
COMMUNICATION FROM ZAMBIA ON BEHALF OF THE LDC GROUP

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AID FOR TRADE – AN LDC PERSPECTIVE

I. INTRODUCTION

1. Over the past year, a broad consensus has emerged in the international community that both a successful conclusion of the Doha Development Agenda (DDA) and an effective contribution of trade to poverty reduction will require a substantial scaling up of "aid for trade" to developing countries, in particular to LDCs. At the G8 Gleneagles meeting, an additional \$4 billion for trade-related activities in developing countries were announced, up from the current \$2.7 billion. This was followed by important pledges at the WTO Ministerial Conference in Hong Kong, December 2005. At that Conference, Japan announced \$10 billion for trade-related assistance over three years, the US announced Aid-for-Trade grants of \$2.7 billion a year by 2010 and the EU and its member States announced trade-related spending of \$2 billion per year (up by \$600 million) by 2010.

2. In Hong Kong, Ministers agreed that Aid for Trade (AFT) "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".¹ They also reaffirmed their support to the Integrated Framework (IF) and welcome an Enhanced IF.²

3. As a follow-up to the Hong Kong Ministerial Conference, an AfT Task Force was established in the WTO.

¹ Paragraph 57 of the WTO Hong Kong Ministerial Declaration.

² Paragraph 50 of the WTO Hong Kong Ministerial Declaration outlines some features of an enhanced IF: 1. "provide increased, predictable, and additional funding on a multi-year basis"; 2. "strengthen the IF in-country, including through mainstreaming trade into national development plans and poverty reduction strategies; more effective follow-up to diagnostic trade integration studies and implementation of action matrices; and achieving greater and more effective coordination amongst donors and IF stakeholders, including beneficiaries"; 3. "improve the IF decision making and management structure to ensure an effective and timely delivery of the increased financial resources and programmes".

A. THE CASE FOR INCREASED AFT FOR LDCS

4. The LDCs constitute a group of 50 countries, totalling a population of more than 700 million. Over the last 40 years, LDCs have been increasingly marginalized from world trade. As of 2004, LDCs' share in world trade stood at a meagre 0.7 per cent of total world exports as compared to 3.06 per cent in 1954. Despite several recent initiatives for improving market access, such as the "Everything But Arms" (EBA) and the African Growth and Opportunity Act (AGOA), few positive results have been achieved so far.

5. With the exception of a few, LDCs have in common several of the following features: poverty and extreme poverty are prevalent; exports are dominated by one single agricultural commodity and deteriorating terms of trade; a private sector characterized by small- and medium-sized enterprises (SMEs) which are under capitalized and with little exposure to international business; profound weaknesses of the financial and credit sector; absence of foreign direct investment (FDI) (except for oil producing LDCs); public infrastructures in need of major repairs; recurrent governance problems and a poorly organized civil society.

6. During the last five years, the AfT delivered to LDCs has hovered around 24 per cent of the total aid delivered.³ This is considerable. A finer analysis however pinpoints large differences of aid per country: (i) indeed, there is a concentration of aid on a few countries; (ii) despite the importance of AfT aid flows as recorded by OECD, specific trade-related infrastructures often have not received the share that one would expect; (iii) some sub-sectors crucial for export are under-funded and there are bottlenecks to exports which have long been neglected; (iv) lastly there is across the board a relatively low level of TA directed towards the private sector and business entrepreneurs.

7. Several multilateral mechanisms exist for delivering AfT to LDCs. One of the most important is the Integrated Framework which is currently implemented in 40 LDCs. By its mandate the IF finances only trade-related technical assistance (TRTA) and trade-related capacity building (TRCB). Project proposals to tackle supply-side constraints and infrastructure should be financed by Consultative Groups (CGs) and Round Tables (RTs). On several occasions, such projects were presented to specific donors' meetings and to CGs and RTs, but without success. Reliance on "best endeavour" commitments and Consultative Groups and Round Tables have shown their limitations for mobilizing new resources for trade responding to specific priorities articulated by the LDCs.

