CHAPTER 1
OBJECTIVES, PRIORITIES AND STRATEGIES: WHAT HAS \textbf{CHANGED}?

This chapter answers four questions. What has changed in aid-for-trade objectives, priorities, strategies and policies since the last round of monitoring? What drove these changes? How has demand evolved? And what is the outlook for aid for trade?

All stakeholders are connecting aid for trade to the broader development agenda - and aid-for-trade objectives and strategies are focusing more on economic growth, poverty reduction and regional integration. Partner priorities are more focused on competitiveness, economic infrastructure and export diversification.

There are positive trends in partner-country strategy mainstreaming, articulation and communication. Yet some donors face budget challenges and have difficulty in responding to perceived higher demand for aid for trade and regional assistance.

Changes in aid-for-trade objectives, priorities and strategies were generally driven by changes in broader trade and development plans and national factors. Aid for trade remains a priority for many partners and donors. Future revisions of plans will be caused by changing focus, evaluation results and evolving trade and development strategies. The importance of results, and of monitoring and evaluation, will only increase.

INTRODUCTION

Aid for trade is very much affected by global economic movements - from trade flows, to economic performance, to commodity prices - as well as by the budget situation and fiscal space in developed countries. It also involves a wide range of actors - developing countries, emerging economies and the OECD countries, supported by multilateral institutions and regional organisations. Aid for trade therefore provides a useful lens through which to view how the world has changed since 2008. When the last \textit{Aid for Trade at a Glance} was published in 2009, it noted that the Aid-for-Trade Initiative’s generally positive progress risked being undermined by negative global developments. The financial crisis and the economic recession that followed threatened to reverse the strong growth in aid-for-trade flows. Substantial declines in trade jeopardised the work done in advocating trade as a development tool, while the transmission of the shock risked undermining open markets. Although the world economy has started to heal by this latest \textit{Aid for Trade at a Glance}, the crisis leaves a legacy which will continue to shape the aid-for-trade agenda in the years to come. This chapter examines how objectives, priorities, strategies and polices have evolved - for partner countries, donors and providers of South-South co-operation. The chapter finds that on the basis of their self-assessments, objectives have not changed much, priorities more so, and approaches most of all – with both donor and South-South approaches to trade-related co-operation having changed in about half of those countries that took part in this round of the monitoring exercise.
Partner countries increasingly prioritise competitiveness and export diversification as a way of strengthening their resilience to shocks and of decreasing risk (see figure 1.1). For donors, the results agenda - i.e. monitoring and evaluation - has become more important in the wake of the crisis. Overall these changes are driven mostly by shifts in national circumstances, such as changes of government, development policy priorities and trade policy shifts. As might be expected, objectives have changed the least. Almost half of partner respondents report changing their priorities. Half of the donors have changed their strategies, and 44% of South-South co-operation providers have changed their trade-related co-operation policies. The rest of the chapter proceeds as follows: the second section examines the changes which have occurred in objectives, priorities, strategies and policies of partner countries, donors and providers of South-South co-operation. The next section looks at the main drivers of these changes. This is followed by a look at how demand for aid for trade and regional trade-related assistance has evolved. This is then followed by a section providing details on how aid-for-trade policies and strategies might change over the next two years, as well as on the outlook for aid for trade. The final section offers some conclusions which will be built upon in the subsequent analysis.

What has changed since 2008?

This section examines the responses to the OECD/WTO aid-for-trade questionnaire - which attempted to assess changes since 2008 and provide an update to the previous questionnaire.

The WTO Task Force on Aid for Trade recommended the following objectives for the initiative:

- Enable developing countries, particularly least-developed countries (LDCs), to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs);
- Help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more;
- Help facilitate, implement and adjust to trade reform and liberalisation;
- Assist regional integration;
- Assist countries’ smooth integration into the world trading system; and
- Assist in the implementation of trade agreements (WTO, 2006).

Many developing countries’ trade potential may not be realised because they face binding constraints that prevent them from turning market opportunities into trade, and trade into growth. OECD (2011) shows that the four most common aid-for-trade objectives - increasing trade, diversifying exports, maximising linkages with the domestic economy, and increasing adjustment capacity - have the potential to boost growth and reduce poverty in developing countries.

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Partner country objectives have not changed much...

It is to be expected that countries’ objectives are relatively stable and not prone to change. Indeed, objectives in most partner countries did not change, with less than 30% of LDCs, fewer than 40% of OLICs and LMICs, and only about 15% of UMICs changing their objectives.

Figure 1.3 looks at the changes made by partner countries. Most involve strengthening core issues. For instance, Uganda’s key objectives are competitiveness, poverty reduction, and regional integration (because of its involvement in the East Africa Community common market). Although Botswana highlighted the same three objectives in both surveys, they grew in importance between 2008 and 2011 due to “the turn of economic events in 2009/2010”. The Maldives continues to focus on attracting FDI and engaging the private sector through public-private partnerships, but more emphasis is being placed on competitiveness and diversification. Haiti retains its previous objectives, but green growth and gender equality have been added. Tonga’s objectives reflect the country’s small size, remoteness, and vulnerability to external shocks. The Solomon Islands does not have any articulated strategies, objectives or priorities specific to aid for trade, making it difficult to assess the extent to which the country’s aid-for-trade objectives and priorities have changed since 2008. However, it does have broader development plans and objectives which, as is the case for many partner countries, seems to be driving changes in aid-for-trade objectives. Generally the picture that emerges is of country-specific factors leading to changes in objectives.

...but priorities did change...

Partner-country priorities changed more significantly than their objectives since 2008 - with 40% of LDCs changing their priorities, 55% of OLICs and LMICs, and 45% of UMICs.

