CHAPTER 2

AID FOR TRADE, ECONOMIC DIVERSIFICATION AND EMPOWERMENT

Contributed by the Organisation for Economic Co-operation and Development

Abstract: *Since the start of the Aid for Trade Initative, donors have disbursed USD 409 billion in official development assistance to help developing countries build trade capacities. In addition, USD 346 billion in low concessional loans was disbursed. In 2017, aid-for–trade commitments reached USD 57.7 billion, one and a half times the base line average. Empirical findings and evaluations show that this support has helped developing countries improve their competitiveness, expand and diversify their trade, attract foreign direct investment, and create employment for men and women. Despite these positive results, many developing countries continue to specialise in activities with low value added. This means that aid programmes need to focus more explicitly on helping them diversify their economy and create more opportunities for empowering women and youth.*

OVERVIEW

Many developing countries and particularly the least developed, continue to face major competitive challenges in their drive to diversify their economies. Although reductions in trade costs coupled with the diffusion of information and communications technologies are opening up new opportunities, many developing countries continue to face considerable obstacles in maximising their economic potential. In countries that are succeeding in exploiting competitive opportunities, success can be difficult to replicate at national level. This could create "islands of excellence" with the rest of the economy operating at lower levels of capital and knowledge intensity. Factors that influence economic diversification are manifold and context or geographic specific (as is the case of small islands and landlocked developing economies). Some of the barriers to economic diversification are part of the constraints that aid for trade is tackling. They are also highlighted in answers provided to the OECD-WTO 2019 Monitoring and evaluation exercise.

Since the start of the WTO-led Aid for Trade Initiative in 2006, some 60 donors that report their official development assistance (ODA) to the OECD Creditor Reporting System (CRS) have disbursed USD 409 billion to build trade-related capacities and infrastructure. They provided USD 5,7 billion to help developing countries elaborate trade development strategies and negotiate and implement trade agreements. Furthermore, USD 91.6 billion was disbursed to improve energy supply; USD 125.4 billion to build roads, ports, and telecommunications networks; USD 180 billion to support the private sector; and USD 230 million to help countries pay for the costs associated with trade liberalisation. In addition, USD 346 billion in low concessional loans has also been disbursed since 2006. In 2017, aid for trade commitments increased by 12,1% in real terms and reached USD 57 billion, almost one and half times the 2002 – 06 base line average. This number is supplemented with USD 9 billion from South-South providers who are growing in importance as a source of financing for developing countries, although little can be said about how much of this total is trade related.

Empirical findings clearly show that this support has helped developing countries expand and diversify their trade, improve competitiveness, attract foreign direct investment, and create employment for men and women. These empirical findings are corroborated by case stories that were submitted in the context of earlier aid for trade monitoring exercises. Results, however, vary 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.

Evaluations have found that targeted support, no matter how well designed and implemented, is unlikely to bring about sustained gains for the poor without simultaneous policy and institutional reform. But focusing support exclusively on the enabling environment ignores that micro and small enterprises often lack the capacities needed to exploit new market opportunities. Moreover, women and youth are frequently disadvantaged in their economic capabilities and also suffer from discrimination and lack of political voice to influence policy outcomes. Empowerment is essential for addressing the multiple dimensions of exclusion. Policies and investment need to focus more explicitly on expanding the economic opportunities for women and youth. Thus, aid for trade programmes should consider political economy factors that affect the position of women and youth in particular in relation to future demands for employment.

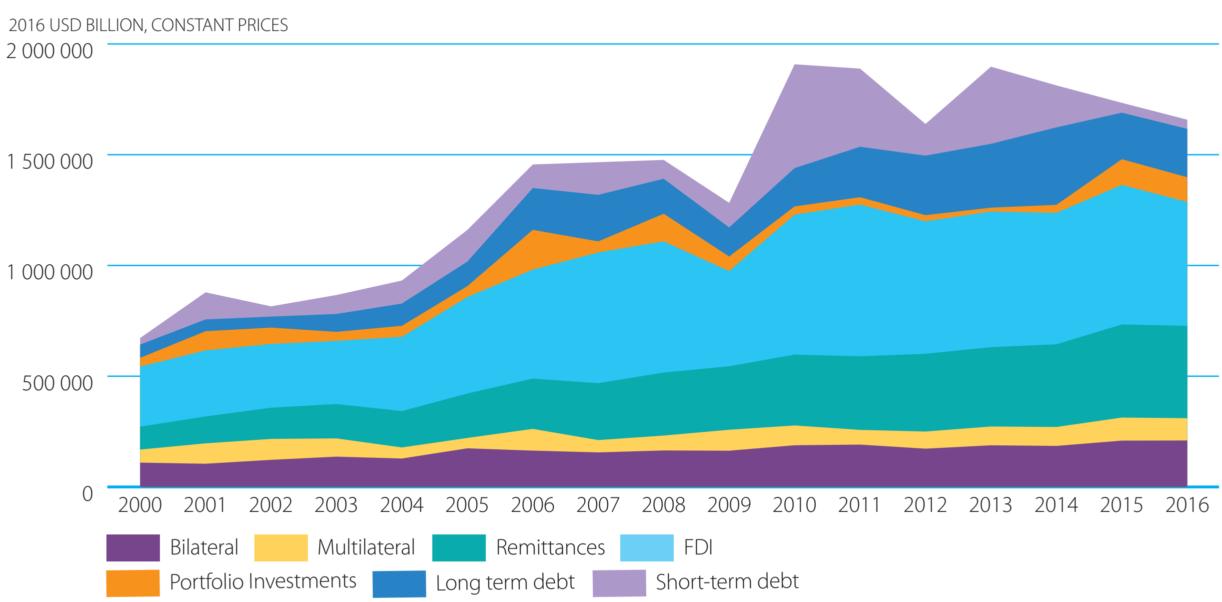
This chapter starts with an overview of the financing for development flows to provide the context for the more in-depth analysis of the aid for trade disbursement since the start of the Initiative in 2006. Next, the chapter highlights academic findings about the effectiveness of aid for trade in expanding and diversifying trade, attracting investment and promoting economic diversification and empowerment. This is followed by a section looking in more detail at those aid-for-trade disbursements that are considered most relevant for promoting economic diversification and empowerment. Next, the short-term outlook for aid for trade is presented.

FINANCING SUSTAINABLE DEVELOPMENT

The vision underpinning the 2030 Sustainable Development Agenda is broad and ambitious; it calls for an equally broad and ambitious financing strategy. The first International Conference on Financing for Development in 2002 singled out trade as often the most important external source of development finance. The 2015 Conference and the resulting Addis Ababa Action Agenda (AAAA) no longer highlight trade as a source of development finance. Instead, the Agenda points towards domestic resources and foreign direct investment, while stressing the need for a substantial additional contribution from the private sector. Trade is referred to as an engine for growth and development. Both the SDGs and aid for trade objectives are dependent on integrated policy approaches and trade-offs. This implies that aid for trade should contribute to the economic objectives of developing countries by helping them to connect their firms to international markets, and expand and diversify trade. At the same time, aid for trade should help achieve social objectives by reducing poverty and inequalities. Finally, aid for trade should pursue environmental objectives through helping developing countries adapt to climate change, while exploiting comparative advantages in low-carbon production (Lammersen, 2019). The next section will sketch the financing for development context and provide an overview of the aggregate aid-for-trade disbursements since the start of the Initiative in 2006.

In 2016, international actors, both public and private, provided almost USD 1.7 trillion in external finance to developing countries, up from roughly USD 675 billion in 2000. The private sector transfers the bulk with around USD 750 million in different forms of investments. Migrants who send home USD 416 billion in remittances are also important, albeit only for a limited number of developing countries. Official providers with combined resources amounting to USD 310 billion target poverty reduction, the poorest countries, and global programs. South-South co-operation flows from ten major countries beyond the DAC are estimated to be USD 9 billion in 2017 up from USD 6.2 billion in 2016 (Figure 2.1).

Figure 2.1. Cross-border finance to developing countries, 2000-2016



Source: OECD calculations based on OECD (2018), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1; World Bank (2018), Migration and Remittances Data http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data; IMF (2017), Balance of Payments database, http://www.imf.org/external/datamapper/datasets/BOP

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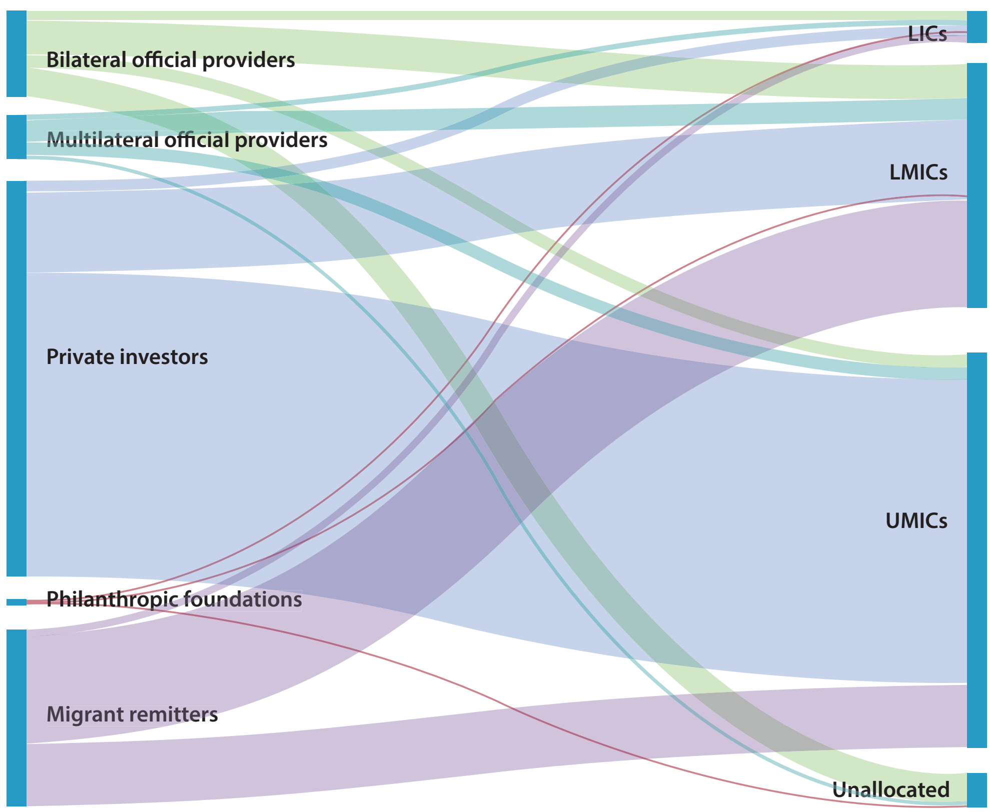
These different flows vary by the type of destination. Low-income countries (LICs) tend to rely more on official and in particular concessional flows, while for lower middle-income countries (LMICs) remittances are a major source of external financing. Together with upper middle-income countries (UMICs), they also attract the largest volume of non-concessional official flows. The major share of private finance goes to UMICs, but is an important source for LMICs as well. Thus, the types of external financing seem to be strongly correlated to income levels, with the composition of cross-border finance changing along the development continuum (OECD, 2019) (Figure 2.2).