B. DEFINITION AND SCOPE OF AID FOR TRADE

1. Aid for Trade (AfT) and Aid for Development

8. AfT is a sub-set of aid for development. It should be a core part of any growth strategy whose ultimate goal is to reduce poverty. It has the potential to enable developing countries to enhance their competitiveness, diversify their agricultural, industrial and services capabilities, improve their infrastructure, and strengthen their supply-side capacity to take advantage of the market access opportunities offered by trade liberalization. It can also bolster national capacities to participate effectively in bilateral, regional and multilateral trade agreements.

9. AfT is required for developing countries, particularly LDCs that are expected to benefit from the Doha Round but only if additional investments are made to improve their infrastructure, productivity and competitiveness. However, as Pascal Lamy pointed out when he addressed the first

³ Under AfT infrastructure, OECD does not distinguish between what could be narrowly defined as a trade-related infrastructure from more general multi-purpose infrastructures. Under that practice, figures for AfT infrastructure seem to be exaggerated.

meeting of the AfT Task Force, aid for trade is not a substitute to the development dimension that the DDA must deliver; it should, however, be perceived as complementary to this objective.

10. AfT comprises the on-going trade-related assistance and the additional resources pledged in Hong Kong and by the G8 nations to bolster export capacities of developing countries, in particular of LDCs. As much as possible the scaling up of aid for trade should be financed through new money rather than a reshuffle of resources from other sectoral priorities towards trade, or resources already earmarked for trade and re-packaged under the AfT label.

11. The rationale for avoiding the reallocation to trade of resources from other sectors, such as education, health, poverty reduction or governance, is that it would endanger the economy's competitiveness in the medium term. In fact, competitiveness in a globalized economy is achieved through the interaction of numerous non-trade factors, such as the quality of the education system, a healthy working force, an efficient transport system, an impartial judicial system and other more subjective factors such as political stability, the investment climate, and the thrust between government and the business community. In LDCs, where often the social objectives as defined by the Millennium Development Goals (MDGs) for 2015 are not yet reached, it would be a tragic mistake to reduce basic social expenditures to reallocate aid towards trade. Indeed, aid for trade and social expenditures are separate tracks that should receive adequate level of financing from the development community for fostering a sustainable, vigorous and quality growth.

2. The AfT Pillars

12. Four pillars of aid for trade are distinguished hereafter: supply-side capacity, trade-related infrastructure, trade policy and negotiations, and cost adjustment. The first three are familiar to the trade and development communities. The last one, cost adjustment, is relatively new; it responds to the developing countries' concerns that implementation of WTO agreements may require high up-front costs and benefits which will only materialize at a later date. Financial assistance should be provided to ease countries with adjustments in their economy during this transition period.

13. For LDCs, the priorities which AfT should address include strengthening their supply-side capacity, which is often closely linked with improvements in their infrastructure, and assistance with cost adjustments. Needs for formulation of trade policy, mainstreaming trade into national development strategies and strengthening capacities for participating at multilateral rules making are already met by existing mechanisms, such as the IF and Joint Integrated Technical Assistance Programme (JITAP).

14. *Supply-side capacities.* In LDCs, private-sector development is key to any policy which seeks to strengthen supply capacities. This may include support to the chamber of commerce and professional associations, the establishment of a one-stop window for creating a business, streamlining procedures and reducing business regulations, fostering a supportive environment through revamping legal codes for commerce and investment, strengthening the registration of goods and persons, and supporting the creation of arbitration centres. Trade facilitation measures are also part of any integrated package for strengthening the supply-side capacity. They comprise, *inter alia*, customs modernization, simplification of trade procedures and information oriented to the business community.

15. Strengthening financial and insurance services and making them more inclusive⁴, providing targeted support for investment, supporting export marketing facilitation and up-grading local

⁴ This includes micro credit and making available small loans to poor farmers and women who do not have collateral, enabling these groups to participate to the modern economy.

institutions in the areas of applied agronomic research and technology are also in dire need in LDCs and contribute to creating a favourable environment for enhancing supply capacities.

