3 Aid for Trade and the Sustainable Development Goals

This section provides insight into the role of Aid for Trade in fostering sustainable development and helping developing countries address emerging challenges, such as navigating transitions towards low-carbon economies and accelerating digital transformation. It reviews how sustainability considerations have been embedded into Aid for Trade projects and programmes, and highlights the contribution of Aid for Trade towards various Sustainable Development Goals (SDGs), including SDGs related to gender equality and climate action.

3.1. Aid for Trade helps mobilise resources and accelerate progress towards the Sustainable Development Goals

Aid for Trade, as a tool, has helped counter the effects of the COVID-19 crisis and contributed to the recovery through its support of international trade and investment. Beyond the crisis, Aid for Trade can also be leveraged to address emerging challenges and adapt to a rapidly changing trade and investment landscape. Data collected as part of the 2022 Aid for Trade Monitoring and Evaluation (M&E) exercise points to an evolution in the role and priorities of Aid for Trade, which increasingly aims to serve sustainable development objectives beyond export promotion and trade facilitation. Recent trends, including growing demands to address climate change, digitalisation of economies and calls for more inclusive economies, are important drivers of this development. The assessment of Aid for Trade flows is carried out against this backdrop and provides various illustrations of the changing role and potential of Aid for Trade to address some of the key challenges of the 21st century.

In September 2019, the UN Secretary-General called on all sectors of society to mobilise for a "decade of action" for the Sustainable Development Goals (SDGs) on three levels: (i) global action to secure greater leadership, more resources and smarter solutions for the SDGs, (ii) local action embedding the needed transitions in the policies, budgets, institutions and regulatory frameworks of governments, cities and local authorities, and (iii) people action, including by youth, civil society, the media, the private sector, unions, academia and other stakeholders, to generate an unstoppable movement pushing for the required transformations (UN, 2022[1]). The Decade of Action started off with a global crisis that poses significant challenges for the achievement of Agenda 2030. Calls for accelerating sustainable solutions to all the world's biggest challenges, however, remain all the more relevant. Aid for Trade can bring an important contribution to this global effort and be used to its full potential to help close the financing gap, foster inclusive partnerships and support the needed transformations towards the SDGs.

3.1.1. Aid for Trade and the mobilisation of resources for the SDGs

Before the COVID-19 pandemic, the financing gap to achieve the SDGs in developing countries was estimated at USD 2.5 trillion annually. As of early 2021, this gap was estimated to have increased by at least 50%, totalling USD 3.7 trillion in 2020 (OECD, 2020[2]). External financing flows to developing countries increased in 2020 after a significant drop in 2019. However, they had still not reached pre-pandemic levels by the end of 2020. In addition, losses in domestic outputs and external resources can have long-term impacts, including losses in jobs, productive investment and capacities, as well as increased debt pressures that may threaten economic and financial sustainability.

While the approximately USD 200 billion[1] of Official Development Assistance (ODA) annually may not be enough to close the gap, ODA remains an important source of finance for developing countries, particularly for low-income countries (LICs). The OECD's work on transition finance has shown that countries' financing sources evolve as they transition across development stages[2]. In 2019, ODA represented 63% of external inflows to LICs, 37% in lower middle-income countries (LMICs) and 20% in upper middle-income countries (UMICs) (OECD, 2019[3]). Aid for Trade represents a considerable share of ODA. Although the share of disbursements slightly decreased in 2020 due to large increases in funding allocated to COVID-19-related activities in sectors outside of the scope of Aid for Trade (e.g. health), Aid for Trade still accounts for 22% of total ODA disbursements and 26% of ODA commitments in 2020.

In recent years, an increased focus has been placed on mobilising all types of resources towards the SDGs. The Addis Ababa Action Agenda of the Third International Conference on Financing for Development (AAAA) emphasises the role of the private sector in this agenda and affirms the importance of using international public finance to catalyse additional resource mobilisation from other sources, both public and private. The AAAA notes that ODA can be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development (UN, 2015[4]).

Against that backdrop, it is important to note that trade-related official development finance beyond ODA has increased and, together with Aid for Trade, has contributed to mobilising additional resources in trade-related sectors. Both commitments and disbursements in trade-related other official flows (OOF) have increased in recent years, reaching USD 44 billion in disbursements and USD 87 billion in commitments in 2020 (Figure 3.1). Furthermore, recent data collected by the OECD sheds light on the role of official development finance in mobilising private resources for development. The data shows that during 2012-20, 86.6% of private sector resources mobilised were in trade-related sectors, with an average annual growth of 16.3% (Figure 3.2).

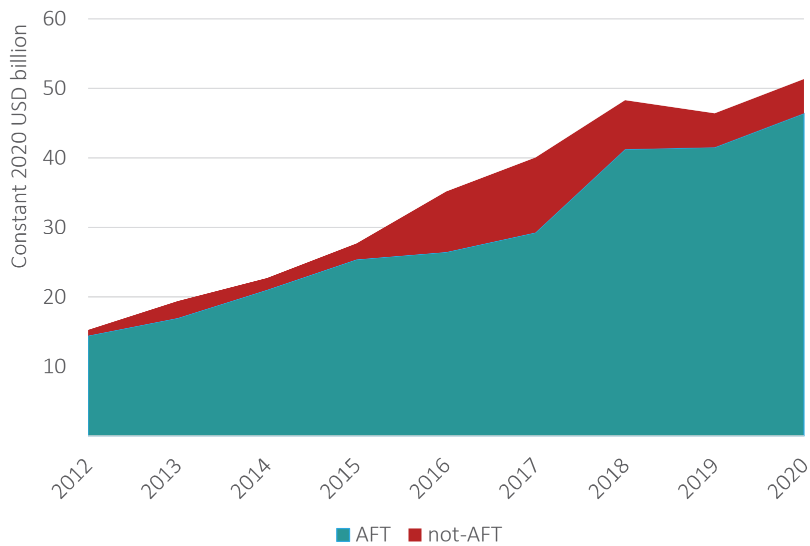
Figure 3.1. Trade-related other official flows (OOF), 2006-20

USD billion, 2020 constant prices

Source: Based on OECD (2022[5]), OECD.Stat, Creditor Reporting System, https://stats.oecd.org/.

