

AID-FOR-TRADE STRATEGY IN LATIN AMERICA AND THE CARIBBEAN

IDB Technical Note

I. Background

Latin American and the Caribbean's share of total Aid-for-Trade (Aft) is a relatively small percentage of official development assistance (ODA). According to the OECD estimates for 2007, Asia received 42 percent of total Aft, Africa 37.5 percent, LAC 8.0 percent, Europe 4.7 percent, and Oceania 1.1 percent.¹

Through its ongoing policy dialogue, programming processes and project design and execution, the Inter-American Development Bank (IDB) aims to bridge the significant gap between demand and supply of Aft in LAC. **The purpose of this Technical Note is to provide guidance to governments in the elaboration of their Aid-for-Trade Strategy, in conjunction with technical assistance provided by the IDB.**

II. Objective

According to the responses from the region to the 2008 Aid-for-Trade questionnaire, a disconnect remains between the priorities established by the government and donor assistance. The Strategy is designed to support the government in the identification of priorities, improve coordination between Ministries, design a monitoring and evaluation mechanism, and initiate a dialogue with donors and investors, whether local or foreign. The Aid-for-Trade Strategy begins with the assumption that the priorities have been identified and validated by the government, seeking only to reconfirm their continuing relevance and propose ways in which government or donor support can match these priorities. The Strategy can be done as a standalone country product or modified to provide an input to the country's WTO Trade Policy Review, which provides a consistent and comparable monitoring mechanism for trade-related assistance.

The following sections will propose a methodology for governments to develop their Aft Strategy and create a mechanism for engaging investors and donors. This process is collaborative and interactive, engaging all relevant stakeholders, but coordinated by a designated counterpart (usually the Ministry of Trade) to work closely with the IDB. This ensures ownership and sustainability at the country level.

III. Methodology for Developing an Aid-for-Trade Strategy

A. Desktop Research

Since the Aft Strategy is not intended to include a full diagnostic, all information pertaining to the country's macro and trade environment should first be gathered and assessed for relevance. For example, country strategies (IDB, WB), Investment Climate Assessments (WB), Investment Policy Reviews (UNCTAD), Trade Policy Reviews (WTO), and countries' own development and growth

¹ OECD and WTO (2009). "Aid for Trade at a Glance 2009: Maintaining Momentum". Paris: OECD.

strategies, may be used, ensuring that duplication is avoided and coordination with other policy recommendations ensured. Governments can write a brief policy note summarizing the findings of the desktop research; if validated and deemed relevant and sufficient, this information may be adequate to proceed with the recommendations and implementation strategy. If the information is not sufficient, the government and the IDB should discuss the possibility of complementing and updating information in existing policy notes and diagnostics.

B. The Strategy

i. Section 1: Introduction (max 1 page)

This section should provide background information, rationale for developing the strategy, and a quick glimpse at what the challenges are and what remedial actions are needed.

ii. Section 2: Trade Snapshot (max 4 pages)

This section should be very brief since much of the information is covered in different diagnostic or analytical contributions. If the strategy forms part of the WTO TPR, this section should draw upon the information found therein.

a. Macro environment

A brief description of the country's general macro environment should include those issues most related to trade activity – these include, but are not limited to: exchange rate policy; the relationship between the balance of payments, government budget, and real/nominal exchange rates and the impact of trade liberalization at the regional and global levels; impact on net-food importing countries; vulnerability to energy fluctuations; impact on commodity-exporting countries and possibility of Dutch disease, etc.

b. Structure and Pattern of Trade

A brief description of the country's investment and trade trends, from information gathered from international and national statistics. Specific issues could include, but are not limited to: balance of trade; volume, value, and composition of imports and exports; main trading/investment partners; trade performance relative to the rest of the world and/or region; main corridors of economic activity (national and regional); role in existing supply chains (if any); regional/global comparative advantage; and quality of trade data.

c. Trade Policy and Institutions

An assessment of the country's trade policy and institutions should be based on existing information (including trade policy reviews or other studies, indicators on governance and transparency, Doing Business Report, etc) or identified as part of the Strategy. Specifically, this section should review: institutional capacity and existing coordination mechanisms; coordination and consultative mechanisms with civil society and the private sector; overall trade regime including tariffs, non-tariff barriers, investment/competition policies, antidumping/CVD, state trading enterprises, government

procurement, subsidies, and export restrictions; government trade incentives including export processing zones and tax incentives.

