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from : Permanent Representatives Committee
dated : 19 September 2007
to : Council

No. prev. doc. : 12990/07

Subject : Adoption of an EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries

1. On 16 October 2006, the Council and the Representatives of the Governments of Member States meeting within the Council adopted conclusions on Aid for Trade¹. In these conclusions, the Council invited the Member States and the Commission to prepare in 2007 an EU Aid for Trade Strategy.

¹ Doc. 14018/06

2. On 15 May 2007, the Council and the Representatives of the Governments of Member States meeting within the Council adopted new conclusions on Aid for Trade². In these conclusions, the Council invited Member States and the Commission to intensify work on the Strategy so that it could be adopted by the Council in sufficient time to allow the EU to contribute to the upcoming **WTO Global Review** on Aid for Trade (Geneva, 20-21 November 2007). The Council and the Commission were also mindful of the importance of this Strategy for the negotiations on **Economic Partnership Agreements** as they enter the final phase.
3. On the basis of preparatory work carried out by expert meetings organized by the DE Presidency and the Commission, the PT Presidency presented on 5 July 2007 a proposal for a draft EU Strategy on Aid for Trade.
4. On 19 September 2007, COREPER approved the attached draft EU Strategy on Aid for Trade³.
5. In light of the above, Council is invited to adopt the EU Strategy on Aid for Trade as set out in the Annex⁴.

² Doc. 9555/07
³ Doc. 12990/07

⁴ Following the debate in COREPER, the Presidency has circulated an explanatory technical note on trade related assistance provided by Member States in 2001-2005 (doc. 13771/07).

Draft**EU Strategy on Aid for Trade:****Enhancing EU support for trade-related needs in developing countries****1. Aid for Trade and the EU's Overall Aims**

The EU Strategy on Aid for Trade (AfT) will help Member States and the European Community (EC) to support all developing countries, particularly Least Developed Countries (LDCs), to better integrate into the rules-based world trading system and to more effectively use trade in promoting the overarching objective of eradication of poverty in the context of sustainable development¹.

As an element of the broader development policies and objectives to reach the Millennium Development Goals (MDGs), supporting demand-driven reforms of trade related policies as well as removing supply side constraints related to productive capacities, economic infrastructure and trade related adjustment, AfT is crucial for developing countries in order to implement and benefit from trade agreements.²

AfT is an important complement to trade negotiations, in particular to the Doha Development Agenda (DDA), amplifying the potential benefits for developing countries. Recognizing the importance of an ambitious, comprehensive and balanced agreement on DDA, the EU notes that AfT is a complement, but not a substitute, to a successful outcome of the DDA. AfT also aims at helping ACP regions and countries to fully benefit from trade opportunities and reforms, including those of the EPAs, while the collective EU delivery of AfT does not depend on the outcome of the EPAs negotiations.

¹ The EU Strategy on AfT is based on Council Conclusions of 12 December 2005 (doc. 15791/05), of 16 October 2006 (doc. 14018/06) and of 15 May 2007 (doc. 9555/07).

² Council Conclusions of 15 May 2007.

The EU Aft Strategy aims at delivering an effective response to countries own trade-related priorities in the context of their poverty reduction strategies. It will help the EU achieve better policy coherence in the areas of development and trade. It is based on the Principles of the Paris Declaration on Aid Effectiveness, improving complementarity and promoting the division of labour among EU donors, in particular by putting into practice the EU Code of Conduct on Complementarity and Division of Labour in Development Policy³. In this context, the subsequent wording “*the EU will*” should be understood as referring to Member States and the Commission acting on a voluntary and flexible basis, fully respecting existing competences.

The Strategy is developed in the follow up to the 2006 WTO AfT Task Force recommendations and covers all the AfT categories it identified:

- (1) Trade policy and regulations (TPR);
- (2) Trade development (TD);
- (3) Trade-Related infrastructure;
- (4) Building productive capacity;
- (5) Trade-related adjustment;
- (6) Other trade-related needs.