Figure 3.2. Private resources mobilised in trade-related sectors, 2012-20

USD billion, 2020 constant prices



Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/

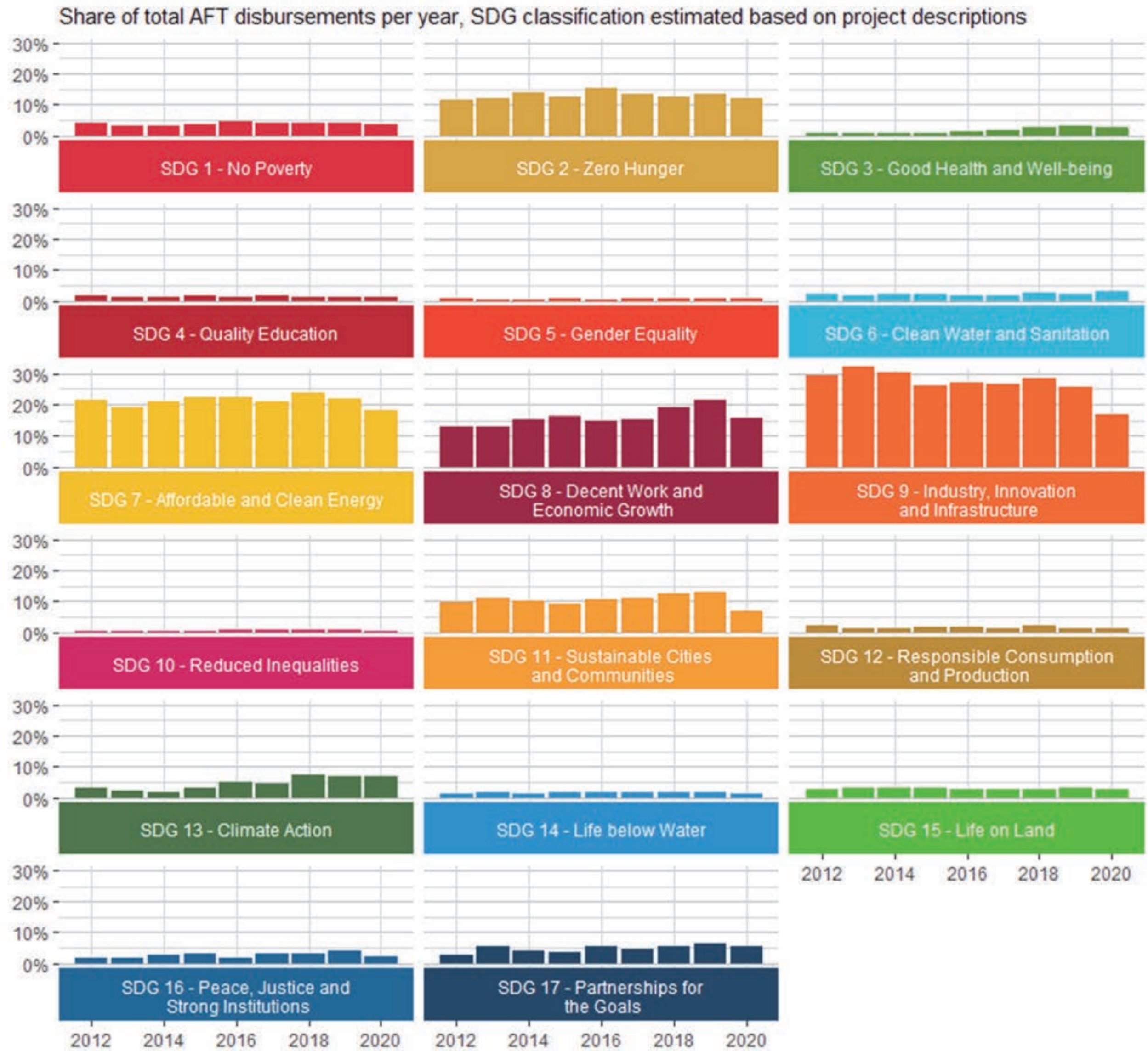
3.1.2. The alignment of Aid for Trade flows with the SDGs

Ensuring that all resources mobilised contribute to the greatest extent to the SDGs is essential to maximise their effectiveness and narrow the financing gap (OECD, 2020[2]). The 2022 Financing for Sustainable Development Report of the Inter-Agency Task Force on Financing for Development underlines the need to align all financing flows with sustainable development, echoing previous calls to align all resources with the SDGs (UN IATF, 2022[6]) (OECD, 2020[2]). These recommendations apply to both public and private financing flows, including Aid for Trade.

Aid for Trade directly contributes to several trade-related SDGs, notably SDG 8 (decent work and economic growth). SDG 8 includes a target to increase Aid for Trade support for developing countries, in particular least developed countries (LDCs), including through the Enhanced Integrated Framework (EIF) for trade-related technical assistance to LDCs (UN Stats, 2021[7]). Aid for Trade also contributes to the SDGs beyond purely trade-related targets, including through enhancing the benefits of international trade. The AAAA recognises that with appropriate supporting policies, including those targeting infrastructure and education, trade can also help promote productive employment and decent work, women's empowerment and food security, as well as contribute to a reduction in inequality and the sustainable development goals (UN, 2015[4]).

Aid for Trade increasingly plays a role in fostering these positive outcomes and could be further leveraged to channel resources towards the SDGs while avoiding any misaligned support. Recent pilot methodologies developed by the OECD using machine learning provides new insights into the contribution of Aid for Trade to the SDGs. For example, the data shows that Aid for Trade contributes to all SDGs, and each project to one or more SDGs (Figure 3.3). In 2020, 18% of Aid for Trade resources disbursed targeted SDG 7 (affordable and clean energy), 17% targeted SDG 9 (industry, innovation and infrastructure) and 16% SDG 8 (decent work and economic growth).

Figure 3.3. How Aid for Trade contributes to all SDGs



Source: Based on OECD (2022[5]) OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/; and OECD (2022[8]), SDG Financing Lab, https://sdg-financing-lab.oecd.org/

3.2. Aid for Trade promotes green, connected, inclusive economies

The COVID-19 crisis has accelerated existing trends and created new challenges impacting trade and investment patterns. This includes the rise of digital technologies and digital trade, accelerated by confinement and physical distancing measures linked to COVID-19. The crisis has also underscored the importance of managing a broad set of risks to ensure supply chain resilience. The looming threat of climate change and its potential to destabilise global value chains (GVCs), in particular, have become a central preoccupation of policy makers and businesses. The impact of GVCs disruption on certain categories of workers such as women and the youth has amplified calls to put people, planet and prosperity at the heart of trade (OECD, 2021[9]).

The growing emphasis on embedding sustainability into international trade is reflected in the emergence of a significant number of high-level statements, strategies and laws. For example, a number of countries have or are in the process of adopting mandatory supply chain due diligence requirements requiring companies to take steps to manage and disclose the environmental and social impacts of their operations in supply chains (OECD, 2021[9]). In recent years, trade agreements tend to cover an increasingly large number of non-trade policy areas (Mattoo, 2020[10]). These evolutions create new opportunities but also new challenges for countries confronted with a growing number of requirements and standards. International co-operation and official assistance, including Aid for Trade, are important avenues to support sustainability efforts while ensuring that no country is left behind. Aid for Trade can, for example, support trading partners in their capacity to negotiate and implement deeper trade agreements through trade assistance and capacity building. Aid for Trade will also be critical to support structural transformations that may be needed to decarbonise entire sectors or to build the soft and hard infrastructure needed to effectively participate in the digital economy, while promoting inclusive growth and social cohesion.

3.2.1. Aid for Trade in support of green and low-carbon transitions

The increased emphasis on sustainability has also been driven by growing concerns and demands related to climate change and the environment. In 2015, at the 21th annual United Nations Climate Change Conference (COP21) that took place in Paris, 196 countries adopted the first universal, legally-binding, international treaty on climate change. The treaty entered into force in November 2016. The central goal of what has been called the Paris Agreement is to limit global warming to well below 2 degrees Celsius, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. To achieve this long-term temperature goal, countries aim to reach global peaking of greenhouse gas emissions as soon as possible to achieve a climate neutral world by 2050. Additionally, the agreement aims to increase the ability of countries to deal with the impacts of climate change, and at making finance flows consistent with a low GHG emissions and climate-resilient pathway (UNFCCC, 2015[11]).

Aid for Trade supports implementation of climate and environmental-related commitments

Implementing the commitments of the Paris Agreement will require transformations with ramifications through virtually all aspects of economic activity, with important implications for trade. For example, adapting production and consumption patterns, or shifting to circular economy models, are prominent options to reduce emissions that could affect entire value chains (UNFCCC, 2021[12]). Consumer preferences for more sustainable production processes are contributing in some cases to a reorganisation of GVCs to enable production closer to consumers (OECD, 2020[13]). International trade can also be an important vector of technology diffusion, and support positive outcomes in the fight against climate change (Box 3.1).

In 2022, the sixth assessment report of the Inter-Governmental Panel on Climate Change (IPCC) further raised the alarm about the impact of climate change and potential consequences of different climate scenarios. The report highlighted that climate change is already causing widespread disruptions, with more severe consequences in resource-poor countries and marginalised communities. According to the report, crop productivity growth in Africa shrunk by a third due to climate change since 1961. In the next decade alone, climate change is expected to drive between 32 million and 132 million more people into extreme poverty (Levin, Boehm and Carter, 2022[14]). The IPCC report acknowledges that international trade could be dramatically affected by climate change, with significant impacts on the global food supply. The report also notes that international trade has the potential to be an important adaptation mechanism, but could also exacerbate price volatility and affect food security, calling for enhanced international co-operation to disincentivise environmental and social externalities (IPCC, 2022[15]). Aid for Trade can support these evolutions and help developing countries benefit from these changes.

