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Aid for trade 10 years on: Keeping it effective

Frans Lammersen, Michael Roberts

AID FOR TRADE 10 YEARS ON: KEEPING IT EFFECTIVE

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AID FOR TRADE 10 YEARS ON KEEPING IT EFFECTIVE

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OECD DEVELOPMENT POLICY PAPERS

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ABSTRACT

Ten years after the 2005 WTO Ministerial Conference agreed on a mandate to operationalise aid for trade, this paper assesses the achievements and challenges of the WTO-led Initiative. After outlining the achievements, the paper discusses where to put the emphasis, how to expand partnerships, how to enhance effectiveness; and, most importantly, how to retain interest in using aid to make trade work for the poor. In conclusion, the paper proposes that the Initiative could focus on promoting connectivity, boosting sustainable investment, promoting green growth, and supporting the achievement of the Sustainable Development Goals. The paper suggests that these aims can best be achieved through regional approaches for tackling trade-related binding constraints with development finance from a combination of different sources, including providers of South-South co-operation and with engagement of the private sector.

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¹ The E15 Initiative, jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, convenes world-class experts and institutions to generate strategic analysis and recommendations for government, business, and civil society geared towards strengthening the global trade and investment system for sustainable development.

ABBREVIATIONS AND ACRONYMS

AFT	Aid for trade
AIIB	Asian Infrastructure Investment Bank
COP21	Conference of the Parties to the UN Framework Convention on Climate Change
CARICOM	Caribbean Community
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee
ECOWAS	European Community of West African States
EIAs	Environmental impact assessments
ETI	Enabling Trade Index
G-20	Group of Twenty
GDP	Gross domestic product
ICTSD	International Centre for Trade and Sustainable Development
LDCs	Least developed countries
LMICs	Low and middle-income countries
MCC	Millennium Challenge Corporation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OOF	Other official flows
SADC	Southern African Development Community
SDGs	Sustainable development goals
UMIC	Upper middle-income country
WEF	World Economic Forum
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Ten years ago, the sixth Ministerial Conference of the World Trade Organization invited the Director General to set up a task force for operationalising aid for trade with the aim of generating support for developing countries, particularly least developed countries, to build the supply-side capacity and trade-related infrastructure they need to implement and benefit from WTO Agreements and more broadly to expand their trade.

The task force recommended using existing mechanisms for identifying and prioritising trade-related capacity constraints around which donors should align their support. The Paris Declaration on Aid Effectiveness was acknowledged to provide the guiding principles for the Initiative. These principles have created a strong partnership between the trade and development communities around a shared agenda with clear objectives and reciprocal commitments based on mutual accountability.

The WTO Global Reviews of Aid for Trade, together with the joint OECD/WTO Aid for Trade at a Glance monitoring reports, have shown that the Initiative has raised awareness among developing countries and donor agencies about the positive role that trade can play in promoting economic growth and development. Moreover, developing countries, notably the least developed, are getting better at articulating, mainstreaming and communicating their trade-related objectives and strategies.

Cummulative aid-for-trade disbursements reached USD 245 billion and an additional USD 190 billion in other official flows since the Initiative started in 2006. Aid-for-trade commitments stood at USD 55.4 billion in 2013, an additional USD 30 billion or 118% increase in real terms compared to the 2002-05 baseline average. This has raised the share of aid for trade in sector-allocable aid to 38.4% in 2013 from an average 32.5% during the baseline period.

Aid for trade is effective at both the micro and macro level according to a broad range of trade and development literature. More specifically, OECD research found that one dollar extra invested in aid for trade generates nearly eight additional dollars of exports from all developing countries – and twenty dollars for the poorest countries. Results, however, may vary considerably depending on the type of aid-for-trade intervention, the sector at which the support is directed, the income level, and the location of the recipient country.

Aid-for-trade case stories buttress this evidence. The sheer quantity of activities described in these case stories suggest that aid for trade is becoming central to development strategies and has taken root across a wide spectrum of countries and activities. Although not always easy to attribute cause and effect, the stories show tangible evidence of how aid for trade is helping countries build the human, institutional and infrastructural capacities for turning trade opportunities into trade flow and helping men and women make a more decent living.

Building trade-capacities is an ongoing process. The continued need for the Aid for Trade Initiative is obvious; tackling trade-related binding constraints requires persistent efforts in a globalising economy where connectivity is key for success. This is especially true with trade growing at a slower pace than before. Despite the significant achievements of the Initiative over the past 10 years, challenges remain in keeping it relevant.

The role of the private sector should be strengthened further. Much progress has already been made in involving the private sector, but engagement could be intensified through creating shared multi-stakeholder value and by scaling up and systematically including the private sector in the different stages of the aid-for-trade project cycle. Such engagement should, however, respect multilateral agreements which discipline the potential distortion of trade flows with aid money.

Engage with the providers of South-South trade-related co-operation who supply substantial sources of assistance in Asia, Latin America, and especially in Africa. Although some are transparent about their support, increased comparability and co-operation with DAC donors would help reduce institutional and human capacity constraints at the local level as well as facilitate co-ordination among the different providers of trade-related support. This would also help in creating a level playing field among the different providers of trade-related assistance.

Enhance effectiveness through regional programmes. Deepening economic integration via regional co-operation is a key priority in the reform strategies of most developing economies. It is also actively promoted by donors, who collectively committed USD 3.1 billion to regional priorities in 2013. These programmes can be made even more effective by involving an honest broker to help find common ground among countries, offering financial incentives, building human and institutional capacities, and harmonising regulations.

Experiment with new forms of aid delivery to enhance mutual accountability and provide incentives for more and better aid for trade. Focussing aid-for-trade programmes on quantifiable targets, would allow for the experimenting with results-focussed approaches, such as budget support, or payment for performance.

Focus on connectivity and trade costs to provide an operational focal point for an action-oriented agenda among a broad collation of stakeholders, including the providers of South-South co-operation and the private sector. The advantages of such targets are also that they are neutral in the sense of benefiting not just exporters, but also importers and households.

Expand the scope to sustainable investment. The initial emphasis should be on trade in services, with a focus on those sectors that are central to promoting sustainable development, such as agriculture, energy and transport. Donor support in this area could tackle a range of issues such as transparency.

Promote green growth. Aid for trade should support developing countries in moving to sustainable agriculture, building climate-resilient infrastructure, strengthening the supply chain of low-carbon technologies and environmental goods and services, and more generally helping them with achieving green growth.

Play a catalytic role in supporting the SDGs. The SDGs highlight that “(...) increasing aid-for-trade support for developing countries, in particular the least developed (...)” would help to “(...) promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.”