Figure 2.2. Destinations of external financing in 2016



Source: OECD calculations based on OECD (2018), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1; World Bank (2018), Migration and Remittances Data remittances; IMF (2017), Balance of Payments

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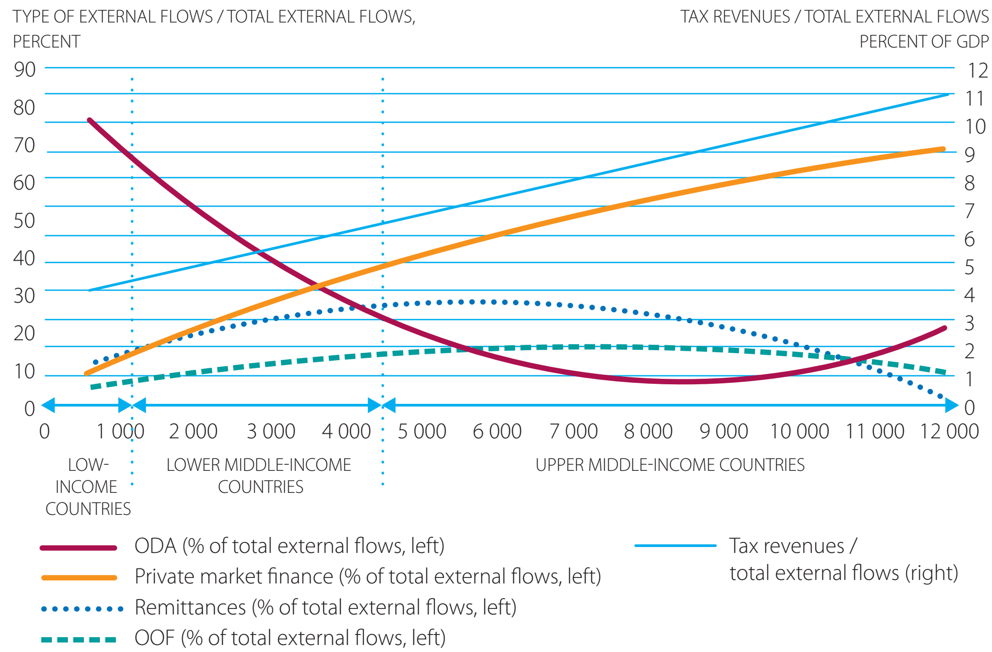
The weight of international public finance declines as national income improves. Official development assistance (ODA), in particular, is the dominant component of external resources for LICs and LMICs constituting between 50%-60% of total external flows. ODA and other official flows (OOF) become less relevant for UMICs, making up less than 10% of external finance. As access to international capital markets becomes available at higher income levels, private finance rises in importance. Remittances are important for LICs, but their share in external financing is highest for LMICs and UMICs. While private flows represent around 30% of all external financing for LICs, they make up 70% of external finance for the richest or UMICs (Figure 2.3).

Development finance intervention mobilised from the private sector amounted to USD 154 billion during 2012 - 17. Africa was the main beneficiary with USD 40.8 billion, followed by Asia (USD 37.5 billion), Europe (USD 32 billion), Latin America and the Caribbean (USD 25.1 billion), with only USD 0.1 billion destined for Oceania. Within these different regions, the overwhelming share of the amounts mobilised supported projects in the UMICs (54%) and LMICs (36%) with only 10% for the LDCs and other low income countries (OLICs). Banking and financial services (USD 43.7 billion), energy (USD 38.9 billion) and industry, mining and construction (USD 28.8 billion) attracted the overwhelming portion of this type of development finance (Figure 2.4).

Figure 2.3. The availability of financing resources at different income levels



Source: OECD (2018), Creditor Reporting System (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1; World Bank (2018), Migration and Remittances Data http://www.worldbank.org/en/topic/migrationremittances-diasporaissues/brief/migration-remittances-data; IMF (2017), Balance of Payments database, http://www.imf.org/external/datamapper/datasets/BOP

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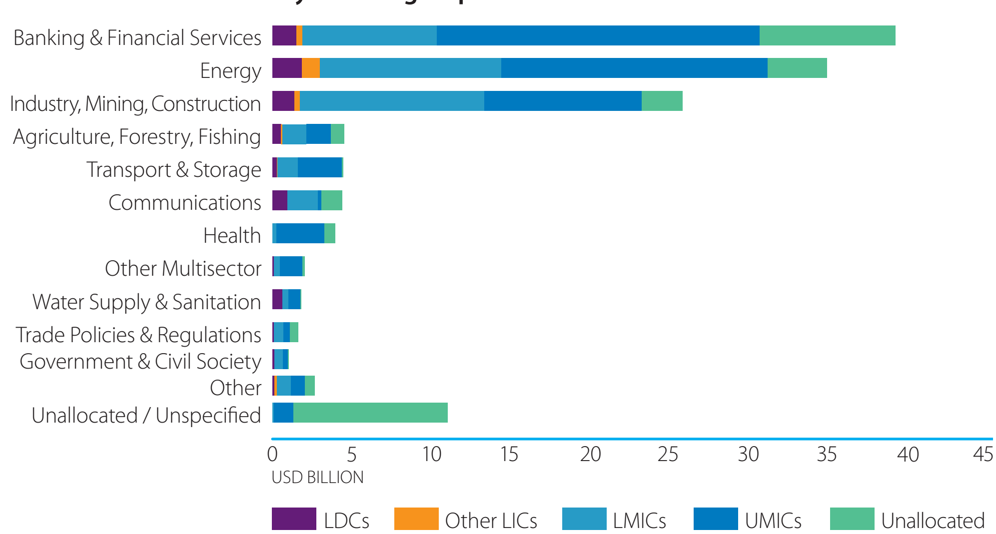
Figure 2.4. Amounts mobilised from the private sector through development finance interventions 2012 – 17 by income group and sector



* For 2016 and 2017, the International Finance Corporation (IFC) did not share information on the sectoral and geographic breakdowns of its private mobilisation due to confidentiality constraints. This amount represents USD 10.3 billion

Benn, J., C. Sangaré and T. Hos (2017), "Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines", OECD Development Co-operation Working Papers, No. 36, OECD Publishing, Paris, https://doi.org/10.1787/8135abde-en.

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Table 2.1. My views on how aid for trade is helping to mobilise other forms of development finance

"The persistence of the political crisis has made it difficult to mobilise foreign private financing."
– **Central African Republic**

"The only funding has come from the EIF, there has been no non-concessional financing or FDI." – **Senegal**

"Over the last ten years, around EUR 3.4 billion of EU grants funded over 380 blended project, this has leveraged EUR 26.2 billion of loans and has helped unlock EUR 57.3 billion of investments of in developing countries."- **European Union**

"Many of operations involve co-financing that helps mobilise concessional and non-concessional financing sources locally and internationally." – **EBRD**

"By helping to lower the risks for investments, recipient countries can mobilise additional sources of development finance, particularly FDI that promotes sustainable diversification gains." – **World Bank**

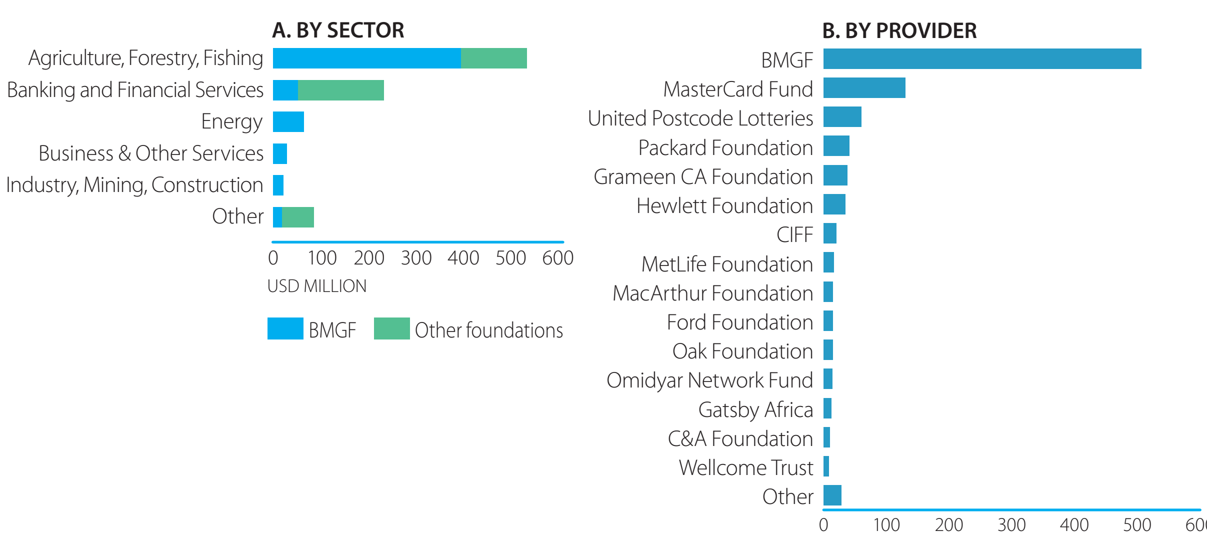
"Our assistance, including private sector instruments, fully mobilises private sector capital." – **Japan**

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

Forty out of 88 respondents to the OECD-WTO 2019 partner country questionnaire and 24 out of 35 respondents to the donor questionnaire stated that the aid for trade has helped them mobilise other forms of development finance. More than half of the forty respondents belong to the LDCs. Among the South-South respondents, Turkey highlighted that aid for trade mobilises other forms of development finance.

Philanthropic grants to developing countries amounted to almost USD 8 billion on average per year during the period 2015 – 17. MICs received 67% of total philanthropic flows with 37% going to LMICs and 30% to UMICs. The remainder went to the LICs. Around USD 963 million is reported with the trade development marker with over half allocated to agriculture and fishery, and almost a quarter to banking and related services. Support for activities in the energy and industry sectors often do not relate to actual construction of infrastructure or production, but is rather focused on transparency, accountability and democratic participation (Figure 2.5a). Although the Gates foundation provides half of all funding, foundations such as MasterCard, United Postcode Lotteries, and others are also important providers (Figure 2.5b)

Figure 2.5a. and 2.5b. Private philanthropy for trade development 2017 (USD million, disbursements, 2017)



Source: OECD (2018), Private Philanthropy for Development, The Development Dimension, OECD Publishing, Paris, https://doi.org/10.1787/9789264085190-en.

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A number of significant providers of development co-operation do not report their development finance flows to the OECD. A conservative estimate by the OECD indicates that total gross concessional development finance by ten non-reporting countries amounted to USD 9 billion in 2017. Little can be said about how much of this amount is provided for trade related programmes or projects. The Second High-level United Nations Conference on South-South Cooperation, noted the role of trade in the growth and economic development of developing countries and recognised the significant contribution of South-South and triangular cooperation in the area of trade and its ability to promote sustainable development. Fifty partner countries, of which 27 LDCs, identified China as the South-South partner that provides most financing for economic diversification, followed by India that was identified by 30 partner countries. South-South providers reported that they focused their support for economic diversification in Djibouti, Egypt, Mauritania, Mozambique, Myanmar, Namibia, Nepal, Nigeria, Papua New Guinea, and Tunisia.