Box 3.1. The interlinkages between trade and environmental sustainability

The expansion of global trade and the increasing integration of global value chains raise questions about how trade and the environment interact with each other. Increased trade can, by supporting economic growth, development, and social welfare, contribute to managing the environment more effectively. More importantly, open markets can improve access to new technologies that make local production processes more efficient by diminishing the use, for example, of inputs such as energy, water, and other environmentally harmful substances (OECD, 2021[16]).

For example, A recent OECD study showed that only a small number of companies, in a few countries, have the specific technological expertise in wind turbine manufacturing, which cannot easily be replicated in importing countries. As a result, international trade is critical to increasing global wind power. In addition, trade contributes to the competitiveness of wind generation projects by allowing diversified sourcing, and supports the replacement of old, environmentally harmful technologies (Garsous and Worack, 2021[17])

However, an interconnected world also carries environmental risks. Because of the increasingly fragmented nature of production processes across countries, domestic CO_2 emissions are sometimes generated to produce goods consumed in other countries. Global interconnectedness therefore carries the risk that uneven domestic policies can lead to pollution havens, whereby countries with lower environmental regulations and enforcement progressively specialise in pollution-intensive goods that are exported to other countries with more stringent environmental policies. Similarly, concerns regarding trade in waste and scrap arise if exports destinations lack regulatory frameworks for environmentally sound waste management and the associated infrastructure capacities (OECD, 2019[18]).

Ensuring that environmental benefits associated with trade are maximised while the risks are minimised will require international co-operation. Important commitments have been made through the COP21 Paris Agreement. Countries have also undertaken a number of important environment-related efforts within the World Trade Organization (WTO) framework, including the Informal Dialogue on Plastics Pollution and Sustainable Plastics Trade (IDP), the Fossil Fuel Subsidy Reform (FFSR)[3], as well as the WTO Agreement on Fisheries Subsidies concluded in June 2022[4]. Co-operation can also be achieved by including environmental provisions in Regional Trade Agreements (RTAs). In recent years, the number of RTAs has increased, and many of them contain environmental provisions setting ambitious environmental objectives (Moïsé and Rubínová, 2021[19]).

Policy alignment and co-operation for environmentally sustainable trade can make meaningful contributions to address concerns against trade and globalisation and raise the public acceptability of trade agreements more broadly. These efforts will also help achieve the ambitious goals at a multilateral level such as the UN 2030 Agenda and SDGs, and the Paris Agreement. Aid for Trade can support developing economies in the environmental transition, while ensuring they can maximise the opportunities from participation in international sustainable trade.

Growing environmental concerns and international commitments are reflected in Aid for Trade priorities and flows

According to responses to the joint OECD/WTO 2022 Monitoring and Evaluation exercise, 96% of partner countries that participated in the survey include environmental considerations in their national development strategies, policies and plans, and 86% have embedded such objectives in national trade development policy documents. Similar questions for donors indicate that all donors participating in the exercise integrate environmental considerations in their development or aid policies, strategies, or plans, and 79% of them include a focus on environment in their Aid for Trade strategy, policy or plan.

In line with these responses, donors have taken important steps to embed environmental objectives in ODA, including in Aid for Trade. In October 2021, OECD Development Assistance Committee (DAC) members released a Declaration on a new approach to align development co-operation with the goals of the Paris Agreement on Climate Change. The Declaration includes a commitment to align ODA with the goals of the Paris Agreement (OECD, 2021[20]). In October 2021, the Group of Twenty (G20) trade ministers also affirmed the importance of providing appropriate support to developing and least developed countries in order to help their national transition towards resource-efficient, sustainable, climate and environment-friendly development, enhance their resilience and better enable them to seize sustainable trade opportunities through Aid for Trade (G20, 2021[21]).

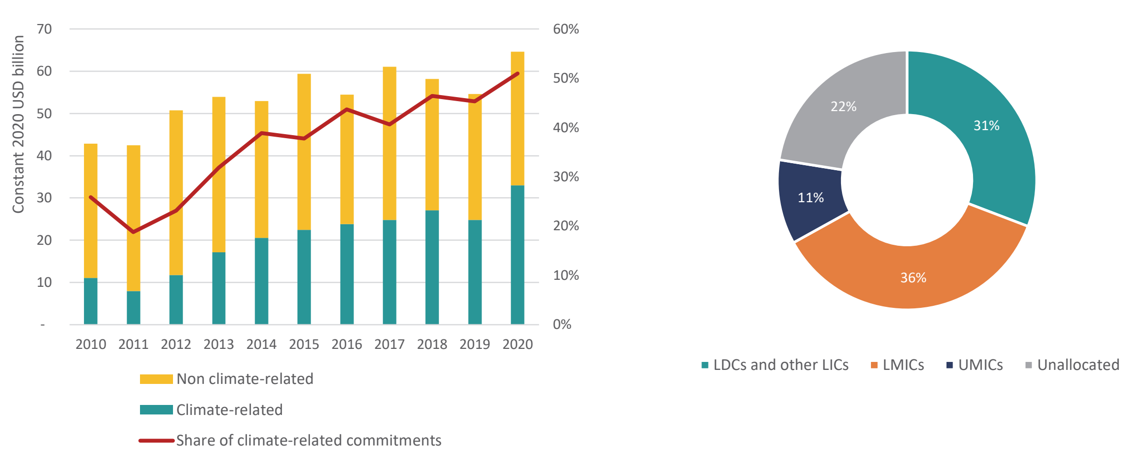
These commitments are reflected in the evolution of Aid for Trade flows. The OECD measures and monitors bilateral development finance targeting climate change using the “Rio Markers”, which are based on the objectives of the Rio Convention. Rio markers are applied to all bilateral ODA. DAC members are requested to indicate for each development finance activity if the activity targets environmental objectives (OECD, 2015[22]). Since the beginning of the Aid for Trade initiative in 2005, Aid for Trade commitments including such objectives have been increasing. In 2020, 46% of Aid for Trade commitments from bilateral donors included environmental objectives – divided between 14% of commitments related to projects that have a primary objective to achieve environmental outcomes, and 33% of commitments related to projects that do not primarily target the environment but include a significant focus on the environment. Furthermore, 41% of Aid for Trade commitments included a focus on climate mitigation; and 28% included a focus on climate adaptation – 62% included a focus on at least one of these objectives (OECD, 2015[22]).

Estimates for all Aid for Trade projects (including both bilateral and multilateral donors) indicate that in 2020, more than half (51%) of Aid for Trade commitments included climate-related objectives (Figure 3.4). These commitments represent 56% of total climate-related ODA commitments in 2020. LDCs and other LICs are the primary beneficiaries of these resources, accounting for 37% of total climate-related commitments made in Aid for Trade sectors. LMICs come second (33%), followed by UMICs (10%) and remaining unallocated commitments (20%) (Figure 3.4). Asia is the first beneficiary of Aid for Trade commitments related to climate (44%), followed by Africa (29%), America (10%), Europe (4%) and Oceania (1%).

