

The Global Mechanism and Aid for Trade

1. Who we are: the Global Mechanism in a nutshell

The Global Mechanism (GM) specializes in providing advisory services to country parties of the United Nations Convention to Combat Desertification (UNCCD) on upscaling finance for sustainable land management (SLM). The GM promotes the positioning of the UNCCD in the broader context of development programming that includes policy processes and thematic areas influencing SLM and rural development.

The main service that the GM provides to partner countries is support to the development of Integrated Financing Strategies (IFS) for SLM. The IFS is a process for identifying and mobilizing a mix of financial resources to fund projects, programs and priority actions that contribute to SLM and UNCCD implementation in a given country. Its ultimate goal is to ensure adequate, predictable and sustainable financing. In particular, the IFS helps countries locate and package three potential sources of funding: internal, external and innovative. Among innovative resources, the GM has identified trade as one crucial area with significant funding potential for the UNCCD.

2. Why we work on trade, agriculture and SLM: the conceptual linkages

In developing countries, agriculture is the main source of food and income for the majority of the population. People in rural areas rely heavily on natural resources, such as land and water, for their livelihoods. As with all productive processes, natural resources are the principal inputs for agricultural production. Therefore, while in general terms the degradation of natural resources is still mostly perceived as a mere environmental issue, it is also a major economic concern in the agricultural sector. In fact, land is considered degraded when its productivity is diminished.¹

The quality of land and other natural resources available to rural communities determines the quantity and quality of agricultural production and therefore the capacity of these communities to generate an income. As a consequence, their livelihoods and options for economic development depend upon the ability to use natural resources sustainably. The use of sustainable land management (SLM) practices can greatly contribute towards achieving this.

SLM can be defined as the use of land resources such as soils, water, animals and plants for the production of goods – to meet changing human needs – while assuring the long-term productive potential of these resources, and the maintenance of their environmental functions.² Hence, SLM seeks to harmonize the often conflicting objectives of intensified economic and social development, while maintaining and enhancing the ecological and life support functions of land resources.

Trade is what allows producers to make an income out of their produce by linking production surplus to the market. The profitability of trade closely depends on the maintenance of the long-term productive potential of production inputs, i.e. natural resources. Therefore, it is reliant on the maintenance of natural resources' environmental functions. SLM offers different options for land users to utilise land resources and generate income without destroying the quality of the land on which their livelihoods depend.

1 Patricia S. Muir, Human Impact on Ecosystems Module, Oregon State University

2 WB, GTZ, CDE, 1999, Sustainable Land Management Guidelines for Impact Monitoring

SLM is the foundation for sustainable production in agriculture and a strategic component of sustainable development and poverty alleviation. It combines policies, technologies and activities aimed at integrating socio-economic principles with environmental concerns. SLM adds value to productive processes by making supplies more reliable, reducing waste, optimizing the use of resources and improving product quality, for example by limiting the use of fertilizers and pesticides to compensate for weak environmental services provided by dysfunctional ecosystems. Environmental concerns promoted through SLM can also be powerful marketing instruments: the success of organic production and the growing number of eco-labelling and certification schemes are examples of the value addition produced through the adoption of sustainable practices.

Furthermore, the interdependency between land resources and trade makes engaging in SLM practices economically convenient and environmentally and socially sustainable. The strong links between natural resources and the production and supply-side capacity of countries, especially in the agricultural sector, should make SLM a far more prominent issue in initiatives using trade as a development tool, such as the Aid for Trade initiative.

In fulfilling its mandate to upscale trade resources for SLM, the Global Mechanism is engaged at the national, regional and global levels, where it promotes increased harmonization and coordination between the agriculture, environment and trade sectors, and fosters coherence of the related policies, planning and financing frameworks.

3. What is the Aid for Trade initiative

Aid for Trade (AfT) is a global initiative, established in 2005, which aims to strengthen the capacity of developing countries to better participate in and benefit from the global trade system by making trade a means to achieve sustainable development and poverty reduction. Essentially, AfT is about:

- strengthening developing countries' productive capacity;
- tackling their supply side constraints; and
- addressing their needs in trade-related infrastructure.

