



# Foreign Assistance in Focus

## Strengthening the Connection Between Trade and Development by Reorienting Trade Capacity Building Assistance



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An InterAction Paper

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developing country.

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## Foreword

InterAction, the nation's largest alliance of international development and humanitarian nongovernmental organizations, launches through this paper a broader initiative focusing on the links between trade and development. This represents a logical progression for InterAction, given that a foundation of our work is encouraging more effective overseas development and humanitarian assistance by the U.S. government. The ultimate goal of our initiative is to help make trade policy a more consistent and constructive complement to a coherent U.S. overseas aid policy.

Trade plays a fundamental role in shaping local economic environments in which our members work to further development. We believe trade can stimulate broad-based economic growth and meaningful poverty reduction. Trade capacity-building assistance can be the primary mechanism to translate trade into long-term development gains.

This paper is the third in a series focused on improving the effectiveness of U.S. development and humanitarian assistance through our multiyear campaign, the Global Partnership for Effective Assistance. We look forward to an open and constructive dialogue with policymakers, as well as the development and trade communities on the issues addressed here.

Mary E. McClymont  
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# Executive Summary

Over the past year, InterAction has been sharpening its focus on international trade as it relates to development. We believe that poverty can be reduced and broad-based growth can be advanced if the design and implementation of trade are pursued with an eye to the equitable treatment of disadvantaged and vulnerable populations like the rural poor, female heads of households and workers in threatened economic sectors. Trade Capacity Building Assistance (TCBA) presents an opportunity to promote this highly desirable outcome.

Helping poorer countries do better in and through trade was one of the central commitments of the Development Round of trade negotiations the World Trade Organization started in 2001 in Doha, Qatar. Trade capacity building assistance was conceived as the prime mechanism for attaining the Doha objectives. Donors committed over \$2.7 billion to TCBA in 2003, the most recent year for available data. The U.S. share was \$730 million in 2003 and rose to \$930 million in 2004, most of which flowed through the U.S. Agency for International Development.

TCBA has been designed to accomplish a number of tasks helping poorer countries:

- Build roads, ports, communications and energy systems, and other infrastructure required to boost production of tradable goods and get them to international markets;
- Set in place or improve institutions to administer, regulate and promote trade, and train managers, technicians and staff to run such institutions;
- Sharpen developing country trade officials' negotiating skills to set better terms in trade talks;
- Aid more vulnerable social, agricultural and industrial sectors to deal with the impact of new trade regulations and adapt to increased competition.

The most important function of TCBA should be to strengthen the links between trade and development. More trade does not *necessarily* mean less poverty. However, our research indicates that TCBA could do more to activate the mechanisms that translate trade into long-term and broadly based development gains. TCBA provides certain benefits, but it should be rethought, reoriented and, in certain areas, fundamentally reconstituted if it is to be the stimulus to broad-based economic growth and meaningful poverty reduction. Many changes can be inferred from the analysis and critiques offered in this paper and by the following general policy directions:

## **1. Bring TCBA down to the ground; conduct more TCBA planning and design locally.**

TCBA needs to be aimed more precisely at those sectors of the working economy in which small agricultural producers and smaller enterprises will be the primary beneficiaries. TCBA should respond to country needs as expressed in a true consensus discourse involving these disadvantaged populations and their advocates. The TCBA approach for a given country must be consistent with a national development strategy, and be relevant and accessible to all sectors in society -- including marginalized groups and the poor, not just public officials and representatives of large business concerns.

## **2. Broaden and deepen the menu of TCBA choices.**

Developing countries should have a fuller array of choices from which to assemble a program to build national trade capacity. The menu of options should be shaped more by local demand than it is at present, and be practically oriented, focusing on productive sectors of developing economies, with special attention to smaller enterprises that can create jobs as export revenues rise.

Developing countries should receive more assistance to keep development strategies on course while adjusting to new trade regimes or changes in global trade.

## **3. Re-examine and rationalize global TCBA commitments.**

Whatever level of funding is necessary for TCBA to meet identified needs, "new funds" should be provided and not taken from existing development assistance. A rigorous assessment of TCBA programs in place should be conducted to determine which ones have had a clear positive impact on economic growth and have contributed to poverty reduction.

# Strengthening the Connection between Trade and Development by Reorienting Trade Capacity Building Assistance

## **Introduction: Strengthening the Trade-Development Connection**

Over the past year, InterAction has been sharpening its focus on international trade as it relates to development. Poverty can be reduced and broad-based growth can be advanced if the design and implementation of trade are pursued with an eye to the equitable treatment of disadvantaged and vulnerable populations like the rural poor, female heads of households and workers in threatened economic sectors. TCBA presents an opportunity to promote this highly desirable outcome.

Helping the United States and other donors refocus their trade capacity building aid is consistent with the aims set out in the “Emerging Trends” paper that InterAction issued as part of this series in late 2003. TCBA is an important avenue through which InterAction will pursue its central objective of increasing development and humanitarian assistance levels and making these programs more effective.<sup>1</sup>

Trade shapes economic conditions in many countries where InterAction members are working for the emergence of self-sufficient, healthy and well-educated communities. Many of these countries face high hurdles to expanding trade and trade-based economic activity. Even in those countries that have made progress in this area, the benefits of trade are not always widely distributed. Consequently, inequities are perpetuated and poverty remains entrenched.

That expanded trade can improve the lot of millions seems evident given the export-driven growth and poverty reduction seen most notably in China in recent decades -- in fact, much of the decline in global poverty rates recorded by the World Bank and other institutions can be attributed to the household income gains in China alone. But that encouraging phenomenon has not been visible in the more problematic areas of the developing world, in particular across the vast rural heartland of sub-Saharan Africa, where poverty remains widespread and deeply rooted.