Figure 3.4. Aid for Trade commitments including climate objectives

Evolution of commitments, 2010-20

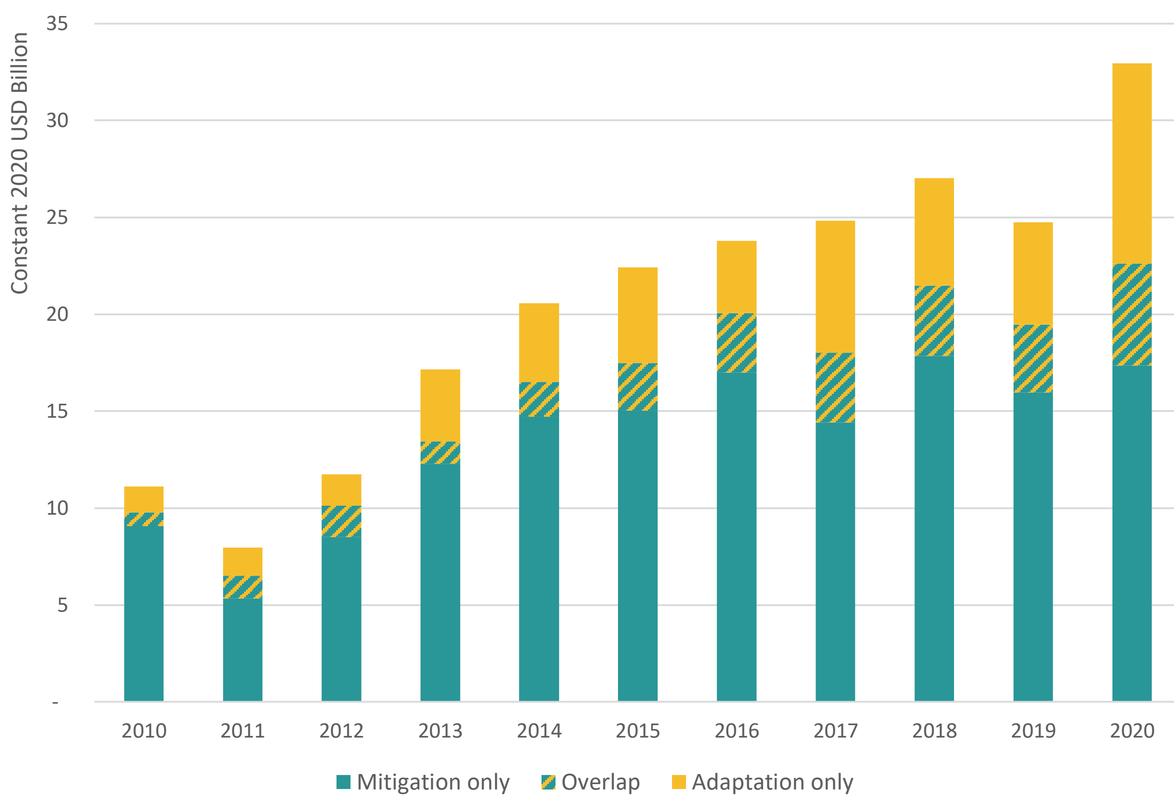
Commitments by income group, 2020



Source: OECD DAC Climate-related Development Finance Statistics

Within Aid for Trade projects that include climate-related objectives, a large majority focus on mitigation (69%) which compares to 47% for adaptation in 2020, while 16% include both objectives. The importance of adaptation objectives in commitments has however been growing, with a 77% increase in 2020 (Figure 3.5).

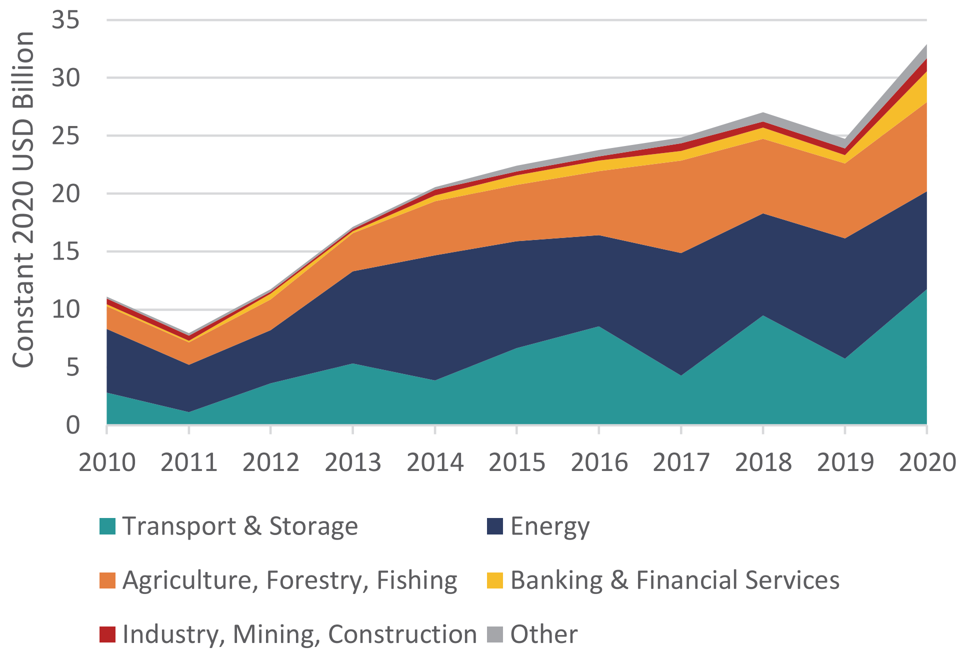
Figure 3.5. Adaptation and mitigation-related Aid for Trade commitments, 2010-20



Source: Based on OECD DAC Climate-related Development Finance Statistics, https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm

A large share of climate-related Aid for Trade commitments is concentrated in a few sectors, with energy, transport and storage, agriculture, forestry and fishing making up 85% of these commitments. These shares have remained relatively stable over the years, although 2020 saw a significant increase in climate-related commitments in the transport and storage sector, which more than doubled between 2019 and 2020 (+104%) (Figure 3.6).

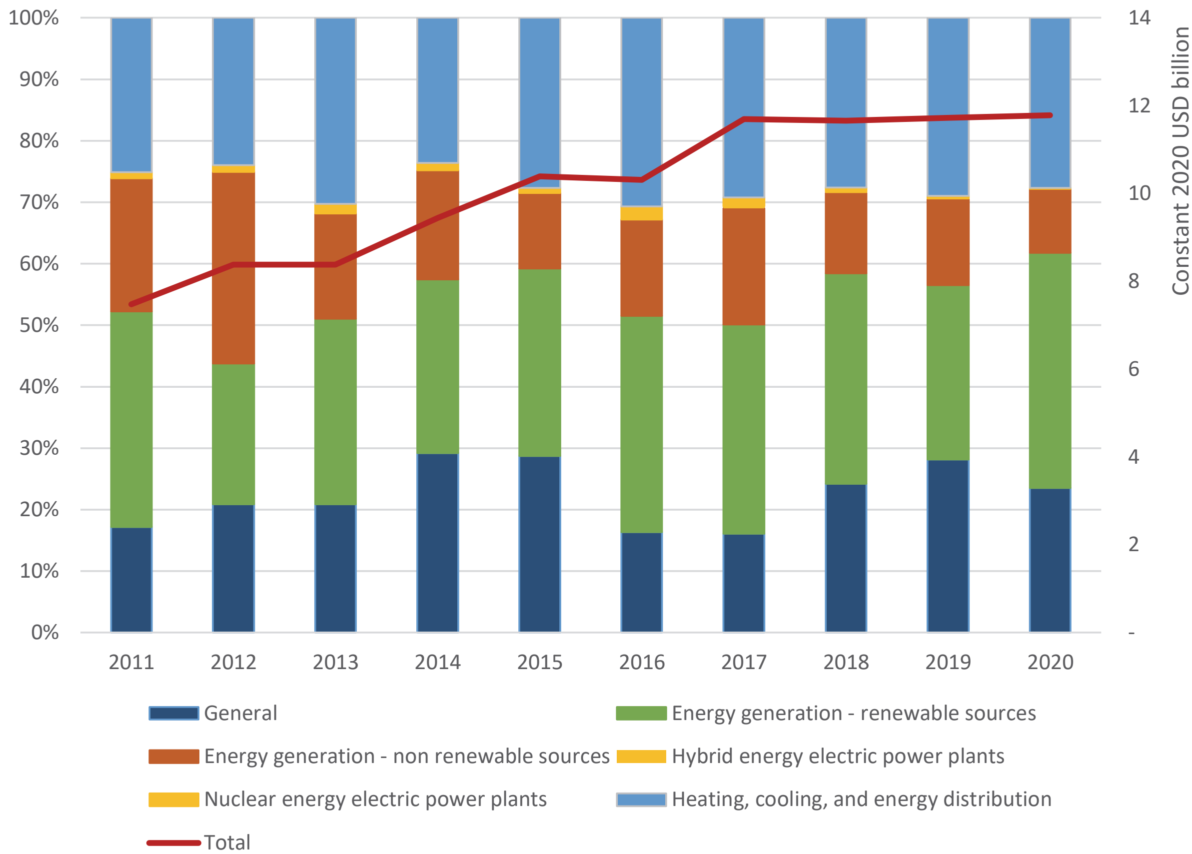
Figure 3.6. Climate-related Aid for Trade commitments by sector, 2010-20



Source: OECD DAC Climate-related Development Finance Statistics, https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm

The prioritisation of environmental considerations is also visible when looking at the evolution of Aid for Trade flows in some sub-sectors. Within the energy sector – which accounts for a large share of total GHG emissions – there is an emerging trend to allocate more and more support to renewable energies. The share of Aid for Trade disbursements allocated to renewable sources increased by 36% between 2019 and 2020, from USD 3.3 billion to USD 4.5 billion. During the same period, the share of disbursements to non-renewable sources decreased by 26% (from USD 1.6 billion to USD 1.2 billion). Although this is an encouraging trend, the evolution over the last 10 years remains fairly moderate, with the share of support to renewable sources increasing by 3 percentage points between 2011 and 2020 (Figure 3.7).