Partner countries identify similar aid-for-trade priorities to those identified in the last survey: competitiveness, economic infrastructure, export diversification, and trade policy analysis, negotiation and implementation. However, among those countries whose priorities changed, 30% made competitiveness their first priority. Competitiveness is the top priority across all regions and income groups (i.e. competitiveness is now the top priority for 5 LDCs, 3 OLICs, 3 LMICs and 3 UMICs) but particularly for West Africa, Central America and the Caribbean. For LDCs, economic infrastructure is their second priority, followed by export diversification. For OLICs, trade policy analysis, negotiation and implementation, and trade facilitation are their second and third priorities respectively. LMICs also emphasise the importance of trade policy as well as on value chains. UMICs prioritise export diversification and economic infrastructure.

...with increased focus on competitiveness and export diversification.

Overall 24 countries prioritise competitiveness, 19 export diversification, and 18 economic infrastructure. As noted in the section on the economic crisis, these changes may reflect efforts to use aid for trade to build resilience and diversify risk, as well as to strengthen an economy’s attractiveness to investors. For example, Gambia prioritises export diversification in order to move away from traditional exports and to harness new opportunities in other sectors, such as cashews, poultry, and agro-processing.
For some countries, specific needs have arisen, and these have altered their priorities. Although Mongolia’s aid-for-trade priorities remain largely unchanged, policy analysis and negotiations have taken on a new importance given the country’s accelerated programme of RTA negotiations. Indonesia’s top aid-for-trade priority is now trade policy analysis, negotiations and implementation, reflecting the need to integrate new environmental laws passed in 2009. Also some countries appear to have changed priorities in the belief that these priorities will receive funding. Kenya, for example, prioritises infrastructure because “OECD countries want to give aid to infrastructure”. Fiji’s suspension from the Pacific Islands Forum Secretariat (PIFS) and the Commonwealth impacted its trade relations in the region, and forced it to explore new markets, particularly in Asia, through its Look North Policy initiative. The Ministry of Foreign Affairs and International Co-operation is currently formulating Fiji’s first ever Trade Policy Framework to guide Fiji’s trade and economic policies and to help achieve national objectives, including its Millennium Development Goals (MDG). The Framework will identify Fiji’s trade and economic interests, both for goods and services, in international markets, as well as the objectives and strategies it must pursue as part of its overall sustainable economic development programme.

In Nigeria, new development priorities have meant that government policies increasingly focus on growth quality (in terms of enhanced industrial productivity), value chains, employment intensity, wealth creation and poverty reduction. Trade Facilitation is seen as key to increasing trade and has moved to the government’s Vision 20:2020 strategic planning process. Senegal notes that the global food crisis influenced its decision to prioritise local competitiveness and food self-sufficiency. Ghana has changed its priorities since the discovery and exploitation of oil and natural gas, while Suriname aims to be less dependent on the mineral sector because of its vulnerability to commodity-price shocks. Its main priority is to produce final products from domestic endowments.

These changes have been largely mainstreamed in national strategies.

In 2008, almost all partner countries (79 of 83) reported having national development strategies. More than half (43) fully mainstream trade, based on identified priorities and action plans. Another 32 partly mainstream trade (i.e., trade is mentioned in their national strategies, but these trade strategies lack operational objectives and action plans). Among the countries that changed objectives or priorities over the last two years, almost 60% mainstreamed these changes in their development strategies. Only just over 40% updated their operational strategies, but over 60% included these changes in their discussions with donors.

Several countries gave details of their efforts to mainstream the changes into their broader development strategies. Gambia reports that its previous Poverty Reduction Strategy Paper (PRSP) did not mainstream trade priorities adequately. However, this deficiency is being rectified in the broader discussion of its new development programme. In Sierra Leone, changes have been incorporated into the President’s National Agenda for Change. In Pakistan, the Strategic Trade Policy Framework and the Working Paper of the 10th Five Year Plan have been amended. Ghana has incorporated its new priorities into its medium-term Shared Growth and Development Agenda. The Angolan government has adopted its revised trade priorities in its Poverty Reduction Strategy.
Some countries do not have specific aid-for-trade strategies so far, while others intend to mainstream changes when their development plans are revised. Swaziland plans to conduct an aid-for-trade needs assessment in the near future, which will feed into an aid-for-trade strategy, which will, in turn, be incorporated into the country’s development strategy. Suriname notes that its aid-for-trade strategy is already being implemented, but that new priorities will be formally incorporated in its forthcoming multi-annual development plan. Trinidad and Tobago’s overall national development strategy, as well as the necessary operational strategies, will be developed over the short- to medium-term. Botswana notes that most aid-for-trade changes (e.g. its push for economic diversification) are recent and, although adopted by the government, have not yet been included in the National Development Plan.

In some cases, operational strategies need to be updated to reflect changes. However, almost all of the countries that have not yet updated their strategies are planning a revision. Moreover, of the 20% that have not discussed changes with donors, all are planning to do so. These findings seem to point to some improvements in mainstreaming trade and in including changes in objectives and priorities in national development plans, operational strategies and discussions with donors.

**Many donors changed their strategies…**

Roughly half of the donors report changing their strategies. For example, the United Kingdom, France and the World Bank revised their strategies, while the EU, Japan and Germany did not.

