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**Aid for Trade Review – Suggestions for the forthcoming review
Prioritising inclusiveness and sustainability
March 2017**

1. Changing context and challenges

DEVCO announced that the EU's Aid for Trade Strategy *"is currently being revised to improve complementarity between trade and development policies and increase the effectiveness of Aid for Trade on least developed countries (LDCs) in particular"*.ⁱ Aid for Trade (AfT) is part of Official Development Assistance (ODA) related to improving countries' capacity to trade and comprises five categories.ⁱⁱ

Given that Aid for Trade represents a third of the official development assistance of the EU and its Member States, the review offers an important opportunity to ensure that this public money is channelled not only towards economic sectors but also to areas where it could reduce inequality and improve the distribution of gains from trade.

The Joint Strategy on Aid for Trade from 2007ⁱⁱⁱ includes the following key goals:

- implement the commitment by EU Member States and the European Commission to collectively spend €2 billion annually on Trade-Related Assistance by 2010;
- enhance the pro-poor focus and the quality of EU Aid for Trade;
- build upon, foster and support regional integration processes through Aid for Trade, including within African, Caribbean and Pacific (ACP) countries;
- increase EU-wide and Member States' capacity in line with the globally agreed aid effectiveness principles;
- support effective Aid for Trade monitoring and reporting.

The international community took into account worrying challenges including climate change, increasing inequality, the increasing precariousness of work, and a shrinking space for civil society in many countries and adopted two landmark commitments in 2015: the Agenda 2030 (the Sustainable Development Goals or SDGs) and the Paris Climate Agreement. However, many policies – including the EU trade and investment policy and the EU development policy – still need fundamental reform if they are to contribute to the goals laid out in these two global agreements.

The ITUC and ActionAid consider that these 10-year-old objectives remain valid today, but could be usefully complemented. The present submission outlines recommendations on the AfT review aiming at updating the AfT to address current challenges and complement the currently predominant emphasis on economic indicators by incorporating social, environmental, and governance actions.

2. Trade for Development or Aid for Trade?

AfT is part of Official Development Assistance (ODA) and therefore has as a primary objective the eradication of poverty, by improving developing countries ability to trade. It is vital that AfT is not used to serve the interests of EU trade policy and European companies, but to actually benefit people living in poverty in partner countries as per Article 21 of the Lisbon Treaty and as recently recalled by the European Parliament in a resolution on the revision of the European Consensus on Development.^{iv}

Trade for All argues that EU trade policy must: *“improve conditions for citizens, consumers, workers and the self-employed, small, medium and large enterprises, and the poorest in developing countries”*. Trade for All also says that the EU trade policy must *“address the concerns of those who feel they are losing out from globalisation”*. In fact, many people in developing countries are not just *feeling* they lose, they *are* undoubtedly losing. This needs to be acknowledged and addressed as a matter of priority. **In this regard, AfT could be enlarged and redirected so as to include programmes that support industrial policy, social dialogue and workers’ representation, labour inspectorates, decent work programmes, women’s cooperatives, litigation for producers in supply chains, and other actions.**

A background document produced by the European Commission in April 2016, outlining the intention to review AfT, mentions that *“[n]ew opportunities arise for development policy to leverage positive impact through a more strategic use of aid around EU FTAs, to better unlock their developmental potential.”*^v The EU trade and development policies can converge on a number of issues, but may also involve diverging interests and trade-offs. This should be explicitly recognised in the AfT review.

The ITUC and ActionAid believe that AfT should not be used as a means to press countries to sign FTAs. FTAs should be agreed only when a country has reached an adequate level of competitiveness. Neither should AfT be used to support the integration of developing countries’ economies in global supply chains. UNCTAD’s Trade and Development reports have been showing that lead firms retain most of the value and wealth created in supply chains while generating a race to the bottom in terms of wages and working conditions, and environmental standards.

Aid for trade should remain independent of the EU trade policy and prioritise support to local, national and regional trade and investment, inline with the 2007 AfT Strategy’s focus on regional integration.

3. Which new elements should be incorporated in AfT?

The European Commission produces an annual monitoring report on EU Aid for Trade.^{vi} This is a valuable exercise, allowing the EU and Member States to be accountable for the quantity and quality of public spending that supports trade in third countries, but although pages are devoted to qualitative analysis, little is said about the development impact of AfT on women’s economic empowerment, the imbalance of power in supply chains, working conditions, industrialisation and greening the economy.