16. Strengthening LDCs' export capacity will also require a change in the mix of TRCB provided, as more projects should be targeted to firms and networks of firms at the branch level. Flexible and innovative forms of TA, responding to their needs, and a problem-solving approach, are needed to improve local business' capabilities for benefiting from enhanced market access.

17. **Trade related infrastructure** comprises construction and rehabilitation of roads and feeder roads linked to production areas, communications, port and storage facilities, production and distribution of energy, and water supply. For LDCs, a special plea is needed for investments in energy, in particular hydro-electricity schemes and electricity distribution in rural areas.

18. In LDCs, the cost of energy and transport can be several times higher than in a more advanced developing country. These high costs are not only related to the absence of, or poor quality of, infrastructure. They are also often borne from inefficiencies, rent-seeking behaviours and quasi monopolies that have to be corrected. Attention has to be given to strengthening management, revamping the legal and regulatory framework, privatizing or constituting public-private partnerships (PPP) and establishing cost recovery schemes to ensure the financing of maintenance and rehabilitation work. Remedial action should fall within the scope of the AFT.

19. Development of regional infrastructures, e.g., regional trade corridor, cross border transit, management and integrated development of a river running through two or more countries (e.g., irrigation and use of water, security and transport policy, hydro-electricity schemes common to several states) should also fall within the Aft purview. In the past, such investments have often been overlooked, partly because aid delivery mechanisms are mostly country-based, and partly because of the complexity of projects that are shared by several countries and stakeholders with different views and priorities. Several LDCs are landlocked countries and they give a high priority to these undertakings.

20. **Trade policy and negotiation.** This comprises trade-related technical assistance and trade-related capacity building activities to strengthen national capacities for formulation of trade policy, mainstreaming trade into the Poverty Reduction Strategy Paper (PRSP) or national development plans, fostering participation in rules making and supporting negotiators in their work in WTO or in regional economic associations.

21. The formulation of a thorough national trade policy should be highly participatory, involving the private sector and civil society. This often requires an overall up-grading of the knowledge of trade policy issues and an understanding of the effects of trade throughout the economy, on firms, workers and consumers. Cooperation of many specialists – economists, but also political analysts, strategists and negotiators – as well as private sectors representatives, are needed for devising a strategic approach.

22. In parallel, trade mainstreaming into the PRSP and the national development plan should take place. This priority need was recognized by the IF. Some progress has been made towards that objective but at a recent IF Working Group meeting, the unsatisfactory level of trade mainstreaming was once again noted and additional efforts were recommended.⁵

⁵ In a recent review by the World Bank of the trade content in PRSPs, only 8 out of 20 countries reviewed had completed a DTIS validation workshop at the time of the publication of the PRSP. Of these 8 countries, only 3 had successfully incorporated the recommendations of the DTIS in the PRS documents.

23. For LDCs, trade policy formulation, trade mainstreaming and support to negotiators remains high on the priority list for assistance. It is however, expected that on-going assistance and future scale-up activities in these areas through the Enhanced IF and better coordination with other on-going programmes and/or streamlining activities should be sufficient. Occasionally, some additional funding from Aft Facility may be needed, complementary to the existing resources.

24. **Adjustment cost.** Developing countries are faced with costs arising from the implementation of trade reform, including those related to implementation of WTO agreements and future changes in the multilateral trade regime as a result of the Doha Round. Adjustment costs are not mentioned in the Hong Kong Ministerial Declaration but the political economy of the on-going negotiations in Geneva is such that they are now considered as a legitimate request from developing countries and should be part of the Aft.

25. Several unfavourable outcomes for LDCs can be imagined if the Doha Round succeeds. For example, (i) some LDCs will suffer from the erosion of preferences that they previously enjoyed; (ii) for those LDCs that are net food importers, difficulties could arise from food prices increases following reforms of agricultural subsidies in the developed countries.

