CHAPTER 6:
THE WAY FORWARD

INTRODUCTION

Much has been achieved since the start of the Aid-for-Trade Initiative in 2005. Previous Global Reviews of Aid for Trade and editions of *Aid for Trade at Glance* have clearly shown that aid for trade is bettering the lives of many men and women in developing countries. Comprehensive monitoring has provided clear evidence that the Initiative has resulted in the prioritisation of trade objectives in development strategies and has galvanised donor support to tackle the bottlenecks that undermine the ability of producers in developing countries to exploit regional and global market access opportunities. Aid for trade is helping developing countries tap into the power of markets and connect to new growth poles in the global economy. The aid-for-trade case stories (OECD/WTO, 2013) also paint an encouraging picture of numerous donor supported, trade-related projects and programmes that are delivering a wide range of tangible results in terms of trade performance, private investment and employment creation in a large number of developing countries. The 2013 joint OECD/WTO monitoring exercise described in this publication highlights that these positive trends are continuing.

However, since the 2005 WTO Ministerial Conference in Hong Kong agreed on the aid-for-trade mandate (subsequently operationalised by the WTO Task Force in 2006), much has changed in the trade and development environment. Research by the OECD and WTO on trade in value-added is shedding light on the complex production networks that characterise global trade today. The deepening and widening of value chains has boosted the share of intermediate goods and services in trade as more firms and countries join these diffuse networks. Fragmentation of production has created new opportunities for integration into regional and global trade.

In the area of development co-operation, the 2012 Global Partnership for Effective Development Co-operation provides a new and comprehensive framework for co-ordinating the efforts of a variety of donors to help developing countries leverage diverse forms of development finance, and for ensuring that all these efforts have a catalytic effect on trade and development.

This chapter summarises the main developments in aid for trade since the 2011 Global Review. Based on the findings of the OECD/WTO monitoring survey, the analysis of aid-for-trade flows, and conclusions in the broader trade and development literature, it appears that the proliferation and deepening of value chains and the concomitant widening of trade opportunities for developing countries do not require major shifts in the focus of aid-for-trade efforts. Nevertheless, there is room for improvement, such as further engaging providers of South-South trade-related co-operation and the private sector, expanding the focus from ODA to development finance, improving the conditions for regional projects, and better managing aid for trade and development results. To ensure that the Initiative remains relevant in the changing trade and development landscape, these issues should be discussed at the 9th WTO Ministerial Conference in Bali, Indonesia, in December 2013.

SUMMARY

In 2013, 80 partner countries (including 36 LDCs) submitted aid-for-trade self-assessments. These countries received USD 22.8 billion in aid-for-trade commitments in 2011, or 67 percent of total country programmable aid for trade (excluding multi-country programmes). In 2013, 43 bilateral and multilateral donors submitted aid-for-trade self-assessments. Taken together, these agencies provided practically the totality of aid-for-trade commitments. In addition, nine providers of South-South trade-related co-operation (including China and India) participated in the 2013 OECD/WTO monitoring exercise.

As a new feature of the 2013 monitoring exercise, the views of the private sector were solicited on how aid for trade can assist in connecting to value chains. Not only was this solicitation of views an innovation in itself, but so were the partnerships established to undertake it, *i.e.* with Grow Africa, the International Chamber of Commerce (ICC), the International Trade Centre (ITC), the International Telecommunication Union (ITU) and the United Nations World Tourism Organization (UNWTO). The 524 responses submitted by firms and business associations in developing countries present strong views on the binding constraints they face in linking to, moving up and establishing value chains, while the 173 responses from lead firms show the obstacles they face in engaging with enterprises in developing countries. The 697 responses from the private sector indicate the areas that offer the greatest potential for public-private partnerships to deliver the objectives of the Aid-for-Trade Initiative.

Priorities

Aid for trade is evolving in response to changes in the trade and development environment. Increasingly, partner countries, including the least developed, are focusing on policies to reduce the thickness of their borders, improve the environment for private sector led economic growth, and create conditions that will assist their firms to connect to regional and global value chains. Bilateral donors are responding to these changing priorities. They are also putting more emphasis on programmes to promote private sector development, in particular through addressing market failures such as information asymmetries and trade finance as well as through helping SMEs to improve exports, particularly at the intensive margin. In addition, multilateral donors are focusing their attention on improving trade-related infrastructure, while providers of South-South co-operation continue to scale up their support to enhance South-South trade. Although many donors report that they prioritise value chain development in their strategies and programme design, others still have difficulties integrating this concept into their programming.