Helping poorer countries do better in and through trade was one of the central commitments of the Development Round of trade negotiations the World Trade Organization started in 2001 in Doha, Qatar.<sup>2</sup> Strengthening the connection between development and trade is in keeping with the Millennium Development Goals set forth in 2000 by the United Nations; Goal 8 envisions the pursuit of a “global partnership for development,” notably through the cultivation of an “open, rule-based, predictable, nondiscriminatory trading and financial system.” Another reference point is the Monterrey Consensus of 2002 urging a more pro-development financial system. Trade capacity building assistance was conceived as the prime mechanism for attaining the Doha objectives.<sup>3</sup>

The Doha Declaration<sup>4</sup> was a response to the expressed disenchantment of developing countries with the global trade system, which many perceive to operate in the interest of rich countries and to the detriment of poorer nations. The Doha Declaration amounted to a quid pro quo: in return for the continued participation by developing countries in the expansion of the global trading system and the further liberalization of international trade, the developed world promised assistance and engagement to ensure that the trading system would be beneficial to all of those involved.

TCBA thus has been designed to accomplish a number of tasks. One is to help poorer countries build roads, ports, communications and energy systems, and other infrastructure required to boost production of tradable goods and get them to international markets. TCBA also helps countries set in place or improve institutions to administer, regulate and promote trade, and train managers, technicians and staff to run such institutions. TCBA can help developing country trade officials sharpen their negotiating skills to set better terms in trade talks. TCBA is also intended to help more vulnerable social, agricultural and industrial sectors deal with the impact of new trade regulations and adapt to increased competition as protective tariffs and import quotas fall under trade liberalization.

TCBA has been described as a three-legged stool supporting poorer nations in negotiating trade agreements, implementing such agreements, and adjusting to the impact of changes in the trade system including changed economic conditions arising from altered trade rules or patterns. The adjustment “leg” of TCBA in the broadest sense has, unfortunately, been given insufficient attention and resources.

InterAction proposes to enter the TCBA discussions to encourage the adoption of trade policies and practices that can deliver tangible benefits to the poorest segments of developing societies, especially women who are the majority of the poor. Better roads -- not only highways but rural roads as well -- make it easier for farmers to get crops to domestic and foreign markets alike, helping even the smallest producers. Better performance by small enterprises that export goods or provide services to foreign customers can mean stronger job creation. Trade policies and strategies backed by an authentic national consensus involving civil society are more likely to encourage broad growth and lift many households out of poverty.

TCBA's most important function should be to strengthen the links between trade and development. More trade does not necessarily mean less poverty. However, InterAction's research indicates that TCBA could do more to activate the mechanisms that translate trade into long-term and broadly based development gains.

## Measuring U.S. and Multilateral Commitments to TCBA

Even before Doha, donors were spending large sums to help developing countries build trade. But Doha greatly expanded such aid.<sup>5</sup> Figures compiled jointly by the WTO and the Organization for Economic Cooperation and Development show global TCBA commitments of \$2.745 billion in 2003, representing a 36 percent increase from the 2001 level of \$2.011 billion (commitments ran level between 2001 and 2002, when they totaled \$1.985 billion.)<sup>6</sup> For the period 2001-2002, TCBA was equal to 4.8 percent of all official development assistance and, as a WTO-OECD report stated, “more than the shares going to basic education or basic health.”<sup>7</sup> Therefore, TCBA represents quite an important, though relatively recently emerged, category of official development assistance, as it accounted for 4.2 percent of total aid commitments in 2003, up from 3.6 percent of all aid in 2002.<sup>8</sup>

Though TCBA refers to a broad range of activities, WTO-OECD data compilers organize TCBA under two principal headings (setting aside infrastructure commitments that may address needs beyond trade). One is referred to as Policy and Regulations -- activities that concern increasing competency among officials, administrators, businesses and service providers to engage in trade under global rules. The second broad category is labeled Trade Development -- encouraging the expansion of trade itself. Globally, taking bilateral and multilateral aid together, about two dollars is spent on Trade Development for every dollar that is spent on Policy and Regulations.<sup>9</sup> This said, much of Trade Development pertains to bureaucratic, administrative or managerial activities such as supporting business associations that may be of limited relevance to smaller producers.

<b>Global Trade Capacity Building Assistance 2001-2003 (US\$ 000)</b> <i>(Source: WTO-OECD TRTA/CB Database)</i>			
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Policy &amp; Regulations Commitments</b>	\$658,595	\$665,530	983,442
<b>Trade Development Commitments</b>	\$1,352,975	\$1,319,447	\$1,761,910
<b>Total Global Commitments</b>	\$2,011,570	\$1,984,977	\$2,745,351

One important observation here is that although the Doha Declaration prominently refers to the role of TCBA in helping countries “adjust to WTO rules and disciplines,” as practiced, TCBA has tended to assign a relatively low priority to such adjustment assistance.<sup>10</sup> To be sure, adjustment components are not entirely lacking and can be identified in U.S. TCBA programs addressing the impact of the U.S.-Central America Free Trade Agreement, for example. But adjustment has been subsumed in the rubrics of Policy and Regulations and Trade Development, and perhaps for this

reason would seem to be significantly underdeveloped as a dimension of global TCBA efforts.

The policies and regulations component deals with the less tangible aspects of trade: agreements, regulations, WTO complaint and appeals procedures, customs operations, national trade policies, and so on. These tend to address government officials who are responsible for setting trade policy and writing laws, though businesses and civic organizations are also involved in the process.

Trade development addresses the more tangible aspects of trade -- the actual transactions that result in the shipment of goods or the delivery of services -- by putting in place or upgrading the capacities of private sector participants in trade: commercial associations that can disseminate information among members or represent their needs to the government and financial institutions to provide trade financing without which companies may have difficulty clinching export sales, and by helping put in place marketing and distribution structures to facilitate getting local goods to market. The development of tourism-related service industries is important to many developing countries in semitropical or tropical zones, and hard-currency receipts from tourism fulfill many of the same economic necessities as receipts from the export of goods. A growing number of countries are active in financial or corporate services -- for instance, data-entry by Caribbean workers.