AfT was given a fairly broad definition based on the following six categories:

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| (a) Trade Policy and Regulations; | (d) Building Productive Capacity; |
| (b) Trade Development; | (e) Trade-related Adjustment; |
| (c) Trade-related Infrastructure; | (f) Other Trade-related Needs. |

Trade issues are not exclusive to a single economic sector, but are rather cross-cutting. Indeed, a country's ability to trade depends on its capacity to deal in an integrated and coherent manner with a broad range of issues (e.g. production, processing, transport, storage, infrastructure, trade policy, trade agreements etc.) which enable it to link the supply with the demand side.

Many of these issues fall under the regulatory responsibility of various non-trade ministries (e.g. agriculture, environment, energy, infrastructure, etc), therefore the harmonization of sectoral trade priorities often proves difficult due to the division of competencies among ministries. The AfT initiative seeks to bring all the "sectoral" trade issues under one national trade strategy. It provides a framework for countries to harmonize their trade-related needs by harmonising the trade priorities of all relevant sectors/ministries, in order to ensure coherence of trade interventions in the context of national development plans and poverty reduction strategies.

AfT offers a unique opportunity to mainstream SLM issues in the trade development agenda, and to build partnerships with trade institutions to engage in SLM as a means to increase the profitability and sustainability of trade activities.

Aid for Trade finance

From a financial point of view, AfT refers to all official development assistance (ODA) finance for trade development, independently from the economic sectors it is channelled to. It includes:

- Bilateral and multilateral donor finance: the majority of funding provided for AfT implementation comes from bilateral and multilateral donors as part of their overall response to national poverty reduction strategies, and is delivered through standard ODA channels;
- Trade Sector Wide Approach (SWAp): the cross-cutting nature of trade and the consequent need to engage a wide and diverse range of stakeholders in the implementation of trade development activities make SWAps particularly appropriate;

- The national budget: developing countries also allocate AfT finance by allocating financial resources to trade-related activities; and
- Newly developed financing instruments: in particular trust funds, that can support specific AfT priorities and/or specific geographic areas.

These different channels for AfT financing do not exclude but rather complement one another. They can be accessed individually, independently, at different times and in no pre-established order. The allocation of AfT resources to a given country depends, ultimately, on whether that country has positioned trade among its development priorities in its Poverty Reduction Strategy or national development plan.

Within the framework of the Integrated Financing Strategy (IFS) for SLM promoted by the GM, AfT resources are one of the innovative sources of finance on which partner countries can draw upon for UNCCD implementation. Given the cross-cutting nature of trade and the consequent need to engage a wide and diverse range of stakeholders in the implementation of trade development activities, the IFS represents the natural setting for engaging trade actors, mainstreaming SLM into trade processes, and for mobilising AfT finance.

Aid for Trade implementation in Least Developed Countries: the Enhanced Integrated Framework

AfT implementation in Least Developed Countries (LDCs) takes place through the Enhanced Integrated Framework (EIF), which is the overarching framework to coordinate the delivery of AfT technical assistance and the channelling of AfT funds to LDCs.

The **objectives** of the EIF are to:

- mainstream trade into LDCs' national development plans (NDPs), such as PRSPs;
- assist in the coordinated delivery of trade-related technical assistance (TRTA) in response to needs identified by LDCs; and
- support the development of the capacity of LDCs with respect to trade.

An effective **governance structure** has been created for EIF implementation at the global and national levels. At the national level, EIF implementation builds on the outcomes of both **diagnostic** and **programming tools**:

- **The diagnostic trade integration study (DTIS)**, is the diagnostic tool used to assess the status of the trade sector and the internal and external constraints in a given country.³
- **The Action Matrix** is the programming tool for implementing the activities identified in the DTIS. It identifies the country's trade priorities for implementation⁴ and aims to facilitate discussions with the government, donors and the private sector after the DTIS is completed.