Table 2.2. My View on South-South co-operation

"China is supporting the rehabilitation or construction of our trade related infrastructure." – **Central African Republic**

"India offers trade related capacity building to government officials and China provides development finance for building infrastructure." – **Nepal**

"China, Saudi Arabia, Turkey, Kuwait and Tunisia have been partners for a long time." – **Guinea**

"We have developed economic relations with South-South partners such as China, Iran, India, Turkey, among others."- **Senegal**

"The India, Brazil, South Africa help diversifying economic activities in the coconut sector." – **Kiribati**

"China and India are orienting their investments to source raw materials." – **Democratic Republic of Congo**

"We promote and leverage South-South cooperation modalities to support sustainable development around the world across programmatic areas." - **UNDP**

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

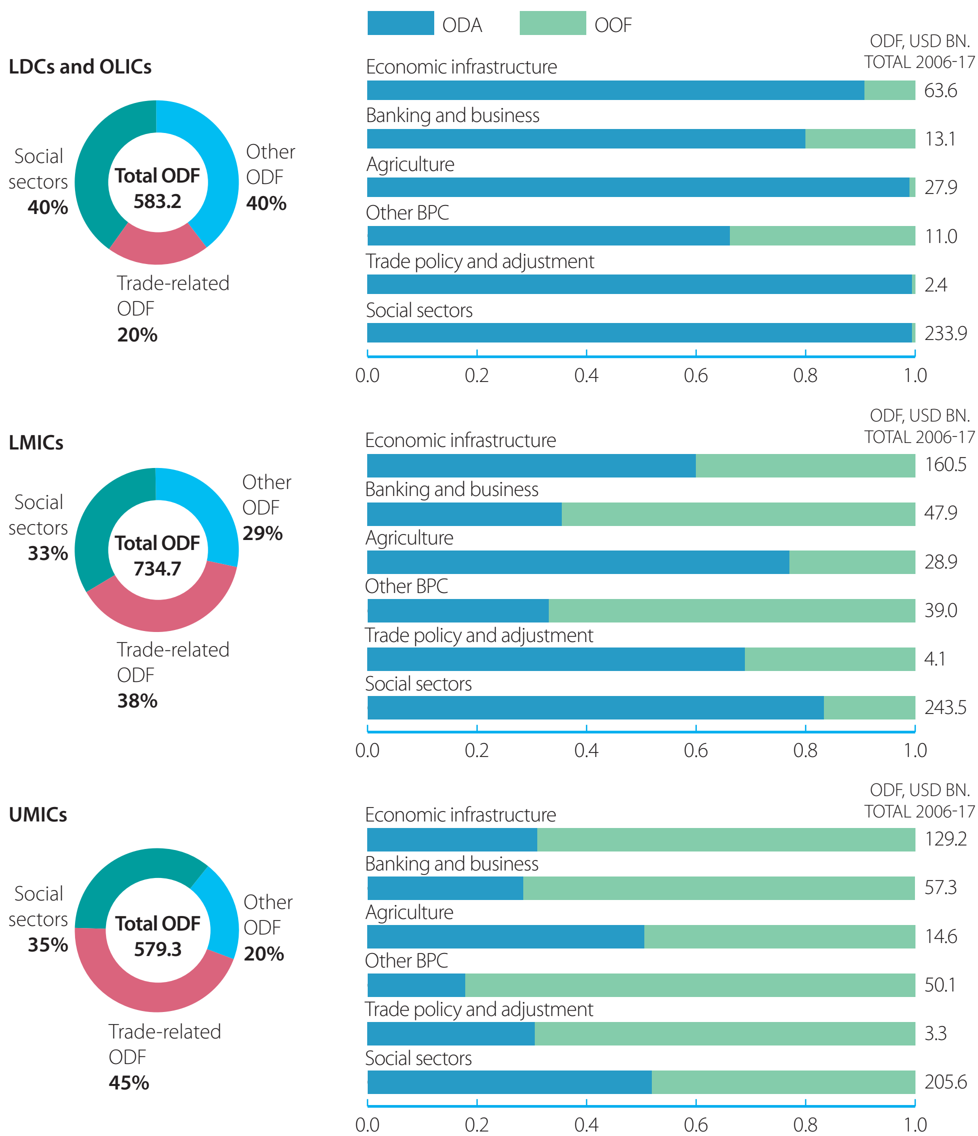
Triangular co-operation combines different types of resources (financial, in-kind, knowledge, technology or other resources) and harnesses the comparative advantages of each partner, aiming at an impact that is greater than the sum of the individual interventions. It was first introduced in the 1970s and gained popularity in recent years according to surveys and analyses (OECD, 2017). These trends are confirmed by data from the Ibero-American General Secretariat that show an eight-fold increase in the number of triangular co-operation projects in Latin America and the Caribbean between 2005 and 2015. Out of the seven donors indicating partnerships with South-South providers, four mentioned Argentina, Brazil and Mexico, three referred to partnerships with Chile, China, Indonesia, Malaysia, Singapore and Thailand. Germany noted that it collaborates with South-South providers across different regions, including Chile, China, Indonesia, Saudi Arabia, South Africa and 9 others. Japan provides financing for economic diversification with multiple partners including Argentina, Thailand, Egypt and 8 others. The United States mentioned Mexico and Singapore.

AID FOR TRADE DISBURSEMENTS SINCE 2006

The Addis Ababa Action Agenda noted, "Aid for Trade can play a major role and should strive to allocate an increasing proportion going to least developed countries." SDG 8 reiterated this call to "increase aid-for-trade support for developing countries, in particular least developed countries." Since the start of the WTO-led Aid for Trade Initiative, some 60 donors that report their official development flows to the OECD Creditor Reporting System (CRS) have disbursed a total of USD 409 billion in official development assistance to build trade capacities and trade-related infrastructure. Disbursements grew on average 9.3% annually from USD 14.9 billion during the 2002 – 05 baseline period to USD 42.2 billion in 2017.

This ODA has helped developing countries elaborate trade development strategies; negotiate and implement trade agreements (USD 5,7 billion); generate energy (USD 91.6 billion); build roads, ports, and telecommunications networks to better connect domestic firms to the regional and global markets (USD 125.4 billion); support the private sector in exploiting their comparative advantages and diversifying their trade (USD 180 billion); and, help countries pay for the costs associated with trade liberalisation (USD 230 million) (Figure 2.6).

Figure 2.6. Aid for trade disbursement by income group, concessionality and category 2006-17



Source: OECD-DAC CRS: aid activity database (2019), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 06 February 2019).

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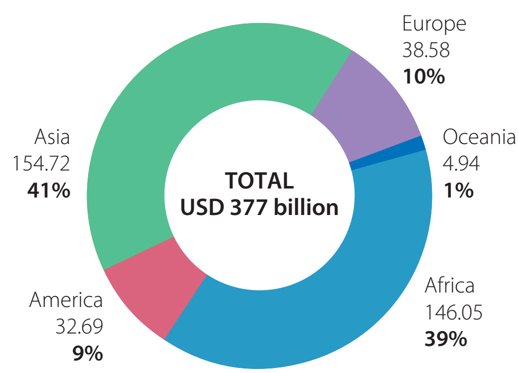
Aid for trade has been disbursed to 146 countries or territories, with USD 154.7 billion spent in Asia, USD 146 billion in Africa, USD 38.6 billion in Europe, USD 32,7 billion in Latin America and the Caribbean and USD 5 billion in Oceania (Figure 2.7). Within these regions LICs received USD 118 billion (LDCs USD 108.4 billion and OLICs USD 10.2 billion), LMICs USD 143.8 billion and UMICs USD 83.4 billion, while regional and global programmes got USD 63.5 billion between 2006 -17 (Figure 2.8). In volume terms, the ten largest aid-for-trade donors (i.e. Japan, the EU, the World Bank, the United States, Germany, France, the United Kingdom, the African Development Bank, the Asian Development Bank and the Netherlands) provided together 82% of total disbursements since 2006. However, in terms of aid for trade as a share of country programmable aid, the ranking differs with the Arab Fund for Economic and Social Development (80% share) on top, followed by the OPEC Fund for International Development (66%), Belgium (63%), Kuwait (61%), Austria (61%), and the European Union (60%). Australia set a target in 2014 to increase the share of its aid for trade portfolio to 20% of its aid budget by 2020. The target was met ahead of schedule, when Australia's aid for trade reached 23.3% of the total aid budget in 2016-17.

Figure 2.7. Aid for trade disbursement by region 2006-17



Source: OECD-DAC CRS: aid activity database (2019), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 06 February 2019).

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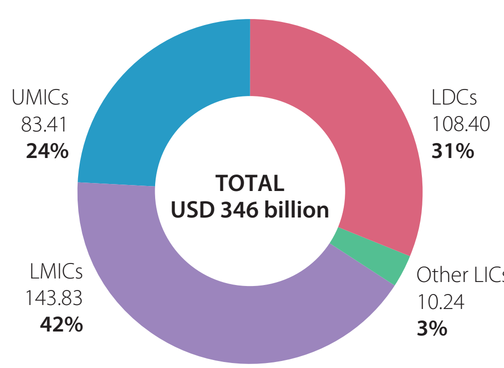
Figure 2.8. Aid for trade disbursement by income group 2006-17



Source: OECD-DAC CRS: aid activity database (2019), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 06 February 2019).

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Development banks together with a number of bilateral donors (i.e. the European Union, France, Germany, and Korea) also provided a total of USD 346 billion in low concessional loans or other official flows (OOF) since 2006. These OOF targeted mostly MICs (USD 318 billion) in Asia (42%) and Latin America and the Caribbean (23%) in the area of transport and storage (USD 84 billion), banking and financial services (USD 75 billion), energy generation and supply (USD 75 billion) and industry (USD 55 billion).

IS AID FOR TRADE WORKING?

Aid for trade is found to be effective both at micro and macro levels according to a broad range of empirical trade and development studies (Table 2.2). More specifically, OECD 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 (OECD/WTO, 2013). 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.