Another way of considering this schema is to envision TCBA as a spectrum of activities. At one end are the intangible aspects -- trade agreements and the regulations and schedules that arise from them. At the other end of the spectrum are the concrete (literally) aspects of trade -- roads, runways and ports which enable goods to reach foreign markets and telecommunications and information technologies that governments and businesses need to conduct and expand trade efficiently.<sup>11</sup> The middle of the spectrum covers the broad range of skills, resources and productive capacities that are needed to generate tradable goods and services, and the ability of agricultural and industrial producers to turn out products that meet standards and are competitive in the global market. The spectrum also includes specialized services, for instance trade financing, and interventions by the local government required for transactions to be completed, including customs clearance.

One cautionary note on TCBA commitments is that the WTO-OECD database compiles reports from donors, whose criteria for what constitutes TCBA differ in terms of how narrowly they define TCBA. For example, in 2003 the World Bank revised its submissions to the WTO-OECD database using a methodology that estimated the proportion of a given program that might be construed as TCBA.<sup>12</sup> But U.S. TCBA totals include items such as U.S. Treasury technical assistance on fiscal policy whose bearing on trade capacity building is indirect. So the database as a whole probably overstates spending on this category of aid as programs blur into economic and financial sector development

and concerns such as governance. Another reason to reconsider TCBA definitions is to determine if poverty reduction is a high-priority objective. A definition that emphasizes poverty reduction is more likely to result in programs that target disadvantaged segments of developing societies. But some definitions assign a relatively low priority to poverty reduction. The USAID definition seems to subordinate poverty reduction to a number of other objectives.<sup>13</sup>

InterAction proposes the following definition:<sup>14</sup> “Trade capacity building assistance (TCBA) aims to help developing countries take part in and benefit from the global trade system, with a particular emphasis on lifting households out of poverty. TCBA helps countries draft trade policies that are broadly supported and aligned with national development plans. TCBA helps officials negotiate more favorable terms for their country in global trade forums. It helps expand exports to stimulate broad economic growth, create jobs and sustain agricultural communities. TCBA helps countries mitigate the negative effects of trade liberalization and shifting global trade conditions. TCBA donors coordinate their funding and programs for coherent, relevant and effective aid.”

## Breakdown of Global Trade Capacity Building Assistance 2003

Category	Description	Amount US\$ 000	Share of Total
<b>TCBA Related to Policy &amp; Regulations<sup>15</sup></b>			
<b>Trade facilitation procedures</b>	Simplify and harmonize trade procedures such as customs, licensing, transport, payment, insurance; support customs services	\$383,909	14.0%
<b>Regional Trade Agreements</b>	Support implementation of and adjustment to regional trade agreements such as CAFTA, SADC, FTA, ACP/EU	\$141,810	5.2%
<b>Trade Mainstreaming in PRSPs</b>	Raise awareness; help countries integrate development and trade strategies into their Poverty Reduction Strategy Plans (PRSPs)	\$134,071	4.9%
<b>Agriculture &amp; Sanitary-Phytosanitary Measures</b>	Capacity building related to agricultural sector; help in food safety, animal & plant health & protection measures, understanding SPS pact	\$72,703	2.6%
<b>Trade Education &amp; Training</b>	Human resources development, including at universities	\$62,358	2.3%
<b>Trade &amp; Environment, Competition, Investment</b>	Coordinate trade and environmental standards; Strengthen anti-trust and anti-monopoly laws; Encourage foreign investment in trade-related activities ("Singapore Issues").	\$60,487	2.2%
<b>Technical Barriers to Trade</b>	Technical regulations, product standards, conformity assessment.	\$44,586	1.6%
<b>WTO Accession, Rules &amp; Dispute Settlement</b>	Help countries become WTO members; help to understand, promulgate and comply with trade rules; Understand WTO rights and obligations; Increase access to legal advisory services	\$22,145	0.8%
<b>Customs Valuation &amp; Tariff Reforms</b>	Help in determination of customs' value of imported goods; elimination of arbitrary or fictitious customs values; development of simple, transparent and uniformly low tariff regimes	\$18,466	0.7%
<b>Training in Negotiations</b>	Help in training national trade negotiators	\$15,689	0.6%
<b>Trade-Related Intellectual Property Rights (TRIPS)</b>	Negotiations, legislative and regulatory work on copyright, trademarks, patents, etc. and strengthening IP authorities	\$14,653	0.5%
<b>Transparency &amp; Government Procurement</b>	Increase disclosure in government procurement of goods and services, strengthen procurement agencies	\$7,033	0.3%
<b>Services</b>	Implementation of agreements on services; negotiations on trade in services; identification of markets; inventory of issues	\$5,580	0.2%
<b>TCBA Related to Trade Development</b>			
<b>Trade Promotion Strategy &amp; Implementation</b>	Develop trade strategies for broad industrial and agricultural sectors; develop workforce; sector-specific strategies	\$690,561	25.2%
<b>Business Support Services &amp; Institutions</b>	Support for trade and business associations, chambers of commerce, legal and regulatory reforms to improve business and investment climate, private-sector institution building; provide information on trade	\$360,641	13.1%
<b>Trade Finance</b>	Widen access to trade finance; reform of banks and securities markets to assist trade; encourage laws and regulations to promote investment	\$326,348	11.9%
<b>Market analysis &amp; development</b>	Disseminate market information; advise on standards, packaging, quality control, etc.; develop marketing and distribution channels	\$326,273	11.9%
<b>E-commerce</b>	Promote development of trade-related information communication technologies; provide technology	\$31,363	1.1%
<b>Public-private sector networking</b>	Increase and improve dialogue between public and private sector, as well as within the private sector	\$26,724	1.0%
<b>Total Global TCBA 2003</b>	<b>Policy &amp; Regulations + Trade Development</b>	<b>\$2,745,351</b>	

## Key Issues in Trade Capacity Building Assistance

TCBA addresses a legitimate need among developing countries for help in growing their exports and defending their interests in multilateral trade forums, and is clearly desired by such countries. There is evidence that TCBA has produced results, if not in every case, then on a reasonably wide and substantive basis. The question is whether programs cut in the right direction and if the results warrant such substantial expenditures within a limited envelope of official donor assistance. One of the key premises for drawing developing countries into the global trading system and urging them to liberalize their trade policies is that this should promote growth and poverty reduction. However, the main shortcoming of TCBA as pursued, in our view, is that not enough trade capacity building programs are geared to promoting the growth of trade-related economic activities that benefit the bottom tiers of developing country economies -- the poor, with a focus on women who make up the vast majority of the poor in many countries. So TCBA seems unlikely to achieve its full potential for reducing poverty. The proposition that TCBA should be reconsidered as a servant of development suggests that it ought to be examined under several of the traditional criteria for development assessment, including relevance, country ownership, quality and coherence.<sup>16</sup> Again, poverty reduction must be the touchstone, if not necessarily the linchpin of TCBA work.