d. Preferential and Regional Trade and/or Investment agreements

Many low- and middle-income countries have signed regional trade and/or investment agreements and/or preferential agreements with developed countries. This section should include an analysis of any overlapping obligations and the country's institutional capacity for implementing one or more agreements simultaneously. Specific attention should be focused on: status of negotiation and implementation of multilateral, regional, or bilateral trade and/or investment agreements; market access opportunities; market access barriers including SPS/TBT measures, standards, intellectual property, etc.

e. Regional Integration

This section should identify the level and mechanisms for regional integration including regional agreements, supply and value-chains, joint border crossings, regional infrastructure or transport projects, common legislation, monetary or customs unions. Assessment should be made as to degree of implementation of various integration initiatives and the bottlenecks to full implementation.

f. [Poverty Reduction through International Trade (development dimension)] OPTIONAL

[This section should highlight the impact of increased trade and investment on poverty reduction, using available statistical data if possible. Specific issues include: impact on rural poverty and remote areas, land-locked countries, and small and vulnerable economies; gender issues; impact of trade on incomes, welfare, prices, consumption, production etc]

iii. Sectoral Challenges and Cross-cutting Issues (max 8 pages)

This section should identify the principal sectors of the economy (e.g. agriculture, manufacturing, services) and provide a brief overview of each. Sectoral studies can be elaborated if there is need and agreement from the government e.g. value-chain analysis, export diversification strategies. In addition, this section should identify the key cross-cutting issues and their impact on the main sectors of the economy. As with Section C, this section should refer to the recent information compiled by the WTO TPR. Some examples of cross-cutting issues include, but are not limited to:

a. Trade Facilitation, Logistics, and Customs

When a country already faces favorable market access conditions, improving the efficiency of bringing goods to international markets becomes increasingly relevant, since the major constraint to exports is less likely to be the ability to access these markets, but rather the ability to supply markets. At the same time, reductions in trade barriers more broadly are eroding some of the traditional preferences enjoyed by countries, particularly in the Caribbean, further elevating the importance of trade facilitation in maintaining a competitive advantage vis-à-vis other countries. This section should gather all relevant information regarding a country's logistics, customs, infrastructure and transport, including the quality of its trade facilitation measures. If additional assessments are required, these could include a diagnostic on trade facilitation and freight logistics; quality of infrastructure and transport networks; regional initiatives and/or mechanisms e.g. Transport and trade corridors; all relevant regulations and processes; and level of automation/ICT.

b. Sanitary and Phytosanitary Measures (SPS), Technical Barriers to Trade (TBT), and Standards

Technical regulations and industry standards, particularly on agricultural goods, remain a hotly contested subject in the politics of international trade. Government regulations or industry standards can impact trade positively by clearly defining product characteristics and improving compatibility and usability and protect domestic public health goals by creating safety requirements and establishing minimum standards. However, these same regulations may also distort trade and hide protectionist policies. This section should identify key market access constraints to exports e.g. US regulations on food security, hormones, GMOs, and products where standards could arise with increased exports. Costs of compliance should be assessed. In addition, an assessment of the country's own initiatives and policies with raising domestic standards would be useful.

c. Climate Change

The link between trade and climate change is poised to become a key factor in the ability of developing countries to export to OECD countries. This section should seek to identify external climate change and/or trade mitigation policies affecting exports and any domestic initiatives affecting imports.

d. Gender

Gender-sensitive approaches to support trade-related activities are key to ensuring that the most economically marginalized can take advantage of market access opportunities. Aid-for-Trade is a mechanism to support women's effective participation in regional and international trade, identify concrete programs and quick wins, and mainstream gender issues into the initiative. This section should identify women's participation in tradable sectors of the economy and ways in which the government is addressing this issue.

e. Transport Infrastructure and Services [CAN BE COMBINED WITH TRADE FACILITATION]

Logistics are defined by a diversity of factors that determine performance in a given territory, such as a country, region or sub-national entity within a country (province, city), or area belonging to two or more countries (for example, a trade corridor). In addition to trade facilitation and enterprise

logistics, the main activity block that influences logistics is transport infrastructure and services, including domestic and international freight flows, trade interface operations and transferences. This section should seek to identify the main infrastructure bottlenecks (based on existing information) whether these are related to physical nodes (ports, airports), domestic flows of goods (railroads, roads, fluvial transportation), international flows (maritime or air transport), or interfaces (multimodal transport). If this information is unavailable, this analysis can be done independently if required by the government.