The Initiative should focus on the fundamental changes that are taking place in the trade and development landscape. In response to the changing nature of the world economy and its rising complexity, new analytical approaches are needed to better understand the trade-offs and complementarities between policy objectives – e.g. between growth promoting policies and equity and environmental concerns. Addressing these concerns and dealing with these interlinkages requires integrated approaches that breakdown silos between policy communities. The Aid for Trade Initiative should be an integral part of this new approach to policy which is essential if we want to deliver the Sustainable Development Goals by 2030. **The Tenth WTO Ministerial Conference in Kenya in December 2015 offers an opportune moment to take stock of the achievements of the Aid for Trade Initiative and reflect on how to continue its relevance in the changing trade and development landscape.**

INTRODUCTION

History has shown that openness to trade is a key ingredient for economic success and raising living standards. Countries that have pursued an outward-oriented development strategy with trade liberalisation at its heart, have not only outperformed inward-looking economies in terms of aggregate growth rates, but have also succeeded in lowering poverty rates and registering improvements in other indicators of social progress. Successive rounds of multilateral trade liberalisation, increasing numbers of preferential market access schemes and regional free trade agreements as well as expanding South-South trade have created many more trading opportunities for developing countries.

Supply-side capacity limitations and trade-related infrastructure gaps continue to prevent some developing countries from converting new trade opportunities into actual trade flows. Moreover, onerous regulatory requirements together with superfluous restrictive policies increase the cost of doing business, which weighs especially heavy on firms in developing countries. In a global economy characterised by fragmented production chains, these costs hamper international connectivity and limit the contribution of trade to economic growth and poverty reduction.

The aid for trade partnership

The Aid for Trade Initiative was launched at the 2005 Hong Kong WTO Ministerial Conference to tackle these trade-related binding constraints and to distribute the benefits of trade more equitably across and within developing countries. The initiative is guided by the Paris Declaration on Aid Effectiveness. Properly applied, the underlying principles lead to mutual accountability based on a shared agenda with clear objectives and reciprocal commitments. This should create incentives for more and better aid for trade.

...build on transparency,...

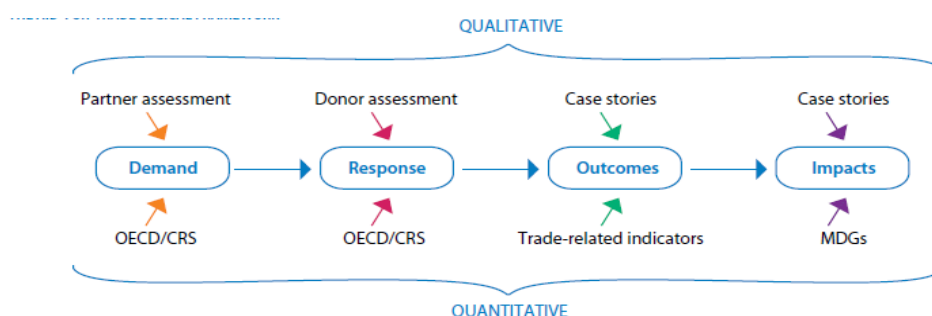
The WTO in collaboration with the OECD has created a monitoring framework to track progress in implementing the Aid for Trade Initiative in order to enhance its credibility. As a tool it is best characterised as a spotlight, not a microscope – which allows for reviewing at a global level progress made locally and regionally. The monitoring exercise is based on self-assessments, data on aid-for-trade proxies extracted from the OECD Creditor Reporting System (CRS), and aid-for-trade country profiles that track performance between development finance inputs and trade and development results. This is buttressed by case stories on what works and what doesn't work in aid-for-trade programmes, research from international governmental organisation, non-governmental organisations, findings from independent evaluations and academic research.

...mutual accountability...

The monitoring framework which follows the logic framework underpinning the Aid for Trade Initiative features three accountability mechanisms with the following objectives:

- At the **local level**, to foster local ownership and ensure that trade-related needs are prioritised in national development strategies and adequately funded by the donor community;
- At the **regional level**, to focus attention on regional trade-related constraints and growth opportunities and where needed galvanise collective action;
- At the **global level**, to increase transparency about what is happening at the local and regional levels, what is not, and where improvements are needed.

Figure 1: Aid for trade logical framework



Source OECD (2006)

...adapting to changing environments.

Since the operationalisation of the Aid for Trade Initiative in 2006, the trade and development landscape has evolved considerably. The development paradigm is witnessing a shift of attention from official development assistance to external development finance and domestic resource mobilization. More importantly, the sustainable development goals (SDGs) encourage the transformation of natural resource-dependent growth patterns into more inclusive and sustainable ones, while the Conference of the Parties to the UN Framework Convention on Climate Change (COP21) meeting at the end of 2015 strives for an agreement on putting the world on track to a low-carbon, sustainable future.

Trade volumes today are growing roughly in line with GDP, compared with growth rates about twice as fast as output over the period from the mid-1980s to 2000. This slower growth rate is not only the result of sluggish GDP growth, but also because the relationship between trade and GDP has changed in recent years (Constantinescu et al, 2015). In trade policy the focus of analysis is shifting from countries to firms and value chains; from industries to tasks and business functions; from stocks to flows; and from public to private trade barriers.

Notwithstanding these changes in the trade and development landscape, it is clear that there is still considerable scope to enhance the international division of labour by further integrating countries that have heretofore remained marginally engaged in trade in general and in regional and global value chains in particular. The Tenth WTO Ministerial Conference in Kenya offers an opportune moment to take stock of the achievements of the Aid for Trade Initiative and reflect on how to continue its relevance in this changing trade and development landscape.

The remainder of this paper is structured as follows: Section 2 looks at the achievements of the Initiative in terms of additional official development financing for tackling trade-related binding constraints and the results of these programmes in improving trade performance and reducing poverty. Section 3 discusses challenges that need to be addressed to keep the Initiative relevant, inclusive and results focused. Section 4 addresses how to expand the partnership with the private sector and with the providers of South-South trade-related co-operation. Section 5 suggests that effectiveness could be further improved through regional programmes and experimenting with new forms of aid delivery. Section 6 analyses how a focus on connectivity, sustainable investment, green growth and the SDG could reinvigorate the Initiative and rekindle donor interest. Section 7 concludes.

WHAT HAS BEEN ACHIEVED?

This section reviews the achievements of the Aid for Trade Initiative in terms of its stated objectives to “help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to implement and benefit from WTO Agreements and more broadly to expand their trade.” Furthermore, “effective aid for trade should enhance growth prospects, reduce poverty, complement multilateral trade reforms, and distribute the global benefits of trade more equitably across and within developing countries” (WTO, 2006).

Prioritising trade ...

Central to the whole Aid for Trade Initiative is the notion that trade should be (better) mainstreamed as a priority in the strategies of developing countries and donor agencies. Most donor agencies have reported that they have specific aid for trade strategies. Some donors such as European Commission Germany and the United Kingdom are in the process of updating their strategies. UNDP (2011) and Brenton et al (2014) find that while progress has been observed in mainstreaming trade in developing countries, capacities remain uneven. The high number of countries that have actively participated in successive monitoring exercises that underpin the biennial Global Reviews of Aid for Trade, as well as a recent review of the Diagnostic Trade Integration Studies undertaken by the Executive Secretariat of the Enhanced Integrated Framework suggest that progress in this area continues.²

...also at the regional level...