- **Relevance:** Does TCBA meet the genuine needs of developing countries in fostering the growth of trade in such a way that national development goals are furthered?
- **Ownership:** Are country leaders committed to developing national trade policy, engaged in the task, and have they cultivated broad consensus on this undertaking?
- **Quality:** Are TCBA programs properly designed and effectively carried out?
- **Coherence:** Given the number of donors and agencies involved and the need for well-integrated trade systems, is TCBA programming coordinated and focused?

Unless otherwise indicated, the following analysis concerns the global TCBA effort. It is important to maintain a global view of TCBA given the rough division of labor among multilateral institutions -- the WTO, the World Bank, the U.N. Conference on Trade and Development (UNCTAD) and others -- and bilateral donors who take the lead in specific countries or even entire regions. A later section of this paper focuses more closely on U.S. trade capacity building policies and programs. Based on the above criteria, we suggest that there are a number of shortcomings in the global TCBA effort.

### **Programs are not always appropriate to the stage of development.**

The countries in which InterAction members work are at different development stages, with varying degrees of trade preparedness. Poorly sequenced TCBA does not provide

strong and appropriate support to national development strategies. Some TCBA critics say there is an undue emphasis on implementing trade rules and liberalizing trade by opening markets and lowering tariffs that protect vulnerable local industries and producers. But many early-stage countries have more urgent tasks than meeting WTO membership requirements and implementing regimens that are not likely to result in any meaningful local benefit. For example, one Geneva-based consultant noted that the Laotian government at one point had four lawyers working on trade-related intellectual property issues — this in a nation with an acute shortage of legal expertise. The Ugandan government in 2002 drafted an Industrial Property Bill with U.S. technical assistance and introduced it into the parliament where it encountered heavy opposition from HIV-AIDS activists concerned about its impact on the availability of generic retroviral drugs. Trade-related intellectual property rights (TRIPS) programs in fact account for just 0.5 percent of global TCBA, but generate controversy far exceeding that proportion and appear to be a distraction and a burden for some countries.

More generally, it seems evident from an examination of funding patterns and discussions with observers that TCBA is to a great extent a top-down process reflecting donor values and priorities. Though, as stated, the allocation to Policy and Regulations programs is roughly half that to Trade Development, the fact remains that under the Policy and Regulations heading some \$2.3 billion was spent globally in the 2001-2003 period promoting adherence to a multilateral trade regimen with which a substantial number of developing countries have major objections. One observer puts the question this way: “Should capacity building aim to widen the scope of actual economic policy choices for developing countries? Or should it be limited to helping them cope with the burden of commitments they have taken on, for the benefit of their more developed partners?”<sup>17</sup>

### **Some TCBA programs are not driven by national development strategies.**

Trade is more likely to lead to poverty reduction if the agenda of capacity building tasks is openly and broadly discussed and agreed upon, resulting in true country ownership. Country ownership is a basic principle in development initiatives like the Millennium Challenge Account or the Millennium Development Goals. TCBA, in too many instances, has an unfortunate tendency to focus on bureaucratic procedures instead of the practical difficulties faced by small agricultural producers or smaller enterprises in the local or global marketplace, or the economic issues which civil society entities like trade unions, agricultural cooperatives and NGOs are trying to address.

Though the United States and other donors seem sincere in their desire to help poorer countries increase their effectiveness in trade, some skeptics think they are also motivated by the desire to widen access to developing markets, and drive negotiations. TCBA reflects “less a burning desire to accelerate development” than provide “the bare minimum to keep them afloat so they don’t break the system” by walking away as in 2003 at Cancun, one such observer says.<sup>18</sup> This raises the issue of “biased aid,” TCBA which may serve

the interests of donors more than those of recipients, as opposed to what one expert describes as “interventions that would generate benefits mostly for recipients.”<sup>19</sup>

**Programs don't offer a wide enough array of options, and are not practical enough.**

The TCBA menu is deficient and imbalanced: the programs offered to developing countries do not include some that are most needed, especially insofar as adjustment to the effects of liberalization are concerned, including worker displacement and the stress brought on small enterprises when protective barriers fall. Policy-related TCBA is not geared enough toward helping developing country officials make appropriate use of WTO protective or appeals provisions, particularly Special and Differential Treatment, or other WTO-sanctioned safeguards that provide “flexibility, time and assistance”<sup>20</sup> to cushion trade shocks and smoothly integrate local and global markets.

TCBA would be more effective in promoting trade if it more closely targeted practical applications, and more likely to reduce poverty if it more effectively focused on sectors touching the lives of the disadvantaged. Non-donor sources say TCBA places all too much emphasis on policy exercises such as workshops and seminars, and insufficient emphasis on actual trade, beginning with the production of marketable goods and services, especially by smaller enterprises and farms. One TCBA observer estimates that no more than 15 percent of TCBA goes to practical applications, and expresses the belief that even training is concentrated on too few middle-ranked officials.<sup>21</sup>

**Programs often lack coherence and therefore are not efficient.**

Coordination among TCBA donors is not what it should be. There is no comprehensive, systematic approach to setting national priorities in building trade capacity, though the World Bank occupies a prominent place in global coordination efforts, and regional development institutions like the Inter-American Development Bank provide regional reference points as well as loans. In practice, most coordination occurs in-country between donor representatives and their local counterparts, and to a lesser extent through liaison with nongovernmental organizations and civil society groups.