The first two categories above are referred to as Trade-Related Assistance (TRA). By the end of 2005, the EU made specific financial commitments in relation to these two areas, pledging to strive to increase its collective expenditures on them to € 2 billion per year from 2010 - € 1 billion of it in Community aid and € 1 billion in bilateral aid from the Member States. Following the 2006 WTO Task Force recommendations, categories 3 – 6 are referred to as the "wider aid for trade agenda". Although no specific financial commitments have been listed by the EU for these categories, the OECD figures show that the EU is already a major donor in trade-related infrastructure and productive capacity.

³ As adopted by the Council on 15 May 2007 (doc. 9558/07).

The Strategy is composed of actions organised under the following pillars:

- Increasing the collective volumes of EU AfT within the ambitious development commitments to raise overall EU aid gradually;
- Enhancing the pro-poor focus and quality of EU AfT;
- Increasing EU-wide and Member States' donors capacity in line with globally agreed aid effectiveness principles;
- Building upon, fostering and supporting ACP regional integration processes with an ACP-specific angle of the Joint EU AfT Strategy;
- Supporting effective AfT monitoring and reporting.

2. Quantitative AfT Ambitions within the Gradual Increase of Overall EU Aid

- (a) The EU will strive to increase its total AfT in coherence with the gradual increases in overall development aid towards the established 2010 and 2015 targets⁴ and in response to needs prioritized by partner countries. This will ensure additionality and that increases in AfT are not achieved at the expense of support to other priority sectors and programmes essential to reach the Millennium Development Goals (MDGs).
- (b) As regards Trade-Related Assistance (TPR and TD) and in striving to increase Member States' and EC's collective spending on TRA to € 2 billion annually by 2010, the EU will:

⁴ As set out in the Council Conclusions of 24 May 2005 (doc. 9266/05).

- Implement the road map to reach this target taking into account the Commission's assessment that a linear trend from the present situation to the Member States' € 1 billion target would imply that their collective commitment should rise to at least € 600 million in 2008;
 - Measure and monitor the EU's collective financial commitment on TRA on the basis of the agreed definitions at the time the commitment was made (December 2005);
 - If Member States collectively are not on track to reach the 2010 target in TRA commitments, analyse and address the underlying reasons.
- (c) The EU will promote an effective response to the wider AfT agenda (i.e. AfT beyond TRA) by continuing and strengthening Member States' and EC support for demand-driven, pro-poor development strategies, which incorporate building productive capacities, trade-related infrastructure and trade-related adjustment, and by encouraging enhanced participation of other international donors and the private sector. To help achieve this, the EU will:
- Ensure that, by 2010, the increase in total EU expenditure on trade development is not undertaken at the expense of the overlapping AfT category "building productive capacity"; this will be monitored by tracking the parallel evolution of these two categories;
 - Seek to establish a common understanding of the notion of "trade-related adjustment" at EU level, in conjunction with promoting an international understanding of this concept;
 - Enhance coordination and cooperation with other AfT donors, both bilateral and multilateral, including emerging donors and international financial institutions, such as the World Bank (WB) and regional development banks.

- (d) The EU will encourage partner countries to increase, with Member States' and EC support as required, their parallel efforts to include AfT in their poverty reduction and national development strategies, implementation plans and national budgets in ways which ensure the demand-driven, pro-poor character of their national trade development strategies. To support this, the EU will:
- Seek to broaden significantly the inclusion of trade and AfT in poverty reduction and national development strategies by 2010, through
 - enhanced joint policy dialogue;
 - supporting partner countries' use of participatory processes, including local civil societies and trade actors (e.g. private sector, consumer organizations, producer organizations) when establishing poverty reduction and national development strategies;
 - engagement with other donors and international financial institutions to that end.
 - Give special attention to countries/regions with no or little inclusion of trade and AfT in their poverty reduction and national development strategies.
- (e) The EU agrees to enhance the Integrated Framework (IF), in particular by active in-country participation, and, recognizing that non-LDCs also face important AfT needs, to further intensify international efforts aimed at creating a similar in-country process for these countries, especially IDA-only countries⁵. To achieve this, the EU will:

⁵ International Development Association (IDA)-only is a country classification by the World Bank for countries with, for example, a low GDP per capita (USD 1,025 GDP/capita maximum). This classification is not entirely overlapping with the UN LDC-classification. There are therefore poor countries that are not LDCs, but are classified as IDA-only by the World Bank. These IDA-only countries are: Mongolia, Tonga, Vietnam, Albania, Armenia, Georgia, Kyrgyz Republic, Moldova, Tadjikistan, Guyana, Honduras, Nicaragua, Sri Lanka, Cameroon, Republic of the Congo, Cote d'Ivoire, Ghana and Kenya.