Deepening economic integration via regional economic co-operation has emerged as a priority in the reform strategies of many developing countries. This is evidenced by the exponential growth in regional trading arrangement in which they now participate. Such co-operation can sub-regional, regional or inter-regional; South-South or North-South; formal or informal. Whatever the modalities, it is clear that developing countries are placing an increased emphasis on regional trade and investment integration. This is also reflected in the growing number of regional Aid for Trade strategies that have been developed such as in 2012 by the Common Market for Eastern and Southern Africa (COMESA), in 2013 by the Caribbean Community (CARICOM), in 2013 by the Southern African Development Community (SADC), in 2013 Central Africa and in the Pacific (2014). An Aid for Trade strategy for the Economic Community of West African States (ECOWAS) is also under discussion.

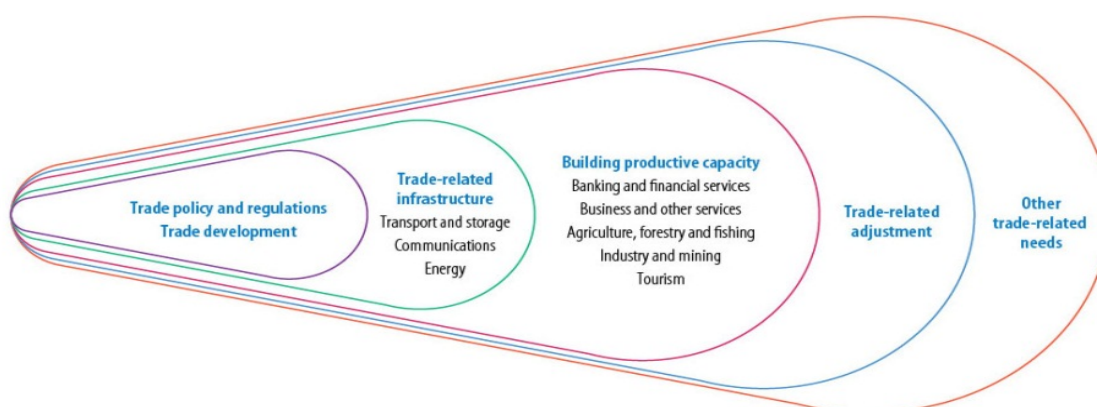
...attracting more ODA ...

Prioritising of trade as a tool for economic growth and poverty reduction was expected to result in securing “*additional, predictable, sustainable and effective financing for building trade capacities in developing countries*”. To assess additionality and ensure accurate accounting at the global level, aid-for-trade benchmarks were agreed. These include: official development assistance (ODA) and other official flows (OOF) to help developing countries elaborate trade strategies, negotiate trade agreements and implement their outcomes; build roads, ports and telecommunications networks to connect domestic markets to the global economy; support the private sector, exploit their comparative advantages and diversify their exports; help with the costs associated with trade liberalisation such as tariff reductions, preference erosion or declining terms of trade; and, finally, other trade-related needs if identified as trade-related priorities in partner countries’ national development strategies (figure 2).³

² See EIF: <http://www.enhancedif.org/>

³ For detailed CRS aid-for-trade proxies: <http://www.oecd.org/dac/aft/aid-for-tradestatisticalqueries.htm>

Figure 2: Aid for Trade CRS categories

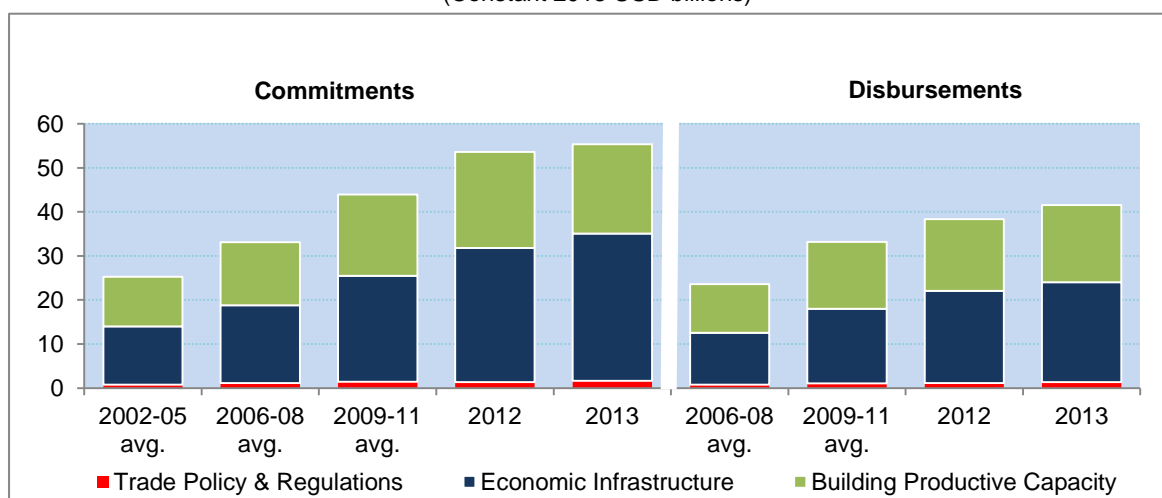


Source OECD (2006)

...increasing disbursements, and ...

Since the Initiative was launched in 2006, a total of USD 246.5 billion in official development assistance has been disbursed by bilateral and multilateral donors for financing aid-for-trade programmes and projects. Support for programmes aimed at reducing the infrastructure gap in developing countries received USD 128.9 billion, while programmes targeted at building productive capacities took USD 109.6 billion. Aid for trade in its narrowest sense of support for trade policy and regulation attracted a total of USD 7.6 billion and USD 60 million was spent on easing trade-related adjustment cost; one of the original arguments for the Aid for Trade Initiative. To date, more than three quarters of total aid for trade has financed projects in four sectors: transport and storage (29%), energy generation and supply (21%), agriculture (18%) and banking and financial services (10%) (figure 3). Geographically, 146 developing countries received aid-for-trade assistance, mainly in Asia (38.4%) and Africa (35.1%). In terms of population, the least developed countries received USD 10 per capita in aid for trade; the highest compared to other income groups and more than double the average aid for trade per capita.

Figure 3: Aid for Trade Sector Distribution 2002 - 2013:
(Constant 2013 USD billions)



Source OECD/DAC/CRS

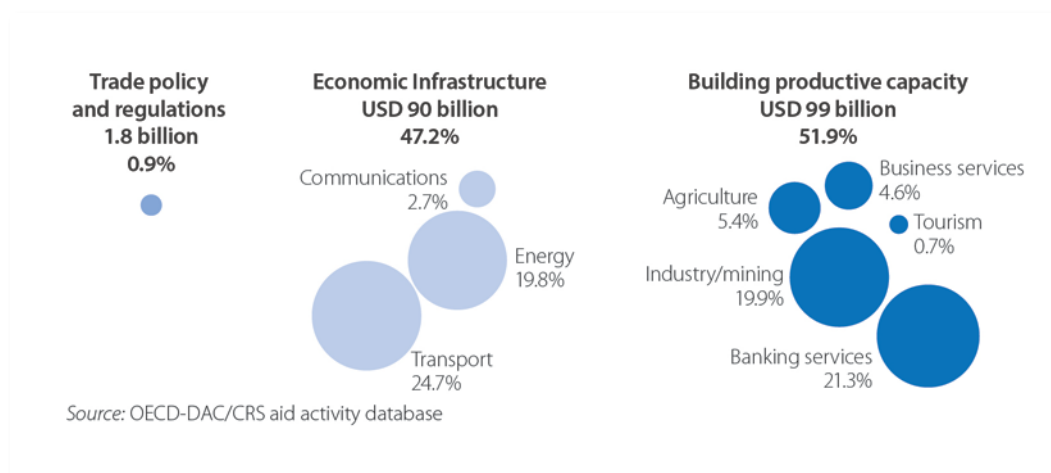
...doubling commitments ...