**Figure 1.7 Past and future changes to donor aid-for-trade strategies**

<table>
<thead>
<tr>
<th>Aid-for-trade strategy changed since 2008</th>
<th>Planning changes to aid-for-trade strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes: 21</td>
<td>No: 19</td>
</tr>
<tr>
<td>Not sure: 2</td>
<td>N/A: 2</td>
</tr>
</tbody>
</table>

Multilateral and bilateral donors agree on the three most important issues in aid for trade – namely economic growth, poverty reduction and regional integration. Multilateral donors attach more importance to better monitoring and evaluating results, and less importance to adopting a more regional focus - which makes sense given that many regional institutions have a specific geographical focus already which is unlikely to change (e.g. the African Development Bank’s focus on Africa).
The Australian government remains convinced that economic growth is the most powerful long-term solution to poverty, and that trade is a key driver of economic growth. Its priorities for 2008-10 remain: (i) support for economic infrastructure (particularly transport related); (ii) increased agricultural productivity and rural market development; (iii) trade reform; (iv) fisheries management; and (v) removal of barriers to private sector growth. Australia is making a greater effort to promote regional integration in its aid-for-trade activities, especially in East Asia and the Pacific, its two main regions of focus for aid for trade. Finland’s Aid for Trade Action Plan has not changed since its launch in 2008. However, several new issues have emerged that were not identified in the Action Plan, including the expansion of co-operation to Eastern Europe, Central Asia, the South Caucasus and the Western Balkans. In Sub-Saharan African LDCs, Korea’s aid for trade is targeted toward building the foundation for production and strengthening trade capacity. …partly driven by the need to show results.

In 2010 the United Kingdom enhanced its approach to aid for trade with a stronger focus on achieving results - both through programme planning and improved monitoring and evaluation techniques. The February 2011 Trade White Paper sets out how the United Kingdom has refined its approach to aid for trade, seeking over the next few years to prioritise progress on trade facilitation, capacity building (including a special focus on building capacity for negotiations), and country competitiveness (including through stronger engagement with the private sector). The United Kingdom has strengthened its support for regional integration, mainly in Africa, but also in the Caribbean and increasingly in Asia. Other cross-cutting efforts include initiatives that promote benefits for women traders and workers in export industries; that build know-how and support to ensure that aid for trade supports poverty reduction; and that support broader research to inform trade development and export policies, and to improve aid-for-trade techniques. Italy has not set out an aid-for-trade strategy, so it cannot measure any change since 2008. This may also be the case with Portugal and Hungary, neither of which answered the question. The new global trade environment, and the World Bank Group’s experience in delivering aid-for-trade assistance, led the Bank to focus its aid-for-trade priorities on increasing trade competitiveness and diversification; improving transport and logistics to facilitate trade; expanding market access and integration; and ensuring access to trade finance. The IADB increased its emphasis on regional integration objectives. Thematic priorities include trade facilitation, trade and logistics, standards, and trade policy. Greater emphasis is being placed on monitoring and evaluating results.

Little change in South-South co-operation policies but more actors.

The trade-related co-operation policies of countries engaging in South-South co-operation changed in 4 of the 10 respondents to the South-South questionnaire. Policies changed in Ecuador, Mexico, Oman and Indonesia. However, there were no reported changes for the major providers of South-South co-operation, including China, Chile, Brazil, Colombia and India. Of these, all but Colombia responded to the 2008 questionnaire on South-South co-operation. South-South co-operation policies appear to have changed because of shifting development priorities and new approaches, procedures and instruments. These new policies are more focused on results, the regional dimension and green growth.

Oman is providing more infrastructure facilities, such as ports and airports, and helping countries to streamline trade procedures by setting up information-technology portals. The focus on climate change and green growth represent the most important planned change to Brazil’s strategy. A major part of its support will be in biofuels and agriculture, particularly in Africa. India is also planning to revise its activities to focus on results and, in particular, on the regional dimension of aid for trade. It also intends to “intensify aid-for-trade assistance”.

WHAT WERE THE DRIVERS OF CHANGE?

Regarding the factors prompting changes in priorities, most reflected domestic considerations. Where there were changes in government, the impact was noticeable. Even more significant, across all stakeholders, were broader changes in development priorities and strategies (see Figure 1.10). Regarding partner countries, changes in development and trade policies were identified as the most important drivers of changes. Donors also altered their strategies based on partner countries’ changing priorities. South-South partners that changed their policies did so mostly because of changes in their development priorities.
Partner countries are responding to new development priorities and trade policies…

Just over a third of the partner countries that changed their priorities identify new development strategies as the most important driver of change. Burkina Faso has launched an Accelerated Growth and Development strategy which prioritises external trade promotion and private-sector development. Tonga is in the process of formulating a National Export Strategy, National Private Sector Development Strategies and Labour Export Strategies. Guatemala is updating its foreign trade policy and striving to make its export sector more competitive. Regional Trade Agreements and Economic Partnership Agreements have also led some countries to shift their priorities. Swaziland’s priorities changed due to its recent focus on trade in services within COMESA and the EPAs. Kenya’s aid-for-trade objectives changed in order to align them with objectives set out in the new Kenyan constitution.

The next most important factor was changes in national trade policies and the development of new trade strategies. Nepal recently launched a Trade Integration Strategy which aims to strengthen trade negotiating capacity (especially bilateral), technical capacity to deal with Non-tariff Barriers (NTB), export capacity, and the government’s capacity to manage the technical assistance and aid for trade needed to implement the strategy. The development of Diagnostic Trade Integration studies (DTIS) and action matrices led Comoros to change its priorities. The third most important driver of changes in priorities - identified by 15% of respondents - was regional trade. Multilateral trade was much less important probably reflecting the lack of progress in the Doha Round. The economic crisis was the most important driver of change for 14% of partner-country respondents, less than the corresponding figure for donors. A change of government prompted priority changes in El Salvador, Gabon, Ghana, Guatemala, Tonga and Suriname.
AND DONORS ARE RESPONDING TO THESE CHANGES IN PARTNER PRIORITIES.