- In LDCs, engage in the enhanced IF (EIF) and in particular its in-country process, by
 - lending full support to partner countries efforts to manage the DTIS⁶ process, including acting as a donor facilitator if so requested by the government;
 - taking advantage of the DTIS process to engage in a policy dialogue serving to translate trade-related needs into poverty reduction strategies (PRS) and equivalent, and giving appropriate follow up to identified priorities;
 - ensuring that EU decisions to support AfT programmes include explicit consideration as to how the programs take account of needs identified during the IF process;
 - continuing to take an active role in the decision making process concerning the IF at multilateral level.
- In non-LDC countries, continue to engage in coordinated, country-led trade needs assessments, response strategies and implementation with EU and other donors and agencies present in a country, including by standing ready to appoint an EU lead donor to facilitate this process; particular attention will be given to IDA-only countries.

3. Enhancing the Pro-poor Focus and Quality of EU AfT

The EU will intensify its activities in a range of areas in order to ensure the quality of its AfT. In particular, in response to partner countries' own trade-related priorities, in the context of poverty reduction strategies, it will help facilitate, implement and adjust to trade reform and liberalization paying specific attention to their impact on poverty reduction.

⁶ Diagnostic Trade Integration Studies.

- (a) To enhance the impact of AfT on sustainable poverty reduction and the further economic empowerment of women as a cross-sector dimension of AfT, the EU will:
- Continue to assist governments in their efforts to include poverty and gender issues in trade needs assessments and subsequent action plans, including by supporting active involvement of relevant community-based organisations;
 - Exchange information with partners regarding best practices in maximising the poverty reduction impact of AfT.
- (b) To promote the environmental, social and economic sustainability of AfT, the EU will:
- Continue to support partner governments' capacity and stakeholders' engagement to incorporate sustainability concerns into national trade strategies, trade regimes and AfT programmes, including effective management of impact assessment processes and to follow up on their recommendations;
 - Support essential cross sector dimensions including gender issues and the promotion of positive interactions between AfT and the decent work agenda;
 - Explore possibilities for developing shared EU approaches to relevant sustainability claims systems, including fair trade, in consultation with stakeholders, in particular local ones and small producers.
- (c) To promote local ownership and broad stakeholder participation, the EU will:

- Continue to support partner countries' capacity to establish and manage multi-stakeholder consultations in needs assessments and in designing and implementing trade and AfT strategies and programmes. In LDCs, this should be made in coherence with IF process. This includes specific support to small and medium enterprise associations and marginalised groups such as small-scale farmers and women's groups, to participate in and contribute more effectively to such processes;
- Identify and share best practices on designing and implementing AfT programmes, in particular trade development/productive capacity programmes, in close cooperation and synergy with the private sector. In this context, the role and practical experience of multilateral trade agencies should be considered.

(d) To achieve greater complementarity and cooperation between donors, the EU will:

- Step up efforts to prepare joint response strategies relating to AfT for countries and regions during the period until 2010; and, in this context, take joint action, including other donors as appropriate, to respond to key AfT priorities identified through comprehensive needs assessments. This will help prepare the ground for enhanced engagement in Joint EU Programming exercises;
- Step up joint efforts to support the capacity of partner countries to manage AfT with a comprehensive approach, using sector-wide approaches (SWAPs) where appropriate;
- Continue to pursue joint delivery modalities in AfT, including by
 - establishing the conditions under which different joint delivery modalities are appropriate for AfT and exchange best practices;