In 2013, commitments reached USD 55.4 billion, an increase of USD 1.8 billion in real terms compared to 2012 and an additional USD 30.1 billion or 118% in real terms compared with the 2002-05 baseline average (figure 3). This increased the share of aid for trade in sector-allocable aid from an average of 32.5% during the baseline period to 38.4% in 2013. Thus, within the expanding ODA budget envelope the share of aid for trade has increased even more. The 5.3 basis point increase could be considered as additional aid for trade.

...also of OOF...

In addition, since 2006 USD 190.8 billion in gross trade-related other official flows (OOF) has been disbursed (figure 4). A large increase was pay out by the international finance institutions right after the 2007/08 financial crises. Most of this non-concessional funding supported projects in economic infrastructure (47%) and building productive capacities (52%) and almost exclusively in middle-income countries (92%). Asia is also the main beneficiary of trade-related OOF at USD 72.5 billion, or 38% of the total support. At USD 30.75 billion, Africa is surpassed by middle income countries in Latin America and the Caribbean and Europe, with USD 45.9 billion and USD 38.7 billion, respectively.

Figure 4: Trade-Related gross OOF disbursements, aggregate 2002-2013



Source OECD/DAC/CRS

...building trade capacities, ...

The significant amount of ODA and OOF spent to support developing countries building their trade capacities through improving infrastructure, invigorating the private sector and streamlining their trade policies should show results. Empirical literature confirms that aid for trade, in general, is effective at both the micro and macro level (Velde te et al, 2013). The impacts, however, may vary considerably depending on the type of aid-for-trade intervention, the income level, the sector at which the support is directed and geographical region of the recipient country. For example, Ferro et al. (2012) found that a 10% increase in aid to transportation, information, communication and technology, energy, and banking services is associated with increases of 2.0%, 0.3%, 6.8% and 4.7% respectively in the exports of manufactured goods from the recipient countries.

...lowering trade costs, ...

Aid for trade also has great potential to reduce trade costs. Cali and te Velde (2011) examined the impact of aid for trade on trade costs and exports and found that a USD 1 million increase in aid-for-trade facilitation is associated with a 6% reduction in the cost of packing, loading and shipping to the transit hub. Busse et al (2012), using panel data for 99 developing countries for the period 2004-09, show that aid for trade is closely associated with lowering trade costs and therefore may play an important role in helping developing countries benefit from trade. Cirera and Winters (2015) find a positive impact on exporting and importing times, but factors other than aid for trade explain different experiences of structural change in sub-Saharan African countries.

...increasing trade, and...

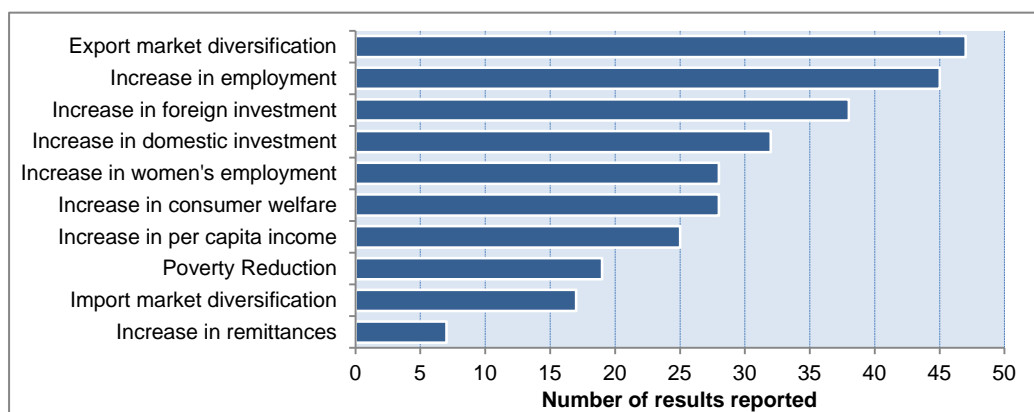
Helbe et al. (2012) empirically assess the relationship between different aid-for-trade categories and trade performance. They find that a 1% increase in aid for trade facilitation could generate a USD 415 million increase in global trade. An evaluation of USAID (2010) trade assistance that focused on export expansion, trade policy reforms, increased participation in trade agreements, and efficiency gains from trade facilitation assistance, finds that each additional one US dollar increases the value of developing country exports by USD 42 two years later. OECD/WTO (2013a) finds that one US dollar invested in aid for trade is on average associated with an increase of nearly eight US dollars in exports from all developing countries and an increase of twenty US dollars in exports from the poorest countries. These effects were found to be even higher for exports of parts and components.

...reducing poverty

Martuscelli and Winters (2014) on the basis of a literature review conclude that trade liberalisation generally boosts income and thus reduces poverty, with working in the export sector predicting gains and in the import-competing sector losses. A fairly common finding is that female workers gain from trade liberalisation. De Melo and Wagner (2014) confirm these findings and show that aid for trade has also helped reduce poverty through other channels. For example, targeted aid to building productive capacities in agriculture and insurance schemes to remove risks can raise the productivity of households close to the poverty line. Road rehabilitation can also reduce the monopsonistic power of traders in remote areas, thereby raising the incomes of the poor selling agricultural products.

These empirical findings are illustrated by the results reported in the 111 case stories that the public and the private sector submitted in the context of the 2015 OECD/WTO monitoring exercise (Figure 5).

Figure 5: Aggregate results from 111 aid-for-trade case stories



Note: multiple responses were allowed

Source: OECD/WTO Aid for Trade Case Stories (2015)

The case stories about aid-for-trade priorities, policies and programmes mention 299 results. The most important ones are export market diversification (47 times), an increase in employment, including for women (45 and 27 times, respectively), an increase in foreign and domestic investment (37 and 33 times, respectively). These results are closely followed by a reported rise in per capita income (25 times) and poverty reduction (18 times). The findings are rather similar to those reported in the 2011 exercise. However, any conclusion from the collection of case stories must be tempered by the awareness of its selection biases (OECD/WTO, 2014; Newfarmer, 2014).

REMAINING CHALLENGES

The continued need for the Aid for Trade Initiative is obvious; tackling trade-related binding constraints is ongoing process that gains in urgency in a world in which connectivity is essential for economic success. To continue to ensure that the Initiative remains relevant, there are continued questions that warrant consideration about what the sector and country focus should be and how best to share knowledge.