Figure 3.7. Energy generation and supply disbursements, 2011-20



Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/.

3.2.2. Aid for Trade in support of the digital transition

In addition to the significant efforts required to shift to a low-carbon economy, economies are also facing the challenge of keeping up with the pace of digital transformation. The COVID-19 crisis has accelerated the digital transformation, including in developing countries, and underscored its importance for sustaining wellbeing, speeding up recovery, and enhancing resilience. The OECD's *Development Co-operation Report 2021* highlights the important role of development co-operation in harnessing the potential of fast-paced digital transformation while ensuring that developing countries are not left behind (OECD, 2021[23]).

The joint OECD/WTO Monitoring and Evaluation survey indicates that e-commerce development and digital transformation are the top driver of change in Aid-for-Trade policies in developing economies. This emphasises that governments and policy play an important role in helping to both enable digital transactions to occur (using trade to help digitalisation) and in facilitating access (using digitalisation to help trade) for the benefit of businesses and individuals (OECD, 2020[24]).

Digitalisation offers new opportunities for developing countries and firms of all sizes to deliver their products to a wider range of markets. More digitalisation can mean more trade: a 10% increase in digital connectivity between countries raises goods trade by nearly 2% on average, parcels trade by 4%, and trade in services by over 3%. Digitalisation can also help countries draw greater benefits from their regional trade agreements. When combined with a regional trade agreement, a 10% increase in digital connectivity gives rise to an additional 2.3% growth in goods exports (López González and Ferencz, 2018[25]) (López González and Sorescu, 2021[26]).

Digital trade is especially important for developing countries' micro, small and medium enterprises (MSMEs) and women entrepreneurs. Access to cheaper, more sophisticated and diverse digital inputs – including productivity-enhancing software, communications technology or e-payment services – can help firms overcome existing trade costs disadvantages and improve export competitiveness. The wider use of digital platforms and websites to sell goods across borders has also contributed to a significant increase in the number of parcels crossing borders, a trend that was accelerated by the COVID-19 pandemic, including in many developing countries. This has created new opportunities, particularly for individuals and MSMEs, to engage more directly in trade (Andrenelli and López González, 2019[27]); (López González and Sorescu, 2021[26]).

Yet, while in many ways it has never been easier to engage in international trade, the adoption of new business models by firms has made international trade transactions and policy issues more complex. A range of policy levers are needed to promote greater participation and benefits, including through new approaches to market openness, and in developing economies.

Action is required across a number of policy areas, from building digital skills and addressing digital divides to improving access to information and communication technology (ICT) goods and services and the affordability and reliability of Internet connections. Taking a holistic approach to market openness means understanding how trade policy issues interact with other policy domains such as privacy and data protection, innovation, competition, infrastructure, connectivity, taxation or skills (López González and Sorescu, 2021[26]).

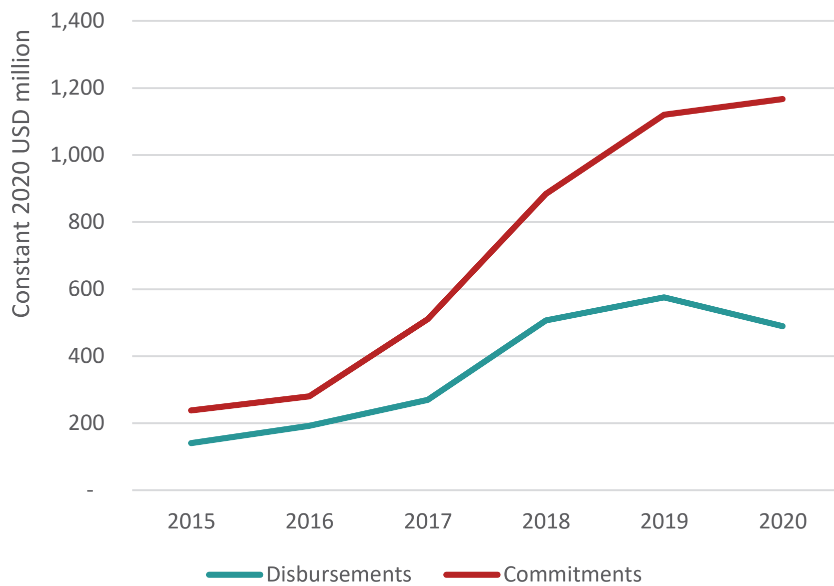
Market openness also needs to take into consideration the full range of measures that affect any particular transaction. For instance, while Internet access is a necessary condition for digitally enabled trade in goods to flourish, it is not sufficient on its own. If transportation, logistics or e-payment services in the receiving or delivering country are costly due to services trade restrictions, or if goods are held up at the border by inefficient procedures, then the benefits of digital trade may not materialise.

Discussions on digital trade are ongoing, including through the WTO's Joint Statement Initiative (JSI) on e-commerce and across a number of trade agreements (Nemoto and López González, 2021[28]). The recent OECD *Digital Trade Inventory* highlights there is already substantial uptake of instruments on issues related to digital trade in many developing economies, which suggests there is a solid base of international instruments that international digital trade discussions can build on. Several regional trade agreements and regional co-operation fora that include developing economies, including the Association of Southeast Asian Nations, the Southern African Development Community, the Economic Community of West African States and the African Union, also are considering new rules of varying depth and density in areas that matter to digital trade (López González and Sorescu, 2021[26]); (Nemoto and López González, 2021[28]).

A simple digital trade transaction rests on a series of enabling factors. Aid for Trade can help developing countries harness the benefits of digitalisation for trade, and of trade for digitalisation, by targeting such enabling factors. First, strengthening commitments in the communications sector can help improve digital connectivity and address the digital divide. The crisis has underscored the need to address existing digital divides to allow more people to take advantage of digitalisation to facilitate activities when under mobility restrictions and ensure that the gains from digitalisation can be realised and more widely shared across countries and societies. This is especially important in enabling an inclusive recovery. Current definitions and measurements of Aid for Trade do not allow a precise assessment of how it supports digital connectivity. However, the analysis of flows allocated to the information and communication technologies (ICT) suggest a growing focus on issues related to digitalisation, with a 32% increase in commitments between 2018 and 2020 (Figure 3.8). There is scope however to increase support in this sector which currently represents only about 2% of total Aid for Trade commitments and 1% of total disbursements.

Figure 3.8. Evolution of Aid for Trade disbursements and commitments to the ICT sector, 2015-20

USD million, 2020 constant prices



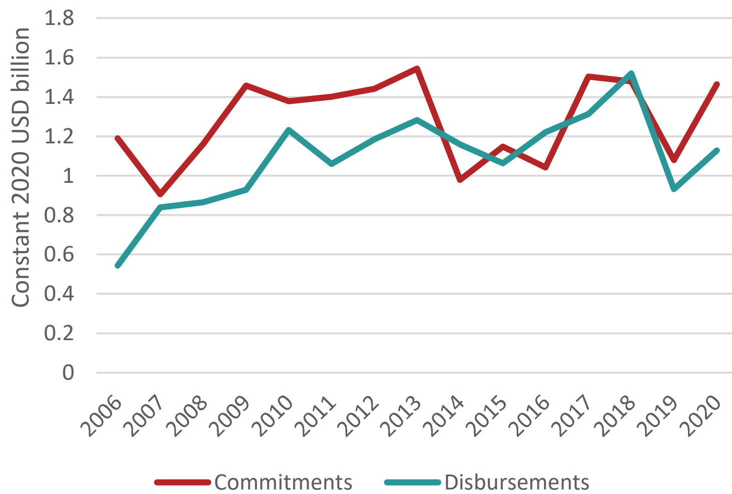
Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/.