Regarding the drivers of change identified by donors, shifting partner-country priorities and changing development cooperation priorities are the most important factors, as noted above. The economic crisis also played a role. Change of national government only affected a few donor’s priorities, but where this happened it was important. New research and approaches were also considered important factors, but only one donor felt these were the most important. Triangular co-operation still has limited influence on aid-for-trade strategies. The next section looks at the economic crisis and emerging issues in the aid-for-trade discussion, especially the environment and gender.

THE ECONOMIC CRISIS HAS AFFECTED DIFFERENT ACTORS IN CONTRASTING WAYS...

The figure below shows the sharply contrasting ways in which the financial crisis was perceived by countries, whether donors or partners. For over 30% of partner countries it was one of the most important factors that led to priority changes; for 40% it was either less important or not important. Similarly, over 20% donors saw it as the most important factor behind strategy changes; over 25% felt it was less important. For South-South partners, it was important in only half of those that changed their policies. As the previous section has pointed out, changes in objectives and strategies tend to be mostly driven by national characteristics. Yet the crisis does seem to have sharpened partner countries’ focus on competitiveness, export diversification and strengthening resilience to economic shocks. For many donors, the crisis seems to have further sharpened their focus on demonstrating results.

FIGURE 1.13 HOW IMPORTANT WAS THE ECONOMIC CRISIS?

AND WHILE THE CRISIS WAS NOT EXPLICITLY IDENTIFIED AS A KEY CAUSAL FACTOR...

While many partner countries’ aid-for-trade objectives and priorities have not changed, the economic crisis served, as Grenada explains, to highlight the importance of existing objectives and to underline the urgency of addressing existing priorities. The crisis weakened consumer spending power, thus reducing revenues from exports and economic activities. Sierra Leone reports that post-crisis it has become harder to source funds for addressing priorities and objectives. According to Canada, in the wake of the crisis, and the growing importance of trade and investment to economic recovery, aid for trade is figuring even more prominently as means of supporting economic growth. Countries are investing more in building economic infrastructure, productive capacity, and export-led development – changes that will increase the demand for aid for trade. Germany also notes increasing demand for aid for trade in the wake of the crisis, especially for trade financing and for improving private-sector competitiveness and productivity. New Zealand notes that the crisis has exacerbated existing economic and fiscal challenges facing Pacific island countries, prompting renewed efforts to strengthen economies and reduce vulnerabilities. These seem to provide a strong rationale for the prioritisation of competitiveness and export diversification in partner-country plans. So while the crisis was not explicitly identified as a key causal factor, it does seem to have implicitly shaped the agenda.

...IT DOES SEEM TO HAVE IMPLICITLY SHAPED THE AGENDA.

Many donors predict that future budget cuts in development assistance are likely, but they indicate that aid for trade will remain a priority. For the United Kingdom, the economic crisis and wider contextual issues, such as meeting aid targets, have sharpened the focus on ensuring that aid for trade is as effective and efficient as possible – both through programme planning and improved monitoring and evaluation. Many other donors also place greater emphasis on monitoring and evaluating results. Because of the economic crisis and budgetary cuts, the Netherlands is reconsidering its spending plans. The outcome is not clear, but it notes that “aid for trade remains a priority, to the extent that it will not be hit hard by expenditure cuts”. In spite of budget pressures, the Australian government remains committed to increasing ODA to 0.5% of Gross National Income (GNI) by 2015-16, and to supporting developing countries to achieve the MDGs. As with many donors, Australia believes that its aid-for-trade efforts will help to make this possible, particularly for MDG 1 (poverty eradication) and MDG 8 (rules based predictable non-discriminatory trading and financial system).
Environmental issues are increasingly influencing the aid-for-trade agenda…

During the Second Global Review of Aid for Trade, OECD Secretary-General Gurría argued that aid for trade should join up with the broader development agenda to contribute to a cleaner environment and more sustainable growth. “Aid for trade can play a big role in supporting those development goals we all share… it can also help developing countries build capacities that in turn can contribute to a healthier environment and to fighting poverty.” However, it is likely that many partner countries will not prioritise green growth due to the immediate employment, growth and poverty reduction challenges they face. In line with the principle of ownership, partner countries must drive this agenda and set their own priorities. In addition there is a risk that the economic crisis may have stalled support for climate change adaptation and funding for green-growth initiatives. While funding for climate change adaptation and mitigation is likely to grow in the years to come, ODA and aid for trade can already play a role in building capacities and resilience.

Developing countries can shift to lower-carbon paths while promoting development and reducing poverty, but this depends on financial and technical assistance available domestically and especially from high-income countries (Stern, 2009). Aid for trade and green-growth financing share many of the same objectives and, if used in a “complementary and reinforcing manner, they may help build the economic resilience and supply-side capacity LDCs need to adapt and mitigate climate change and link to the world economy on better terms” (Ancharaz and Sultan, 2010). Indeed, there is scope for aid for trade and new sources of climate change finance to work together to help meet some of the expected costs of climate change (Kean et al., 2009).

As Collier et al. (2008) note, green growth struggles with similar challenges to aid for trade – for example, how to engage the private sector and how to address regional challenges in a coordinated manner. They suggest that adaptation to climate change in Africa is primarily a private-sector response involving relocation of people, changes in the sectoral structure of production, and changes in crop patterns (Collier, Conway and Venebles, 2008). They also suggest that adaptation in Africa will be impeded by Africa’s fragmentation into a large number of countries, by poor business environments and poor regional integration. Aid for trade aims to improve the business environment and make economies more resilient and responsive to future needs (OECD, 2010).