26. Compensation is also requested by LDCs for measures and actions taken to comply with the rules and standards of the international trading system. Adjustments put stress on already weak institutions and sometimes require the setting up of new ones. A few areas which have been very costly to implement are establishing services for enforcing intellectual property rights, customs valuation and the Container Security Initiative, rules of origin which are overly complex, compliance with sanitary and phyto-sanitary standards and establishing laboratories and certification agencies.

27. A case can also be made for the loss of revenues to the Government as a result of trade liberalization. For LDCs, tariff and customs revenues form a substantial part of the budget. Shifting to a system such as VAT because of trade liberalization is often a complex task, with associated high costs.

28. Macro-economic losses are often accompanied by severe imbalances at the level of local communities, farmers and workers. Retraining workers and facilitating the adjustment by various measures targeted at individuals and firms are needed to smooth out the transition.

C. AID FOR TRADE: WHICH ARCHITECTURE IS MOST APPROPRIATE?

29. Aid for Trade has been on-going for a long time. Today more than forty donors, bilateral and multilateral, are providing support in the area of trade to developing countries. What is new, however, are the linkages between aid for trade and the multilateral trade regime, the emphasis on development issues by the DDA, and recognition by the donor community that trade should be actively used as an instrument of development policy to accelerate growth and reduce poverty.

30. Recent evaluations of the aid for trade sector have pointed out some weaknesses: (i) some aid programmes could be streamlined and built on; (ii) increased coordination between multilateral programmes and between bilateral and multilateral programmes could produce superior outcomes at a lower cost; (iii) international support should better respond to the priorities identified by the LDCs rather than projecting donors' views; and (iv) aid predictability and long-term commitment should be solidified. A more equitable repartition of aid between developing countries and LDCs, is required. No conditionality should be attached to Aft assistance.

31. In designing the Aft architecture, the structural changes brought to the aid business by the Paris Declaration should be embedded in the Aft procedures and operational modalities. Increasingly, development aid is deployed in a budget support environment, based on harmonization

of donors' practices (e.g., one single needs assessment and assistance strategy, joint reporting) and alignment on national procedures and systems. The implication for the AfT architecture is that the system should be country-demand driven and based on strong national structures and procedures for planning, programming, delivering and monitoring AfT resources.

32. In view of the above, the LDC's position is in favour of a multi-faceted AfT architecture comprising:

- (i) A Multilateral Trade Facility, for financing projects responding to gaps identified in the existing aid for trade. Such a Multilateral Trade Facility could have up to three specialized windows:
 - investments in regional and cross-border projects;
 - financing adjustment costs;
 - investments of trade-related infrastructures and supply-side strengthening as identified in the Diagnostic Trade Integration Studies (DTIS).
- (ii) A mechanism for monitoring AfT pledges, distinguishing between AfT trends and new and additional aid resources and effective disbursement and utilization of the AfT funds by recipient countries;
- (iii) an overarching mechanism for streamlining, coordinating and leveraging existing funds, facilities and trade initiatives. It would work in close cooperation with the AfT structures established in the developing countries.

33. The above-mentioned Multilateral Trade Facility should not set up a parallel process but operate via the PRSP and when possible through the CG/RT process⁶ or any other donor conference in order to ensure coherence of policy, transparency and coordination. Resources could be allocated to projects on the basis of their economic and social rates of return, with some weighting of resource allocated per country based on the severity of the trade shocks, adjustment costs incurred, size of country and poverty and integration of trade policies within the national development strategy.

34. The financing of the Multilateral Trade Facility should come from the additional AfT funding announced in Hong Kong and other multilateral conferences in 2005. A simple statistical formula, such as a percentage of the AfT additional flows, could be used to decide on the amount of the resources to be transferred to the Facility. It would have the merit of linking the Facility to the monitoring system of AfT flows and multilateralizing a part of the new "additional" bilateral funding.

35. In view of the deep-seated and structural problems to be addressed, the AfT Facility should not be designed as a one-off initiative but should contain a built-in review mechanism that would trigger successive replenishment.

D. RELEVANT INSTRUMENTS FOR AfT

36. **Needs assessment.** A first step will be some kind of country-driven needs assessment. In the case of LDCs participating in the IF, such needs assessments are already available and form part of the DTIS process.

