Aid for Trade

Dóchas and
Irish Congress of Trade Unions

Submission to Irish Aid

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1. Introduction and summary

Aid for trade is an area of increasing focus for official aid programmes. In common with other EU and international donors, in advance of the World Trade Organisation (WTO) Hong Kong Ministerial the Irish government committed itself to increase its spending on building trade capacity in developing countries.

At the Gleneagles Summit of the G8 in July 2005, EU Commission President Barroso announced an increase in European Commission spending on aid for trade from €700m to €1bn. per year. At the Informal Meeting of EU Development Ministers in Leeds in October 2005, Ministers agreed that aid for trade was a high priority and undertook to bring forward proposals on the EU's possible contribution to an enhanced aid for trade package.

Minister Conor Lenihan TD announced in the Dáil that in 2006 "Ireland will increase its contribution to €500,000 to the Global Trust Fund for the Doha development agenda as part of our commitment to increase aid for trade" and that "Ireland is committed to predictable funding at the appropriate time" (December 1st 2005).

Aid for Trade takes its place in the wider context of an unjust international trade regime and does not obviate the need for flexibility in the Round. As Dóchas and ICTU emphasised earlier in this 'Development Round':

> "Trade could play a significant role in reducing poverty but not while international trade rules are so biased against the poor. For years poor countries have been pressured to open their markets to competition….. The historical evidence shows that no country has developed through indiscriminate liberalisation. Flexibility to use a range of policy instruements has been the key to growth with equity" (*An Agenda for Trade Justice,* Dóchas and ICTU, 2003).

This paper will discuss both the opportunities and challenges for development processes presented by the increased emphasis on aid for trade. This paper begins by examining what is meant by aid for trade. Section 3 of the paper looks at what Irish and international actors have been engaged in this area. Sections 4 and 5 respectively considers what opportunities and challenges arise from a development policy perspective. Section 6 presents ICTU and Dóchas recommendations in relation to aid for trade, including identifying what principles should guide Irish Aid's involvement in aid for trade. Section 7 presents a brief conclusion.

2. What is aid for trade?

Aid for trade involves the flow of development finance from rich to poor countries for the dual purposes of enhancing the competitiveness of developing country firms and building the institutions necessary for sustainable trade expansion.

Aid for trade usually takes any of a number of forms including interventions to build capacity in each of the following areas, as identified by Oxfam:

> "**Capacity to supply**: Assistance to help producers overcome supply-side barriers and benefit from trade opportunities by improving physical infrastructure (roads, harbors, airports, etc.); providing reliable inputs (water, electricity, seeds, fertilizers); and improving agricultural productivity and access to credit.
> **Capacity to trade**: Assistance to reduce non-tariff barriers to trade by modernizing customs and tax systems and improving standards and certifying bodies.
> **Capacity to formulate trade policy**: Support for developing country governments to determine appropriate trade policies.
> **Capacity to participate in trade negotiations**: Supporting trade negotiators to actively participate in international negotiations.
> **Capacity to implement trade agreements**: Helping countries to translate international rules into national laws and institutions.
> **Adjustment costs**: Assistance to implement new trade rules, and compensation for the negative impacts of trade liberalization" (Oxfam, 2005).

3. International and Irish involvement in aid for trade

Aid for trade is not new. It has been a part of many larger donor programmes for some decades. Up to the mid-1990s UNCTAD oversaw commodity agreements involving market interventions aimed to stabilise prices and so promote production and export. The ACP-EU Lomé/Cotonou[1] framework has included instruments such as Stabex and Sysmin[2]. With the rise of the 'Washington Consensus' such market intervention forms of aid for trade have been reduced and aid for trade interventions have focused on non-market actions.

The International Monetary Fund (IMF) operates a Trade Integration Mechanism (little availed of by Least Developed Countries (LDCs) as it is given as loans rather than grants). The most significant trade promoting mechanism has been the World Bank led Integrated Framework for Trade Related Technical Assistance to LDCs (the 'IF'), a donor coordination mechanism involving six donor groups.