Table 2.3. Empirical findings on the impact of aid for trade

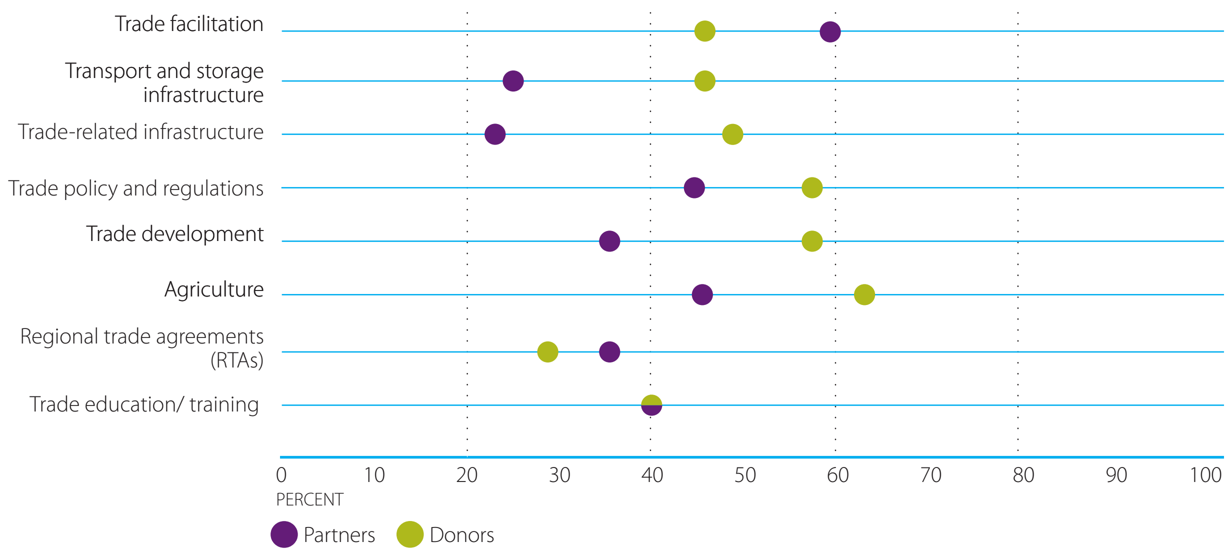
Finding	Source
Product-specific technical assistance projects coincided with increased exports of supported product line	Brenton, P., and Uexkull, E., (2009), *Product Specific Technical Assistance for Exports – Has it been Effective?*, Journal of International Trade and Economic Development, 18: 235–254, https://doi.org/10.1080/09638190902916444
Aid for trade has an overall positive and significant impact on exports from recipient countries.	Cali, M., and Te Velde, D.W., (2011), *Does Aid for Trade Improve Trade Performance?*, World Development, Elsevier, Vol. 39(5), pages 725-740, https://econpapers.repec.org/article/eeewdevel/v_3a39_3ay_3a2011_3ai_3a5_3ap_3a725-740.htm
A 10% increase in aid to transportation, ITC, 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 recipient countries.	Ferro, E., Portugal-Perez, and Wilson, J., (2012), *Aid to the Services Sector: Does it Affect Manufacturing Exports?*, The World Bank, http://www.ferdi.fr/sites/www.ferdi.fr/files/DT_Ferro_Perrez_Wilson_Manufacturing%20Exports.pdf
A 10% increase in aid for infrastructure commitments per capita in developing countries leads to an average 2.34% increase in the exports over GDP ratio	Vijil, M., and Wagner, L., (2012), *Does aid for trade enhance export performance? Investigating the infrastructure channel*, The World Economy, 35(7), 838-868, https://doi/full/10.1111/j.1467-9701.2012.01437.x
Aid for trade can be a powerful and effective tool to lower trade costs in developing countries and thus to increase trade flows.	Busse, M., Hoekstra, R., and Königer, J., (2012), *The Impact of Aid for Trade Facilitation on the Costs of Trading*, Kyklos, 65: 143–163, https://doi:10.1111/j.1467-6435.2012.00531.x
A 1% increase in aid for trade facilitation could generate an increase of USD 415 billion in global trade	Helble, M.C., Mann, C.L., and Wilson, J.S., (2012), *Aid-for-trade facilitation*, Review of World Economics (Weltwirtschaftliches Archiv), Springer, vol. 148(2), pages 357-376, https://www.jstor.org/stable/41485799
Differences in program design and implementation may account for differences in aid-for-trade export effects	Rueckert Brazys, S., (2013), *Evidencing donor heterogeneity in Aid for Trade*, Review of International Political Economy, 20:4, pages 947-978, https://DOI:10.1080/09692290.2012.734254
Aid for trade flows appear to have had a statistically significant impact in reducing the time of exporting and importing in Sub Saharan Africa.	Cirera, X., and Winters, LA., (2015), *Aid for Trade and Structural Transformation in Sub-Saharan Africa*, Commonwealth Trade Policy Discussion Papers 2015/01, Commonwealth Secretariat, https://doi.org/10.14217/5js6b1lp69ms-en
Aid for trade increases recipient exports to donors as well as recipient imports from donors. The first effect tends to dominate the latter, which contradicts the sceptical view that donors grant aid for trade primarily to promote their own export interests.	Hühne, P., Meyer, B., and Nunnenkamp, P., (2014), *Who benefits from aid for trade? Comparing the effects on recipient versus donor exports*, The Journal of Development Studies, 50(9), pages 1275-1288, https://doi.org/10.1080/00220388.2014.903246

Table 2.3. Empirical findings on the impact of aid for trade

A positive and significant effect of Aid for trade on multiple measures of export performance, however, with diminishing returns.	Ghimire S., Mukherjee D., Alvi E., (2016), *Aid-for-Trade and Export Performance of Developing Countries*, Applied Econometrics and International Development, Vol. 16-1, http://www.usc.es/econome t/journals1/aeid/aeid1613.pdf
Aid for trade increases bilateral greenfield investment and aid for trade for infrastructure and productive capacity are strongly associated with investment.	Lee, H. H., and Ries, J., (2016), *Aid for Trade and Greenfield Investment*, World Development, Volume 84, 206-218, https://www.sciencedirect.com/science/article/pii/S0305750X15301637
Aid for trade has a robust and positive effect on poverty reduction; the impact is largest in LDCs but the effect differs across countries	Durowah, O., (2017), *The role of aid for trade and foreign direct investment in poverty reduction: a panel data analysis of 91 developing countries*, South Dakota State University, http://openprairie.sdstate.edu/etd/1187
Aid for trade can play a supportive role in improving the policy environment and help attract the FDI required to meet the SDGs and develop the ICT infrastructure.	Roy, M., (2017), *The contribution of services trade policies to connectivity in the context of aid for trade*, World Trade Organization, https://www.wto.org/english/res_e/reser_e/ersd201712_e.pdf
Countries that export less in volume are those benefitting most from aid for trade.	Martínez Zarzoso, I., Nowak Lehmann, D. F., and Rehwald, K., (2017), *Is aid for trade effective? A panel quantile regression approach*, Review of Development Economics, 2017; 21:e175–e203, https://doi.org/10.1111/rode.12322
Aid for trade has a significant and substantive effect in promoting FDI inflows to recipient countries.	Lee, S., (2018), *An empirical analysis of the effects of aid for trade on foreign direct investment*, Seoul National University - Graduate School of International Studies, http://s-space.snu.ac.kr/bitstream/10371/141690/1/000000150680.pdf
Aid for trade has a positive and significant effect on total (male and female) employment, as well as on female employment share, but no significant effect on male employment share.	Kimm Gnangnon, S., (2018), *Aid for Trade and Employment in Developing Countries: An Empirical Evidence*, Labour – Review of Labour Economics and Industrial Relations, Volume 33, Issue 1, https://doi.org/10.1111/labr.12139
Aid for trade inflows exert a positive and significant impact on recipient countries' export ratios	Kimm Gnangnon, S., (2018), *Aid for Trade and Recipient Countries' Export Structure: Does Trade Policy Liberalisation Matter?*, Journal of Economic Theory and Practice, https://doi.org/10.1177/0976747918806361

These empirical findings are corroborated by evaluations from aid-for-trade programmes and projects as well as by the case stories that were submitted in the context of earlier aid-for-trade monitoring exercises (OECD/WTO, 2013, 2015 and 2017). The 2019 monitoring exercise reports positive impacts of aid-for-trade support in improving economic diversification. According to the partner countries, the category in which aid-for-trade finance has delivered most impacts is trade facilitation, followed by agriculture. The top category from the donors' perspective is agriculture (Figure 2.9).

Figure 2.9. Aid for trade impacts



Source: OECD-WTO aid-for-trade monitoring exercise (2019)

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Views gathered from the exercise also reveal that the alignment of aid-for-trade support with national or regional priorities is the key factor of success. Sixty-two partner countries stated that the aid for trade they received for economic diversification is aligned with their priorities. Nonetheless, diverging overall priorities between partner and donor remains a constraint to the success of aid for trade, as stated by half of the partner country respondents. Donors largely held the view that weak institutional capacity is a major constraint in successfully delivering aid-for-trade (Figure 2.10). From the perspective of South-South partners, both poor alignment of priorities and lack of national or regional coordination may limit the success of the aid-for-trade support provided.

After having discussed the results and success factors of aid for trade at an aggregate level, the next section will look in more detail at donor support for empowerment through economic diversification.

Figure 2.10. Aid-for-trade success factors

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

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EMPOWERMENT THROUGH ECONOMIC DIVERSIFICATION.

Many developing countries continue to face considerable obstacles in maximising their economic potential. In countries that are succeeding in exploiting competitive opportunities, success can be difficult to replicate at national level. This could create "islands of excellence" with the rest of the economy operating at lower levels of capital and knowledge intensity. Factors that influence economic diversification are manifold and context or geographic specific (as is the case of small islands and landlocked developing economies). Some of the barriers to diversification, such as an underdeveloped private sector or infrastructural deficits, are also part of the constraints that aid for trade aims to tackle. Donor support addressing these two type of barriers is looked at in the next section. Others, such as investments in education and health care, job creation or social protection, are beyond the mandate of the Aid for Trade Initiative. They are discussed in more detail in other parts of this publication.

Table 2.4. My view on economic diversification

"Aid for trade has helped diversify our export portfolio away from copper."– **Zambia**

"Diversification of production would help us in ensuring sustainable growth." – **Kazakhstan**

"Since long economic diversification has featured among the objectives of our support."- **Sweden**

"An improved investment climate, market access and local productive capacities are key factors for successful economic diversification." – **European Union**

"Between 2012-17, the Pacific Seasonal Worker Programme delivered over AUSD 144 million in net income gains to Pacific island countries and Timor-Leste which is important for their economic diversification." – **Australia**

"Economic diversification is under way but needs to be strengthened with technical and financial support from partners." – **UEMOA**

"The major constraint to economic diversification is inefficiencies in infrastructure, energy and labour as well as government regulations that affect the environment for doing business; thus hindering economic diversification." - **EBRD**

"The main constraint to economic diversification is recovery or rebuilding from frequent and severe natural disasters." – **Pacific Island Forum Secretariat**

"Economic diversification is a key driver of our trade engagement in developing countries, particularly those that are primary commodity dependent and the poorest."– **World Bank Group**

"Support seeks to address is the lack of information by small businesses about market opportunities and trends for future growth."- **UNDP**

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

In my view* by Sigrid Kaag, *Minister for Foreign Trade and Development Cooperation, The Netherlands

I believe that improving women's economic opportunities and removing barriers to their participation in regional and international trade is essential to pursuing economic development and achieving fairer and beneficial outcomes for all. This is one of the guiding principles of Dutch policy on foreign trade and development cooperation.

In that light, it is crucial that the work initiated by the Buenos Aires Declaration on gender and women's economic empowerment continues. At the same time, we must remain committed to implementing the Aid for Trade agenda. A key part of that agenda is addressing women's economic empowerment, the gender gap, women's entrepreneurship and creating more jobs for women. And not just more jobs, but better jobs. Women are still more likely than men to experience unfavourable and even dangerous working conditions.

Entrepreneurship can be a promising way for women to make a living, particularly in low and middle-income countries. This also puts them in a position to increase gender equality by creating jobs and hiring more women. But if this is to happen, women entrepreneurs need equal rights and opportunities, including access to financial services and the opportunity to compete in public procurement procedures. The good news is that digital technologies are helping to create these opportunities.

Aid for Trade helps bring new markets within the reach of women entrepreneurs. But it will take more than that alone. Many female traders are disadvantaged by poor literacy and limited knowledge of cross-border trade regulations and procedures. So access to education, knowledge and skills is essential.