High-level coordination mechanisms led by the World Bank and International Monetary Fund seem too slow moving and cumbersome to offer useful guidance to TCBA efforts on an ongoing basis. The World Bank takes the lead in the Integrated Framework for Technical Assistance to Least Developed Countries (or IF for short), which is intended to ensure TCBA corresponds to country needs and helps reduce poverty. The IF proposes to determine a country's TCB needs, make these known to donors, and eventually fold trade strategies into the country's Poverty Reduction Strategy Paper, largely drafted by the IMF. Yet the quality of the PRSP process has varied greatly from country-to-country and in some cases the IF strategy ends as up a few paragraphs in a PRSP that has little bearing on the country's trade policy.

Integrated Framework diagnostic studies could be the most useful part of the process. The best of these studies are very specific as to needs in the most important economic sectors. This gives the country's leadership and donor representatives an inventory of needs for circulation to higher-ups and partners who may consider funding. The resulting policy dialogue prompts deeper reflection by country officials, and publication of studies gives civic groups a firmer basis for lobbying.

Greater localization of analysis and planning, supported by increased national capacity, would enhance coherence and ownership (though higher-level strategies are certainly needed). One coordinating mechanism that is well spoken of by a number of sources is the Joint Integrated Technical Assistance Program (JITAP), operated by the WTO, the International Trade Center (ITC) and the U.N. Conference on Trade and Development. Based in Geneva, it has established satellite offices in Africa, but does not appear to have been given much attention or funding by the larger donor community. It seems clear that much more could be done with JITAP -- at least in terms of localizing analysis, program design, planning, implementation and assessment.

### **Observations on U.S. Trade Capacity Building Assistance**

In the U.S. fiscal year through September 2004, U.S. agencies provided a total of \$903 million in TCBA. As the WTO-OECD TCB database has not yet compiled global data for 2004, U.S. data for 2003 must be used in any comparisons with full WTO-OECD data for 2003. Totalling \$760 million in FY 2003, U.S. trade capacity building assistance represented about 28 percent of global TCBA, the largest single bilateral commitment that year (European Community 2003 commitments came to \$843 million, not counting many member country bilateral commitments -- for instance the United Kingdom made commitments on its own that year of some \$91 million).

U.S. TCBA has increased at an annual average rate of around 29 percent since 1999. The largest single share of U.S. TCBA in 2004 came from USAID -- \$611 million, or 68 percent, of the U.S. total, followed by the Labor Department -- \$113 million, or 13 percent, and the State Department -- \$57 million, or six percent.<sup>22</sup> Yet as noted in the discussion of global commitments, U.S. totals might be said to overstate what is being spent on TCBA, as some programs incorporated in the total seem more pertinent to other development objectives than trade capacity building strictly defined. For instance, the Department of Labor provides some \$117 million for programs against child labor -- a worthy undertaking but not specific to trade -- while the Treasury Department funds financial and tax reforms of broader economic scope.<sup>23</sup> These two items account for 23.5 percent of U.S. TCBA commitments. This boosts the total, but obscures activities that more clearly qualify as TCBA, blurring the focus. The labor standards item with a tenuous connection to trade looms larger than agricultural programs in the U.S. lineup, 14 percent compared with 12.5 percent, despite farming's key role in developing countries.

### Breakout of U.S. TCBA, FY 2004

Category	Explanation of Categories <sup>24</sup>	Amount	Share
<b>Human Resources &amp; Labor Standards</b>	Address labor rights, support skills development, counter child exploitation and gender discrimination.	\$126,835,744	14.0%
<b>Physical Infrastructure</b>	Roads, ports, airports, telecoms needed for trade growth.	\$119,723,023	13.3%
<b>Trade-Related Agriculture</b>	Helping to expand agricultural, agribusiness exports.	\$112,640,161	12.5%
<b>Business Services &amp; Training</b>	Improve business associations & networks, enhance trade skills of business people – aspect of US trade facilitation	\$93,911,822	10.4%
<b>Financial Sector Development &amp; Good Governance</b>	Encourage financial systems to meet needs of trade; also reform banking, securities markets and investment laws.	\$85,800,648	9.5%
<b>Export Promotion</b>	Help find, expand markets for developing nation goods.	\$85,526,531	9.5%
<b>Government Transparency &amp; Inter-Agency Coordination</b>	Support reforms to improve governance & transparency, help various agencies function more effectively in trade.	\$49,406,443	5.5%
<b>WTO Awareness, Accession &amp; Agreements</b>	Promote understanding of WTO Agreements, help those seeking membership to adapt laws, policies, regulations.	\$34,696,302	3.8%
<b>Regional Trade Agreements</b>	Support regional trade agreements such as CAFTA.	\$33,301,028	3.7%
<b>Customs Operation &amp; Admin.</b>	Help countries modernize and improve customs offices to lower trade costs – a major aspect of trade facilitation	\$31,454,908	3.5%
<b>Environmental Trade &amp; Standards</b>	Assistance in establishing environmental standards and introducing technology to protect the environment	\$27,658,406	3.1%
<b>E-Commerce &amp; Information Technology</b>	Help countries use information technology to increase trade by networking, disseminating market information.	\$23,009,965	2.5%
<b>Competition Policy &amp; Foreign Investment</b>	Support design & implementation of anti-trust laws, and upgrade of laws on investment, investor protection	\$22,999,223	2.5%
<b>Tourism Sector Development</b>	Help countries expand tourism, especially eco-tourism	\$18,564,114	2.1%
<b>Other TCB</b>	Includes crosscutting activities & miscellaneous programs for trade facilitation and services development.	\$37,251,697	4.1%
<b>Total</b>		<b>\$902,780,015</b>	

Looking at the U.S. program from the top down and in terms of its poverty reduction impact, some inconsistencies or shortcomings come to light. Only about 20 percent of U.S. TCBA commitments in FY 2004 were to sub-Saharan Africa -- arguably far more should be allocated if poverty reduction is to be given greater emphasis. Globally, only about 12 percent of U.S. 2004 TCBA commitments were to trade-related agricultural programs, although one USAID consultant on TCBA states in a recent paper that, "Only the agricultural sector has the potential (to reduce poverty and generate broad-based economic growth) in a region afflicted by the world's most severe poverty,"<sup>25</sup> particularly as sub-Saharan African agricultural export sales "have far outperformed domestic agricultural sales."