Among other challenges that remain, promoting private sector development and upgrading hard and soft infrastructure through instruments such as public-private partnerships are not without problems. Although there have been noticeable improvements, many projects are bedevilled by different expectations about appropriate roles and the sharing of costs and benefits. In engaging the private sector, donors should be open-minded about new solutions. In particular, the public sector should be prepared to play a supporting role in regard to the private sector's own initiatives. All stakeholders remain strongly engaged in the Aid-for Trade Initiative, and it seems that the opportunities offered through the rise of value chains have reinvigorated debate. While provision of aid for trade does not seem to be decisive in shaping the strategies and policies of partner countries, donors or providers of South-South trade-related co-operation, budget pressures have increased the urgency to show results. This has been reconfirmed as a priority.

Investment in trade capacities

The Monterrey Consensus highlighted that trade is in many cases the single most important external source for financing development. Increased trade and foreign direct investment, combined with complementary policies, can boost economic growth and provide a significant source of employment. While in many developing countries foreign and domestic investment provides the primary source for building trade capacities and connecting to value chains, ODA remains an essential complement, especially for the least developed countries.

After several years of increasing aid-for-trade flows, the financial crisis and subsequent budgetary economic challenges faced by OECD members, donors have put downward pressure on aid budgets. This is also affecting the volume of aid for trade. In 2011, commitments amounted to USD 41.5 billion – an increase of 57 percent compared to the 2002-05 baseline average, but a 14 percent decline from 2010 levels. However, and reflecting the increasing priority that partner countries and donors attach to private sector development, aid to that sector increased in 2011 by USD 171 million to reach USD 18.23 billion, up 58 percent from the baseline. Furthermore, the trade development objective of these programmes more than doubled, from USD 2.6 billion in 2007 to USD 5.4 billion in 2011. Support for multi-country programmes, which often have a greater impact than national programmes, reached its highest ever level at USD 7.7 billion.

While aid-for-trade resources have been scaled up significantly during the last five years, the outlook for the coming years is less positive, particularly for bilateral donors. Based on provisional 2012 ODA data, a further decline in aid for trade is likely, in line with an overall decrease in ODA of 4 percent in real terms. On the basis of the DAC Survey on Donors' Forward Spending Plans and the OECD/WTO monitoring survey, a moderate recovery in aid levels is expected in 2013. Multilateral donors have reported that they will maintain their spending. One cause for optimism is that providers of South-South trade-related co-operation have indicated that they will continue to scale up resources over the next five years. With prospects of a return to economic growth in the OECD at best muted, assistance from South-South partners to connect to growth poles in the global economy may be particularly valuable.

Value chains as a development path

The international fragmentation of production in value chains (driven by technological progress, cost reductions, access to resources and markets, and trade policy reform) has important policy implications for economic growth in developing countries. Value chains can create a path through which countries will be able to industrialise at a much earlier stage of development. Value chain participation may offer considerable opportunities. It encourages suppliers to meet standards and regulations that permit them to access export markets; it may permit the utilisation of network technology that would not otherwise be available; and it may open up new sources of capital. However, value chains also raise the costs of maintaining inefficient border procedures, high tariffs and non-tariff barriers that unnecessarily constrain goods or services trade, restrictions on the flow of information, impediments to FDI, and restrictions on the movement of people.

The responses to the OECD/WTO questionnaire indicate that value chains are indeed increasingly influencing partner country development strategies and donor programming. Developing country governments' main objectives in linking to value chains are to add value to their exports, increase employment and reduce poverty. The main obstacles to these reaching these objectives are lack of access to finance (in particular, trade finance), transportation and shipping costs, inadequate infrastructure and regulatory uncertainty (often tied to a complex business environment), together with a lack of labour skills. Donors and South-South partners also point to the inability to attract FDI and the lack of comparative advantage. Among lead firms, customs procedures rank high while other prominent concerns include regulatory uncertainty (reflecting developing country suppliers' issues with the complex business environment) and compliance with standards. Informal practices and payment requests were also cited as areas of particular concern for their negative impact on investment decisions.