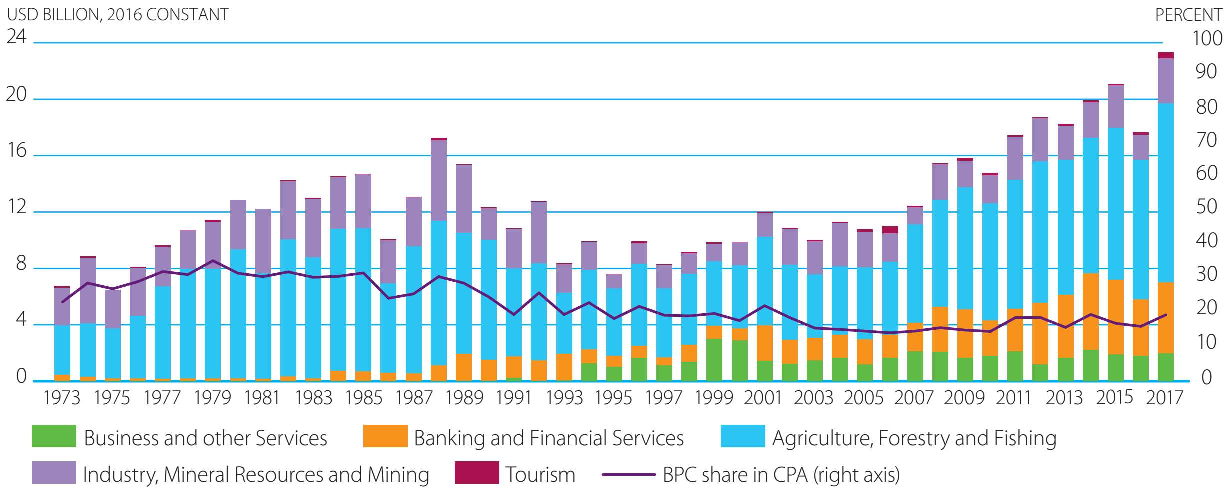
Where do I hope we'll be by 2030? I hope to see women economically empowered, in a position to capitalise on their economic potential, and enjoying equal rights and good working conditions. We can only achieve the SDGs if nobody is left behind, and that includes women. We are on the right track, but collective action is needed to boost and upscale our efforts. Let's make it happen!

Diversifying agricultural production

For industrialisation to take off, growth in agricultural productivity is essential. Empirical findings have established that agricultural growth is causally prior to growth in manufacturing and services. Thus, investments in improved agricultural technology will produce increased agricultural productivity that drives a rural growth process. As this structural transformation process proceeds, the agricultural sector start to account for a falling proportion of employment and income (OECD/WTO, 2013). Since the sector plays a pivotal role in rural economies by providing jobs, income and food security, donors are showing renewed interest in providing support to agriculture. After the share of sector allocable ODA for agriculture fell from about 25% in the 1970s to a low of 5.8% in 2004 support to the sector rose to 8.5% in response to the 2007- 8 food crises and now stands at 10% (Figure 2.11). Donor investments in boosting agricultural productivity are most effective in reducing poverty and inequality when they specifically target smallholder farmers and small-scale agriculture. Land reform and ensuring land rights, reinforcing local infrastructure and public services, strengthening ties between urban and rural areas, and supporting farmer organisations are found to be the most effective instruments to that end (IOB, 2018). A large share of partner country respondents (34 respondents) and the majority of the donors (20 respondents) identified agriculture as the sector with most progress in economic diversification due to the aid-for-trade support received since 2006. Looking ahead, both partner countries and donors consider agriculture as the sector in which aid-for-trade support will be most needed.

In Senegal, cabbage is one of the most important agricultural sectors. Yet, cabbage consignments faced rejections at international borders due to toxic pesticide residues. To support local producers in accessing markets, an STDF project (with funding of USD 577,142) helped supply quality inputs, rolled out technical training and support on Good Agricultural Practices, and ran marketing campaigns to promote safe cabbage production. This resulted in an increase in farmer productivity, improved cabbage quality, and more competitive prices. In terms of trade, export volumes increased from 1,900 tonnes in 2008 to 6,000 tonnes in 2014. The project also supported market diversification, as producers gained new market shares in Mauritania, Mali, The Gambia and Guinea-Bissau.

Figure 2.11. ODA committed to building productive capacity 1973-2017



Source: OEC/DAC/CRS

StatLink http://dx.doi.org/10.1787/888933952938

Table 2.5. My view on the role of agriculture

"Aid-for-trade support for fisheries and agriculture products strengthens domestic and global value chain linkage in the key productive sectors." – **Kiribati**

"To revitalise banana exports, two improved varieties were brought to Samoa in 2016 with the help of the Australia, New Zealand and the WBG, To date, some 2550 boxes have been exported to New Zealand, but it remains a challenge to maintain pest free banana plantations and manage risks associated with natural disasters." - **Samoa** .

"The Traceability Project of the Honey Chain supports small honey producers to export to the EU." – **Guatemala**

"EU support for traceability in the timber industry and coffee production has contributed to the growth of export diversification in the country." – **Democratic Republic of Congo**

"Support to the agricultural sector had benefited the production of honey and a few other agricultural products." – **Yemen**

"Agricultural productivity particularly in vegetable and fruits production has been improved through assistance from the EIF, World Bank and FAO." – **Lesotho**

"The EIF intervention in the cashew sector has substantially increased income for more than 10,000 people, 90% of whom are women. Similarly, 6,679 employees in mango processing units have seen substantial income increase, 80% of them are women." – **Burkina Faso**

"Agriculture alone, while well developed, is insufficient to ensure Guinea's economic development. Industry, fishing and forestry also have important roles to play." – **Guinea**

"The industrial fabric is still in its infancy, despite the many agricultural and forestry resources. These resources are sold or exported largely unprocessed."- **Central African Republic**

"Meeting SPS standard is an area that will require most aid-for-trade support for economic diversification." – **St. Kitts and Nevis**

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

Canada supports improving the productivity of the agribusiness sector in the Philippines. The intermediate outcomes include raised incomes of small-holder farmers, especially women; increased investments in agriculture and the agribusiness sector; as well as reduced compliance and transactions costs. Australia helped 4,121 small-scale farmers in Cambodia gain access to irrigation. This resulted in an additional 28,769 tonnes of rice production and promoted more positive social attitudes towards women as leaders in Farmer Water Users Communities. France financed a project in Haiti to develop agricultural value chains, make the vetiver sector sustainable, diversify producers' incomes, and strengthen the capacities of stakeholders in the fields of water management. Ireland is developing partnerships between the its agri-food sector and African companies to support sustainable growth of the local food industry, build markets for local produce and support mutual trade. Chinese Taipei provides bamboo seeds to businesses in Nicaragua to increase bamboo production and introduces bamboo processing equipment and machinery to increase production efficiency.

Developing a vibrant private sector

Economic diversification is essential for creating sufficient numbers of jobs for men and women. This is especially true for the rural poor and the young that are entering the labour force. The agriculture sector on its own is unable to provide these jobs. Moreover, raised productivity in agriculture means that less and less people are needed. Thus, productive employment opportunities have to be created by expanding the business sector, in both manufacturing and services. Most donors aim to promote inclusive and sustainable growth through their private sector development (PSD) strategies and programmes. During the 1970s, they provided around USD 3 billion in direct support to industry and mining. This covered more than 50% of total support to building productive capacities. Although the volume continued to fluctuate between USD 2 billion and USD 3 billion, the share fell to around 15% in most recent years (Figure2.11).

Table 2.6. My view on the role of developing the private sector

"In terms of economic diversification, there is much potential to develop services" – **Samoa**

ECOWAS *is applying a 'youth lens' to interventions in Private Sector Development through supporting business incubation services, access to finance for young entrepreneurs; and exploring employment through labour-based methods on infrastructure projects to promote youth innovations and inventions.*

Luxembourg *is strengthening vocational training systems and craftsmanship, specifically in ICT and green jobs, aligning them with local labour market needs.*

Denmark *supports the private sector in Ghana through a Business Advocacy Challenge Fund that helps diversify trade and integrate the economy into the multilateral trading system. Initiatives include business licensing and registration, reviews for the ECOWAS Common External Tariff, reducing costs of doing business at the ports, counterfeit and illicit trade, and ratification of the Trade Facilitation Agreement.*

Switzerland's *new private sector strategy has been adjusted and includes more specific measures to improve the living conditions of poor population groups through access to financial services and technologies.*

In 2018, **Sweden** *helped 600 SMEs in Moldova to adopt new technologies, improve product quality, invest in workforce development, provide better working conditions, increase salaries and enhance marketing skills to be able to take full advantage of the Comprehensive Free Trade Agreement with the EU.*

Lithuania *implemented a project on strengthening of international trade capacity of Ukrainian SMEs by sharing its experience on international trade.*

Source: OECD-WTO monitoring exercise (2019)

Creating a business enabling environment

Over the last two decades, donors have moved increasingly into supporting developing countries through technical assistance on how to create a business enabling environment and on how to enhance business inclusiveness. This type of donor support started modestly in the mid-1990s with total amounts of around USD 1 billion and almost tripled at the end of the last century. It now stand at USD 2 billion that is 8.5% of total support to building productive capacities (Figure 2.11). There are many common threads in the PSD strategies of different development agencies. All of them promote reforms in the business environment by advising to reduce the burden of regulatory compliance to allow businesses creating employment opportunities for the poor. For example, the United States supports Vietnam through its USD 42 million Country Development Cooperation Strategy to strengthen its legal and regulatory framework in order to promote investment, economic growth and rising incomes. This includes both support for more transparent and participatory public policy processes and assistance to help create economic opportunities, particularly for underrepresented and disadvantaged populations, as well as to advance female empowerment (USAID, 2018).

Table 2.7. My view on the role of a business enabling environment

Strong institutional capacity is key in sustaining donor support for economic diversification. – **Lesotho**

Among the aid for trade success factors is the political will to create an enabling environment. – **Kiribati**

Institutional and human capacity building may have positive impact on domestic and foreign investment in production and productivity development, export promotion, and value chain development. - **Nepal**

SME development can focus on improving the business environment, strengthen their capacities, developing entrepreneurial culture and innovation for both young people and women. – **Côte d'Ivoire**

It is important that institutional capacity and coordination is supported at all levels of women's economic empowerment intervention. - **TradeMark East Africa**

Estonian *support is guided by the principle of strengthening institutional capacities at the country level.*

Luxembourg *is supporting partner countries in creating an enabling environment for enhanced private sector engagement*

The **Russian Federation** *is assisting Belarus in its accession to the WTO through strengthening national and institutional capacity and expertise.*

The **European Union** *supports Côte d'Ivoire in establishing an arbitration court, adjusting national regulations to international legal contexts, designing a fully owned trade policy with a clear identification priority sectors and simplification and transparency of customs procedures in order for Côte d'Ivoire to take advantage of the new Economic Partnership Agreement and its preferences on the EU market.*

Source: OECD-WTO (2019) monitoring exercise

Providing access to finance

Lack of access to finance is a common challenge in trying to diversify the economy and empower the poor. Despite improvements during the last decade, many financial systems of developing countries still suffer from shortcomings and market inefficiencies. This affects their business environment at various levels. There is an absence of instruments and institutions adapted to local business needs, while the cost of credit is often too high for want of competition. This leads to a lack of medium and long-term lending for businesses, while the majority of people lack access to basic formal financial services (Buera, 2011). Whilst recognising the importance of the enabling environment and institutions, some donors consider that direct intervention could be beneficial, provided that precautions are taken to avoid market distortion. The recourse to public-private partnerships (PPPs) can lead to donors and their development financial institutions (DFIs) directly participating in financing an activity or in a guarantee structure for it. In these cases, donors and DFIs act as catalysts to attract private financing. This is considered as an effective way to maximise the leverage of ODA. Donor support for banking and financial services averaged at around USD 1.5 billion up to the 2007-08 financial crises. After credit dried up donors stepped in and doubled their support in 2009. It continued to increased and reached USD 5 billion in 2017. Now almost 22% of all support to building productive capacities is for banking and financial services (Figure 2.11).