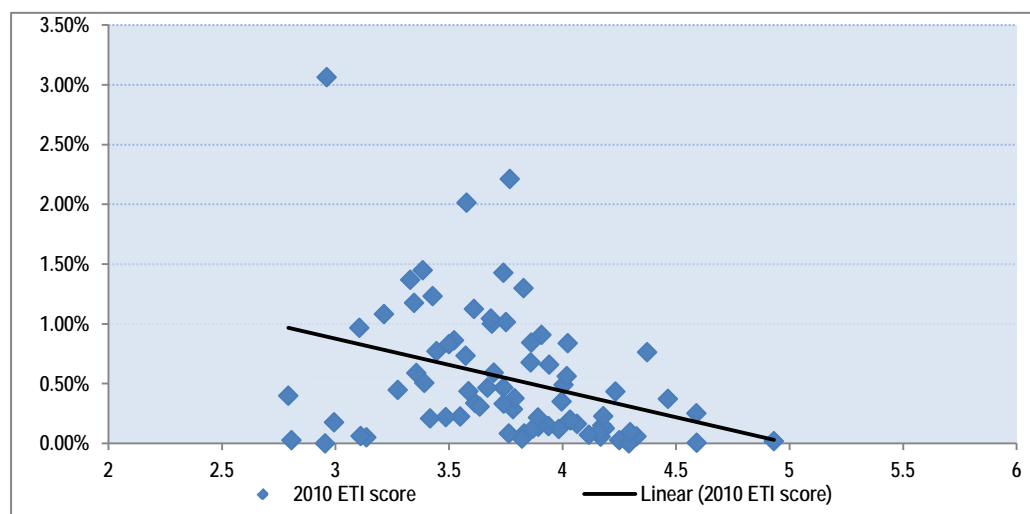
Which focus?

The question of the appropriate focus of the Aid for Trade Initiative has never been conclusively settled, as is evident from the views summarised above. At first sight, an economically rational definition of aid for trade would be based on trade competitiveness. This competitiveness is determined by two main factors: (i) domestic productivity as expressed through production and trade costs, which set the cost of moving goods and services and (ii) the level of effective market access, which is a function of unilateral, preferential, regional or multilateral trade reforms and the capacity to meet standards and overcome information gaps regarding export markets. Unfortunately, however, this type of definition does not differentiate between an aid-for-trade agenda on the one hand and the agenda for economic development on the other (OECD, 2006). The Task Force on Aid for Trade bypassed this problem and defined aid for trade as those trade-related programmes and projects that are prioritised in national development strategies (WTO, 2006). In practise, few countries have the capacity to report on the official financial support they receive for their trade-related priorities. At the global level this inability has resulted in equating the CRS proxies used for assessing additionality with the definition of aid for trade.

Which countries?

Gamberoni and Newfarmer (2014) developed a methodology to identify empirically the potential aid-for-trade needs of countries. They find that aid-for-trade commitments as a share of GDP are larger in recipient countries with greater needs, although the match is not perfect. The World Economic Forum (2015) analysed the distribution of aid-for-trade disbursements against countries' score on the WEF Enabling Trade Index (ETI) and find that disbursements have largely been aligned with developing countries' needs. Those countries which score relatively worse in the ETI generally received proportionately more aid since the start of the Aid for Trade Initiative (Figure 6). There are exceptions, especially in Sub-Saharan Africa, where some economies have so far received relatively few resources in light of their needs. Gamberoni and Newfarmer suggest that this might be due to other pressing development priorities that require external development finance, or to the fact that the constraints do not demand much money to resolve.

Figure 6: Enabling Trade Index (2010) compared to average (2005–12) AfT disbursements as share of GDP



Source WEF/ETI – OECD/CRS

Which constraints?

Developing countries face numerous and multifaceted constraints preventing them from turning trade opportunities into trade expansion and subsequent growth response. With limited political capital and finite aid-for-trade resources, reforms need to focus on the most binding constraints. These constraints differ, although commonality do exist at the aggregate level among countries groupings such as land-locked, or small and vulnerable. Country specific trade-related binding constraints can be identified through a variety of analytical tools, such as, differential diagnostics, growth diagnostic, value chain analysis, stakeholder consultation or through a combination of them. This is being done in the Diagnostics Trade Integration Studies that the Enhanced integrated Framework undertakes in the Least Developed Countries. To maximise the development benefits of trade-led growth close attention should be paid to different transmission channels and the impact of trade in terms of employment (export-orientated or import-competing), sector (manufacture – services), geography (both rural and urban poor) and gender (both poor women and men). Finally, for trade to promote growth and for the poor to benefit, complementary policies are essential to facilitate their adjustment (OECD, 2011).

How to share knowledge?

Building on progress to date, Hoekman (2010) suggests creating a new aid-for-trade public-private partnership to leverage the dynamism in the private sector for strengthening trade capacity. In addition, he suggests launching a G-20 global initiative to provide dedicated financial support for collecting cross-country datasets to allow for more effective monitoring and evaluation of aid for trade. Cadot et al (2011) also took up the issue of better monitoring and evaluating and advocate that rising demands for results and accountability from donors and clients alike require that aid-for-trade evaluations need more ambition and rigour. Following the 2013 Agreement on Trade Facilitation, Hallaert (2013) proposes to narrow the scope of the Initiative to only trade policy and regulations and complement it with independent and robust impact evaluations and research hosted by the World Bank or others. OECD (2013a) proposes an alternative between traditional *ex post* evaluations and costly impact assessments. Such a management tool would help focussing aid-for-trade programmes on quantifiable objectives and measuring trade-related and development performance on the basis of a limited set of indicators that are mutually agreed between developing countries and donors.

IMPROVING EFFECTIVENESS

In general, aid-for-trade programmes are found to be relatively effective. For example, the International Centre for Trade and Sustainable Development (ICTSD) and the South Asia Watch on Trade, Economics & Environment (SAWTEE) (2013) conclude on the basis of case studies in eight developing countries, including four LDCs (Bangladesh, Cambodia, Malawi, and Nepal), three LMICs (Ghana, Guatemala, and the Philippines) and one UMIC (Peru) that aid for trade is effective under the right conditions. However, often these conditions are lacking, despite them being the focus of aid-for-trade programmes. Overall, they suggest that their findings do not radically differ from what has emerged from the more general aid effectiveness debate. In that respect, aid for trade is no exception and might actually have done slightly better in those countries than other areas that are financed with ODA. The next section suggests that further improvements might be obtained through regional programmes and through experiments with new forms of aid delivery.

...through regional programmes, and...

Given the relatively small market size in many developing countries, it is clear that sustained economic growth needs to rely in part on creating larger, more viable markets through the rule-based sharing of resources and production assets. Deepening economic integration via regional co-operation has thus emerged as a key priority in the reform strategies of most developing economies, even if with differing degrees of political commitment. Regional aid for trade is contributing to this integration process with commitments almost tripling from an average of USD 1.2 billion during the 2002-05 baseline to USD 3.1 billion in 2013, although its share remains still only 5.5% of total aid for trade.