f. [Migration] OPTIONAL

[Barriers to work migration across borders, or anti-poor trade policies, create economic distortions and can pose conflicts between Mode 4 commitments under the GATS and domestic migration policies. This section should provide information on temporary foreign worker schemes and cooperative mechanisms at the national, bilateral, regional, and multilateral levels, as well as the administrative arrangements implemented at all levels.]

iv. Identification of existing donor support and aid flows (3 pages)

Using the Aid-for-Trade questionnaire and the CRS data, this section should:

- Identify donors and flows for past 5 years, plus any commitments
- Validate the aid flows as reported by the CRS
- Specify the type of assistance – grants/loans, public/private
- Specify the type of execution: Country, donor, or joint execution
- Describe the impact of projects (anecdotal)
- Assess the match between bottlenecks/priorities and aid/technical assistance

v. Mainstreaming (1 page)

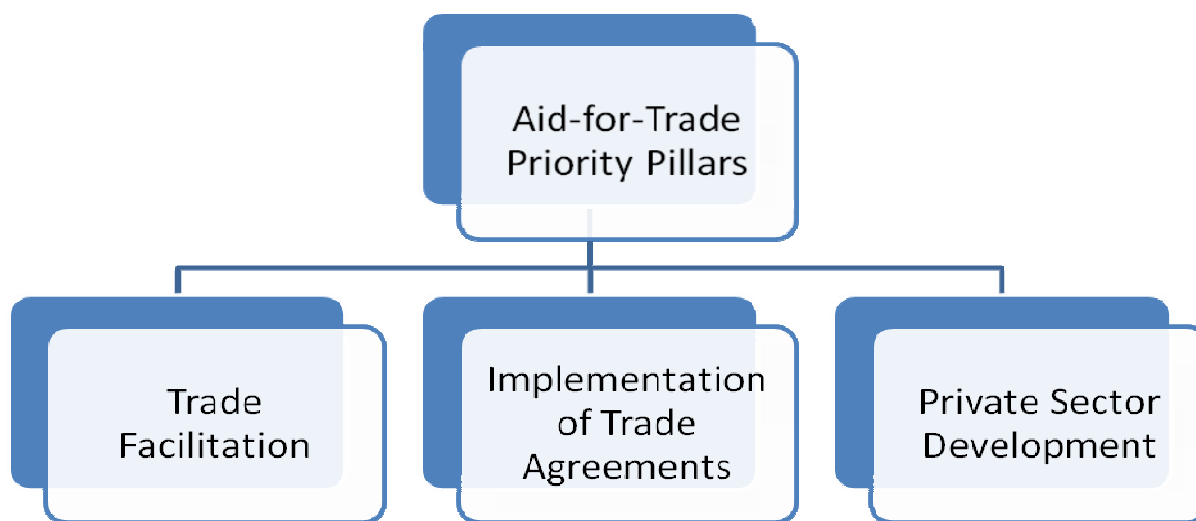
Using the Aid-for-Trade questionnaire as a guide, this section should establish the degree (if any) that trade is mainstreamed into a country's national development plan and/or some policy tool such as sectoral policies or annual budgets. This should also include an assessment of the integration of key stakeholders including private sector; civil society; universities and think tanks; and other ministries.

vi. Identification of Pillars (examples) (2 pages)

Following the descriptive analysis of the country's trade policy regime and its aid commitments, broad pillars for development should be identified (a maximum of 3-4 is suggested to ensure feasibility of implementation and representation of a true consensus). If these pillars have already been identified in the country's development strategy or in other forms, these pillars should be validated to ensure their current relevance. For example, key pillars for action could include trade facilitation and logistics,

implementation of trade agreements, building private-sector capacity, domestic and export competitiveness, or SPS/standards. Each pillar should clearly identify remedial actions, including proposed grant or lending operations, further studies, or technical assistance/capacity building. The greater the specificity, the easier it is to provide concrete project activities for donor funding.