As seen elsewhere in USAID decision-making, strategic considerations can distort allocations: Egypt, Afghanistan and Iraq together accounted for more than 16 percent of FY 2004 commitments, a share on roughly the same order of magnitude as that directed towards sub-Saharan Africa.

All things considered, and with the reservations expressed, U.S. trade capacity building assistance looks reasonably coherent and effective for what it sets out to do. Overall it is more pragmatic and results-oriented than the broad gamut of global TCBA. But there is room for improvement in terms of relevance: looking across U.S. programs there is not enough evidence of local input beyond the government sector, and there is a certain cookie-cutter look to programs, especially in the generic-sounding governance, transparency, inter-agency coordination and training programs. There is an emphasis in official pronouncements, not only from the U.S. Trade Representative, but also from the USAID leadership, upon U.S. mercantile interest, which at times seems inappropriate with the assertion that U.S. TCBA is truly aimed at enhancing developing country trade performance.<sup>26</sup>

Beyond this, the U.S. TCBA program seems oriented towards bringing developing countries up to speed in the negotiation and implementation process. "You're going to get to 'Yes' quicker" with an informed and competent negotiating partner, says one U.S. trade official, suggesting TCBA is seen primarily as a way to advance the multilateral and bilateral negotiation process rather than as a way to extend a disinterested helping hand to countries whose economic progress is conditioned by trade. This is echoed by a trade negotiator from a West African country who asks -- "the question is trade capacity for what? As it is practiced now, the assistance that my government is being given by the U.S. and the multilaterals is to implement existing agreements. It is almost entirely supply-driven and not related to our development priorities."

One last critique has to do with the underlying philosophy which informs trade capacity building at USAID -- or more accurately the seeming absence of a guiding vision or even methodology which might promote relevance and coherence throughout the USAID TCBA effort, and in turn lead to a higher degree of country ownership

by virtue of communicating that philosophy. The approach no doubt springs from a particular analysis of prioritized needs relative to resources, informed by the expressed requirements of USAID missions and the studies and conclusions of senior managers and staff in Washington. USAID clearly has made progress since 2002 when the chairman of the House Appropriations Subcommittee on Foreign Operations, Export Financing and Related Programs, Rep. Jim Kolbe, an Arizona Republican, stated that USAID lacks a “prospective strategic planning process” regarding TCBA.<sup>27</sup> However, the agency might well undertake a top-down review of how it conceives TCBA, and how TCBA fits into its broader development aims, in particular poverty reduction. Increased communication and cooperation with bilateral partners and multilateral institutions running strong TCBA programs could promote the exchange of ideas and enhance coherence and efficiency.

### **Policy Directions for More Effective TCBA**

Trade capacity building assistance is clearly needed, and provides certain benefits. But it should be rethought, reoriented and in certain areas fundamentally reconstituted if it is to be the stimulus to broad-based economic growth and meaningful poverty reduction to which ministers of trade committed at Doha. Many changes can be inferred from the foregoing analysis and critique, but InterAction prefers to stimulate discussion with a small number of general policy directions.

#### **1. Bring TCBA down to the ground; conduct more TCBA planning and design locally.**

As discussed, trade capacity building needs to be aimed more precisely at those sectors of the working economy in which small agricultural producers and smaller enterprises -- including the important family-based micro-enterprises -- will be the primary beneficiaries. Programs should concentrate on supply chains and emphasize value-adding processes that will increase export revenue streams which result in tangible cash flows to traditionally disadvantaged populations.

For this to come about, trade capacity building should respond to country needs as expressed in a true consensus discourse involving these disadvantaged populations and their advocates. Such a consensus discourse is more likely to emerge if more research, analysis, discussion, planning and program design take place at the ground level and draw in local communities. TCBA is more likely to help reduce poverty if it is aligned around a viable national development strategy and informed by an intimate understanding of national strengths and weaknesses. Despite years of intensive training, planning appears to remain overly dependent on multilateral and bilateral staff and international consultants rather than local institutions offering indigenous solutions.

The TCBA approach for a given country should be consistent with a national development strategy. This means it must be relevant and accessible to all sectors

in society -- including marginalized groups and the poor, not just public officials and representatives of large business concerns. If no national development strategy exists, TCBA should first be directed toward elaborating one while practical assistance is delivered to vulnerable economic sectors needing adjustment support.

A national TCBA program must be based on comprehensive assessment of existing deficiencies as well as the likely impact of ongoing or impending changes in trade regulations and conditions. These factors will determine what assistance a country needs to raise its capabilities or adjust in good time. Impact and needs assessments should go beyond obvious commercial consequences to consider what measures may need to be taken to increase involvement by vulnerable social groups such as women, indigenous people and rural producers and should be widely disseminated.

## **2. Broaden and deepen the menu of TCBA choices.**

Developing countries should have a fuller array of choices from which to assemble a program to build national trade capacity. The menu of options must be more shaped by local demand than it is at present, in light of national development strategies and broad consensus on the best course for the country to steer. Menu options should be practically oriented, focusing on productive sectors of developing economies, with special attention to smaller enterprises that can create jobs as export revenues rise. TCBA education and training should aim to build local expertise in functional trade skills as opposed to WTO policies and regulations, especially in less-developed countries.

Higher-level administrative and negotiating skills are needed, of course. But TCBA programs must more aggressively reach outside government to build capacity, into universities and local research institutes, so countries over time develop a broader and more independent pool of specialists who can determine national development interests and help set priorities. Within the public service, national negotiators need better support -- increased staffing in key trade centers such as Geneva, Brussels and Washington, and reinforcement from freely chosen consultants or advisors.

Developing countries should receive more assistance to keep development strategies on course while adjusting to new trade regimes like CAFTA or changes in global trade conditions such as the full elimination of MFA textile and garment quotas as of January 1, 2005. Countries should have greater support in maintaining protection for key sectors that are vulnerable, capitalizing on all the rights provided them under the WTO, particularly mechanisms such as special and differential treatment (SDT) and dispute resolution, which require strong analytical and legal support.