Table 2.8. My views on improving access to finance

"Aid for trade can benefit access to finance for SMEs." – **Angola**

"Emphasis should be placed on women entrepreneurs' access to finance, at attractive rates and less rigid conditions." – **Madagascar**

"Among the factors contributing to the success of aid-for-trade are access to finance." - **Iraq**

"Support should be directed more towards promoting access to finance." – **Togo**

"The priority sectors in which we will need financing are direct subsidies to producers, guarantee funds and participation funds to ensure guaranteed access to financing." - **Guinea**

"Aid for trade can contribute to women's economic empowerment in several ways including programs to assist women to access trade finance." – **Kiribati**

"*The* **European Union** *through the Asian Development Bank support MSME access to finance in Samoa, Tonga, Vanuatu and Solomon Islands.*"

"**EBRD** *supports large-volume and long-term trade finance. This also includes supporting the growing 'South-South' trade finance, as well as intra-regional trade with Cyprus, Greece and Turkey.*"

Canada *provides credit and financial services to underserviced populations in Panama, Tanzania, Tunisia, and Zambia.*

Austria *provides loans and equity to financial institutions in partner countries which are fully dedicated for female SMEs.*

Source: OECD-WTO (2019) monitoring exercise

Promoting inclusive tourism

Tourism is an important facilitator of structural transformation in a number of developing countries. As tourism has relatively low entry barriers for labour and low capital requirements, it can provide an alternative livelihood option, especially in rural areas. The growth of labour-intensive services connected to tourism has helped the re-allocation of surplus labour out of agriculture. Creating strong intersectoral linkages is crucial to ensuring a greater capture of tourist expenditures – a key determinant in facilitating the transfer of economic benefits from the sector to local communities. Local procurement of inputs can generate business opportunities for local suppliers with backward linkages creating employment and forward linkages stimulating markets for products or services consumed by tourists. Thus, linkages between tourism and other productive sectors have the potential to stimulate employment and tackle poverty and social exclusion including among women and youth (OECD/UNWTO/WTO, 2013). Direct donor support for tourism is relatively modest at around an annual average of USD 180 million since 2006 (Figure 2.11). Most of this money is used for technical assistance to help design strategies for promoting sustainable tourism and strengthen backward and forward linkages with the local economy. Sixteen partner country respondents and 10 donors identified travel and tourism as a sector in which the aid for trade has been impactful. Forty-eight partner countries stated that aid for trade support to tourism is needed to deliver economic diversification. This view is echoed by 10 donors.

Table 2.9. My views on the role of tourism

"With donor support, small businesses were able to market their tourism business online, proving that tourism is a worthwhile business to pursue. New knowledge is passed on to local communities, such as the production and provision of local foods to tourists." – **Vanuatu**

"To revive the tourism sector, entry visas have been removed, a new airport was constructed, hotel credits for the financing of tourist accommodation were established as well as Casamance with special tax status for tour operators, integrated tourist areas, and upgrade of accommodation, among others initiatives." – **Senegal**

"Tourism establishments have been star graded to attract more tourists. Moreover, business registration system has been automated to improve ease of doing business in the country." – **Lesotho**

"In the area of travel and tourism; the Africa Visa Openness Index has been particularly successful in promoting visa policy reforms for Intra-Africa travel." – **African Development Bank**

"Economic empowerment indicators or targets listed in the tourism sector includes improving access to credit for small entrepreneurs, establishing tourism small enterprise empowerment fund, providing incentives for small business development in tourism." – **St. Kitts and Nevis**

"The Moldova Competitiveness Project contributed to an increase in tourism by 20% in 2017." - **Sweden**

"Switzerland finances through UN Trade a project in Tanzania to improve livelihoods through a greater adoption of responsible tourism criteria. The project establishes backward linkages to local industries (mainly agribusiness), promotes responsible tourism and private public dialogue. It is part of the tourism components of the Government's Trade Sector Development Programme." – **Switzerland**

"Some countries rely largely on a single sector to generate exports, and therefore these sectors are likely to require support in diversifying in the future. In the Pacific, there are a number of examples including oil extraction, tourism or fisheries." – **New Zealand**

Source: OECD-WTO (2019) monitoring exercise

Trade development

The trade development marker for disbursements stood at USD 5.5 billion in 2017, while commitments reached USD 7,9 billion. This marker was introduced to identify those activities in the productive capacity building category that contribute "principally" or "significantly" to the development of trade. In 2017, this was the case for 31% of all support to the private sector and concentrated in the area of business services, agriculture and industry, which together covered more than 75% of all the trade development markers.

Table 2.10. My view on Trade Development

"Finland's development policy is structured around four priority areas. One of them is support to the development and diversification of the developing countries' own economies. That includes trade development, trade facilitation, value chains, trade policy negotiations capacities etc." – **Finland**

"Trade development (business support services, banking and financial services) and legal support of MSMEs are the most important supporters of the economic empowerment of MSMEs." - **Portugal**

"The USAID East Africa Trade and Investment Hub aims to boost trade and investment with - and within - East Africa. It does this by promoting two-way trade with the United States under the African Growth and Opportunity Act, facilitating investment, deepening regional integration and increasing the competitiveness of select agricultural value chains." – **United States**

"The Trade Support Programme in Angola aims to enhance the local capacity to diversify the economy, negotiate and implement multilateral and regional trade agreements, with a particular focus on the SADC Trade Protocol and Angola's participation to the SADC Free Trade Free Trade Area." – **European Union.**

Source: OECD-WTO (2019) monitoring exercise

BUILDING TRADE RELATED INFRASTRUCTURE

Poor infrastructure remains a major bottleneck in developing countries, despite substantial investments in the past. By raising labour productivity and lowering production and transaction costs, economic infrastructure – transport, energy, and ICT– enhances economic activity and so contributes to economic diversification. Investments in infrastructure can also result in empowerment if they are sufficiently focused. Labour mobility in rural areas, for example, can be enhanced by improving the transport and communication infrastructure. Inadequate infrastructure has been identified as the number one constrain limiting the success of aid for trade in promoting economic diversification in LDCs with 23 respondents indicating challenges in this area. It is also the top constraint dampening the success of aid-for-trade in landlocked developing countries. Also 15 donors mention this as their third top challenge.

Improving transport infrastructure

Transport infrastructure affects profitability, levels of output, income, and employment, particularly for small–medium-sized enterprises. It also affects trade costs, which determines international competitiveness. Improved transport, which reduce workers' time spent on non-productive activities, will raise the economic returns to labour. For the same reason, the lack of affordable access to adequate infrastructure is a key factor in determining the nature and persistence of poverty. Thus, investments in transport infrastructure can help to accomplish a transition from jobless growth to labour-intensive growth (Calderón, 2004). Given these clear benefits, donors have invested heavily in assisting developing countries with expanding and improving their transport infrastructure. In 2017, donor support for transport and storage stood at USD 17.7 billion an increase of USD 10 billion since the start of the Aid for Trade Initiative (Figure 2.12).

Table 2.11. My views on trade-related infrastructure

"Limited infrastructure may limit the success of the aid-for-trade support received." – **Liberia**

"Support to trade-related infrastructure improves value chain linkages in key productive sectors hence increasing exports, employment, income and livelihood generation." – **Kiribati**

"Our country is lagging far behind in industrialisation and development of basic infrastructure." – **Democratic Republic of Congo**

"Trade related infrastructure needs are extremely large but resources are very limited." – **Vanuatu**

"Support in trade related infrastructure development would be highly appreciated." – **Nepal**

"The network infrastructure and transport infrastructure has limited to ability of people to venture into other areas of development." – **Papua New Guinea**

"We are reviving a New Silk Road by setting up a "Western Europe – Western China" transportation corridor." – **Kazakhstan**

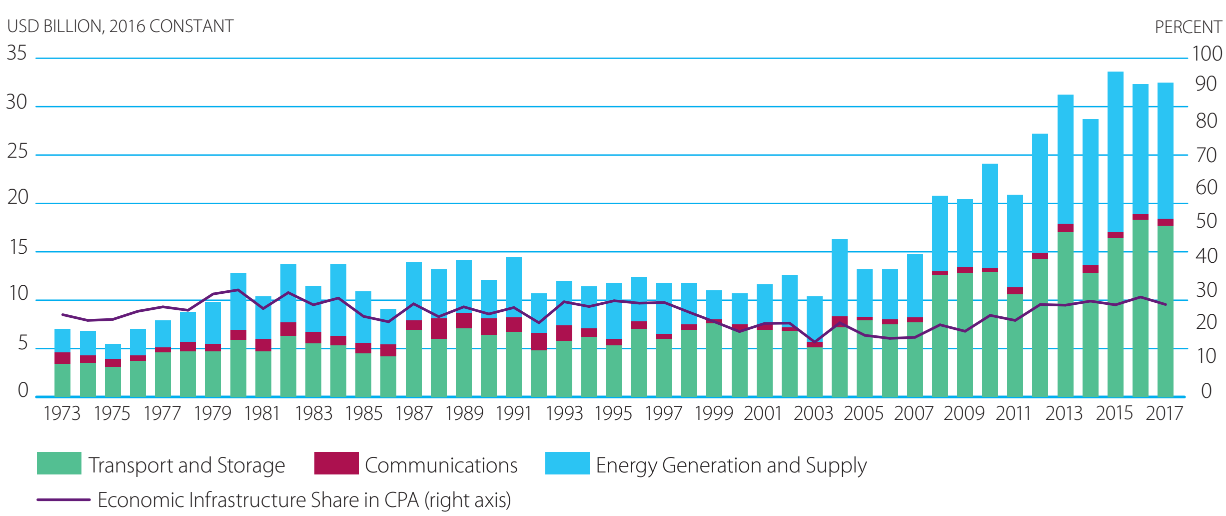
"A new investment up to UKP 500 million will build essential infrastructure to lay the foundations for new opportunities, in places where businesses previously would not have been able to operate." – **United Kingdom**

"In the context of Tokyo International Conference on African Development, Japan's investment in Africa has focused amongst others on the development of quality infrastructure, amounting to approx. USD 30 billion under public-private partnership."- **Japan**

"The World Bank hosts the Secretariat of the Global Infrastructure Connectivity Alliance, a G20 initiative launched in 2016 to close the gap in the availability of resources related to infrastructure connectivity. It promotes cooperation, knowledge exchange, and meaningful progress in global interconnectivity."- **World Bank**

Source: OECD-WTO (2019) monitoring exercise

Figure 2.12. ODA commitments to trade related infrastructure



Source: OEC/DAC/CRS

StatLink http://dx.doi.org/10.1787/888933952957

The Belt and Road Initiative (BRI) aims to strengthen economic integration among countries in the Eurasian region. The BRI encompasses a number of transport corridors; the 'belt', which links China to Central and South Asia and onwards to Europe, while the 'road' connects China to Southeast Asia, the Gulf region, East and North Africa and Europa. The project requires significant funding—an estimated USD 8 trillion between 2010 and 2020 alone. The Chinese government has announced several commitments, including a USD 40 billion Silk Road Fund for projects in the Central Asia region (Lehmacher and Padilla, 2015). Baniya (2019) finds that the Initiative increases trade flows among participating countries by up to 4.1%. These effects would be three times larger on average if trade reforms complemented the upgrading in transport infrastructure. Products that use time sensitive inputs and countries that are highly exposed to the new infrastructure and integrated in global value chains have larger trade gains. Among the partner country respondents who identified the Silk Road Fund as an important source of financing for economic diversification are Venezuela, Tonga, Cambodia, and Kazakhstan.

Another transport infrastructure project is development of the Thilawa port and logistic facilities, as well as the Special Economic Zone in Myanmar supported by Japan with a USD 339 million concessional loan. An ex post evaluation of a similar project in Indonesia underscored the need to also build roads peripheral infrastructure in tandem with port facilities. This integrated approach to providing trade-related infrastructure support in Myanmar is similar to that taken in Vietnam. There, Japan recently announced the provision of a USD 95 million concessional loans for the development of a deep-water port near Haiphong, together with supporting hinterland roads and bridge links (OECD/WTO monitoring exercise 2017 case story 161).