37. However, existing needs assessments prepared for the DTIS should be revisited, better prioritizing the action matrices and proposing additional priority actions for strengthening supply capacities and building trade-related infrastructures. Only a few DTIS mention the need for

⁶ Periodicity of CG and RT is not fixed and sometimes there are several years between meetings.

investments, but it is in a rather vague manner, far from what development banks would expect in terms of a project identification, or a pre-feasibility study. Also, in most cases, proper integration of the DTIS into the PRSP has not yet occurred and more efforts will be deployed with the support of the Enhanced IF.

38. As the Enhanced IF includes up-dating of the DTIS and developing new areas such as formulation of trade-related investment projects, one issue will be how to identify investment projects. One instrument to identify gaps and opportunities for investment is the Value Chain Analysis (VCA).

39. This tool could be used in post-DTIS to focus on a few sectors or products, identify needs and constraints and associate clusters of businesses in the preparation of requests for funding.⁷

40. **Policy strategies.** Poverty reduction and MDGs should provide the guide posts against which success of the trade policy should be measured. Country ownership, policy coherence and integration in the budgetary process are also key elements of a successful undertaking.

41. In the case of LDCs, the DTIS provides a coherent policy framework and an action matrix which are both validated during a national seminar, bringing together government officials from Finance and Development, Trade and Technical ministries, personalities from the private sector and civil society representatives. Key actors from the PRSP process are also invited at that seminar and during the preparation of the DTIS they are consulted with a view to integrating trade and investment policy recommendations and priority actions into the PRSP. Through this process, trade policy is embedded into the national policies.

42. Trade integration into the PRSP and national development is, however, still unsatisfactory, as mentioned above, and more efforts are needed throughout the DTIS process to reach this objective.

43. **AfT Financing.** A key principle is that AfT support, either through existing mechanisms or the Multilateral Trade Facility to be established, should be delivered in a way that does not increase the indebtedness of receiving LDCs. Another principle is that AfT financing should not be accompanied by new conditionalities, or some *qui pro quo* about allocation of AfT grants and buying out the trade liberalization proposals which are part of the DDA. Lastly, the AfT financing should be made predictable through multi-year commitments.

44. Concerning the financing of TRCB for trade policy and trade diplomacy, most of it should come from the Enhanced IF Trust Fund. National programmes for trade policy in other developing countries show that a minimum of ten million dollars are needed over a period of at least 5 to 7 years. Most probably, such country allocation would be sufficient for a comprehensive TRTA/TRCB programme, complementing/supplementing trade projects and programmes financed by bilateral agencies. Based on this information, a planning figure for costing the needed financing would be around 400 million dollars for the LDCs.

45. Besides channelling aid money, AfT could also help develop public/private partnerships and mobilize new types of financing from the private sector, in particular from transnationals. Financing, building and operating major infrastructure projects, for example harbours or airports, can be attractive investment opportunities for international operators. AfT support could take the form of fielding technical advisory missions, providing legal advice during the negotiations, and sometimes financing some related secondary infrastructures in order to make the package attractive for the investor.

⁷ Value Chain Analysis (VCA) was recommended in the UNCTAD (2005) manual on the Integrated Framework; a contribution from the Zambian Mission in Geneva to the AfT Task Force gives detailed information on the VCA (WT/AFT/W/1). This tool is used by DFID and other aid agencies.

46. ***Delivery mechanisms.*** For delivering AfT, either direct budget support or sectoral budget support are the preferred modalities. In the latter case, aid for trade could be articulated under a Sector Wide Approaches (SWAPs), organizing donors' support around a core group of policies and trade-related investments financed by the Multilateral Trade Facility. SWAPs could be instrumental in developing synergies with bilateral ODA for strengthening competitiveness and increasing exports.

47. Allocations made to the national budget should be monitored through a set of indicators to be jointly selected by the parties. As much as possible the Government should lead collaborative evaluations of AfT by agencies and use the findings and recommendations to guide the processes involved for strengthening capacities and increasing exports.