## **3. Re-examine and rationalize global TCBA commitments.**

Whatever level of funding is necessary for TCBA to meet identified needs, "new funds" should be provided and not taken from existing development assistance. A rigorous assessment of TCBA programs in place should be conducted to

determine which ones have had a clear positive impact on economic growth and have contributed to poverty reduction. There is a philosophical question to be considered as to whether TCBA should “back winners” or provide an impetus to the least advantageously situated. If the latter is the case -- as InterAction believes it should be -- the United States and other donors should step up allocations to sub-Saharan Africa, for example, with a strong emphasis on agricultural programs oriented toward added-value export products. In this context, there should be a significant increase in particular in commitments aimed at raising the capacity of small agricultural producers to meet sanitary and phytosanitary standards (SPS). This is indispensable if they are to expand their penetration of the U.S. and European markets and critical as well if they are to maintain their share of domestic high-value-added markets given the proliferation in Africa and Latin America of supermarkets imposing higher quality standards.

## Endnotes

- <sup>1</sup> This paper is based on extensive documentary research on trade capacity building and related trade issues including reports and research by bilateral agencies and multilateral institutions, research organizations, consulting firms and non-governmental organizations, the close examination of data obtained from the WTO-OECD TCB Database and the USAID Trade Capacity Building Database in particular, and a score of interviews with officials and other parties.
- <sup>2</sup> The 4<sup>th</sup> WTO Ministerial at Doha, Qatar, in November 2001, yielded the Doha Development Agenda, in keeping with Target 12 of the Millennium Development Goals: “Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.”
- <sup>3</sup> Those goals, as articulated in the Doha Ministerial Declaration, include:
  - “The need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates.”
  - “That developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. In this context, enhanced market access, balanced rules, and well-targeted, sustainably financed technical assistance and capacity building programmes have important roles to play.”
  - “Addressing the marginalization of least-developed countries in international trade and to improving their effective participation in the multilateral trading system...to help least-developed countries secure beneficial and meaningful integration into the multilateral trading system and the global economy.”
- <sup>4</sup> [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)
- <sup>5</sup> The WTO-OECD TCB Database started tracking global commitments in 2001. But U.S. commitments amounted to \$369 million in 1999 and \$504 million in 2000, rising to \$599 million in fiscal year 2001 as Doha approached, and surging to \$638 million in FY 2002 (ending September 30, 2002) in the impetus generated at Doha.
- <sup>6</sup> WTO-OECD Trade Capacity Building Database: <http://tcbdb.wto.org>
- <sup>7</sup> Second Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building (TRTA/CB), July 2003, page 1. “Commitments to TRTA/CB equate to some 4.8 percent of total aid commitments in 2000-2002, on a par with the share going to population programs and more than the shares going to basic education or basic health.” Such comparisons with other aid categories were not drawn in the comparable report issued in December 2004.
- <sup>8</sup> 2004 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building (TRTA/CB), December 2004, page 4. “The share of TRTA/CB in total aid commitments also progressed, from 3.6 percent in 2002 to 4.2 percent in 2003.”
- <sup>9</sup> This ratio is consistent over the period 2001-2003 covered by the WTO-OECD TCB Database. For that three-year period, commitments for Policy & Regulations (P&R) programs totaled \$2.308 billion compared with \$4.434 billion for Trade Development (TD), for a grand total of \$6.742 billion and TD-to-P&R ratio of 1.9 to one.

- <sup>10</sup> Paragraph 38 of the Ministerial Declaration issued November 14, 2001, at Doha, Qatar, states: “The delivery of WTO technical assistance shall be designed to assist developing and least- developed countries and low-income countries in transition to adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership, including drawing on the benefits of an open, rules-based multilateral trading system.”
- <sup>11</sup> Though infrastructure is an important piece of building trade capacity, and is roughly tracked by the WTO-OECD, it has effectively been set aside for purposes of analyzing TCBA commitments. The compilers explain: “Activities to enhance the infrastructure necessary for trade – transport, storage, communications and energy – are excluded from the annual TCBDDB data collection. The fact that roads, telephones or electricity are part of a network makes it difficult to assess to what extent they focus on international trade. For example, it would be wrong to say that the construction of a road is ‘trade-related’ because it goes to a port, while the construction of a rural road in a coffee-growing region is not. Hence in this report, all aid to infrastructure is deemed, inter alia, to assist international trade.” 2004 Joint WTO/OECD Report on TRTA/CB, page 6. But the report notes (page 13) that, “Some US\$7.7 billion in 2000 and US\$8.4 billion in each of 2001 and 2002 were committed to infrastructure activities,” based on the OECD Credit Reporting System.
- <sup>12</sup> Interview with World Bank TCBA official. The 2004 Joint WTO-OECD Report notes the World Bank approach and elsewhere notes that “in the category trade development, a number of donors isolated the trade component of each activity, whereas others reported the whole activity notifying it as trade-related. Although some work to harmonize donors’ approaches has been done, the total amounts of TRTA/CB per donor in this category should be interpreted with caution.”
- <sup>13</sup> In USAID’s definition of TCBA, poverty reduction is cited under “economic responsiveness to opportunities for trade” and mentioned in passing. The definition used to compile a WTO-OECD database on TCBA does not cite poverty reduction at all (though the OECD Development Assistance Committee assigns it a high priority in its definition. The British and Canadian definitions both give poverty reduction a high profile.
- <sup>14</sup> InterAction’s proposed definition is particularly informed by the British and Canadian definitions. Britain’s Department for International Development says TCBA should “help countries work up a development plan or poverty reduction strategy that incorporates trade and growth.” Canada cites “the desire to assist developing...countries in building their capacity to participate more fully in the global trading system and to use trade as a means to reducing poverty.” USAID says TCBA supports “Participation in trade negotiations...Implementation of trade agreements...(and) Economic responsiveness to opportunities for trade.” Poverty reduction is mentioned in a subsidiary manner under the last heading.
- <sup>15</sup> Descriptions of categories based on those found in 2004 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building (TRTA/CB), December 2004, page 20-21.
- <sup>16</sup> This is not intended to be a definitive or exhaustive analysis, but rather an overview on the basis of readily available data, published literature and interviews with expert sources. Fortunately, there are ongoing efforts to get a better grip on this category of donor assistance - the monitoring and assessment exercise led

by the OECD Development Assistance Committee (DAC) and the WTO comes to mind. See: Summary Report, Trade Capacity Building Monitoring/Assessment Framework: Informal Experts Meeting, 16 June, 2004. Published by the OECD Development Assistance Committee.