…with many donors mainstreaming environmental issues in their programming…

New Zealand is seeking to mainstream climate-change issues throughout its aid programme. It is working to ensure that infrastructure projects - including trade-related infrastructure - are “climate-proofed”. This is particularly important as many of its Pacific partners, the key regional focus of its work, are highly vulnerable to the environmental impacts of climate change. In supporting sustainable economic development, New Zealand is increasingly focusing on specific sectors, such as agriculture, fisheries and tourism, that are key to its partners future growth prospects, as well as on infrastructure and energy. It is important to view aid for trade through a climate lens because there is a risk of maladaptation, where policies and decisions increase vulnerability to climate change or overlook opportunities for adaptation (OECD, 2009). Chinese Taipei is focusing on climate change and environmentally sustainable development, as well as on growth and poverty reduction. Among IADB’s cross-sectoral priorities are environment/climate change and green growth. These issues will be mainstreamed into the IADB’s Aid for Trade Strategy and Agenda. Singapore aims to provide more technical assistance programmes in climate change. Germany plans to elaborate on the relationship between aid for trade and green growth.

Green growth also holds potential for innovative financing and for developing public-private partnerships (PPP). Korea provides an example with its “Project for the Creation of a Green Village and Provision of Water Utilising Renewable Energy in Kazakhstan (2 years/USD 150 million)” – the aim of which is to provide clean water and a wind and solar power producing system for the region. A Korean energy company promotes and conducts the project, in partnership with the Korean International Co-operation Agency, and is sharing its technical knowledge to increase the project’s impact. The Austrian Development Co-operation Agency (ADG) has recently signed Memoranda of Understanding (MoU) with SADC and ECOWAS, which include co-operation on building trade-related infrastructure and renewable energy. In this context, ADC has joined the “Energy and Environment Partnership with Southern and Eastern Africa (EEP)”. The EEP is open to both the public and private sector, and is implemented via calls for proposals. It promotes institutional support and knowledge management, renewable energy projects and business development assistance, and national or regional pilot projects. Finland is also expanding energy and environment partnerships, though not exclusively for aid for trade.
... partner countries are also interested in this issue.

Donors, more than partner countries, seem to be prioritising green growth. Yet some partner countries have expressed an interest in this agenda, and see aid for trade’s potential to build capacities to develop alternative energy, strengthen agriculture and expand tourism. Trinidad and Tobago considers sustainable development to be an important issue, as does Paraguay. However, Maldives worries that there is a risk that climate change and green growth will become donor priorities not widely shared by partner countries. It notes that green growth cannot be a donor-driven agenda. Nevertheless, in the Maldives’ experience, donors are willing to support areas such as climate change and good governance, often more prominently than trade.

United Nations Environment Programme (UNEP) provides an example of green growth and trade promotion advancing in tandem through its support for the East African Organic Products Standard - adopted in 2007 by the East African Community as the single, official standard for organic agriculture production in the region. The standard is a key output of the joint UNEP and the United Nations Conference for Trade and Development (UNCTAD) “Capacity Building Task Force on Trade, Environment and Development” (UNEP-UNCTAD CBTF) initiative. The standard was the result of a multi-stakeholder process involving intensive consultations and participation by governments, the private sector, NGOs and international institutions. Although evaluations have not been completed, the standard appears to have been critical to promoting organic agriculture production in the East African region, and has influenced the development of other regional standards.

Beyond economic considerations, organic agriculture brings with it numerous other benefits for sustainable development. Environmental benefits from increased organic agricultural cultivation include lower energy consumption (20-56% lower per unit produced), reduced greenhouse gas emissions (on average 64% lower per hectare), higher levels of biodiversity, and increased soil fertility, leading to the possibility of equivalent or higher yields compared to conventional farming. Increased soil fertility can also help combat desertification by preventing erosion and land degradation. Besides environmental benefits, organic agriculture can increase food security resulting from higher productivity and higher yields. Measured impacts are particularly noticeable in subsistence agricultural systems with yield increases of up to 180%. Increased agricultural employment also reduces rural-urban migration.

Gender equality is being considered in aid for trade...

One of the guiding principles of aid for trade, as set out in the Recommendations of the WTO Task Force on Aid for Trade was that it should be “rendered in a coherent manner taking full account, inter alia, of the gender perspective and of the overall goal of sustainable development” (WTO, 2006). The impact of trade expansion on the distribution of income and employment differs between women and men. Women are more vulnerable to chronic poverty because of gender differences in the distribution of income and lack of access to productive assets, such as land and credit. Furthermore, within households, men may limit women’s employment or control the income they earn. Inequalities between women and men in accessing opportunities, or “resources, rights and voice”, are thus closely linked to women’s empowerment, as well as to children’s well-being (Morrison et al, 2007).

While it is clear that trade has very different impacts on women and men due to gender relations, in practice the trade impacts are felt by all individuals as fluctuations in prices (and hence the availability of goods) and changes in output (what is produced, how, and under what conditions). Employment opportunities for women have increased in non-traditional agriculture (e.g. cut flower production) and in clothing and textile industries, as well as in electronics-oriented Export Processing Zones and services sectors. Many of these jobs are concentrated in export-oriented industries where electronic components are assembled, textiles processed, or garments and shoes produced (Nair et al, 2004). Paid employment can increase women’s autonomy and their economic and social status. It can also shift power relations between women and men, including at household level, and improve women’s well-being, negotiating power and overall status (OECD, 2011).

...and many donors have trade-related programmes with gender equality objectives.