E. GOVERNANCE OF THE AFT

48. The following proposals for AfT governance build as much as possible on existing bodies and mechanisms and refer to the AfT architecture outlined in the earlier section. AfT governance issues have to be discussed at the global and country levels.

1. At the Global Level

49. **The Multilateral Trade Facility** should be comprised of a: (i) Forum; (ii) a Board of Directors; (iii) a Chief Executive Officer (CEO) and a secretariat.

- (i) The Forum should be opened to all WTO Members, representatives of NGOs and the private sector, specialized agencies and Development Banks, etc... It will meet every two years and its primary function is advisory. It will provide a space for information, debates and criticisms.
- (ii) The Board of Directors should be composed of eminent and experienced individuals from developing countries, in particular LDCs, donor countries and agencies. The developing countries should have majority representation on the Board. The Board will ensure oversight, provide policy orientation and shape the strategy, approve the annual budget, review and approve the investment proposals to be funded.
- (iii) The CEO is managing the Secretariat, is responsible for executing decisions of the Board; overseeing their implementation and coordinating the strategy and reporting to the Board and the Forum.

50. The Facility is a financial instrument, not an implementation mechanism. Financial resources of the Facility should be used in priority for LDCs. The Facility would finance priority projects related to investing in regional projects and programmes, transferring resources for cost adjustment and investing in SWAPs and/or investment projects identified by the DTIS. Projects financed under that category would be exclusively for LDCs.

51. Projects should be identified by the beneficiary country and prepared if requested with the support of one agency (i.e., World Bank, Regional Development Bank, WTO, UNDP and UN specialized agencies). These projects would be reviewed by a Technical Group formed by the financial institutions. Once projects are approved by the Board of Directors, contracts will be drawn up between the Government, the Facility and the selected agency designated for implementation.

52. **The AfT monitoring function** is essential. It will be built on the WTO-OECD/DAC trade capacity building data base. Information will be fed to the various OECD/DAC and WTO committees on the level of AfT funding, its incremental dimension, delivery and gaps. To carry out its function, it will rely on information provided by the national committees and donors. More detailed information on Monitoring and Evaluation (M&E) systems are given in section F – "Evaluation".

53. **Streamlining and improving AfT coordination.** It is essential that those responsible for shaping the new multilateral trading system factor in the special problems faced by LDCs and cooperate with the development community to design the appropriate assistance for a more level playing field. Likewise, the donor community can do a better job in responding to LDCs needs and use its resources in a more rational manner, thereby avoiding redundancies.

54. A small Unit should be established in the WTO (i) to review global AfT trends and identify countries facing capacity problems; (ii) to gather and disseminate information on design, delivery and evaluation of AfT at the country level; (iii) to raise issues with the donor community related to gaps and inefficiencies in aid for trade and promote streamlining of existing AfT mechanisms; and (iv) and to foster coherence between trade and development policies.

55. The work of this Unit will be supported by a Technical Advisory Group (TAG) composed of specialists from the World Bank and Regional Development Banks, UNDP and the specialized agencies, representatives from LDCs and donor countries. The Technical Advisory Group will prepare technical reviews, collaborative assessments and proposals for improvement on any of the four points mentioned above. Some five to ten country progress assessments in the area of trade should be prepared each year by the TAG.

56. Recommendations of the WTO Unit for AfT should be passed for review and appropriate actions to the WTO General Council and its subsidiary bodies, the Committee on Trade and Development, its sub-committee on LDCs and the committee on trade and finance which is responsible for macro-economic coherence for review and appropriate actions. Those findings and recommendations should be shared with OECD/DAC and the Boards of the World Bank, IMF, UNDP and UN specialized agencies for their own review process.

57. The WTO Director-General should have a strong advocacy role and engage donors on the volume of AfT, its efficiency and appropriateness.