Regional aid for trade is hampered by many practical complications, from technical standards to financing issues, while negotiations can be bogged down by poor inter-governmental communications and sometimes by lack of trust across negotiating parties (OECD, 2014b). In fact, regional aid for trade is still insufficiently understood and appreciated in national line ministries and among stakeholders including among donors. Moreover, implementing regional strategies is complicated by problems such as membership of overlapping regional organisations; lack of implementation of regional agreements; poor articulation of regional priorities within national strategies; and national and regional capacity constraints. This creates major complications in terms of ownership, mainstreaming and aligning national strategies around regional aid-for-trade priorities.

New approaches have emerged including multi-donor programmes such as TradeMark East Africa,⁴ or regional initiatives such as USAID African Trade Hubs⁵ to address these problems. These approaches are based around trade and transport corridors and hubs, with active outreach to public and private investors. In addition, challenges surrounding regional programmes can be tackled through the following approaches:

- *involve an ‘honest broker’* such as Regional Development Banks which offer institutional mechanisms to better co-ordinate regional and sub-regional programmes among countries;
- *offer financial incentives* such as a higher concessionality level for financing regional programmes than for purely national programmes;
- *build institutional and human capacities* to respond to a wide variety of technical assistance needs covering a range of disciplines, including trade policy, customs, transport, and enterprise development;

4 See: <https://www.trademarka.com/>

5 See <http://www.oecd.org/aidfortrade/47434962.pdf>

- *harmonise regulations*, which makes it both a challenge as well as an opportunity to increasing the potential to boost regional integration.

...experimenting with new forms of aid delivery.

A proliferation of new approaches, such as “payments for performance”, “output-based aid”, or “results-based financing” are advocated as more effective than traditional forms of aid delivery. Ramachandran et al (2014) highlights that these forms of results-based management are promoted for a variety of reasons based on different theories of how linking disbursements to results will ensure more effective programs: by appealing to governments’ pecuniary interests to shift domestic priorities; by drawing the attention of politicians and managers to results; by establishing accountability to constituents; and by giving recipients discretion to engage in local problem-solving.

Most budget support programmes try to create a partnership in sharing responsibility between funders and recipients. Such a partnership should create opportunities for policy dialogue, mutual accountability with reference to performance and provision of funds that feed into and improve the receiving countries own financial, budgeting, and implementation capacities Savedoff (2011). One example is the Millennium Challenge Corporation (MCC), a U.S. development program that applies the principle of country selectivity to its programs.⁶

Based on the MCC model, the Centre for Global Development proposes a “Doing Business Facility”, which would determine a country’s eligibility for technical and financial assistance on the basis of third-party measurements of its performance in addressing business-sector constraints. The facility would use performance-based filters to identify a few reforming countries each year and then implement program agreements to reinforce and advance further reforms to the business climate. The facility would both target assistance on countries that will use it well and create reform incentives for thresholds countries (CGD, 2010).

Ramachandran (2014) proposes “Service Performance Guarantees” as an extension of results-based aid, but one that provides a different pattern of accountability – of a “partnership” of donors and recipient governments towards the private sector. This is in contrast to conventional results-based aid approaches that condition disbursement of donors’ funds to recipient governments on the achievement of service outputs or outcomes without a direct link to the ultimate clients for the services. The Guarantees would instead pay private firms when commitments – for example to reform regulation or improve infrastructure – were not met. Such a scheme would raise many political and legal questions, but might offer an innovative approach to improve the business climate.

Focussing the Aid for Trade Initiative more on reducing trade costs would allow for the introduction of these results-focussed approaches. However, it is questionable whether partner countries would welcome accountability programmes that condition the availability of aid for trade on their quantifiable progress towards trade cost reduction. Developing country support for accountability programmes would certainly be higher if the focus were on an assessment of donor performance. For instance, Rwanda has introduced this kind of assessment with the aim of raising incomes to a level in 2020 where aid is no longer necessary (OECD, 2013a).

EXPANDING PARTNERSHIPS

The Aid for Trade Initiative has succeeded in creating a fact-based dialogue among the trade and development community on how to best use aid to make trade work for development. This discussion has been especially fruitful among officials from bilateral and multilateral donors and trade negotiators who meet regularly in the WTO Committee on Trade and Development. Involving the private sector (both in

⁶ See <https://www.mcc.gov/>

developing and developed countries) has been more challenging, although much has already been achieved. The same holds true for the increasing importance of the providers of South-South trade-related capacity building programmes. The next section will discuss how to expand these partnerships further.

With the private sector, and...

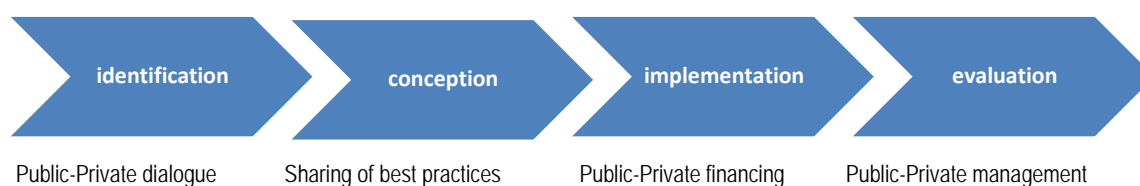
The pivotal role of the private sector has always been recognised in the Aid for Trade Initiative and considerable progress has been made. For instance, the International Trade Centre has reached out to small and medium sized enterprises in developing countries. The International Chamber of Commerce (ICC) has solicited views from their constituencies on the binding trade-related constraints they are facing in trying to connect local firms to their value chains. The World Economic Forum has used its research findings to benchmark bottlenecks in trade expansion and on that basis engaged its members in the aid-for-trade dialogue. Furthermore, in recognition of the important role of the private sector, a number of government donors, together with the ICC, the WEF, and the Centre for International Private Enterprise (CIPE), have established the Global Alliance for Trade Facilitation — an international public-private sector coalition designed to streamline border management in developing countries as part of the implementation of the new WTO Trade Facilitation Agreement.

In addition, a new generation of programmes is emerging, involving donors, partner countries, and private firms in both developing and donor countries. The results of these programmes have been judged as largely positive: they have helped firms develop new products, increase their exports and save costs. In addition, the results are aligned with the objectives of the development community, such as: improved workers' skills, better working conditions, improved health among workers, job creation, poverty alleviation, and improved environmental performance. Consumers have also benefitted from lower prices. The main drivers of the engagement in donor countries are company-based and relate to firms' core business strategies, while the corporate social responsibility agenda of firms also explains their actions in this area (OECD/WTO, 2015).

Strengthening private sector engagement further could be achieved by creating shared multi-stakeholder value and building platforms for project-based collaboration. Such reinforced partnership could be forged by scaling up and systematically including the private sector in the four different stages of the aid-for-trade project life cycle (figure 7).