There is a clear convergence between the perceptions of governments, donors and the private sector on the issues to be addressed, which provide clear guidance about where aid for trade could help developing countries connect to value chains. The priorities revealed by the OECD/WTO survey could also help to establish closer co-operation and synergies between the public and private sectors in identifying aid-for-trade projects, financing their implementation, improving their monitoring and impact assessment, and ultimately increasing their effectiveness. Such a co-operative approach would be very much in line with the Busan Partnership for Effective Development Cooperation.

The potential of regional approaches

Regional production networks boost trade performance and create a demand for trade-enhancing measures to strengthen efficiency through, for example, trade facilitation and better soft and hard infrastructure. Participating in these regional networks may provide ready-made external markets for local production. It also has a "learning-by-doing" effect on local firms as the economy gradually opens up to regional and global markets. Regional co-operation presents especially significant opportunities for small LICs, which in the past have generally been excluded from beneficial FDI-trade links. Therefore, regional co-operation can serve as a stepping stone for facilitating linkages to value chains and deeper integration into wider regional and global markets.

For developing economies to attain the benefits of regional integration and co-operation, they should address a variety of market failures and constraints. Multi-country and regional aid for trade can play an important role in this regard. Donors have been supporting regional co-operation through aid-for-trade programmes that have focused on removing the binding constraints to regional integration. These programmes, developed in close co-operation with partners, have mainly been directed at the sub-regional level. Evaluations have shown that they have been successful in spurring growth, reducing poverty and diversifying the economy. Regional aid for trade can play a cost-effective role in supporting regional integration and co-operation; it constitutes a critical area in which donor and recipient countries can get the "biggest bang for the buck".

Tangible results

There is growing evidence suggesting that aid for trade is broadly correlated with increases in trade. In the case of trade between two countries, econometric studies and statistical analysis in this publication indicate that aid for trade is associated with greater exports and imports. Aid for trade targeted at infrastructure has helped build new connections to regional and global markets by financing investments in roads, ports and telecommunications. Similarly, aid for trade targeted at productive capacity (*e.g.* in developing tourism, agriculture or special economic zones) is helping to increase trade.

Aid for trade works best when it is focused on reducing trading costs through improvements in infrastructure, trade facilitation, trade-related public institutions (such as customs, standards administration and export promotion) and policies (including eliminating policy barriers to competition). Furthermore, aid for trade best boosts trade performance and promotes trade-led growth when recipient countries have a supportive business environment, stable macroeconomic policies, and an investment climate that encourages private investment. The absence of peace and security has a large dampening effect on export performance, with the power to wipe out any benefits from investment in aid for trade. Similarly, the negative impacts of high and unstable inflation, corruption, lack of well-defined property rights, and erratic microeconomic policies, which undermine the effectiveness of all aid, apply to aid for trade.

Not only does policy matter, but so do government management systems. Governments that work together with donors to overcome supply-side constraints in the context of a well-formulated programme with specific goals are likely to have the greatest pay-off. This implies government ownership, mutual accountability, and overall alignment and harmonisation and management for results (*i.e.* adherence to the Paris Principles of aid effectiveness). A first step towards such co-operation is to build in clear quantitative objectives for every project, at each phase of the results chain, along with indicators to measure progress. Assistance to help governments build this type of results-based management capacity has a high pay-off for all development assistance, as well as for trade.

THE WAY FORWARD

The Aid-for-Trade Initiative has succeeded in raising awareness about the development potential of trade, mainstreaming trade in partner country and donor agency planning and policies, mobilising resources, and achieving results. The Initiative has proven to be flexible enough to incorporate new trade and development dimensions.

The original aim of this every-two-years monitoring exercise was to put a spotlight on aid for trade (*i.e.* to raise awareness about the role of trade as an engine of growth and economic development, measure aid-for-trade flows to assess their additionality and sustainability, and create incentives for more and better aid for trade). Monitoring has subsequently evolved to examine implementation, effectiveness and results and has created a community of knowledge sharing about best practices in aid for trade. The monitoring framework has broadened the partnership involved in the Initiative, with strong participation from the donor community, partner countries and providers of South-South trade-related co-operation, and (as highlighted in this publication) the private sector.