Providing reliable electricity

OECD (2013) finds that electricity is a more significant binding constraint than road or air infrastructure. The availability of electricity is less a constraint than its reliability. This finding is supported by firms in developing countries that identified lack of reliable electricity as an important business constraint. Indeed, producers can address the lack of electricity by using generators and this practice is actually widespread. However, their use comes with a substantial cost; the marginal cost of electricity produced by generators is much higher than electricity from the grid, and the capital cost of a generator adds to the total cost of machinery and equipment. Greenstone (2014) highlights that greater access to reliable energy transforms lives and economies in many ways, including: income generation; greater economic diversification; substitution of labour with capital that increases productivity; creation of small businesses and enterprises; facilitation the reallocation of household time (especially by women) from energy provision to improved education; and, access to greater market size due to lower transportation and communication costs.

Table 2.12. My views on the contribution of Energy

"*Strong support has been received in the energy sector, which have promoted business and trade connection and the role of Kazakhstan as a trade avenue between Central and South Asia.*" – **Kazakhstan**

"*The improvement in the energy situation has contributed significantly to the resurgence of activity in the secondary sector.*" – **Senegal**

"*Support to the energy sector has also led to private sector investments.*" – **The Gambia**

"*Guinea's electrification must be taken into account to ensure its economic development.*" - **Guinea**

Source: OECD-WTO (2019) monitoring exercise

Donor support for energy generation and supply reached USD 14,1 billion in 2017 up USD 9 billion since 2006. The average share of aid to energy in country programmable aid was 12% during the last three years (Figure 2.13). An example of such support is the Euro 60 million loan France together with the AfDB and the EIB is providing for the construction of a high voltage line between Nairobi and Mombasa. The project is improving access to a cost effective electricity supply and a reliable network, contributing to the reduction of technical losses and environmental costs.

Unaffordable or unreliable electricity is identified as a constraint for economic diversification in the national or regional development strategy of 27 partner country respondents. Twenty-three of which 9 LDCs, confirmed receiving aid-for-trade financing in energy supply and generation. Furthermore, 19 stated that this donor support had been impactful. Similarly, 12 donors indicated that they provided financing for energy supply and generation, and 10 confirmed this has had an impact on economic diversification. Looking ahead, 44 partner countries, of which 26 LDCs, highlighted the need to further channel aid for trade to this area.

Supporting information and communication technology

The 2017 joint OECD/WTO Aid for Trade at a Glance report addressed in detail how Information and Communication Technologies (ITC) help businesses to become more productive, people to find greater job opportunities, and governments to deliver better services. The report highlighted that ICT lowers the costs of economic and social transactions for firms, individuals and the public sector. It promotes innovation and boost efficiency as existing activities and services become cheaper, quicker and more convenient. ITC also increases inclusion as people gain access to services that were previously out of reach. Donors are helping to attract the private investment that is needed to bridge the digital divide by providing developing countries with technical support and risk-mitigation mechanisms to crowd-in private funds.

Table 2.13. My views on the contribution of ITC

"It is necessary that appropriate network infrastructure is available and fully accessible to support production and service delivery including e-commerce development and trade facilitation." – **Samoa**

"Future support for economic diversification may focus on cross-border network infrastructure and transport, services, agriculture, industry." -**Gabon**

"Luxembourg will support partner countries in enabling ICT solutions and reliable data as catalysts for innovative and inclusive growth and development." – **Luxembourg**

"Aid for trade should support the ICT sector by harnessing digital technology to simplify and lower the cost of cross-border certification and documentation processes for MSMEs." – **Ireland** - **New Zealand**

"With regard to SMEs finding business partners, it is very important is to spread information on-line, creating different e-platforms that allow exporters to exchange information." – **Ukraine**

"New issues such as e-commerce are emerging and growing in importance."- **ECOWAS**

"Recent debates and increased demands around the implications of digitalisation and automation for structural transformation has increased our attention to these issues."- **Sweden**

"Chinese Taipei provides a loan to the Belize Telemedia Limited to finance its National Broadband Plan for replacing its fixed internet infrastructure with fiber optic network, so as to increase the quality of and access to fixed internet service." - **Chinese Taipei**

Source: OECD-WTO (2019) monitoring exercise

Aid commitments for projects in ICT stood at USD 700 million in 2017 (Figure 2.11). They are mostly in the form of technical assistance for regulatory reform. Once the regulatory framework is in place, the private sector is willing to invest in ICT hardware. Donors reported that this area is attracting a growing demand. An example is the Connect Africa Initiative that includes international fibre connectivity, national backbone initiatives, policy and regulation, and E – applications (OECD/WTO 2017 monitoring exercise, case story 16). More than half of the partner country respondents identified inadequate network infrastructure as a constraint to economic diversification, which was highlighted in their national or regional development strategy. Half of the donor respondents consider it as key target areas in their aid-for-trade strategy. Almost two third held the view that their support in this area could make considerable contribution to youth economic empowerment. This view is shared by 50 partner country respondents.

Trade policy support to promote economic diversification

Economic diversification strategies should be based on comparative advantages with tariffs and non-tariff measures structured in a way that supports this process. Thus, tariffs are especially costly on industrial intermediate inputs for which regional production capacity does not exist: reductions of non-tariff trade costs are needed to tackle binding supply-side constraints to industrialisation (UNECA, 2017). Since 2006, donors committed USD 7 billion to help developing countries identify, negotiate and implement trade agreements. An example of this type of support is provided by Sweden to TRALAC, a trade capacity-building organisation in Africa. Through stakeholder consultations, TRALAC engages proactively with the African Continental Free Trade Area process and identified the need to increase services trade capacity and advance thinking about services trade for industrial development in African countries (OECD/WTO (2017) monitoring exercise, case story 81).

Trade related adjustment

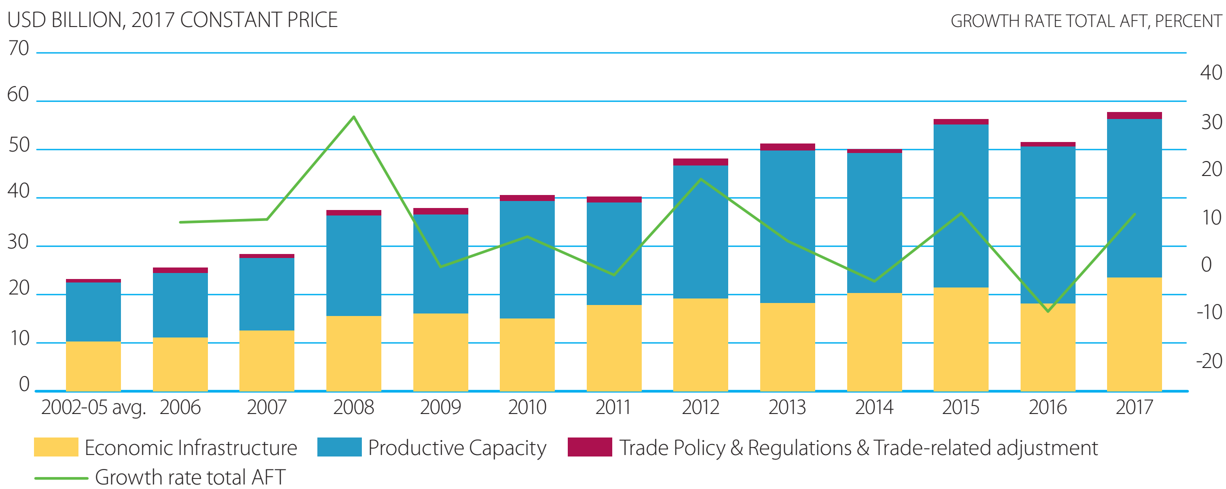
Support for trade related adjustment is relatively small at an average of USD 230 million since the start of the Initiative in 2006. This relatively low level of this aid-for-trade category support is partly explained by the reporting of this type of support under other categories. An example of this is the Tourism Development Project in St Vincent and the Grenadines supported by the European Development Fund with USD 6.5 million. The project aimed to improve the competitiveness of the tourism sector and create employment opportunities for rural communities to accommodate the decline in banana production and export. Periodic evaluations revealed increasing job opportunities, improved quality of the country's tourism product and greater linkages between tourism and other economic sectors (OECD/WTO monitoring exercise 2011, case story 264). Efforts to ensure an efficient and competitive trade facilitation framework should also continue to receive attention. These efforts are addressed in more detail in chapter 6.

SUPPORT IN 2017

Aid-for-trade commitments are firm obligations, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation. As such, commitments are an expression of the current priorities of the recipient and donor. Commitments are recorded as the full amount of the expected transfer, irrespective of the time required for the completion of disbursements, which in some cases may take many years. The remainder of this section provides an analysis of aid-for-trade commitments up to 2017, the latest year for which detailed information is available. It highlights distribution by sector, region and income; donors; and the financial terms of the support committed.

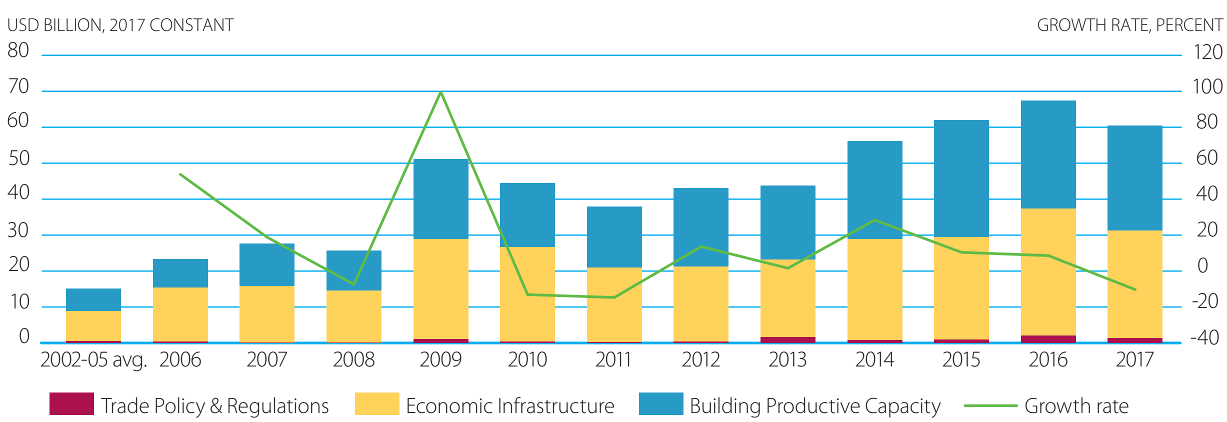
In 2017, aid-for-trade commitments reached USD 57.7 billion, an increase of USD 6.2 billion in real terms from its 2016 level an additional USD 34.6 billion compared to the 2002-05 baseline average. Trade-related OOF declined by USD 7 billion in 2017 to USD 60.1 billion; still more than four times the 2002-05 baseline average. Aid commitments for economic infrastructure reached USD 32.8 billion, up 143% compared to the 2002-05 baseline average. In 2017 support to energy generation and supply increased by more than USD 759 million to USD 14.3 billion. Commitments to the information and communications sector also increased by USD 167 million to USD 749 million. Transport and storage support, on the other hand, decreased by USD 514 million and now stands at USD 17.1 billion. OOF for economic infrastructure decreased 15.2% to USD 29.9 billion. Most of this decline is due to reductions in support for energy generation and supply, which dropped by USD 6.7 billion to USD 15.2 billion in 2017 (Figure 2.13 and 2.14).

