Aid for Trade Initiative needs to reinvent itself. Currently there are two options 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 and preserve available resources. The WTO is favoring the expansion of the scope of the Aid for Trade Initiative and has already started doing so in its Work Programme 2012–13. The WTO should instead favor a streamlining of the Initiative; focusing it more on the original intentions of the Initiative.

Streamlining the Aid for Trade Initiative may not be enough. Maintaining donor support and restoring developing countries' confidence also requires that the Initiative shows robust results. Setting up an independent body to undertake robust and convincing evaluation and highlighting where aid has the biggest impact on trade and through trade on development should be considered.

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