- <sup>17</sup> Building Capacity to Trade: What Are the Priorities?, Henri-Bernard Solignac Lecomte, OECD Development Centre, March 2003, page 2
- <sup>18</sup> Interview with Henri-Bernard Solignac Lecomte.
- <sup>19</sup> Solignac Lecomte, op. cit., pages 6-8
- <sup>20</sup> U.N. Millennium Project 2005. Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, U.N. Development Program, 2005, page 47.
- <sup>21</sup> Solignac Lecomte, op. cit., page 5.
- <sup>22</sup> USAID Trade Capacity Building Database: <http://quesdb.cdie.org/tcb/index.html>.
- <sup>23</sup> For instance, in FY 2004 the largest single component of U.S. trade capacity building in Cambodia is a \$4,750,000 program to “Combat the Worst Forms of Child Labor.” Laudable as this activity may be, the link to trade is tenuous; the USAID description notes that adherence to global labor standards “is a requirement for receipt of U.S. trade benefits.” The two other Cambodia components were \$908,000 to promote small and medium-sized business development, and \$50,000 to curtail trade in endangered species.
- <sup>24</sup> Descriptions of categories are based on those found in “United States Government Initiatives to Build Trade Related Capacity in Developing and Transition Countries – Summary Report,” October 2001, page 2.
- <sup>25</sup> Poverty Reduction and Agricultural Trade in Sub-Saharan Africa – Recommendations for U.S. Interventions, submitted to USAID by Nathan Associates Inc., May 2004, page iv.
- <sup>26</sup> The Office of the U.S. Trade Representative created the Office for Trade Capacity Building “to infuse USTR’s institutional knowledge into” providing trade-related technical assistance.” In April 2004 this office was upgraded from a special initiative to a full-fledged USTR office. USTR Robert Zoellick stated at that time that, “Trade capacity building helps improve the ability of small and less-developed economies make the necessary changes to open markets and implement the trade commitments they’ve made so Americans are assured of a level playing field.” USAID Administrator Andrew Natsios in April 2004 identified trade capacity building as a “key initiative” testimony to the Subcommittee on Foreign Operations, describing USAID as an “active partner with USTR and other agencies in ensuring that U.S. TCB efforts support the Administration’s negotiating agenda.”
- <sup>27</sup> Report by Rep. Jim Kolbe (R-Arizona), Committee on Appropriations, Subcommittee on Foreign Operations, in re Foreign Operations, Export Financing and Related Programs Appropriations Bill of 2003, September 19, 2002.



### **What is InterAction's Global Partnership for Effective Assistance?**

The Global Partnership for Effective Assistance is a multiyear campaign to save lives and build self-sufficiency by increasing development and humanitarian assistance, improving aid effectiveness, and building international partnerships.

Doing our part also means joining with other responsible members of the international community to advance international development targets to reduce poverty agreed upon by virtually all nations, including the United States. These U.N. "Millennium Development Goals" set measurable and achievable benchmarks to be reached by 2015 to reduce mother and child mortality, alleviate hunger, provide basic education to all children, promote women's equality and empowerment, and combat HIV/AIDS and other infectious diseases. Through the Global Partnership Campaign, American humanitarian and development organizations are actively working to meet these objectives.

**[www.interaction.org/campaign](http://www.interaction.org/campaign)**

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# InterAction Member List

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Bread for the World Institute  
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Catholic Medical Mission Board  
Catholic Relief Services  
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Children International  
Christian Children's Fund (CCF)  
Christian Reformed World Relief Committee (CRWRC)  
Church World Service  
Citizens Democracy Corps  
Citizens Network for Foreign Affairs  
Communications Consortium Media Center  
Concern America  
CONCERN Worldwide U.S., Inc.  
Congressional Hunger Center  
Counterpart International  
Cross-Cultural Solutions  
Direct Relief International  
Doctors of the World  
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Ethiopian Community Development Council  
FINCA International  
Floresta  
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Global Links  
Global Resource Services  
GOAL USA  
Habitat for Humanity International  
Health Volunteers Overseas  
Heart to Heart International  
Heartland Alliance  
Hebrew Immigrant Aid Society  
Heifer Project International  
Helen Keller International  
Help the Afghan Children  
Holt International Children's Services  
The Hunger Project  
IFES  
INMED Partnerships for Children  
Institute for Sustainable Communities  
Institute of Cultural Affairs  
Institute of International Education  
Interchurch Medical Assistance  
International Aid, Inc.  
International Catholic Migration Commission (ICMC)  
International Center for Research on Women (ICRW)  
International Crisis Group  
International Institute of Rural Reconstruction  
International Medical Corps  
International Orthodox Christian Charities (IOCC)  
International Reading Association  
International Relief & Development  
International Relief Teams  
International Rescue Committee  
International Research and Exchanges Board  
International Volunteers in Urology  
International Women's Health Coalition  
International Youth Foundation  
Interplast  
Intervida Foundation USA  
Jesuit Refugee Services USA  
Katalysis Partnership, Inc.  
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Latter-Day Saint Charities  
Life for Relief and Development  
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MAP International  
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Mercy Corps  
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Oxfam America  
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Partners for Development  
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Physicians For Peace  
Plan USA  
Planning Assistance  
Population Action International  
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Project HOPE  
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Refugees International  
Relief International  
RESULTS  
Salvation Army World Service Office  
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SHARE Foundation  
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Support Group to Democracy  
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United Way International  
USA for UNHCR  
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World Conference on Religion and Peace  
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World Hope International  
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World Relief  
World Resources Institute (WRI)  
World Vision  
YMCA of the USA

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