Most developing countries now identify trade as an important component of economic growth with a potential for poverty reduction and this is articulated in their Poverty Reduction Strategy Papers (PRSPs). In 2001 the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) issued guidelines for trade capacity building which recommended that:

- Donors coordinate more
- Programmes be comprehensive in scope and integrated in execution
- Local ownership be fostered at all stages

[1] Since 1975 the Lomé and Cotonou Agreements have been the framework for EU development cooperation with the group of 77 African Caribbean and Pacific developing countries.
[2] Stabex and Sysmin were two market intervention mechanisms operated under the EU-ACP Lomé Agreements with the purpose of stabilising prices in the commodity and extractive sectors.

- Programmes be designed for sustainability after the project
- Donors strengthen their capacity to deliver such programmes
- Donors must commit substantial resources for a sustained period.

The EU offers ACP countries the opportunity to include export promotion activities in their National Indicative Programmes. However, few countries have taken up this opportunity (only eight under Lomé IV) and many sectoral projects supporting production (especially in agriculture) have neglected to include marketing and distribution stages (ECDPM). Following a review during the late 1990s, the EU restructured its trade-development programme integrating them with its private sector support strategy – with a single objective to improve the *competitiveness* of ACP exports. This was to be based on ACP ownership, private sector logic and an integrated approach with other donors. In preparation for Hong Kong, the EU collectively agreed to provide an annual €2 billion in aid for trade by 2010.

The Irish Aid programme has contributed to trade capacity building, directly and through the UN Conference on Trade and Development (UNCTAD) and the WTO related agencies. Enterprise Ireland was involved in the establishment of the Ugandan Investment Authority. In 2002 Ireland Aid requested its then advisory body, the Irish Aid Advisory Committee (IAAC) to examine how it could contribute to trade capacity building. The IAAC report recommended that significant opportunities exist for Ireland to add value through trade capacity building programme and that it should prepare a strategy for this.

In 2006 Ireland's spending in the area will rise to €2.93 million. This will be disbursed as follows: Integrated Framework, €1 million; WTO Global Trust Fund €500,000; International Trade Centre, €300,000; UNCTAD €150,000; Agency for International Trade, Information and Cooperation (AITIC) €280,000; Joint Integrated Technical Assistance Programme, €200,000; and the Programme of Internships for the Missions of Selected WTO Members in Geneva, €120,000. The Private Sector Forum was established in 2003 and Minister Lenihan has visited fairtrade producers in Latin America and expressed support for the promotion of fairtrade products.

Irish non-governmental organisations (NGOs) are widely involved in income generation projects and micro-credit in developing countries. A high proportion of these projects concentrate on sales in their local economies. NGO and trade union activity in relation to the promotion of trade with developing countries has focused on Fairtrade Mark products and on ethical trade.

The objective of Fairtrade and ethical trade is to promote pro-poor enterprise development and to ensure that the real social and environmental costs of sustainable production are internalised in the prices producers receive and consumers pay. Fairtrade Mark Ireland is an independent Third World charity supported by the main development agencies in Ireland and by the Irish Congress of Trade Unions. It awards the Fairtrade Mark to products sold in Ireland which meet internationally agreed Fairtrade standards. Fairtrade products ensure added value for producers and the label guarantees decent conditions of production and work, which result in a higher price being paid to developing country producers.

According to a consumer survey conducted in April 2006, the Fairtrade Mark is now recognised by 50 per cent of Irish adults and 30 per cent of Irish adults claimed to have bought a Fairtrade product in the last four weeks. Sales for Fairtrade Mark products are growing by over 30% a year and approximately 4% of the coffee now sold in Ireland is on Fairtrade terms. A range of Fairtrade goods including tea, coffee, bananas and wine is now widely available in supermarkets throughout the country.

Some NGOs have also been involved in support to producers in the South through the import and retail of other ethically sourced goods such as Fair Trade craft goods.

4. What opportunities does aid for trade present?

> "Even if trade rules are radically reformed and a pro-development round is achieved …. current 'behind the borders' problems mean that poor countries will continue to lose out on the potential benefits of global trade" (Oxfam, 2005).