Figure 2.13. Aid-for-trade commitments by category, USD billion, constant price 2017



Source: OECD-DAC CRS: aid activity database (2018), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 04 April 2019)."
StatLink http://dx.doi.org/10.1787/888933952976

Figure 2.14. Trade-related OOF commitments by category, USD billion, 2017 constant



Source: OECD-DAC CRS: aid activity database (2018), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 04 April 2019)."
StatLink http://dx.doi.org/10.1787/888933952995

Commitments for building productive capacity, at USD 23.4 billion, rose by USD 5.3 billion in real terms from its 2016 level. As in past years, the largest share of support is directed to agriculture, which attracted USD 10.6 billion, and increased USD 1.6 billion compared to 2016. Further increases are noted in banking and financial services, as well as industry, with both up USD 1 billion and fishing up USD 465 million. Support to tourism stands at USD 400 million an increase of 50% from 2016. The trade development marker was introduced to identify those activities in the category of building productive capacity that contribute "principally" or "significantly" to the development of trade. The marker increased from USD 2.6 billion in 2006 to USD 8.1 billion. It now covering almost a quarter of the total amount for building productive capacities. Two-thirds of this is concentrated in the areas of agriculture and business services.

Aid for trade in its narrowest sense of support to trade policy and regulations attracted USD 1.4 billion in 2017, an increase of 42% compared to 2016. Trade policy management and trade facilitation increased by USD 224 million and USD 219 million respectively compared to its 2016 level. Trade-related education declined by USD 11 million. With respect to trade-related OOF, decreases were recorded in both the trade policy and building productive capacity categories. The latter dropped to USD 29,2 USD in 2017 from USD 30,1 in 2016. OOF for trade policy now stand at USD 1.3 billion a decrease by 34%.

In 2017, 38% of all aid-for-trade commitments were destined for Asia, which amounted to USD 22.1 billion, an increase of USD 1 billion compared to 2016. It should be noted, however, that allocations to Asia fluctuate significantly from one year to the other. In general, this is caused by large biennial commitments from Japan and the ADB towards economic infrastructure. Increases were also noted in Africa up USD 2.9 billion from 2016 to USD 21.7 billion and receiving 36.6% of total commitments, while those to Latin America and Oceania increased by USD 940 million and USD 460 million respectively. Commitments to Europe, however, declined by USD 420 million (Figure 2.15). Most of the 2017 trade-related OOF was destined for middle-income countries in Asia (48.3%), Africa (23%), Latin America and the Caribbean (17%), Europe (9%), and Oceania (1.2%) (Figure 2.16).

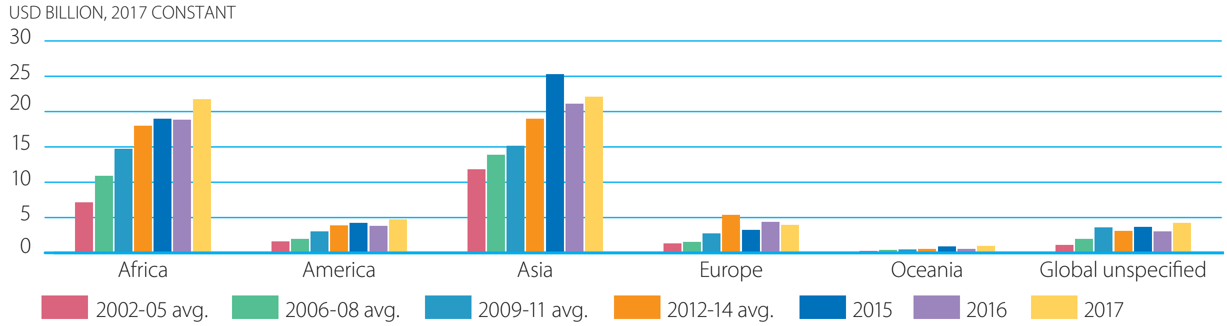
Regional and global aid-for-trade programmes were allocated USD 5.9 billion in 2017. This is almost a threefold increase compared to the 2002-05 baseline average. Regional aid for trade offers great potential as a catalyst for growth, development and poverty reduction, but projects are often difficult to realise. While regional aid for trade faces many practical implementation challenges, however, experience has shown that associated problems are not insurmountable, but rather require thorough planning, careful project formulation and prioritisation on the part of policy makers (OECD, 2014).

Aid-for-trade commitments to the LDCs increased in 2017 by USD 4.1 billion to reach USD 18.8 billion (32.5% of total commitments). Other low-income countries received USD 80 million. The share of commitments to the low income countries as a whole reached 32.5% of total aid-for-trade flows in 2017. With commitments of up USD 1,9 billion to USD 23,2 billion, the lower middle income countries were the largest aid-for-trade recipients (40.2%), whereas the upper middle income countries saw their commitments drop by USD 1.2 billion to USD 7.3 billion (Figure 2.17). Countries in the middle-income group were by far the largest recipients of trade-related OOF. At USD 50 billion or 83.3% of total commitments, the amount decreased by USD 7 billion from their 2016 levels. OOF to LICs stood USD 6.5 billion up from USD 5.7 billion (Figure 2.18).

In 2017, bilateral providers committed USD 31.7 billion or 55% of total aid for trade. Japan, the largest donor, with commitments of USD 12.5 billion directed most of its funding to Asia mainly for transport, storage and energy sectors in Asia. Other main bilateral contributors are Germany, with USD 5.7 billion, followed by France with USD 3.2 billion and the United States with USD 2.4 billion. Most bilateral donors provide the majority of their support in the form of grants, with the exception of France, Germany, Japan and Korea, which also provide a large share in loans. Multilateral providers also increased their commitments by USD 4.2 billion to USD 26 billion. The World Bank Group and EU Institutions remain the main contributors providing almost two-thirds of total multilateral aid for trade. Multilateral institutions were the largest contributors of trade-related OOF providing USD 50 billion or 83% of the total. Main contributions are the Asian Development Bank, EBRD, the IFC and the World Bank group.

In 2017, the share of aid for trade in sector allocable aid increased from an average of 30.3% during the baseline period to 39.2% in 2017. Thus, within the expanding ODA budget envelope the share of aid for trade has increased even more. The 9-percentage point increase, which translates into an extra USD 75 billion in commitments since 2006 could be considered as additional aid for trade; three quarters of this increase is provided by the European Union, Germany, France, Japan and the AfDB.

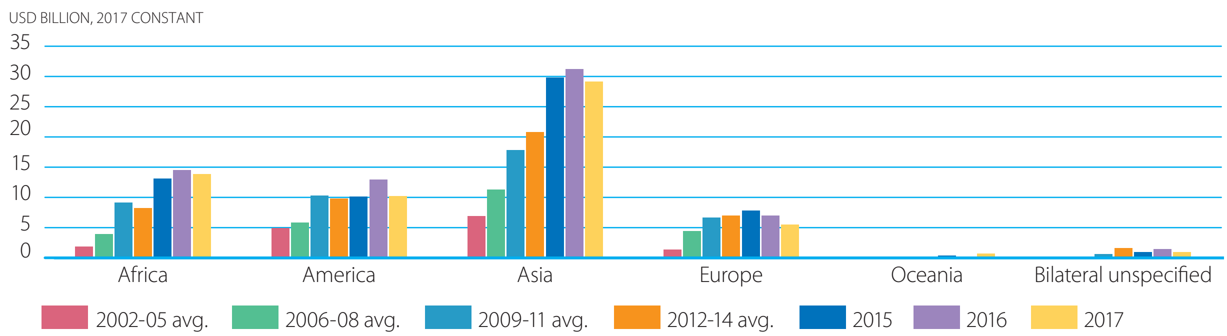
Figure 2.15. Aid-for-trade commitments by region, USD billion, 2017 constant



Source: OECD-DAC CRS: aid activity database (2018), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 04 April 2019).

StatLink http://dx.doi.org/10.1787/888933953014

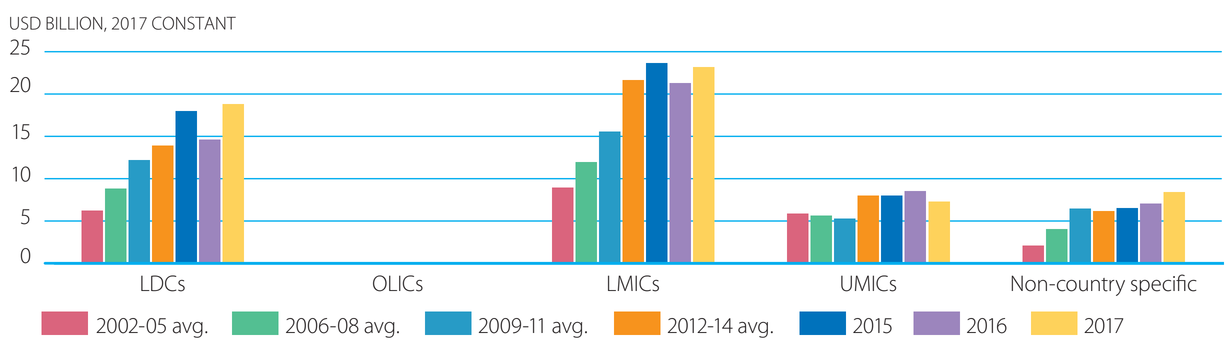
Figure 2.16. Trade-related OOF commitments by region, USD billion, 2017 constant



Source: OECD-DAC CRS: aid activity database (2017), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 04 April 2019).

StatLink http://dx.doi.org/10.1787/888933953033

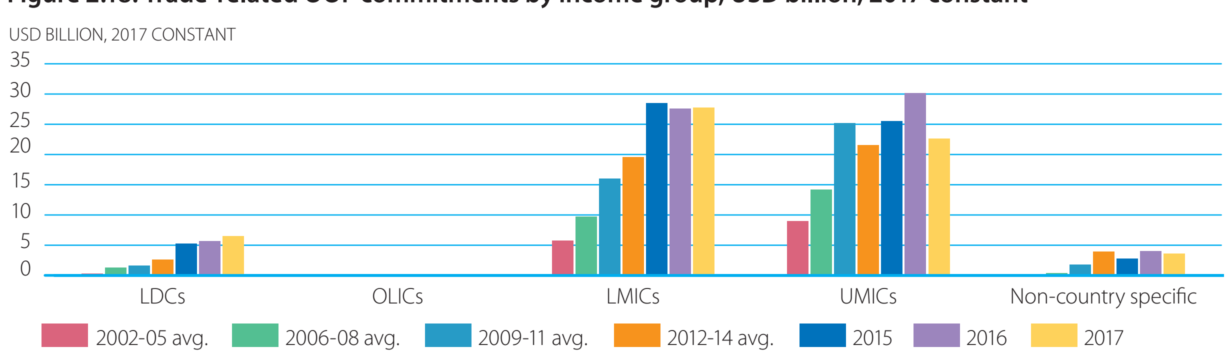
Figure 2.17. Aid-for-trade commitments by income group, USD billion, 2017 constant



Source: OECD-DAC CRS: aid activity database (2018), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 04 April 2019).

StatLink http://dx.doi.org/10.1787/888933953052

Figure 2.18. Trade-related OOF commitments by income group, USD billion, 2017 constant



Source: OECD-DAC CRS: aid activity database (2019), DOI: http://dx.doi.org/10.1787/data-00061-en, (accessed 04 April 2019).

StatLink http://dx.doi.org/10.1787/888933953071

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