Funding for the implementation of Action Matrix activities comes from the combination of AfT finance sources described in the previous section.

Given this structured approach to AfT implementation in LDCs, the GM has developed a targeted approach to assist LDC partners in mobilising AfT finance for SLM.

4. How we do it: GM support to LDCs in mobilising AfT resources for SLM

Within the IFS framework, the GM supports partner countries, particularly LDCs, to mobilise AfT finance for SLM. In so doing, the GM aims to contribute to strengthening the cross-sectoral coordination between the trade and agriculture sectors, with a view to promoting AfT investment in agriculture in general, and in SLM in particular.

Specific objectives include:

- promoting the integration of trade policies with sustainable development priorities in agriculture, food security and the environment;
- improving the coordination, complementarity and harmonization of trade interventions for agriculture and SLM by fostering synergies between sectoral processes at the country level; and
- increasing the understanding of trade-poverty linkages in the context of rural development, food security and the environment.

³ Integrated Framework Programme Implementation Unit, Guidelines for the Implementation of the Enhanced Integrated Framework in Least Developed Countries, Geneva, 11 June 2008.

⁴ Ibidem.

Contacts

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To this end, the GM assists countries in identifying trade projects, programmes and priority actions that are relevant for SLM, sustainable agriculture and food security and in mobilising AfT resources for their implementation. Such trade interventions are identified through cross-sectoral consultations and are coordinated using trade-relevant national structures, such as the EIF. The financing potential for these interventions is determined through financial assessments of bilateral and multilateral AfT allocations in the specific country.

The GM's capacity to facilitate the cross-sectoral identification of trade interventions for SLM, sustainable agriculture and food security draws on the national platforms for the implementation of the UNCCD (so-called Integrated Investment Frameworks) – which bring together different sectors such as agriculture, forestry, water, environment, energy, and land⁵ – and on a close collaboration with the National Implementation Unit (NIU) of the EIF in the ministry of trade. The engagement of the EIF NIU ensures consistency, harmonization and complementarity of trade interventions with the Diagnostic Trade Integration Studies (DTIS) and with relevant trade programming frameworks. The EIF umbrella is also useful to align donors' support by pooling AfT resources from the different sectors involved in UNCCD implementation.

Specific services offered by the GM to partner countries include:

- supporting policy dialogue and awareness raising on the inter-sectoral synergies between trade and SLM;
- supporting partnership building with trade institutions and SLM mainstreaming into national trade processes;
- providing technical backstopping and financing for background studies and assessments of AfT flows to the SLM relevant sectors, especially agriculture;
- supporting the identification of national trade and SLM priorities and of the related financing sources, by facilitating and financing inter-sectoral consultations;
- assisting in the formulation, design and financing of inter-sectoral trade and SLM projects by providing technical backstopping, catalytic funding for project design, and resource mobilisation for project implementation; and
- building networks and partnerships with donors and development partners to provide technical expertise and financial support for the development, implementation, replication and upscaling of inter-sectoral initiatives that simultaneously address trade and SLM.

The GM's support to countries is often delivered with the help of Trade and SLM Advisors who are able to facilitate the resource mobilization process and to provide related technical assistance where needed.

Knowledge Exchange Programme on Aid for Trade Finance for SLM

In order to improve its outreach capacity and the effectiveness of its activities, the GM has designed a Knowledge Exchange Programme on Aid for Trade Finance for SLM which aims to strengthen the capacity of LDC governments to: i) understand the cross-sectoral linkages between trade, agriculture, environment and food security; ii) increase cross-ministerial coordination and harmonization of sectoral national structures; and iii) build technical and financial synergies among sectors on the development, implementation and financing of trade projects, programmes and priority actions for SLM, sustainable agriculture and food security.

⁵ The stakeholders involved in the development and implementation of the Integrated Investment Frameworks for UNCCD implementation vary by country and depend on each country's institutional set-up. Agriculture and environment ministries are usually UNCCD focal points and coordinators for the frameworks.