Second, ensuring that benefits are realised and shared more widely requires a regulatory environment that allows governments, in developed and developing countries alike, to respond to new challenges raised by digitalisation. Strengthening Aid for Trade commitments in the sector of trade policy and regulations can support developing countries in developing regulatory frameworks that are fit to facilitate and enable digital trade (OECD, 2021[23]). While disbursements to trade policy and regulations only grew by 1.1% on average between in 2015-20, and currently represent less than 1% of total commitments, disbursements increased again by more 24% in 2019-20.

This evolution stresses the importance of Aid for Trade to support developing countries' efforts to address regulatory challenges for an enhanced participation in international trade, including through greater participation in international rulemaking processes. It is important that developing countries participate in ongoing digital trade discussions and help shape the rules that will underpin a growing part of their economies, as cross-border regulatory divergences and lack of interoperability could result in additional transaction costs where activities need to be aligned across multiple regulatory frameworks. In the context of the WTO's JSI on e-commerce, the co-convenors of this initiative, Australia, Japan and Singapore, together with Switzerland, launched in June 2022 the E-commerce Capacity Building Framework to offer a wide range of technical assistance, training and capacity building to support countries' participation in e-commerce negotiations[5].

Addressing regulatory and technical challenges can help with scaling up the digitalisation of trade processes. Digital technologies can be leveraged to enable more efficient movement of goods, including parcels, across borders. They can ensure that border processes are transparent and accessible to traders and that formalities can be streamlined. Greater use of such tools, including through the sustained implementation of the WTO Trade Facilitation Agreement, can support MSMEs in developing countries to engage in trade and increase the value of their exports and imports by more than 4.5% (López González and Sorescu, 2021[26]).

Figure 3.9. Evolution of Aid for Trade disbursements and commitments to trade policy and regulations, 2006-20



Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/.

3.2.3. Aid for Trade in support of gender equality

The COVID-19 crisis has put a spotlight on the challenges faced by women in the economy and has exacerbated some of these vulnerabilities. According to the International Labour Organisation (ILO), inequalities between women and men in the world of work increased during the COVID-19 pandemic, and these inequalities will persist in the near future (ILO, 2021[29]). OECD research has found that women were more likely to work in sectors hit hard by the pandemic, such as retail, where women make up 62% of the work force; accommodation (60%); food and beverages (53%) and air transport (47%) (OECD, 2021[30]). In LDCs and other LICs, women may face additional vulnerabilities in the absence of robust social safety nets. Furthermore, they tend to be overrepresented in several labour intensive low-skilled activities and bear important unpaid care obligations (ILO, 2020[31]).

The latest *Global Gender Gap* report of the World Economic Forum (WEF) estimates that, as a result of the pandemic, the time needed to close the gender gap has increased by a generation from 99.5 years to 135.6 years (WEF, 2021[32]). The report also emphasises the importance of closing gender gaps in the "jobs of tomorrow", based on new insights into the types of jobs that are emerging in the labour market. The data suggests significant upcoming challenges for gender parity, as women tend to be under-represented in six of the eight emerging job clusters identified[6].

Trade can be an important vector of women's empowerment and gender equality. In developing countries, women make up 33% of the workforce in firms that engage in trade, compared with 24% for non-exporting firms. Trade can also improve the quality of work for women. Workers in both developed and emerging economies are almost 50% more likely to be employed in formal jobs if they work in sectors that trade more or that are more integrated into global value chains (WTO/World Bank, 2020[33]). Harnessing the potential of trade for gender equality however requires adequate policies and support to promote both exports and women's empowerment. Moreover, jobs engaged in trade are on average better paid.

Aid for Trade can provide important support to developing countries in this area. Recent OECD analysis has highlighted the potential of gender-responsive ODA to avoid backsliding and accelerate progress towards gender-related SDGs in the context of COVID-19 recovery efforts. The study notes the importance of increasing aid integrating gender equality in sectors that are crucial to the recovery but receive lower shares of this aid, such as trade, communication, and banking and financial services – all of which fall within the scope of Aid for Trade (OECD/UN Women, 2021[34]). Gender equality has long been a focus of Aid for Trade. At the launch of the initiative in 2005, the WTO Aid for Trade Task Force established the principle of including a gender perspective in Aid for Trade. Well-targeted Aid for Trade can support gender equality by enhancing participation in international trade and creating opportunities for women to access quality jobs in global supply chains.

How Aid for Trade can help address gender-related challenges to exporting

There are many ways in which Aid for Trade programmes can help women overcome the systemic challenges they often face in exporting, and reap the benefits that trade, insertion in global value chains and greater economies of scale can provide. Women-owned firms are generally smaller and less well financed than those owned and led by men. Smaller firms tend to export less since they have less resources to navigate foreign markets and the fixed costs associated with international trade. As a result of their size as well as the sectors in which they operate, in particular some services sectors, they export less than men-owned firms. Demand for many services provided by women has fallen sharply during the COVID-19 pandemic.

Aid for Trade programmes can reduce some of these gaps if they target sectors where women work and lead businesses, and respond to some of the challenges they face (Table 3.1). Some programmes increase access to finance, including export finance, for women-led and women-owned firms. Targeting sectors where women work, as well as those that were particularly hit during the pandemic, may bring gains in the recovery period. Given the increase in the importance of digital trade, and existing digital gender gaps especially in developing countries, targeting digital networks and training for women in digital skills could bring strong gains. Trade facilitation reforms could also help women-owned firms navigate burdensome border procedures and reap the gains from trade.

Many gender gaps cannot be explained by differences in educational attainments or any other factors. Cultural and societal norms and unconscious bias are prevalent in all societies and are compounded in some by discriminatory legal and administrative frameworks. Tackling such norms can be challenging, but could at the very least be integrated in overarching Aid for Trade strategies.

Table 3.1. Women in trade: how Aid for Trade addresses the challenge

Gender-related obstacles to exporting	Potential solutions through Aid for Trade
• Discriminatory legal and administrative frameworks • Their firms are smaller and often export less • Cumbersome border procedures • Trade is risky and they have less access to trade finance • They work more in services which have higher trade barriers • During the pandemic, demand fell for many goods and services that women provide, such as tourism • Much trade is online and the digital divide persists • Unconscious bias and societal norms hold women back from achieving full potential	• Allowing women better access to finance to grow their business • Advocating for trade facilitating measures to make border crossings quicker and easier • Making trade finance more readily available and ensuring access for women • Advocating for lower trade barriers, especially in sectors where women work and own businesses • Targeting sectors hard hit by the pandemic twhere women often work • Providing access to digital services and training to women and girls • Showcasing successful women entrepreneurs and challenging mindsets

Aid for Trade resources with a gender focus are increasing

The OECD tracks and analyses development financing in support of gender equality and women's rights, using the DAC gender equality policy marker. The gender marker can be used to estimate Aid for Trade flows that include a primary or significant objective to support gender equality (Box 3.2).

Box 3.2. What is the gender equality policy marker?

The marker is a qualitative statistical tool to record development activities that target gender equality as a policy objective. The gender equality policy marker is used by DAC members as part of the annual reporting of their development activities to the DAC, to indicate for each aid activity if, and at what extent, it targets gender equality as a policy objective. In addition, some philanthropies, private sector organisations, non-DAC donors and other actors have started monitoring their development activities using the policy marker. The data based on the marker provides a measure of the development finance from DAC members and other actors that has gender equality as a principal or significant objective.