Many donors have specific trade-related programmes which also have gender equality objectives. Several of the United Kingdom’s initiatives support women-owned businesses and women workers. In support of the Strategy for Sustainable Economic Growth, the Canadian International Development Agency (CIDA) allocated CAD40 million over five years to enhance developing countries’ participation in the global economy. About one quarter of this investment will be devoted to making substantive improvements to the lives of women
traders, entrepreneurs, and small-scale farmers. UNDP has undertaken specific efforts in Africa to support capacities of women entrepreneurs including those engaged in cross-border trade. A number of case stories were also prepared, mostly by international agencies, to demonstrate their commitment to gender equality in their aid-for-trade programmes.

HOW HAS THE DEMAND FOR AID FOR TRADE EVOLVED?

There is increased demand for aid for trade...

Donors and South-South providers note an increase in demand for aid for trade and regional trade-related programmes. In fact, 60% of donors indicate that demand has increased or significantly increased. Of the seven donors that experienced significant increases, five were multilateral donors (IADB, ADB, UNECA, UNCTAD and ITC) and two were bilateral (Australia and Finland). Just over half of bilateral donors report increased demand, while over 85% of multilateral donors report increased demand, with over 30% reporting a significant increase. Most South-South partners point to increasing demand with Brazil and China indicating a significant increase in demand.

Figure 1.14 Had demand for aid for trade increased?

Donors generally find increases in demand from regions and countries where they have partnerships. IADB points to increases from the Caribbean, as do others. The Islamic Development Bank reports increases from Central Asian Countries. UNECA points to Africa. Other dedicated agencies report increases in demand for policy areas in which they specialise, e.g. FAO experienced increasing demand for building productive capacity in agriculture, fisheries and forestry. Finland says that demand has increased from all of their long-term partner countries.

...and needs are more clearly articulated.

The United Kingdom finds that the overall demand for aid for trade appears to have increased, and that needs are more clearly articulated. Sweden has experienced an increase in demand from several countries and regions, particularly in Africa and in relation to the EU-Africa Partnership Agreement negotiations. The requests are for all categories of aid for trade but most notably for trade capacity building, trade facilitation and areas related to quality infrastructure, namely SPS/TBT and other standards. Germany and France also note increased demand for aid for trade, especially in the context of EPAs that are currently being negotiated between ACP states and the EU, though the intensity varies across ACP countries. Benin and Kenya increasingly request support in the area of agriculture. Aid-for-trade demand also increased in the context of the EIF process, in particular in supporting the process. For the Czech Republic an increase in demand from Mongolia, and for Chinese Taipei from El Salvador, Honduras and Nicaragua.

A number of countries are also accessing assistance through multilateral programmes that the United Kingdom and others support. These include the EIF, the World Bank’s Trade Facilitation Facility and the World Bank-run Multi Donor Trust Fund - which provides targeted policy and technical support in response to country and regional demands. The World Bank itself has noted increased demand mainly from countries in Sub-Saharan Africa, but also from some middle-income countries in the Middle East and North Africa, and in East and South Asia, for lending, technical assistance and capacity building. The EU gives details of countries where demand has increased, significantly increased or stayed the same. Among those where demand has significantly increased are Benin, Cameroon, Colombia, Nigeria, Seychelles, Ukraine, West Bank-Gaza, Yemen and Zimbabwe. UNCTAD indicates that most LDCs have increased demand. UNIDO perceives that the demand for aid-for-trade projects has increased noticeably across all regions of the developing world, in particular from LDCs. Enterprise upgrading and productive-capacity development, as well as quality infrastructure development for SPS/TBT compliance, are the two main areas of growth for UNIDO.

Significantly, no donor reports a decline in demand. However, many bilateral DAC donors report little or no change in demand (Netherlands, Norway, Austria, Switzerland, Portugal, Ireland, Italy and Spain). There are a number of non-DAC donors that also signal no change: Hungary, Lithuania and Israel. Neither Japan nor Italy were able to answer the question and are unsure about demand. Singapore points to little or no change, but notes that “the demand for aid-for-trade programmes has remained consistently high”.

OBJECTIVES, PRIORITIES AND STRATEGIES: WHAT HAS CHANGED?
Demand for South-South co-operation is also rising...

Both China and Brazil point to increases in demand for trade-related co-operation. Brazil notes increasing demand for support to agriculture and biofuels. India reports increasing demand from African countries and LDCs for technical assistance and capacity building. Indonesia also reports increasing demand from LDCs to support capacity building in economic development. Colombia reports an increase in demand for trade-related South-South co-operation from Bolivia, Ecuador, Peru, Dominican Republic and countries in Mesoamerica. Mexico also reports increasing demand from this region. Ecuador indicates that there has been little or no change. India has selected four LDCs (Zambia, Lesotho, Malawi and Ethiopia) for focused training and other assistance. India also supports Cotton 4 (C-4) countries (Benin, Burkina Faso, Chad and Mali). Further details are provided in Chapter 3.

…as well as for regional integration programmes…

Similar trends emerge in demand for regional integration programmes and regional trade-related assistance. Over half of bilateral donors report an increase in demand, with Australia and Belgium reporting a significant increase. Belgium notes demand is growing most at the regional level, where partner countries with little prior experience of regional agreements have requested support for negotiation and implementation capacity. Australia has seen an overall increase in demand for regional integration processes, particularly by countries in the ASEAN, Mekong and Pacific regions.

Canada is active in providing aid-for-trade programmes on a regional basis, seeing this as one of the most effective ways of delivering aid for trade. Demand has continued from the Caribbean and Africa in particular for both training in export readiness and management of trade regimes. In Africa, increased focus on regional economic integration has led to growing demand for aid supporting regional economic bodies. Denmark reports increased demand notably from the East African Community (EAC) but also increasingly from other regional bodies in Africa. Most Danish aid is programmatic and is either undertaken jointly with other donors or closely coordinated with them. Similarly, Germany notes increased demand for regional economic integration from the ECOWAS Commission to implement a customs union, as well as from SADC, EAC, CARICOM and ASEAN.