Figure 1: Priority Pillars (examples)



vii. Recommendations (2 pages)

Once the analysis is completed, the Strategy should provide recommendations for actions across the various pillars. This information will feed into the action matrix and could be, for example, policy-oriented, operational, training, or research. For example, in the area of trade agreements, the recommendation could be an audit of existing regulations and a tailor-made roadmap for implementing and administering these agreements.

viii. Implementation (1 page)

A key aspect of this strategy is identifying the existing mechanisms to ensure implementation of the activities identified in the strategy. If there are any, do they work? What new mechanisms are needed? For example, is there an existing committee that will be tasked with implementing the Strategy? At the project level, how will these be implemented and by whom? This should be included as a recommended activity in the action matrix.

ix. Monitoring and Evaluation (1 page)

An in-country routine assessment of how the objectives of the strategy and projects themselves are progressing is essential. With regards to the pillars identified in the Strategy and the respective projects, this assessment must consider progress in terms of expenditure, resource use, implementation of activities, delivery of results and the management of risks. This is achieved through **monitoring**, which is

the systematic and continuous collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds.² Monitoring of the objectives of the AfT strategy and its respective activities should be the responsibility of the Ministry or Agency responsible for trade-related technical assistance or ODA, though in some cases internal monitoring will be complemented on specific projects by the executing agency. Regular reviews provide an opportunity for government stakeholders to reflect on progress, agree on the content of progress reports and follow-up action required. Implementation should thus be seen as a continuous learning process whereby experience gained is reviewed and fed-back into ongoing planning. In this respect, an effective feed-back loop for the sharing of the monitoring information should be established by the coordinating agency (such as the creation of an Aid-for-Trade Committee if needed).

Evaluation is the systematic and objective assessment of an on-going (periodic evaluation) or completed project (final evaluation), program or policy, its design, implementation and results, with the view to determining the relevance and fulfillment of objectives, development efficiency, effectiveness, impact and sustainability.³ Evaluation of AfT activities should be initiated by the coordinating Ministry or Agency for review and comment by the respective consultative mechanisms.

Table 1: Example of a Monitoring Framework for Aid-for-Trade Activities

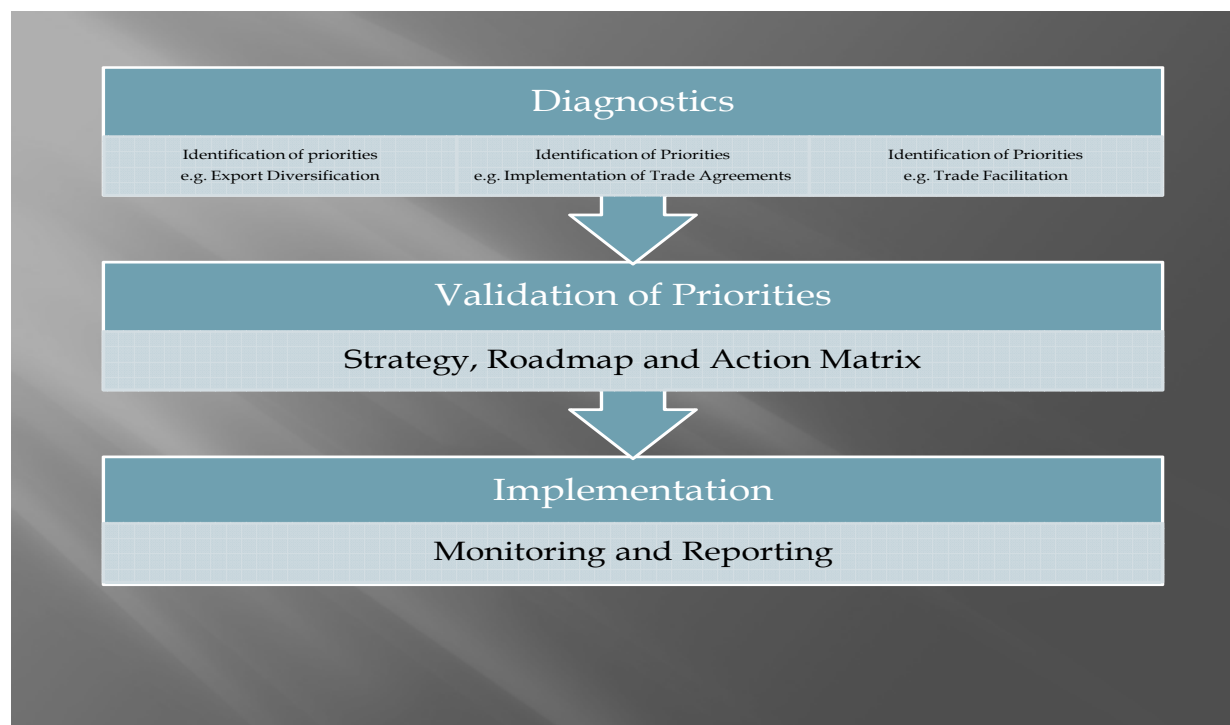
Objective	Output	Impact	Sources of information
Strengthen capacity to negotiate trade agreements	<ul style="list-style-type: none"> * Increased number of trained staff participating in negotiating rounds and technical working groups * Beneficiary's needs are identified and reflected in negotiating positions 	<ul style="list-style-type: none"> * Better negotiation outcomes for developing countries * Harmonized regional trade policies are developed, if possible * Regional negotiating positions are formulated, if possible 	<ul style="list-style-type: none"> * Meeting reports from technical committees
Strengthen capacity to implement trade agreements	<ul style="list-style-type: none"> * Monitoring mechanisms for implementation are in place 	<ul style="list-style-type: none"> * Increased number of agreements and provisions effectively implemented and enforced * Commitments are better linked to implementation capacity * Reduction in trade disputes 	<ul style="list-style-type: none"> * Meeting reports from implementation committees * WTO Trade Policy Reviews