- continuing efforts to identify areas and countries in which there is potential for increasing use of joint delivery modalities and striving to increase significantly its use by 2010, on a voluntary basis and where conditions are met, paying particular attention to co-financing;
 - exploring further the role that sector and general budget support can play in AfT;
 - Examine the feasibility of adapting and applying the experience of technical assistance instruments provided in the context of EU accession and neighbourhood countries to TRA in other countries and regions;
 - Reinforce its dialogue on AfT with all financial institutions concerned, i.e. the multilateral institutions, including the World Bank, regional banks and the European Investment Bank (EIB), in order to identify potential for increasing the number of joint initiatives, with a special emphasis on business / productive capacity financing and infrastructure.
- (e) With a view to supporting regional integration and achieving greater complementarity and cooperation at regional level, the EU will:
- Collectively upgrade AfT at regional level so as to further strengthen its support to regional organisations' implementation of their regional integration strategies, including by:
 - supporting regional organisations' capacity to organise coordination and wider stakeholder involvement at the regional level;
 - assisting, where needed, regional organisations in the further identification and prioritisation of trade-related needs;
 - providing adequate responses to priorities, using joint delivery mechanisms where possible.

- Support the translation of regional needs into national implementation strategies, taking care to channel support activities to the appropriate geographical level of intervention⁷.

4. Increasing EU-wide and Member State donors' capacity in line with globally agreed aid effectiveness principles

The Council has agreed to adjust and strengthen human resources as necessary to implement the Joint EU Aft Strategy. It has also asked that joint EU initiatives to develop and share expertise amongst the EU and with other donors be explored. To achieve this, the EU will:

- Exchange information – in accordance with and using the synergies of the relevant WTO/OECD questionnaires – on present Aft capacities of Member States, at headquarters and in countries and regions;
- Exchange information on training events and identify opportunities for opening them to other Member States and Commission officials and for organising joint training activities;
- Regularly exchange information, best practice and expertise amongst EU donors on key issues of Aft (for example: Aft and poverty reduction; Aft and indicators; Aft at regional level; use of different delivery modalities in the field of Aft) and on approaches to multilateral level activities, e.g. at informal meetings of EU Trade and Development Experts.

⁷ Priority is generally given to interventions at country and regional level, with support to global and multilateral initiatives extended mainly if it adds value in terms of sharing analysis, reinforcing cooperation to integrate trade into development strategies, knowledge creation and sharing on Aft, or allow for speedier delivery.

5. Building upon, fostering and supporting ACP regional integration processes with an ACP-specific angle of EU AfT

As stressed by the Council in its conclusions relating to the Economic Partnership Agreements (EPAs)⁸, one aim of the EU AfT Strategy is to support ACP regions and countries to take full advantage of increased trading opportunities and maximise the benefits of trade reforms, including those of the EPAs, while the collective EU delivery of AfT does not depend on the outcome of such negotiations. This includes the range of principles and actions outlined in the previous sections of this Strategy, in particular the application of the EU Code of Conduct on Complementarity and Division of Labour in full respect of existing competences. The points below indicate certain ACP specific angles of this:

- (a) The Council Conclusions on AfT of May 2007 state that the Strategy will indicate the overall share of the Community and Member States increase in TRA available for needs prioritised by ACP countries. In the context of efforts to increase the collective EU TRA to € 2 billion annually by 2010, in the range of 50% of the increase will be available for these ACP needs. The spend will reflect policy and programming decisions at country and region levels.
- (b) A prerequisite to deliver on both TRA and wider AfT commitments is to enhance the integration of trade-related concerns into ACP national development strategies, implementation plans or national budgets. In this context, the EU will enhance its dialogue on these issues with ACP countries and other donors and financial institutions present at country level, with a view to achieving integration of trade concerns into the ACP countries' poverty reduction and development strategies by 2013.

⁸ Conclusions of 15 May 2007 (doc. 9560/07).

(c) To promote an effective response to the wider AfT agenda in ACP countries and regions, the EU will:

- Continue and strengthen the support to trade-related infrastructure through increased support to national, regional and continental initiatives, including the EU Africa Infrastructure Partnership, giving priority to use of existing schemes;
- Reinforce support to productive capacity building on the basis of coherent regional and national strategies, involving local stakeholders and the private sector, and contributing to improving the business and investment climate;
- Contribute to the absorption of net fiscal impact resulting from tariff liberalisation in the context of EPAs in full complementarity with fiscal reforms;
- On the basis of the above, seek to increase support to the wider AfT agenda in a manner which is proportionate to overall ODA increase in ACP countries;
- Further explore the contribution that could be made by the EIB and Regional Development Banks.