2. At the Country Level

58. **Strengthening national AfT governance** is essential for trade mainstreaming into national policies, fostering aid coordination and enhancing accountability. It is also congruent with the principles of the Paris Declaration. The Enhanced IF foresees major reinforcement of the existing national IF structures. The following are some quotations from the work of the IF Task Force that can be useful for stimulating AfT thinking on these issues.

Box 1. Managerial recommendations by the IF Task Force

"To provide senior level engagement and coordination, and to ensure political commitment, a high level inter-ministerial committee should be established. This should be led at the ministerial level and be coordinated by the Ministry of Trade, Finance, Planning... as best determined by each country. The close collaboration of the Ministries of Trade, Planning and Finance is critical".

"In addition, to ensure support to the formulation of the DTIS and implementation of the action matrices, a broad based stakeholder process including government, private sector and civil society representation will be established".

Finally "the IF Focal Point will be strengthened. According to the local needs, the establishment of an implantation unit for IF projects could be envisaged, the secretariat (human resources and equipment) will strengthen and resources will be made available for subcontracting services. The IF Focal Point should report to the inter-ministerial committee as part of the development planning process".⁸

59. The initiative taken by the IF of establishing an IF inter-ministerial body is laudable. It will raise the trade profile and will favour synergies between different policies. One cannot imagine, however, the multiplication of inter-ministerial bodies and add another one for Aft matters. There will be a need for merging different strands and establishing one single Aft committee which will deal, *inter alia*, with IF issues.

F. MONITORING AND EVALUATION

60. Monitoring is essential for the success of the Aft initiative as it will provide, *inter alia*, undisputable and timely information about the so-called "additional" Aft. This information will be most useful to exercise peer pressure. The following steps should be taken.

61. A baseline of aid-for-trade flows needs to be established, against which it will be possible to measure the additionality. This baseline should be disaggregated by groups of countries – LDCs, LICs – and functional categories, such as TRTA and TRCB, infrastructures and productive sectors.

62. The WTO-OECD/DAC Database on trade provides a good starting point but needs to be upgraded. One problem is the manner descriptors have been identified and the way in which agencies report to the database. This leads to some double accounting in aid flows. In reporting aid flows, outlays for debt relief and reconstruction for countries at war should not be included. This practice distorts the recent trend reported in increased aid flows for trade.

63. An effort to better focus on trade-related infrastructures is needed. A recent OECD paper argues that it is un-practicable to draw the line between trade-related infrastructure and more development type infrastructure. The LDC Group is of the opinion that some arbitrary decision will have to be made in order to avoid the Aft being choked by multiple requests. For accountability, it is also better to adopt a restricted definition of what is trade-related infrastructure, so that it can be monitored. It is most likely that one single definition will not fit all situations: besides some obvious trade infrastructure, others – such as education – are determined by the development strategy of a country.

⁸ Recommendations from the IF Task Force for an Enhanced Integrated Framework, 2 May 2006.

64. The statistical work done in Paris and Geneva should be enriched by data on aid-for-trade delivery; these data should be provided by developing countries. Agencies with a country presence and understanding of this type of work could help. Included are evaluations of aid projects or trade sector assistance that can provide an understanding of aid efficiency. Support to strengthen independent national capacities for evaluation and monitoring should be considered for AfT financing.

65. The annual report on AfT by WTO-OECD/DAC should comprise a strong analytical section.

66. This yearly report should be reviewed by the AfT management, discussed at the WTO Committee on Trade and Development, and recommendations for action submitted to the WTO General Council.⁹

67. The OECD/DAC could also use the data on AfT commitment and effective delivery, for example at the occasion of peer reviews. This mechanism used by OECD/DAC for reviewing the aid policy of its members has been a powerful force for harmonizing aid practices among the OECD members.

68. The performance of the AfT mechanism and its Multilateral Trade Facility should be evaluated periodically. For that purpose, it is important to adopt an institutional design that will allow M&E functions in terms of results and outcomes.

⁹ Some have suggested using the Trade Policy Review (TPR). The periodicity of these reviews is however inadequate as well as the purpose of the TPR which looks at how a country complies with the new International Trade Architecture, rather than assessing how trade policy is part of country's development strategy.