Aid for trade can play a valuable role in addressing the supply side and other constraints upon the competitiveness of developing country producers. This section considers how this can happen.

4.1 Address declining market share

The promised gains from opening up their economies to outside competition have not materialised for LDCs. Over the last 30 years "the LDCs have seen their share in world trade decline from 0.8% to 0.4%. LDC exports remain heavily concentrated on basic commodities and raw materials – oil, gems, metals and agricultural products" (IAAC, 2002). This decline has occurred despite almost all developing countries undertaking radical restructuring of their economies and of their development policies.

Reflecting the global trend, Ireland's imports from lower and least developed countries remain at a very low level. This includes Ireland's priority aid countries from where Ireland's imports are on a downward trend. As shown in the table, with the exception of Ethiopia from which Ireland is importing considerably more, in the other five countries with whom Ireland has a priority relationship predating 1995, imports to Ireland are decreasing.

	1995	2004	Change
Ethiopia	4,288	72,611	68,323
Lesotho	-	-	-
Mozambique	1,802,505	848	- 1,801,657
Tanzania	732,461	38,019	- 694,442
Uganda	324,917	25,529	- 299,388
Zambia	119551	6296	- 113,225
East Timor	-	8	8

Irish imports from priority aid countries, 1995 and 2004 (Source: Comext / EuroStat)

Most developing countries, including Ireland's priority aid countries, have undergone a process of significant economic policy change in the last two decades including fundamental reform of the macro-economic, agricultural and industrial policies. As IAAC advised Irish Aid in 2002 "It has proven easier to strip away the props of the former state-centred development strategy than to foster the growth of the new private economy" (IAAC p.xiii).

A range of trade initiatives, including the Uruguay Round, the Lomé/Cotonou agreements, the Everything But Arms (EBA) initiative, and the African Growth and Opportunities Act (AGOA) have formally increased access to markets, but the promised flow of trade and investment have not followed to the extent anticipated.

By itself, market access in the form of tariff and quota elimination is not sufficient to promote integration of developing countries into the world trading system. Non-tariff barriers and supply side constraints must also be addressed. Aid for Trade can play an important role in addressing the second of these constraints by enhancing the capacity to trade.

4.2 Addressing the effects of Preference Erosion

Minister Lenihan has stated in the Dáil that the Hong Kong aid for trade package "will include both trade related capacity building and measures to compensate for the negative effects of trade reforms" and that "Aid for trade should be complementary to, rather than an alternative to, progress on the issues of real concern to the least developed countries" (Dec. 1st 2005).

The Doha Round will impose definite costs on many developing countries. Page (2005) estimates that preference erosion in the Development Round will cost up to $840 million for least developing countries, with Bangladesh suffering a good half of this impact. Further, the World Bank has estimated net food importing developing countries to suffer higher prices of between $300 million and $1.2 billion – with between seven and 16 countries facing food import cost increases of greater than 5%. However, the 'compensation' argument holds validity only in relation to the cost of preference erosion – not as compensation for a bad Round.

4.3 Complement the core market access opportunities presented by the Round

The overriding reason in favour of aid for trade is that it is a necessary complement to the core market access issues being negotiated in the Doha Round. Poorer countries can only benefit from the opportunities created by the Round if they receive assistance to boost their export capacity.

4.4 Enhancing Trade Negotiating Capacity

The marginalisation of developing countries from world trade relates also to the overstretching of their limited capacity for trade negotiations. The outcomes of negotiations have led to real costs for poorer countries[3] while being of significant benefit to industrialised countries. Therefore aid for trade should include programmes which enhance the capacity of developing countries to represent their interests in the multiple trade negotiation processes in which they are expected to take part.

ICTU and Dóchas see considerable value in Irish Aid expanding its involvement in the area of aid for trade but only on the condition that such a programme is in keeping with the principles set out below.

[3] One estimate from the United Nations Development Programme is that from 1995-2004 least developed countries would be worse off by $600 million a year as a result of the Uruguay Round Agreements. *Trade for Life*, Christian Aid 2001, p27.