The DAC gender equality policy marker uses a three-point scoring system, to qualitatively track the financial flows that target gender equality. This allows the OECD to identify gaps between DAC donors' policy commitments and financial commitments. The marker strengthens the transparency and accountability in development financing for gender equality and women's rights. At present, 92% of total bilateral "sector-allocable" aid is screened against the gender equality marker.

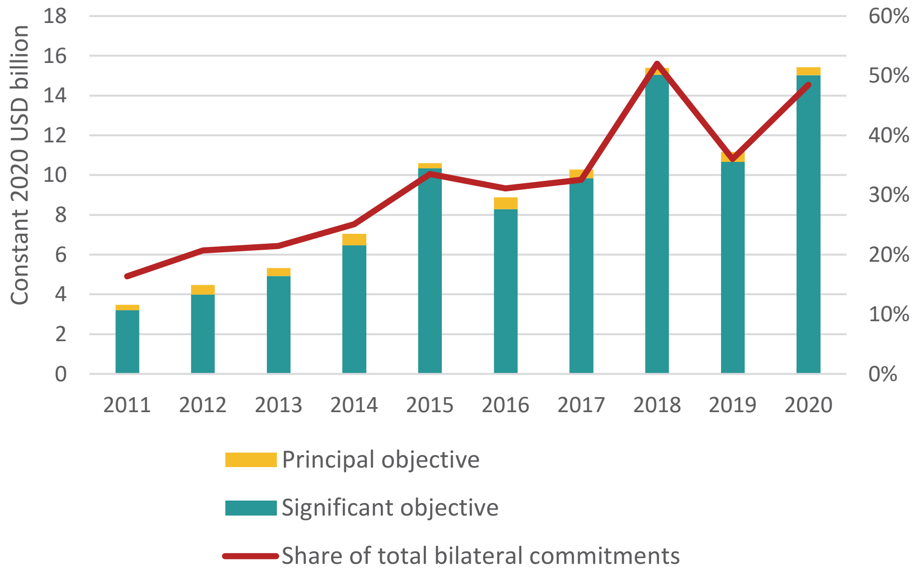
- **Principal** *(marked 2)* means that gender equality is the main objective of the project/programme and is fundamental is its design and expected results. The project/programme would not have been undertaken without this objective.
- **Significant** *(marked 1)* means that gender equality is an important and deliberate objective, but not the principal reason for undertaking the project/programme, often explained as gender equality being mainstreamed in the project/programme.
- **Not targeted** *(marked 0)* means that the project/programme has been screened against the gender marker but has not been found to target gender equality.

Source: OECD (2022[35]), DAC gender equality policy marker, https://www.oecd.org/dac/gender-development/dac-gender-equality-marker.htm

Aid for Trade projects and programmes increasingly integrate gender objectives. In 2020, 48% of Aid for Trade commitments from official bilateral donors included a focus on gender equality. This share has steadily increased since 2011, when only 13% of commitments from bilateral donors included such a focus. However, very few projects have a primary objective to promote gender equality: only 1% of total Aid for Trade commitments from bilateral donors are associated with a "principal" objective to promote gender equality (Box 3.2). In terms of income group, 36% of commitments are allocated to LDCs and other LICs, 26% to LMICs, and 7% to UMICs.

Figure 3.10. Aid for Trade commitments from bilateral donors with a gender focus, 2011-20

USD billion, 2020 constant prices

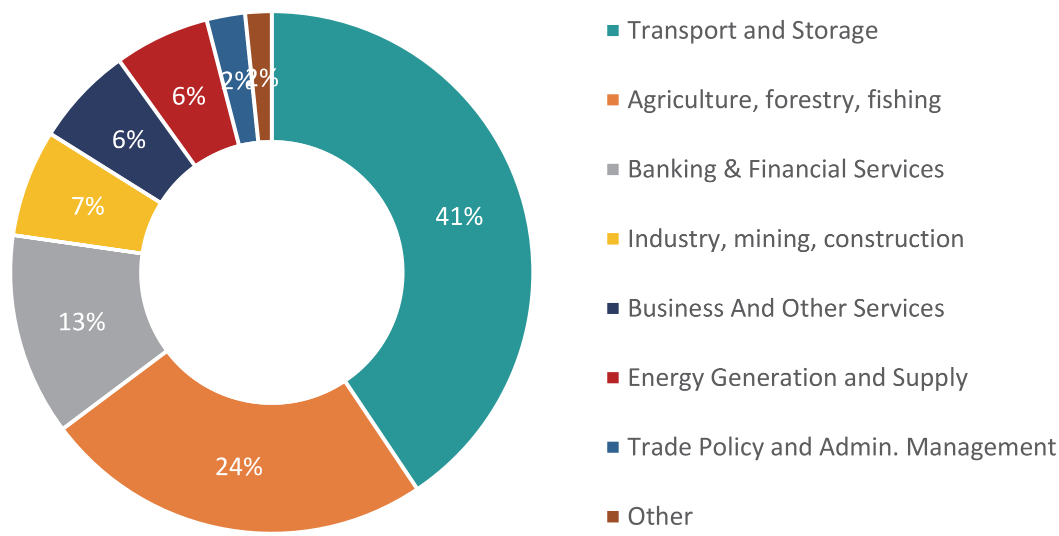


Note: Aid for Trade committed in 2020 by DAC members.
Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/

In 2020, nearly all gender-related Aid for Trade commitments from bilateral donors were either in the building productive capacity (50%) and economic infrastructure (48%) Aid for Trade categories. This compares with 46% of total Aid for Trade commitments for building productive capacity, and 51% of total Aid for Trade commitments for economic infrastructure in 2020. Differences between allocations for gender-related programmes and other programmes may partly be explained by the extent to which the projects can target specific groups of recipients. For example, although women may be among the beneficiaries of improvements in economic infrastructure, in many cases such improvements do not specify the recipients of such programmes, and there were no indications that efforts were made to ensure equal access to and benefits from these programmes for women and men. There are however some exceptions to this, such as the Markets for Change programme that focuses on improving conditions in marketplaces, particularly where women vendors predominate, by providing, for example, better refrigeration and protection against weather events.[7]

Gender-related Aid for Trade commitments tend to be slightly better represented in sectors where women work, compared with overall averages of Aid for Trade programmes. For example, 24% of Aid for Trade programmes in agriculture, forestry and fishing include a focus on gender equality, while the sector overall represented 19% of total Aid for Trade commitments in 2020. The same goes for business and other services, which account for 4% of total Aid for Trade commitments and include 6% of gender-marked commitments. Slightly fewer commitments are in sectors where women workers are less present, such as banking and finance as compared with programmes with no gender marker. A notable exception to this is transport and storage, a sector where female labour participation tends to be low[8] and which accounted for 41% of total gender-related Aid for Trade commitments in 2020. Such projects often include a focus on improving women's access to services through enhanced transport infrastructure, and not necessarily on increasing the share of female employment in the industry.

Figure 3.11. Gender-related Aid for Trade commitments by sector, 2020



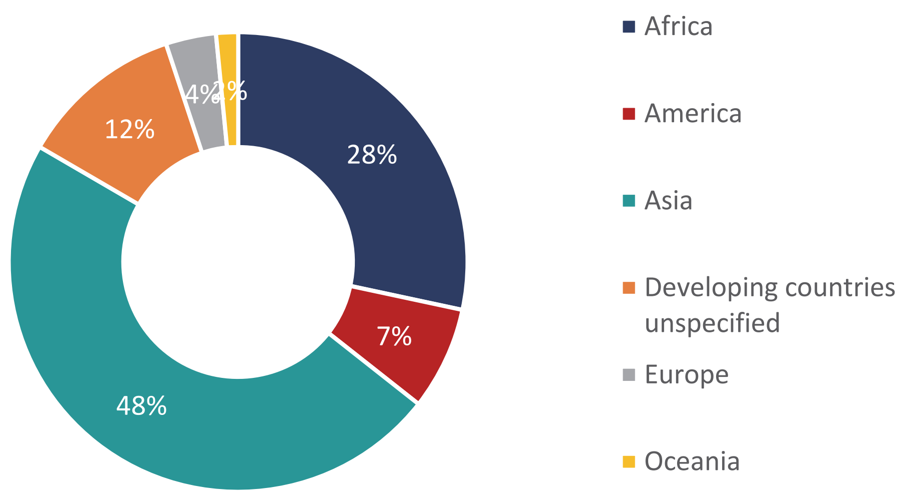
Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/.