Japan emphasises approaches that promote regional dimension; and it notes a "remarkable increase in demand for Japan’s aid for trade from African countries and Mekong region countries" in, for example, regional infrastructure development, promotion of trade and investment, development of customs clearance. Sweden reports increases from several regions, but especially from Africa for trade capacity building, trade facilitation and areas related to quality infrastructure. The United Kingdom has scaled up its support for African regional integration with the development of the United Kingdom’s African Free Trade initiative "which encompasses political support, investment and technical assistance in support of African ambition in this area". In terms of aid for trade, this involves the development of a flexible programme to support West African regional integration efforts, as well as flagship TradeMark programmes in southern and eastern Africa focused on support at the country and regional economic community level. Significant investments are being made to reduce transit times of goods and people across three African trade corridors by investing in trade facilitation initiatives, such as one-stop-border posts. Finland cautions that the demand for regional co-operation has increased but not really for regional integration.

Among multilateral donors, six note significantly increased demand for regional programmes: the African Development Fund, ITC, UNECA, UNIDO, IADB and the World Bank. According to the World Bank, demand has increased from regional bodies in Africa and Middle East and North Africa for trade facilitation and infrastructure projects. The EU gives specific support to regional integration for the African, Caribbean and Pacific (ACP) countries. The level of demand has not changed since 2008. Out of 89 EU delegations, 62 report that they have supported partner countries in including strategic regional integration priorities (relevant to aid for trade) in their national development
plans or trade strategies. 57 out of 89 report that this is an improvement compared to 2008. This suggests increasing demand for this type of support. The same priority also emerged from surveyed partner countries, with many noting a stronger focus on regional integration.

Six South-South partners have increased demand for regional trade related-assistance. According to China, demand is increasing for cross-border road and railway construction in Africa, and for infrastructure construction, such as road, bridges and telecommunications networks, under the framework of Greater Mekong sub-regional cooperation. India has recently joined the Regional Technical Group on Aid for Trade for the Asia Pacific region. Brazil, Chile and Colombia report no change in demand for regional programmes.

**WHAT IS THE OUTLOOK FOR AID FOR TRADE?**

Looking ahead to 2013, more than half of the reporting donors (16) are planning to revise their aid-for-trade strategies. Many others note that they may adopt a new focus or priorities, but these are contingent on changes in trade and development plans or future evaluation findings. 14 donors do not plan to change their approaches, often because they have recently developed a specific strategy. For example, the United Kingdom’s broad direction and priorities were established in 2010 and will likely remain in force for the next four years. Recent changes instituted by the IADB, including new priorities, will be implemented through 2015.

**Many donors are changing the focus of their aid-for-trade strategies…**

Figure 1.16 summarises where donors see their focus increasing. The rating for many responses, including Germany’s, refers to the importance of the issues in absolute terms rather than to the significance of the change. Economic growth, poverty reduction and regional integration are the three most important issues. No donor is planning to phase out aid for trade. Monitoring and evaluation is most important for Germany, Australia as well as multilaterals, including the World Bank, WTO, African Development Fund and the IADB.

The United States has a new strategic approach to development based on three pillars: First, a policy focused on sustainable development outcomes that places a premium on broad based economic growth, democratic governance, innovations, and sustainable systems for meeting basic human needs. Second, a new operational model that positions the United States to be a more effective partner and to leverage its leadership. And third, a modern architecture that elevates development and harnesses development capabilities spread across government in support of common objectives - including a deliberate effort to leverage the engagement of, and collaboration with, other donors, foundations, the private sector and NGOs - not just at the project level, but systemically.

Germany’s internal procedures and steering instruments will be adapted with the aim of integrating aid for trade more systematically in planning, designing, implementing, evaluating and steering German sector strategies, programmes and projects. Based on past experience and also on thematic and regional strengths, German development co-operation will place special emphasis on the following aid-for-trade intervention areas: a significant share of total aid for trade will continuously be implemented in the Federal Ministry for Co-operation and Development (BMZ) priority areas of sustainable economic development (in particular, private sector development and financial services) and agriculture (including value chains and food security). Other increasingly relevant areas are quality infrastructure, trade facilitation and co-operation with the German private sector. In all areas of co-operation, capacity development will be a central focus.
The Netherlands’ priorities over the next few years include food security and water management. The Swedish government’s overall development priority of poverty reduction will be made clearer in the new Aid-for-Trade Strategy. Sweden’s thematic focus is virtually unchanged since 2008, but it is now more detailed and has been widened to include social issues. UNDP will further emphasise the contribution of trade to poverty reduction and gender equality within the context of efforts to accelerate progress towards achieving the MDGs. Singapore in 2011-2013, plans to maintain and refine its aid-for-trade strategy in response to changes in the global economic environment and the needs of partner economies.

UNDP regional programmes, particularly in Africa and Eastern Europe/CIS, are increasingly focused on supporting aid-for-trade strategies. UNDP also expects to renew its engagement with the EIF - which became fully operational in July 2009 - especially in Africa and the Asia-Pacific region. Germany will focus even more on regional economic integration. Not only will it increase support for regional integration commissions and secretariats, focusing on institution building and organisational management, but it will also focus more explicitly on the regional dimension of productive-sector development, which offers even greater potential for inclusive growth and poverty reduction.