5. What key challenges does aid for trade present from a development policy perspective?

In order to avoid potential pitfalls, Irish Aid's engagement in aid for trade needs to be cognisant of the dangers of an aid for trade approach. Unless it takes these limitations into account aid for trade may lead to increased exports and yet undermine development. These limitations relate both to the wider macro economic policy framework in which aid for trade occurs, and to the limitations inherent in any aid policy.

5.1 Concern that an aid for trade package may be used to 'buy off' developing countries.

In the context of the WTO Doha Development Round, an aid for trade package should not be used to 'buy off' developing countries who face losses in the Round. Using aid as a bargaining chip in a trade round may lead developing countries to accept a Doha Round injurious to their longer term development interests – pressured by their need for access to financing for development. That developing countries retain the policy space to determine their own development plans is essential to the ongoing process of nation building necessary for poverty reduction.

5.2 The prevalent aid for trade model assumes liberalisation is the best path to poverty reduction

Aid for trade operates on the assumption of export led growth as a key motor for development. While Ireland has benefited from such a policy, the National Trade Policy Statement "*Trading for Economic and Social Development*" outlines key weaknesses in how such policy can benefit developing countries.

> "A liberalised international trading system of itself does not ensure the emergence of the efficient markets and competitive practices required to improve the competitiveness and productivity of exporters in developing countries. The ability of a country to benefit from more liberalised trade depends on the strength and productivity of its domestic economy. The stronger and richer economies, with more efficiently functioning domestic markets, benefit more than the poorer and weaker ones" (p.21).

Dóchas and ICTU believe that developing countries will only be able to take advantage of trade once unfair trade rules are changed. The Irish government should push for a Doha Development Round that meets the recommendations of our earlier paper '*An agenda for trade justice*'. It is lamentable that this has not occurred at an earlier stage in what was promised to be a 'Development Round'. In addition to fairer trade rules a significant programme of measures to promote the human resources, physical and institutional infrastructure and the trade capacity of developing countries is needed for trade to function as an exit route from poverty.

The international financial institutions and the donor community continue to place inappropriate pressure upon developing countries to liberalise their economies. Such pressure undermines the process of nation building needed for stability in many developing countries. Such stability is a prerequisite to economic growth and poverty reduction. When donors place such pressure on developing countries, they repeat the errors of the colonial past.

Paragraph 57 of the Hong Kong Declaration states that "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". Without the increased market access which could be expected as one component of a truly 'development round', producers in developing countries will not have the rationale nor incentive to invest in the expansion of their productive and export capacity. Nor, without this increased market access could aid for trade programmes be expected to achieve their potential.

5.3 Concern that aid for trade money may not materialise

Aid for trade is expected to receive considerable additional emphasis in the coming years arising from the WTO Hong Kong Ministerial in December 2005 at which the following text was included in the official declaration:

> "We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. 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. 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 to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans.
>
> WTO Hong Kong Declaration, Paragraph 57

However, the Declaration text includes neither quantitative measures nor deadlines. Nor is there provision for any mechanism of enforceability of this commitment to aid for trade. ICTU and Dóchas question the value of such an unspecific declaration and asks that the Irish government and EU work to ensure the final Single Undertaking of the Doha Development Round include specific, measurable and time-bound commitments. Further, Dóchas and ICTU consider it inappropriate that any country or international body would provide aid for trade in the form of loans which will deepen the indebtedness of countries already under significant debt burdens.

5.4 Concern regarding scale or duration

The effectiveness of the Doha round aid for trade strategy will depend upon the resources made available – that they be of significant scale and duration. Most importantly, the effectiveness of aid for trade in contributing to poverty reduction is directly contingent upon the additionality of the resources dedicated to aid for trade. The cost of building supply side capacity will not be modest and must not drain from other essential development programmes.