² See "Monitoring and Evaluation: Enhancing Development Results", background paper prepared for the Third International Roundtable on Managing for Development Results in Hanoi/Vietnam, 5-8 February 2007 (http://www.mfdr.org/RT3/Glance/Documents/E&M_final.pdf).

³ Ibid.

Results of domestic monitoring should be fed into the larger OECD DAC and/or WTO TPR process.

Figure 2: Aid-for-Trade Strategy Roadmap



IV. Dissemination Workshop

Following the completion of the Strategy, the government should host a dissemination workshop, gathering together all stakeholders, to validate the priorities set out in the action matrix. However, this should be predicated by the determination of interest from both donors and the government to support the recommendations in the strategy. If there is no buy-in from the executive and legislative branches, the Ministry of Finance, and/or donors for trade-related priorities, a workshop could create expectations the Ministry of Trade is unable to fulfill. A national champion for the AFT Strategy is key to ensuring its success – the Ministry of Trade should consider carefully who might best promote their interests.

If there is sufficient support for the Strategy, the dissemination workshop will focus attention at the national level for trade-related activities. For example, if one of the priorities identified is trade facilitation, then the government should invite the participation of all logistics services providers, distribution and warehousing enterprises, customs brokers, in-country multinationals, in addition to the relevant government agencies (customs, finance). The government can separate the stakeholders according to their respective interest in the identified pillars thereby ensuring that priorities are validated by the most relevant parties. Each group should validate the recommended actions and the priority timeframe for these actions. Once the action matrix has been validated by the key stakeholders, the government should revise, and seek donor support for technical assistance needs. The government

should ensure the participation of all in-country donors and agencies in the dissemination workshop to gauge the level of interest and to ensure coordination amongst all donors and agencies. A follow-up donors/agencies meeting is recommended.

ANNEX 1: Action Matrix (example)

Action no.	Objectives	Recommended Actions	Needs for Technical Assistance	Agencies involved	Funding agencies (if known)	Priority (1-3) Timeframe
Trade Facilitation and Customs						
Customs Modernization						
1.1	Implement trade facilitation obligations under regional and multilateral agreements	<ul style="list-style-type: none"> Harmonize legal and regulatory framework to conform to the Kyoto Protocol, EPA, and CSME. 	<ul style="list-style-type: none"> TA required for conformity assessment and implementation roadmap 	IDB, WCO	EDF	2,2011
1.2	Upgrade equipment and infrastructure of customs environment	<ul style="list-style-type: none"> Support investment in the customs infrastructure and equipment at key border posts and improve performance 	<ul style="list-style-type: none"> Assess needs and prepare technical assistance project 	IDB, WB		1, 2010, Q4
Logistics						
1.3	Reduce transit costs	<ul style="list-style-type: none"> Prepare a transit strategy 	<ul style="list-style-type: none"> TA required 	IDB, WB, US		2,2011
Implementation of Trade Agreements						
Trade institutions						
2.1	Improve the negotiating skills of officials	<ul style="list-style-type: none"> Strengthen the trade policy unit within the Ministry of Trade 	<ul style="list-style-type: none"> Support for staff and training 	IDB, OAS, EU	OAS	3, 2011, Q2
Market access						
2.2	Ensure effective implementation of the Economic Partnership Agreement	<ul style="list-style-type: none"> Preparation of an Action Plan for Implementation Improving buy-in from the private sector and fostering greater awareness of market access opportunities 	<ul style="list-style-type: none"> Training and budget support to regional and/or national institutions Advocacy and constituency-building activities with the private sector 	IDB, OAS	OAS	1, 2010, Q3