At the global level, a broad aid-for-trade agenda is justified in order to capture the broad range of binding constraints that developing countries face in improving their trade capacities. At the country level, the aid-for-trade dialogue should be focused on a narrower set of priorities that reflect local conditions and specific constraints. Furthermore, as shown in this publication, both the public and private sectors in developing countries favour a broad conception of aid for trade that includes investment (domestic and foreign), prioritising competitiveness, trade-related infrastructure, access to finance, and skills development.

Revisiting the monitoring framework?

Aid-for-trade monitoring relies on self-assessments through questionnaires. This approach ensures that all stakeholders have a channel for feedback. Furthermore, the self-assessments have generated ample amounts of unique information, allowing for extracting best practices concerning aid-for-trade policies, programmes and procedures. This does not imply that these findings should be accepted uncritically, nor does it preclude more rigorous systematic analysis. On the contrary, a key strength of the Initiative has been its flexibility in incorporating new results and embracing evaluations, impact assessments and research findings from international organisations, think tanks and academia. The global monitoring effort that the Initiative embodies helps give these other approaches direction. As the agenda has evolved, the Initiative has stimulated a broad range of diverse initiatives and activities at the regional and country level. Without the global spotlight effect, these initiatives would likely have attracted limited attention.

Concerns have been expressed regarding the disconnect between the global dialogue on aid for trade that takes place in Geneva and donor capitals on the one hand, and in-country donor-government collaboration in managing aid for trade on the other. Because the 2006 WTO Task Force on Aid for Trade recommended a broad concept for global measurement of aid for trade, activities are included despite the view of several line ministries (and donor departments) that they do not think of themselves as providing aid for trade. One possible way to address this concern would be to distinguish more clearly between the current broad measurement of aid for trade – which is useful for global monitoring – and a narrower subset of activities directly associated with trade expansion, such as projects to reform border posts, standards facilities, customs, tariff reforms, non-tariff barriers and the like. Such a distinction would also be more in line with the WTO Task Force definition of aid for trade as "projects and programmes that have been identified as trade-related development priorities in the recipient country's national development strategies."[1] A narrower local optic such as this would facilitate a more focused discussion on a limited set of policy objectives and facilitate better global-local dialogue, not only between donors and partner countries but also between donors' headquarters and in-country staff and between the trade community and development community.

As outlined in the Paris Declaration on Aid Effectiveness, the promotion of mutual accountability, such as in the Aid-for-Trade Initiative, is designed to build genuine partnerships among different communities and focus them on delivering results. Three elements are central in establishing such partnerships: a shared agenda with clear objectives and reciprocal commitments; monitoring and evaluation of these commitments; and, closely related, dialogue and review to create incentives for honouring commitments and, ultimately, changing behaviour. In fact, the Aid-for-Trade Initiative has been characterised as "one of the key examples of global partnerships for development at work".[2]

Informing the post-2015 agenda

The Millennium Declaration and the Millennium Development Goals (MDGs) have rallied the global community behind a common vision for development. The MDGs have been effective in mobilising worldwide awareness, leveraging resources, guiding global efforts, monitoring progress and increasing accountability. Providing assistance for trade capacity building is one of the indicators that measure progress towards a global partnership for development (MDG 8). Thus, aid for trade plays a supportive role in the realisation of the MDGs, especially MDG 1 (eradication of extreme poverty and hunger).

Work has already begun on a new post-2015 agenda and framework. The WTO and others have argued that "economic growth and trade – as a driver of growth – deserve a prominent place in the post 2015 development agenda", calling for an "agenda that integrates economic growth with social inclusion and with environmental protection" (Lamy, 2013). For the post-2015 development framework, the OECD proposes a small number of high-profile goals and targets at the global level as well as goals, targets and indicators at the national level that are defined and tailored to the diverse starting points, specific contexts, priorities and capacities of each country (OECD, 2013). Furthermore, the OECD has suggested a set of MDG objectives and targets to guide country-owned trade-related development strategies and indicators, which could be used to measure progress.

Renewing the commitment

What seems to be most needed now is a renewed commitment by all stakeholders to continue supporting developing countries in building the supply-side capacities and infrastructure they need to make trade an engine of growth and poverty reduction. The Global Review in July 2013 and the 9th WTO Ministerial Conference in December 2013 provide important opportunities for discussions on how to ensure the continued relevance of the Aid-for-Trade Initiative in a changing environment for trade and development.■

NOTES

1. WT/AFT/1 (2006).
2. UN System Task Team on the post 2015 development agenda (2013: 6).

REFERENCES

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