5.5 Aid for trade could exacerbate gender inequality

Trade policy is not gender neutral, and in many cases exacerbates existing gender inequalities. This occurs because trade policy operates through cultures, systems and decision making processes which are gender biased. This has two main consequences for development assistance programmes related to trade capacity building. Firstly, gender analysis needs to be mainstreamed in project design and selection processes. Secondly, as in other areas of development policy, aid for trade needs to be shaped by the fact that human development is about more than economic growth. Therefore aid for trade projects may have other objectives along with export promotion – such as education of workers, promotion of their rights, etc.

5.6 Aid for trade could reinforce inequality

> "There is no doubt that an ambitious Doha Round will deliver significant gains to the rich countries, and that these gains will far outweigh the gains to poor countries" (Stiglitz and Charlton, 2006).

Aid for trade is also an 'aid' policy, and carries with it a number of inherent difficulties. Most prominent of these is the power imbalance which operates in all aid relations between donor and recipient. There is a very high propensity for projects to follow the priorities of a donor rather than those of the recipient. This is a challenge in all aid relations, including those operated by Dóchas members. While donors may wish to see Southern actors integrate trade into development plans and PRSPs, they must observe proper boundaries and developing countries' policy space must be observed.

Official and civil society voices in the South express the concern that aid for trade be allocated to the building of supply-side capacity and not be spent simply on further 'expertise' to convince them of the benefits of trade liberalisation. Other leakages from aid effectiveness arise when a high proportion of aid is spent on Northern consultants rather than utilising Southern inputs.

As noted by IAAC (2002) "Ireland has a potential comparative advantage in trade and private sector development in the light of our own relatively recent and successful national experience with foreign investment and export-led growth" (2002, p52). However, Irish Aid must resist a simplistic analysis of the ability of the Irish experience to transfer to its priority countries. Firstly, the Irish experience is not unproblematic and it has not seen a reduction in inequity in Irish society. Secondly, the key factors which stimulated Ireland's growth (educated population; geographical location; EU membership; EU structural, cohesion and Common Agricultural Policy funds; historic and cultural ties with the US, etc) are not present, nor replicable, in any African country and so attempts to transfer policies must be resisted.

Trade policy and labour policy are inherently connected and both have a very direct relationship to equitable and sustainable development policy. Aid for trade programmes must be cognisant of this relationship and integrate into their objectives the promotion of employment and decent working conditions.

6 Recommendations

In our view, Irish Aid should proceed at an early stage to produce a strategy for an aid for trade programme. Below we first outline the principles that should underpin aid for trade at the multilateral and EU level. Following that, we recommend guidelines for how Irish Aid should proceed with its engagement in aid for trade.

6.1 Multilateral Level

- Aid for trade is an integral part of the Doha Development Round. Commitments to aid for trade should include specific monetary values and time schedules.
- Such commitments must be additional to current aid levels and must be sustained across a long period of time.
- In choosing through which bodies to disburse aid for trade at the multilateral level, Irish Aid should be guided by the need for transparency and accountability for the programmes supported, Southern-led programming, and the need for coherence with the wider development objectives including equality and poverty reduction.
- The IMF and World Bank lending policy with respect to aid for trade must facilitate borrowing countries to develop policy options which promote the creation of decent work and safe work environments.

6.2 EU level

- The European Union's disbursement of aid for trade funds must be additional to current commitments and sustained in the long term. The European Development Fund budget has already been decided up to 2013. Therefore, new monies will have to be made available so as to fulfill the Doha Round commitment to aid for trade. The EC should make any new aid for trade commitments additional to the current European Development Fund budget while members states contributions should be additional to their commitment to achieve 0.7% of Gross National Income in official development assistance.
- Coordination among European actors in the area of aid for trade will be essential so as to ensure greatest impact.
- In addition to the Doha Round, the EU is currently negotiating Economic Partnership Agreements (EPAs) with ACP countries. It is inappropriate that opening of markets be negotiated in the context of an aid agreement. Both the opportunities and concerns referred to in sections 4 and 5 above apply equally in the context of EPAs.