…and taking into account evaluation findings…

Many donors will amend their approaches and priorities based on evaluations being planned or currently being undertaken (see the final chapter for a discussion of current donor approaches to evaluation). The effectiveness and efficiency of Australia’s aid programme is currently being reviewed. While it is expected that the review will make recommendations on how to improve the structure, policy and delivery of aid, it is unclear at this stage the extent to which aid for trade will be part of the review’s analysis and recommendations. How precisely the United Kingdom will implement its priorities will not be known until approval processes are completed in March 2011. Adjustments will be made in the coming years based on ongoing monitoring and evaluation, research findings, the outcome of pilot initiatives and dialogue with key partners. Norway’s current aid-for-trade strategy will be evaluated in 2011, which might lead to thematic changes. Finland’s Aid for Trade Action Plan (as well as its entire Development Policy) will be renewed because of the election of a new government in April 2011. Although the specific details are not known, the new priorities will likely reflect the results of the upcoming aid-for-trade evaluation, experiences and political priorities. UNDP’s evaluation policy is also being strengthened which will have an impact on programmes.¹

…and may change further with forthcoming reviews of overall development policies.

Some major donors plan to review their development policies which will shape aid for trade in the years to come. The World Bank has a new trade strategy which will be adopted in 2011. The European Union is currently reviewing its overarching development co-operation policy, as well as its policy relating to trade and development. A Communication on the private sector development and growth is scheduled for the end of 2012 - beginning of 2013. This may have implications for the EU’s Aid for Trade Strategy. Switzerland is also preparing a new framework for development co-operation for 2013-2016. Aid-for-trade programmes will fall under this new framework, but major changes in the thematic and/or geographic focus are not expected. However, its final content will be known only after approval by parliament.

New aid-for-trade commitments are being made…

The G20 commitment on aid for trade has also bolstered support for the Initiative. The commitment - made as part of the Multi-Year Action Plan on Development in Seoul – was to (at least) maintain aid-for-trade levels that reflect the average of 2006 to 2008 beyond 2011. The G20 also resolved to strengthen the role of South-South trade co-operation and to reinforce the involvement of the private sector. In parallel with the implementation of these commitments, the G20 pledged to sustain aid flows to other sectors in 2011 and beyond. Japan launched the Development Initiative for Trade in 2009 which involves improving aid-for-trade implementation and meeting the G20 London Summit (April 2009) commitments on trade finance. The higher target demonstrates "Japan's stronger commitment to aid for trade". Germany also confirms its financial commitment to aid for trade. The United Kingdom has committed to spending at least GBP 672 million annually, as part of its G20 commitment on aid for trade, and expect to exceed this amount by at least GBP 100 million per year.

…but the outlook for Official Development Assistance is moderate.

There has been much discussion recently about the future of ODA – including the DAC’s new focus on aid and beyond. Aid for trade has demonstrated the key catalytic role that aid can play in stimulating dialogue, in formulating plans and strategies and in using resources to address capacity and supply-side constraints, thereby enabling trade to be better used as a development tool. The aid-for-trade experience will help to inform discussions on Aid Effectiveness which will take place at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea in November 2011.
The short term outlook for ODA flows is relatively modest. The global recovery has been sluggish, and many donors have budget deficits. Emerging economies have become stronger and their share of global GDP has increased. Sharp differences have arisen over currency and trade, although tensions have not yet escalated. Some donors have sovereign debt issues and many larger economies, such as the US, Japan and the United Kingdom, have public debt and deficit problems that have become major political issues. Against this backdrop, maintaining aid-for-trade flows will be challenging. All stakeholders must continue to make the case for aid for trade, and more evidence must be generated as to its effectiveness.

CONCLUSIONS

This chapter highlights several positive developments in aid for trade. New aid-for-trade objectives are connecting the Initiative to the broader development agenda, and aid for trade is playing a greater role in strengthening overall national competitiveness. It is also facilitating and aiding regional integration. Priorities such as competitiveness, economic infrastructure and export diversification have become more prominent. There is a clearer articulation of aid-for-trade priorities. Policy changes are being mainstreamed in development plans and operational strategies are being discussed with donors. Where stakeholders have made changes, the focus on economic growth, poverty reduction and regional integration was strengthened. Modifications in aid-for-trade strategies were driven by new overarching development plans, new diagnostic studies and political changes. The economic crisis has also influenced the type of changes being pursued, though its effect has been uneven. Green growth is beginning to influence policy, but this trend appears to be at a formative stage.

Demand for aid for trade has increased - it has become more important in both partner and donor strategies. Many donors, in spite of fiscal consolidation, have reconfirmed their commitment to aid for trade. South-South actors are scaling up their activities and providing qualitative information on their programmes. Donors have operational aid-for-trade strategies, and some will be updating them in the years to come based on evaluation results, reviews of their development plans, and changes in thematic focus. Furthermore, monitoring and evaluation is set to become more important for a number of reasons. Improving work in this area will be essential to sustaining the progress that all stakeholders are making.
NOTES

1. The allocation for the period 2008 to 2013 is € 1.783 billion, of which around 70% is for economic integration.

2. UNDP’s Executive Board adopted a new evaluation policy in February 2011 following recommendations from an independent review commissioned by the Board. The new evaluation policy introduced revisions in five areas: i) national ownership; ii) notional evaluation capacity; iii) the independence of the Evaluation Office; iv) decentralized evaluation; and v) the use of evaluation. The new policy has developed guidance with respect to decentralized evaluations (i.e. those commissioned by programme units at all levels of the organisation) which encourage joint evaluations with government, UN or other partners. Revisions related to the use of evaluations are geared towards strengthening UNDP’s capacity to internalize what is learned from evaluations; and in particular, using the evidence generated by evaluations to improve the quality of programmes and guide strategic decisions. Improvements in the use of evaluation are expected to have a positive impact on the quality of UNDP’s trade-related programmes.
REFERENCES