The share of Aid for Trade programmes that include a focus on gender in the service sector is relatively small (6% of all gender-related commitments from bilateral donors). Services however present a high potential to promote gender equality. Women tend to be relatively well represented in services, particularly in recent periods as jobs in services have expanded sharply. In low- and lower middle-income countries, 38% of women worked in the service sector in 2017 compared with 25% in 1991 (WTO/World Bank, 2020[33]). Additionally, many more service firms are managed by women than men, particularly in the regions where Aid for Trade is most often destined—Sub-Saharan Africa, East Asia and South Asia.

The difference between women's participation in the service sector and the support they receive through Aid for Trade programmes may represent an opportunity for a more targeted approach. Women often work and own businesses in retail trade, personal services, as well as communications and other business services. The highest shares of exports by small firms owned by women were in tourism and travel-related services, such as travel agencies, tour operators, hotels, and restaurants, as well as in transport. Tourism not only is an important source of female employment but also offers concrete opportunities for female business owners to trade internationally. Moreover, tourism was one of the hardest-hit sectors during the COVID-19 pandemic and has not yet recovered, particularly in low- and lower middle-income destinations.

The geographical breakdown of gender-related Aid for Trade commitments differs from the allocation of total Aid for Trade commitments. In 2020, 48% of Aid for Trade commitments that included a focus on gender equality were in Asia, followed by Africa (28%), America (7%), Europe (4%) and Oceania (2%) (Figure 3.12). These differences are partially explained by the prevalence of transport and infrastructure projects including a gender focus in Asia, which tend to have higher average volumes of commitments per project. For example, in 2020, 78% of gender-related commitments (equivalent to USD 5.6 billion) in Asia were in the transport and storage sector, which compares with 11% (USD 387 million) in Africa. In Africa, 50% of commitments (USD 1.8 billion) that include a focus on gender equality were in agriculture, forestry and fishing compared to 9% in this sector in Asia. These data suggest a high potential to step up gender-related support in Africa. There is also scope to better integrate a gender lens in Aid for Trade projects across sectors, particularly in Asia where support is highly concentrated in transport and storage.

Figure 3.12. Gender-related Aid for Trade commitments by region, 2020



Note: Gender-related Aid for Trade commitments from DAC bilateral donors
Source: Based on OECD (2022[5]), OECD.*Stat*, Creditor Reporting System, https://stats.oecd.org/.

Appropriate measurement of gender-related Aid for Trade projects is essential to adequately track and improve the effectiveness of projects that aim to support gender equality and avoid any risk of "gender-washing". The OECD has developed a handbook on the DAC gender equality marker to help donors effectively report on their projects and programmes that include a focus on gender. The handbook includes guidance and good practice examples that ensure effective measurement and monitoring of gender-related ODA (OECD, 2016[36]). Furthermore, when identifying gender-related Aid for Trade programmes, it is important to ensure that such programmes target women in the sectors where they work and lead businesses, and address some of the challenges they face. As part of the 2020 Aid for Trade M&E exercise, the OECD and the WTO have identified a number of policy areas where targeted Aid for Trade interventions can yield results (Box 3.3). These project categories are described in further detail in the WTO *2022 Aid for Trade Global Review* report (WTO, 2022[37]).

Box 3.3. Gender-related Aid for Trade programmes: Key policy areas of intervention

Women face a number of barriers to trade that Aid for Trade can help address. A targeted focus of Aid for Trade programmes can enhance its effectiveness in supporting gender equality in the following key areas:

Access to finance

One of the well-known barriers to trade faced by women-owned and women-led firms is access to finance and more specifically, access to trade finance (Korinek, Moïsé and Tange, 2021[38]); (WTO/World Bank, 2020[33]); (ITC, 2019[39]). This is particularly acute for exporters since undertaking sales abroad can entail greater risks of non-payment, delays, interoperability of systems, and potentially more limited legal recourse. Trade credit closes the financing gap between the time of contracting for goods or services, and the delay in payment following delivery. However, because international trade carries more perceived risk than sales to domestic clients, the requirements by financial institutions in terms of creditworthiness, due diligence information, collateral, and financial statements are typically higher than for access to domestic credit services (WTO/World Bank, 2020[33]). Aid for Trade programmes could aim to close some of the access to financing gaps, including in the area of export finance.

Networking and digital platforms

The Covid-19 pandemic has highlighted the importance of digital platforms and online buying and selling. Globally, during the pandemic, businesses that reported higher shares of digital sales were also more likely to have reported more robust sales (Facebook, 2021[40]). Moreover, women-owned and women-led firms are at least as engaged in online sales as their male counterparts (Korinek, Moïsé and Tange, 2021[38]), partly due to the sectors in which they work such as retail trade, and also because they sell more to individuals than to other businesses compared with men-led firms. However, women entrepreneurs and business owners tend to have fewer and shallower business networks than their male counterparts (ITC, 2019[39]); (Korinek, Moïsé and Tange, 2021[38]). Providing a platform for women entrepreneurs to engage with clients and goods and services providers can bridge some of these gaps.

Trade facilitation and trade-related infrastructure

Poor infrastructure remains a major bottleneck to trade in many partner countries. By raising labour productivity and lowering production and transaction costs, quality economic infrastructure enhances economic activity and trade, and can contribute to economic diversification (OECD/WTO, 2019[41]) and more inclusive outcomes. Investments in infrastructure can bring people closer to markets and to jobs. Enabling more individuals to access trade-related jobs is important since those jobs generally pay more, are more likely to be in the formal sector, and are in higher-productivity firms. This is especially relevant for women who are generally paid less, are more likely to be in the informal sector, and in lower quality jobs.

Trade promotion and readying businesses for export

Trade promotion is one of the main instruments in the trade policy toolkit. OECD countries provide extensive support to their exporters through their trade promotion agencies. A substantial number of Aid for Trade programmes provide technical assistance and help build capacity for women-led firms to promote exporting their businesses and become export ready. In some cases, this means aligning local products with international standards and aiding businesses to obtain certifications. Other programmes offer services to promote their exports abroad through engagement in supply chains and distribution channels. Others provide information about clearance procedures, licensing requirements and how to take advantage of market access provided through trade agreements.

Note: See WTO (2022[37])for a more extensive description of categories of Aid for Trade with a gender focus.

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Notes

[1] Between 2015 and 2020, ODA totalled USD 198.4 billion per year on average

[2] Transition finance refers to the changing financing needs of developing countries as they transition across income levels and eligibility to specific financing instruments and measures. For more information, see: Transition Finance Toolkit - OECD

[3] See WTO announcement to ramp up action on trade an environment https://www.wto.org/english/news_e/news22_e/envir_13jun22_e.htm

[4] See outcomes of WTO 12th ministerial conference: https://www.wto.org/english/news_e/news22_e/mc12_17jun22_e.htm

[5] See e-commerce joint JSI initiative: https://www.wto.org/english/tratop_e/ecom_e/jiecomcapbuild_e.htm.

[6] The WEF has identified eight emerging job clusters based on new methodologies developed in collaboration with LinkedIn Economic Graph Team. Women are under-represented in six of them, namely cloud computing, data and artificial intelligence, engineering, product development, sales and marketing. Female representation tends to be higher in only two emerging job families, namely people and culture, and content.

[7] For more information on Markets for Change, see: https://www.undp.org/pacific/publications/markets-change-fiji-solomon-islands-and-vanuatu-project

[8] According to the ILO, detailed statistics on the employment of women in the transport sector are hard to come by. Where such data is available, it indicates very low participation by women. For example the population of women seafarers is estimated to be only 1-2% of the world's total seafaring labour force (2013 data). See ILO Briefing note on women in the transport sector. wcms_234882.pdf (ilo.org)