6.3 Recommendations specific to Irish Aid

As recommended in 2002 by IAAC, Irish Aid should "make trade support a significant part of its programme as its budget increases" (p61). To this effect Irish Aid should, in consultation with stakeholders in Ireland and its priority countries, develop an overall strategy for its engagement in aid for trade. Such a strategy should be guided by the following principles:

6.3.1 Principles and Guidelines

- The **poverty reduction focus** of Irish Aid must be maintained in aid for trade initiatives which it supports directly or through multilateral bodies. This will lead to prioritisation of projects located in LDCs; and within those countries the prioritisation of support to interventions with the greatest opportunities for employment creation.
- Irish Aid's 2004 Gender Equality Policy recognises that 'poverty is experienced differently by women and men' and that 'the relationships between poverty and gender are complex'. Aid for trade initiatives must be coherently informed by the **gender** mainstreaming approach adopted in that policy.
- Integration of developing countries into the world economy is an overall aim of the Irish and EU aid programmes along with poverty reduction. Such integration will best happen by adding value to products of developing countries rather than simply increasing the quantities of commodities they export. The limited aid for trade resources must prioritise assistance to firms increasing **value added**, above the export of unprocessed commodities.
- One of the strengths of the Irish Aid programme is that it is **untied**. In the implementation of its aid for trade commitments Irish Aid must guarantee this continues to be the case.
- Aid for trade must be **recipient-driven**; that is, the Irish Aid strategy in this area should include mechanisms which enable Southern firms, institutions and governments to design their own projects. Likewise all aid for trade must be in keeping with the PRSP of the relevant country.
- Given the challenges arising from the **inequalities** associated with trade liberalisation, priorities for any Irish Aid interventions in the area of aid for trade must include policies and programmes that are based on human rights and on the principle of sustainable development, and that have among their aims the empowerment of women and gender equality.
- Funds for aid for trade should be **additional** to existing aid commitments made by the Irish government and sustained across a long time frame. In the context of Irish Aid's expanding budget this would mean that commitments made during the course of the Doha Development Round negotiations should be additional to the Irish governments announced schedule to meet the UN target of 0.7% of GNI by 2012.
- Aid for trade should be given by Irish Aid as **grants**, not loans that would increase the indebtedness of the recipients.
- In relation to the involvement of **Irish companies**, Irish Aid needs to ensure that their role is such as to enhance Southern value added rather than facilitating Irish industry's access to commodities.
- Irish Aid clearly has strongest links into the Irish economy; however, its aid for trade should be targeted at **promoting exports by developing countries** to world markets, including to other Southern markets.

Irish Aid's support for aid for trade should avoid the following pitfalls. It:

- ♦ must NOT be tied to using Irish inputs such as products, personnel or services.
- ♦ must NOT be used to subsidise Irish companies in operating in developing countries, sourcing commodities, or bidding for contracts in developing countries.
- ♦ must NOT be used to win trade concessions at the WTO or EPAs.

6.3.2 Priorities for Irish Aid

- Irish Aid should prioritise granting its aid for trade in its **priority countries** so as to gain from economies of scale there, and so as to complement the other interventions being made in those countries through government and civil society.
- Given its scale relative to other donors, Irish Aid can best contribute to increasing the competitiveness of developing countries by focusing on the **micro level** of firms and the public and sectoral institutions necessary for a sustainable trading sector. Infrastructural initiatives are beyond the scale of Irish Aid at this point except small projects at district level or where Ireland contributes to multi-donor infrastructural projects.
- **Added value** is key to enhancing the development and poverty reducing impact of trade. To this effect Irish Aid should target its aid for trade towards Southern small and medium enterprises (SMEs) with linkages to the local economy particularly firms engaged in processing of local products.
- Irish Aid should prioritise projects which give the greatest prospect of **employment creation** and across the programme these should create opportunities for both women and men.

