

AID FOR TRADE (AFT) AGENDA: MOVING AHEAD

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Abstract:

The Aid for Trade (AfT) initiative was mooted in 2005 following the WTO's fifth Ministerial meeting in Hong Kong. The government of Bangladesh decided to join the Enhanced Integrated Framework (EIF), a mechanism used by donors to channel aid, in November 2009. The EIF mandates beneficiary countries to carry out a *Needs Assessments* exercise, preparing a Diagnostic Trade Integration Study (DTIS), in order to become eligible for availing funds under the AfT scheme. Taking a cue from this, the paper attempts to make an assessment of constraints hindering trade (industrial) activities in Bangladesh, based on both primary and secondary sources of evidence. It also evaluates the type of AfT flows in Bangladesh and subsequently, provides a number of project proposals, based on a primary survey conducted by the Centre for Policy Dialogue (CPD) in late 2008, for meeting the 'Needs for Trade' (NfT).

1. INTRODUCTION

The *Aid for Trade* (AfT) initiative emerged in 2005 following the WTO's fifth Ministerial meeting in Hong Kong. It has not been kept hostage to the Doha Round of trade negotiations conclusion which was launched under auspices of the WTO in 2001. The WTO Ministerial Declaration of 2005 declared, "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 in order to implement and benefit from WTO Agreements and more broadly to expand their trade" (WTO Fifth Ministerial Declaration, 2005). In order to access funds under the AfT scheme, LDCs are expected to participate in the *Enhanced Integrated Framework* (EIF), which is a joint initiative of six international organisations.¹ The EIF mandates beneficiary countries to carry out a *Needs Assessments* exercise, formally a *Diagnostic Trade Integration Study* (DTIS) identifying barriers to trade. In other words, a 'Needs for Trade' (NfT) agenda, outlining the constraints hindering smooth operations of

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¹ The six international organisations are WTO, UNCTAD, UNDP, ITC, IMF and World Bank.

industrial activities, has to be established by participating countries if they are keen on availing AfT funds.

Suffice to mention that for a physically underdeveloped country like Bangladesh, trade-related assistance constitutes a key ingredient for economic development. It helps to (a) modernise key components (e.g. infrastructure) which exhibit public good aspects; (b) upgrade knowledge and raise awareness on supply-side measures; and, (c) increase good governance with a purpose to restrict trade distorting practices. Most importantly, the macroeconomic impact of trade-related assistance is that it helps to build supply-side capacities responsible for nurturing entrepreneurial activities, thereby sustaining industrial growth of the recipient country.

To date (2010), 47 LDCs (out of 49) have joined the EIF and the DTIS has been validated by development partners in 36 countries. Bangladesh was a member of the Integrate Framework (IF) but opted to discontinue participating in the EIF, until the newly elected government decided to join in November 2009. Subsequently, a *National Steering Committee* (NSC) has been formed (comprising private, public and civil society representatives) which is mandated to monitor the EIF process and also prepare the DTIS, where a *National Implementation Unit* (NIU) is to propose possible AfT projects. The first NSC meeting, chaired by the Hon'ble Commerce Minister Mr. Faruk Khan, was held on 05, August 2010 at the WTO Cell, Ministry of Commerce where a roadmap was set for preparing the DTIS.

It is in this aforesaid context that this paper seeks to put forward a set of potential AfT project proposals in order to facilitate the preparatory process of the DTIS, which is being done at the time of this paper's publication by the NSC. The overarching objective is to contribute towards knowledge by deepening the understanding of the NfT-AfT-EIF relationship. The other objectives of this paper are, inter alia, two-fold:

Establish the NfT agenda by taking into consideration stakeholders' perceptions; and, Suggest a set of project proposals (in accordance to the AfT pillars) to help inform policymakers decision when putting forward AfT pledges to the donors, through the EIF.

The article explores and links the concept of NfT in relation to AfT flows to Bangladesh (deploying both primary and secondary sources of information). As far as our knowledge dictates, this paper is the first of its kind which introduces the NfT as a new concept from the AfT

perspective.² Though there are a few studies which have attempted to identify NfT, this article is the first effort to establish a tripartite conceptual framework of NfT-AfT-EIF nexus. For the new readers in the AfT topic, the tripartite arrangement could be simply conceptualise as follows: EIF as a channel through which AfT funds are going to be disbursed to meet the different NfT, identified in the DTIS.

1.1 Methodology

The paper blends a mix of information based on both primary and secondary sources. The Centre for Policy Dialogue carried out a survey during July to August, 2008 where questionnaires were sent to the authorities who had prior knowledge of the AfT initiative.³ The first part of the CPD's survey questionnaire tried to inquire about the major constraints to trade from different stakeholders' perspectives. The second part learned about the areas or projects that are needed to overcome the constraints. In terms of operationalising the fund, the questionnaire sought opinions with regard to the areas where Bangladesh would need support, duration of projects and the nature of implementation (whether national or regional) of these projects. Purposive sampling technique was used in this regard for the identification of the sampling units. Accordingly, 33 sampling units were selected, most of them (96 per cent) located in the Capital. Out of these 33 sampled observations, 15 were exporters, 8 from chambers, 3 from IT and the remaining 7 from other concerned authorities.

Relevant literature, dealing with trade related needs and where AfT should be targeted, was also reviewed from the LDCs' perspectives. It may be recalled here that the CPD had earlier prepared a report titled *Trade-related Capacity Building in Bangladesh: Nature of the Problem, Recent Efforts and Outstanding Agenda* which was presented at a round table meeting organised under the 'Integrated Framework for Trade Related Technical Assistance' in 1998.⁴ A study by the European Commission (EC) carried out an exercise on needs assessment but these did not take the AfT

² NfT or constraints hindering uninterrupted business operations, industrial development, and thereby growth in trade activities are assumed to be identical in nature.

³ CPD. *Aid for Trade: Needs Assessment from Bangladesh Perspective*. CPD Research Monograph 3. (Dhaka: Centre for Policy Dialogue (CPD)), 2009.

⁴ Debapriya Bhattacharya and Mustafizur Rahman. "Trade related capacity building in Bangladesh: Nature of the Problem, recent efforts and outstanding agenda", A paper prepared for the OECD, Paris. An initial version of the paper was presented at the OECD Regional Workshop on *Trade Capacity Building and Private Sector Development in Asia*, held in Phnom Penh on 2-3 December, 2003, (rev. 2005).