AfT could be used to improve the implementation of sustainability chapters. However, sustainable development chapters will probably do little to increase respect for workers’ rights and environmental protection in partner countries, even if backed with millions of euros, unless their provisions come into the scope of the dispute settlement chapter. ITUC’s experience shows that bringing labour law in line with ILO core labour standards and improving implementation is primarily an issue of political will which in most cases is lacking. In this regard, financing capacity building (labour inspectorates, judicial system and other institutions) could be complementary to but not an adequate substitute for enforceability.

The ITUC and ActionAid believe that the AfT review offers opportunity to take the following principles into account, in addition to the 2007 AfT Strategy's priorities:

- Prioritise support for investments in social infrastructure and the care economy, in order to contribute to **women's economic empowerment**, as per the 2015 EU Gender Action Plan. A UN high level panel recently highlighted the failure to recognise, reduce and redistribute unpaid household work as a major systemic constraint hampering women's economic opportunities^{vii}, a point that human rights organisations have been arguing for many years.^{viii} Creating jobs for women can only provide real opportunities for women to realise their rights if these jobs are decent (as per the ILO definition of *decent work*), and if women's unpaid care burden is effectively reduced and eliminated. A commitment by the EU and its Member States to use much more AfT to invest in the care economy and gender responsive social infrastructures and public services would contribute to improving the impact of trade on women's rights and would contribute to making trade socially sustainable.
- A transition towards a green economy is under way, and it needs to be encouraged and accelerated in view of the major obstacle posed by climate change to the realisation of the SDGs and human rights for all. AfT should prioritise the **just transition towards a green and circular economy** in partner countries, in line with the objectives of the Paris Climate Agreement. The circular economy is an option to reduce greenhouse gas emissions, and the EU itself is engaging on that path at the moment. The promotion of sustainable local consumption and production should get funded, as required under the SDGs, even when doing so does not increase international trade.
- AfT should support **social dialogue** as a priority so that the benefits of trade and investment are distributed fairly. Workers in exporting and other sectors usually capture little of the value they create and exploitation, unsafe working conditions, and low wages are characteristic of supply chains and trading sectors. AfT should fund the establishment of social dialogue structures and living wage setting mechanisms on sectoral and national level, as well as training for social partners. To this end, the involvement of the ILO is necessary. Ideally, individual projects benefiting from AfT should require the application of labour performance standards. Without strong workers' organisations, there will be no progress on fairer wealth distribution, living wages or health and safety at work. The EU could definitely make a difference there. Multi-stakeholders approaches have important limits and should not replace structured social dialogue.
- In order to improve the contribution of trade and investment to the realisation of sustainable development and human rights, AfT needs to support the implementation of local, national and regional **industrialisation policies**, elaborated with the participation of local micro-, small- and medium-size enterprises, academia, local government, women's associations, trade unions and CSOs. In particular, programmes should fund structures that support the development of **micro-enterprises and SMEs**, which constitute the overwhelming majority of the private sector, and to social economy enterprises, including **cooperatives**, whose main objective is to serve the members and not to obtain a return on investment as the traditional mainstream capital companies do.^{ix}. Much more emphasis should be put on supporting **local, national and regional markets** as opposed to global supply chains.^x
- Improving corporate accountability and **respect for the United Nations Guiding Principles on Business and Human Rights (UNGPs)** by local companies could be part of AfT. Companies or sectors in supply chains could benefit from AfT when the lead firm has developed and applies a robust framework for human rights due diligence. Apart from helping reducing the adverse impacts of

business operations on human rights, it would also help and incentivise European business enterprises to incorporate human rights due diligence as required by the UNGPs.

ⁱ http://ec.europa.eu/europeaid/sectors/economic-growth/trade_en

ⁱⁱ Trade policy and regulation; trade-related infrastructure; building productive capacity; trade-related adjustment; and other trade-related needs. See http://ec.europa.eu/europeaid/sectors/economic-growth/trade_en

ⁱⁱⁱ http://trade.ec.europa.eu/doclib/docs/2008/november/tradoc_141470.pdf

^{iv} <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A8-2017-0020&format=XML&language=EN>

^v <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=23616&no=3>

^{vi} http://ec.europa.eu/europeaid/aid-trade-report-2016_en

^{vii} <http://www.unwomen.org/~media/headquarters/attachments/sections/news/stories/2016/unhlp-womenseconomicempowerment-overview.pdf>

^{viii} https://www.actionaid.org.uk/sites/default/files/publications/womens_rights_on-line_version_2.1.pdf; <https://www.ituc-csi.org/investing-in-the-care-economy>

^{ix} https://ec.europa.eu/growth/sectors/social-economy_en

^x <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1610>