1. *identification of the projects* to alleviate binding trade-related constraints, where the views of the private sector could be solicited to provide information about obstacles to be removed or incentives to be improved;
2. *conception of the projects*, where the private sector could share best practices they have observed from other aid-for-trade programmes or from programmes they have implemented themselves;
3. *implementation of the projects*, where governments, donors and private companies could join forces to scale up their actions and maximise their impact; and
4. *management and evaluation of the projects*, where the private sector could provide evidence of success or failure.

Figure 7: Public private partnerships for managing trade related programmes



Expanding the partnership with the private sector should respect a number of international agreements which discipline the potential distortion of trade flows with aid money. Thus, involving the private sector in donor programmes should not reintroduce the bad practice of tying aid to donor companies. The OECD Arrangement on Officially Supported Export Credits offers an extensive framework for the orderly use of officially supported export credits, while the 2001 DAC Recommendation unties ODA to the LDCs and HPICs.⁷ The WTO Agreement on Subsidies and Countervailing Measures contains binding disciplines for the use of subsidies.⁸

...providers of South-South co-operation

The contribution of South-South co-operation is an important characteristic of the Aid for Trade Initiative. South-South providers have become substantial sources of financial assistance in Asia, Latin America, and especially in Africa. China and India are two of the leaders in this field (table 1). Typically, they combine investment and enhanced market access opportunities with delivering expertise and financial support to foster the economic and social welfare of other developing countries (Zimmermann and Smith, 2011). In addition, the Asian Infrastructure Investment Bank (AIIB), launched in Beijing in October 2014 and expected to be operational at the end of 2015, aims to provide finance for infrastructure projects in the Asia Region, together with the Silk Road Fund and the planned BRICS bank.

Table 1: Estimates of development co-operation flows from providers not reporting to the OECD-DAC
(gross, USD millions, current prices)

Country	2010	2011	2012	2013	Source
Brazil	500	Institute of Applied Economic Research and Brazilian Co-operation Agency
China	2 561	2 776	3 114	3 009	Fiscal Yearbook, Ministry of Finance
India ¹	709	788	1 076	1 257	Annual Reports, Ministry of Foreign Affairs
Indonesia	10	17	27	12	Ministry of National Development Planning
South Africa ^{1,2}	151	227	188	183	Estimates of Public Expenditures 2013, National Treasury

.. = not available.

1) Figures for India and South Africa are based on their fiscal years. For example, 2012 data correspond to fiscal year 2012/13.

2) The decrease in South African development co-operation from 2013 onwards reflects exchange rate fluctuations.

Note i) Data includes only development-related contributions. ii) The flows channelled through multilateral organisations are (partly) based on websites of multilateral organisations and data from the UN Department of Economic and Social Affairs), except for Brazil and India.

The availability of large additional flows of external development finance beyond ODA and OOF would seem to raise an issue of co-ordination in some developing countries. However, three case studies covering Ghana, Senegal and Timor-Leste OECD (2014a) find that strengthening co-ordination mechanisms is not a high priority for any of the three governments. They generally prefer bilateral channels of dialogue and negotiations. While some providers of South-South co-operation submit aid-for-trade self-assessments in the context of the Global Review on Aid for Trade, additional transparency and

7 [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg\(2014\)1](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=tad/pg(2014)1) and <http://www.oecd.org/dac/41707972.pdf>

8 https://www.wto.org/english/tratop_e/scm_e/subs_e.htm

increased comparability of support efforts would help reduce institutional and human capacity constraints at the local level as well as facilitate co-ordination among different providers of development finance for trade. It would also facilitate enhancing the role of North-South, South-South and triangular regional and international co-operation in providing access to science, technology and innovation, as suggested by the SDG.

BREAKING DOWN SILOS

Notwithstanding the tangible achievements of the Initiative, interest in trade as a tool for development appears to be waning in some quarters of the donor community. Although others, such as Australia most recently, have announced making aid for trade a central tenet of their development programme. Nevertheless, the donor narrative is moving towards domestic resource mobilisation, the promotion of foreign direct investment and private sector development and engagement. These are important objectives in their own right, but their contribution to development will remain suboptimal if they are pursued in isolation from or even instead of promoting international trade. In fact, foreign trade remains in many cases the single most important source of external development finance, particularly to small developing countries and LDCs.

Part of the reason for the diminishing interest among some donors in trade as an engine of economic growth and development seems to be linked to the continued stalemate in the negotiations on the Doha Development Agenda and the related trend towards mega-regional trade negotiations (which largely exclude the LDCs). However, when trade agreements are concluded, the donor community does re-engage forcefully. For example, developing countries report that trade-related assistance is forthcoming as one of the outcomes of preferential trading arrangements, such as the Economic Partnership Agreements. Furthermore, donors support for Trade Facilitation surged after the 2013 Bali Agreement to USD 680 million; an eight-fold increase compared to the average 2002-05 baseline.

Refocussing the Aid for Trade Initiative on the fundamental changes that are taking place in the trade and development landscape should reinvigorate donor interest. In response to the changing nature of the world economy, its rising complexity, and its shifting patterns of trade and investment flows, new analytical approaches are needed to better understand the trade-offs and complementarities between policy objectives – e.g. between growth promoting policies and equity and environmental concerns (OECD, 2015a). Addressing these concerns and dealing with these interlinkages requires integrated approaches that breakdown silos between policy communities (Tett, 2015). The next section suggests that the Initiative might benefit from a more integrated approach to pressing trade and development challenges such as improving connectivity, boosting sustainable investment, promoting green growth, and contributing to the Sustainable Development Goals.

Improve connectivity

The premise of the Aid for Trade Initiative is that enshrining market access in trade agreements is an essential, but not a sufficient step to achieve market presence – other factors need to be addressed too. Past Global Reviews have sought to galvanise attention and action on these binding constraints. The OECD/WTO Aid for Trade at a Glance (2015) underlines that this strategy is working, but that high trade costs remain a significant impediment for developing countries. In the worst cases, prohibitive trade costs effectively price the poorest countries out of regional and global markets altogether, leaving them locked into low-value regional trade where growth possibilities are stymied. At the factory or farm-gate level, products can be competitively priced but still fail in export markets due to excessive trade costs. High trade costs also erode consumer welfare, narrowing the range of good and services on offer and pushing up prices. While trade costs alone do not fully explain the development pathways of economies, they are a major factor in clarifying why some countries are unable to grow and diversify. The same holds also true for many regions, often disadvantaged, within countries.

Distance is a key determinant of trade costs and a major constraint for exporters. For instance, in the Pacific region the weighted average distance from major markets is some 11 500 kilometres. Asian Development Bank research (2015) on exporters in the Pacific finds that e-commerce substantially reduces the physical distance between buyers and sellers. Accelerating the spread of e-commerce through an “Aid for eTrade” initiative has been suggested as a way to reduce trade costs and connect SMEs to global markets (Suominen, 2015).

Embedding a trade connectivity and trade cost perspective at the centre of the Aid for Trade Initiative would provide an operational focal point for action among a broad collation of stakeholders, including the providers of South-South co-operation and the private sector. The advantages of trade connectivity and trade cost reduction targets are that they are neutral in the sense of benefiting not just exporters, but also importers and households (Hoekman, 2014). Such a focus would also allow for a critical assessment of the domestic regulatory framework which often stifles growth of the service sector.