6.3.3 Safeguards

Assessment of proposals for co-financing in the area of aid for trade must include the following safeguards:

- Protection of **labour rights** is a constant concern in all countries, and particularly in low-cost economies. Irish Aid's co-financing mechanisms in aid for trade must include systems for auditing the labour rights issues involved in each proposal.
- The National Trade Policy Statement recognises that the formulation of policies on trade that lack a gender perspective is likely to result in poor outcomes and may exacerbate existing inequalities in the South. **Gender mainstreaming** must be a core concept in assessment of proposals – i.e. an approach that ensures that gender equity is explicit and verifiable at institutional and operational levels including all phases and processes of policy, planning, implementation, monitoring and evaluation (Development Cooperation Ireland Gender Equality Policy, 2004).
- **Social and environmental standards** need to be assessed in each proposal to maximize the distribution effect, gender impact and environmental impact of planned interventions.
- Ensuring that the aid granted is **not subsidising a foreign firm** to operate in or to win a contract in developing countries.
- Aid for trade is an aid policy and carries with it the power imbalance referred to in 4.2 above. The need for programmes to be **recipient driven** requires that Irish Aid's strategy in this area have active Southern input and the ability to respond to country specific circumstances and proposals made by Southern actors. As its implementation will involve for-profit companies, who may not operate with specific equitable-development objectives, safeguards will be needed to ensure that the power relations entailed do not undermine the objectives of any interventions.

6.3.4 Modalities for Irish aid for trade: An Irish Aid funding instrument for aid for trade

Irish aid should include among its funding instruments a mechanism for responding to co-financing requests in the area of aid for trade. In keeping with the recipient-driven principle, this mechanism should particularly facilitate applications by institutions, firms and organisations in the priority aid countries.

Assessment of such projects should ensure prioritisation of projects which:

- Promote high levels of value added
- Have high potential for employment creation
- Increase linkages to the local economy
- Foster not only economic efficiency, but also sustainability, human rights and gender equality
- Have a high level of matching funding from companies in industrialised countries.

The range of activities which could be supported by such a programme would include assistance to building capacity in each of the stages of production – product design, sourcing inputs, technology transfer and training in use of new technologies, staff training, production, quality assurance, workplace safety, meeting standards, certification, packaging, warehousing, marketing, market identification, export promotion, web-based sales systems, customs and excise, legal contract, logistics, insurance, debt retrieval, after-service, etc. The programme could also support institutional development in areas which enhance the capacity to trade – such as representative bodies or export promotion boards.

Funding to firms should not support regular operating costs but only those costs related to firms increasing their capacity to engage in trade. Proposals in this area should ensure the sustainability of such projects.

6.3.4 Developing an Aid for Trade Strategy

Aid for trade is a 'development' policy and in the Irish context rightly pertains to the competence of Irish Aid, which should draw on advice from other relevant departments and stakeholders. The following steps should guide the strategic planning process:

- Irish Aid's strategy in this area should include pilot stages through which Irish Aid can build up the expertise and institutional relationships needed for this programme.
- In order to develop an aid for trade programme Irish Aid will need to develop its capacity to manage such projects. Many of the skills needed relate to business processes for which distinct competencies are needed. These skills may be brought into Irish Aid both through recruitment of specialist personnel and through secondment from other state agencies.
- The strategic planning process for Irish Aid's development of an aid for trade programme should include consultation with a wide set of stakeholders. Such consultation should start with state, business, trade union and NGO actors in the priority aid countries. In Ireland the process should include other departments, state agencies, business groups, employers and trade unions, NGOs and the wider public.
- An Irish Aid strategy for its aid for trade programme should include guidance on priority activities, levels of disbursement and a review date. The Oireachtas

Committee on Development Cooperation and the Advisory Board to Irish Aid will have a specific function in overseeing the preparation, implementation and review of this strategy.

7 Conclusion

Aid for trade offers opportunities as well as challenges to pro-poor development policies. Aid for trade can never be a substitute for fairer trade rules and Irish Aid should prioritise promoting a more just trade regime. The role of aid for trade is as a complement to fairer trade rules, not a substitute.

Irish Aid should proceed, but with due caution, to develop a programme in the area of aid for trade. In order to guide its interventions in this area, Irish Aid should develop an aid for trade strategy with input from relevant actors, including in its priority aid countries.

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