(d) With a view to the application of aid effectiveness at the regional and national level, and in order to support strengthened regional integration⁹ of ACP regions, the EU will:

- Support the technical capacity of regional and national ACP institutions for identifying, prioritising, designing, implementing and monitoring AfT regional programmes;

⁹ A regional demand-led Aid for Trade upgrade proportionate to that in Aid for Trade at national level is an indicative benchmark to be pursued.

- Work together within the Regional Preparatory Task Forces (RPTF) during the EPAs negotiations, and subsequently within the framework of country and regional donor coordination and in the relevant institutions, to support the identification of EPA related needs and coordination of support activities at regional and national level; this coordination will aim at ensuring good interaction between AfT national and regional programmes;
- Focus regional AfT in ACP countries on initiatives which target a deepening of regional integration, such as elimination of remaining intra-regional barriers to trade in goods and services, strengthening and modernising regional customs rules and arrangements, strengthening and harmonising standards and technical regulations, promoting and strengthening regional conformity assessment institutions, as well as the integration of financial and capital markets and the free movement of persons;
- Further support capacity development in ACP countries and regions in trade-related rules and regulations in the areas of competition policy and law, investment, transparency in public procurement and intellectual property rights;
- Participate on a voluntary basis in regionally-owned funding mechanisms, such as the regional funds, on the basis of a structured dialogue between regional institutions and EU donors, whilst seeking contributions from other donors and institutions, notably regional development banks and the World Bank as well as from regional and national ACP authorities;
- Monitor the implementation of the EU AfT related to EPAs through arrangements to be established in this context and in coherence with regular aid programme monitoring processes.

6. Monitoring, Reporting and Evaluation

Monitoring and evaluation are an integral part of the overall AfT agenda. They are needed to assess AfT delivery, both quantitatively and qualitatively, and should overall support a results-based management of AfT. They should be carried out in a participatory manner, based on locally-owned mechanisms and institutions wherever possible.

In order to avoid duplication of work, the EU will ensure maximum synergy between AfT monitoring and reporting foreseen within the WTO/OECD, the monitoring foreseen in the context of the IF and the EU monitoring of the implementation of its own AfT Strategy, as well as its reporting on the Monterrey commitments on AfT. The need to develop coherent reporting practices for all categories of AfT should be taken into a count.

In line with the above, the EU will

- Engage fully in the WTO AfT reviews by:
 - supporting high quality CRS¹⁰ reporting to the OECD¹¹;
 - completing the WTO/OECD donor questionnaires and submitting them also under joint EU cover via the Commission;
 - developing jointly specific additional information relevant to the WTO Regional reviews where appropriate;
 - supporting partner countries in providing locally-owned contributions to this exercise, both at country and at the regional level; in the case of LDCs, ensuring synergies with reporting under the IF;
 - participating actively in drawing conclusions of the global review and acting on them, in particular with a view to avoiding "AfT orphans".

¹⁰ Creditor Reporting System.

¹¹ Taking account of steps required to enable such reporting by those Member States that are not yet members of the OECD/DAC.

- Agree on guidance for coherent reporting practices at EU level by end-2007, in particular on trade development and trade-related adjustment.
- Contribute to the development of shared quantitative and qualitative indicators for monitoring and evaluating impacts of AfT, including those relating to poverty reduction and gender issues.
- Organise technical exchanges on monitoring and evaluation results, and draw joint conclusions on their implications in order to constantly improve and strengthen the effectiveness of the EU's AfT.
- Share information, knowledge and expertise with partner countries and with other stakeholders.

7. Implementation and Review

The Council invites Member States and the Commission to ensure that this Strategy is implemented as set out in this document. It entrusts the Commission, in cooperation with Member States, with the tasks of organising technical meetings in order to a) define a clear work plan specifying follow-up activities at the various levels of intervention (national, regional and multilateral) and identifying the actors (Commission and Member States) which will be responsible for taking forward these activities, and b) prepare progress reports.

The Council will review progress in implementing the Strategy in the context of the Monterrey reporting.