It should be left to governments in dialogue with stakeholders to identify which costs are most distorting, how best to reduce them, and how to use and mix the varied forms of development finance available from different providers. Such an action-focused approach would strengthen the accountability for outcomes and even allow for the introduction of innovative donor approaches such as cash-on-delivery and other forms of impact programming.

Boost sustainable investment

As highlighted above, value chains have become a dominant feature of the world economy, involving countries at all levels of development, from the poorest to the most advanced. The production of goods and services is increasingly carried out wherever the necessary skills and materials are available at competitive cost and quality. This growing fragmentation of production across borders has important implications for trade and investment patterns and offers new prospects for growth, development and jobs. In today’s more interconnected world both the costs of trade and investment protectionism and the benefits of multilateral opening are much higher than previously thought (OECD/WTO/UNCTAD, 2013).

The Aid for Trade Initiative and the Trade Facilitation Agreement address the trade side of the equation. Sauvart et al. (2015) argue that the creation of sustainable investment facilitation could address the other side. Such a programme could tackle a range of issues such as transparency and donor support for capacity building in developing countries and in particular the LDCs (i.e. aid for investment). Looking ahead, one option for the Aid for Trade Initiative would be to increase focus on the links between trade and investment. It would build on the WTO General Agreement on Trade in Services, with transactions falling under Mode 3 (i.e. commercial presence) accounting for nearly two-thirds of the world’s FDI stock role. The initial emphasis could thus be on investment in services, with a focus on those sectors that are central to promoting sustainable development.

Promote green growth

Green growth offers developing countries ways to boost development and help reduce poverty in the short term while preserving natural assets and raising the potential for economic growth over the long term (OECD, 2013b). Aid for trade could play a catalytic role in promoting green growth. An important synergy between aid for trade and green growth programmes is the focus on reducing trade and transport costs. Increasing efficient use of resources in turn reduces greenhouse gas emissions and improves competitiveness. Another possible avenue to assist the transition to green growth is through aid-for-trade programmes that support trade in environmental goods and services, the development of green infrastructure (such as sustainable transport systems, efficient logistics etc.) and strengthen supply chains for low carbon technologies. By strengthening economic resilience and supply side capacity of LDCs, aid for trade programs also contribute to these countries capacity to mitigate and adapt to climate change.

The WTO Task Force recognised sustainable development as a guiding principle of aid for trade. It recommended that donors strengthen the application of environmental impact assessments as a way of safeguarding against possible negative environmental impacts of aid for trade projects. Common approaches for “strategic environmental assessment” at the sector and national levels will also help to mainstream environmental considerations across aid for trade policies and programs. Keane et al (2009) also make the point that, while donors are increasing resources to climate change mitigation and adaptation, there need to be standardised checks to ensure compatibility between these programmes and aid for trade. Indeed, there is much scope for aid for trade and new sources of climate change finance to work together to help meet some of the expected costs of climate change.

Contribute to delivering the SDGs

The 2015 Sustainable Development Goals (SDGs) urges the world to transform its natural resource-dependent growth pattern to a more inclusive and sustainable one. Trade is an essential means of implementation of the sustainable development agenda and aid for trade can play a catalytic role in supporting the SDG (Addis Ababa Action Agenda, 2015). Aid for trade is also part of SDG 8 to “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” with the objective to “increase aid-for-trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries”(United Nations, 2015). Aid for trade shares many of the objectives of the SDGs and if used in a complementary and reinforcing manner, may help build the economic resilience and supply-side capacity LDCs need to adapt and mitigate climate change and link to the world economy on better terms (Ancharaz and Sultan, 2010). Aid for trade can help developing countries build the capacities that in turn can contribute to a healthier environment and to fighting poverty.

The Sustainable Development Agenda requires a significantly increased amount of financing. This will strengthen the prominence of international trade as a source of financing for development, particularly for the LDCs. However, the trade and development community should take care that the transformative nature of the Post-2015 Development Agenda does not inadvertently give rise to unnecessary non-tariff measures that would reduce the capacity of developing countries to use trade as an engine of economic growth and poverty reduction. This requires a more integrated approach to ensure that aid for trade contributes to inclusive and sustainable development outcomes. That is, in addition to improving trade performance, the Initiative should aim more explicitly at positive social, economic and environmental impacts.

CONCLUSIONS

Much has changed in the trade and development landscape since the Aid for Trade Initiative was created 10 years ago. Trade and investment flows are increasingly driven by the fragmentation of the production process. This offers opportunities for developing countries, but also highlights the need for an open, predictable and transparent trade and investment regime. Meanwhile, the development landscape has seen the rise of many more providers of South-South co-operation which are giving new impetus to trade-promoting development assistance.

The spread of global value chains, the increasing importance of knowledge-based capital and the rise of the digital economy are ushering in the “next production revolution” (OECD, 2015b). Countries, rich and poor need to seize this opportunity to harness innovation to boost economic growth and spur job creation. It is uncertain however what rise of robotics, 3D printing and reducing carbon foot prints will mean for the way in which production and trade are organised - whether they will lead to near-sourcing or further dispersion of value chains (Lipson and Kurman, 2013). What is certain is that the trade and development community need to consider urgently how possible science and technology-driven developments will change the role that trade and investment play in development strategies and in the achievement of the SDGs.

The Aid for Trade Initiative has achieved much since its inception in 2006. The Initiative has succeeded in rekindling awareness among developing countries and donor agencies about the positive role that trade can play in promoting economic growth and development. Developing countries are getting better at articulating, mainstreaming and communicating their trade-related objectives and strategies. In turn, this has had a positive impact on the alignment of donor support with aid for trade flows steadily growing since 2005.

Econometric analysis suggests that aid for trade is broadly associated with improvements in trade performance, which in turn is related to reductions in poverty. These effects are confirmed by a growing number of studies, using different methods, which yield a strong narrative about the positive impact of aid-for-trade programmes. The delivery of aid for trade has been largely effective, but more could be done especially through regional approaches, while experimenting with new forms of aid delivery could strengthen accountability between donors and partners and help with improving results.

The success of the Initiative is attributed to the strong partnerships it has formed between the trade and development communities. It has brought together various groups of stakeholders, particularly, developing countries and donors, with the common aim to make trade work for development. Partnerships with the private sector and the providers of South-South co-operation could be strengthened further.

The Initiative has been flexible enough to adapt to the changing trade and development landscape as witness by the focus of successive Aid for Trade at a Glance reports on Maintaining Momentum (OECD/WTO, 2009), Showing Results (OECD/WTO, 2011), Connecting to Value Chains (OECD/WTO, 2013) and most recently Reducing Trade Costs (OECD/WTO, 2015). Highlighting the pivotal role of trade for economic growth and poverty reduction remains important, but the Initiative could give more emphasis on the need to improve connectivity, boost investment, promote green growth, and play a central role in delivering the SDGs.

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