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**AID FOR TRADE AT A GLANCE: CONNECTING TO VALUE CHAINS
CHAPTER 6. THE WAY FORWARD**

Joint Meeting of the Development Assistance Committee and the Working Party of the Trade Committee

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The Joint OECD/WTO publication "Aid for Trade at a Glance: Connecting to Value Chains" will be presented at the 4th Global Review of Aid for Trade in Geneva on 8th July 2013. All chapters of the report will be edited before publication.

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THE WAY FORWARD SUMMARY AND CONCLUSIONS

Introduction

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

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

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

4. This chapter summarises the main developments in aid for trade since the 2011 Global Review. Based on the finding of the OECD/WTO monitoring survey, the analysis of the aid for trade flows and the conclusions of the broader trade and development literature, it appears that the proliferation and deepening of value chains and concomitant widening of trade opportunities for developing countries do not require major shifts in the focus of aid for trade effort (section 1). Nevertheless, there is room for improvement such as further engaging providers of south-south cooperation and the private sector, expanding the focus from ODA to development finance, improving the conditions for regional projects and better managing aid for trade and development results (section 3). To ensure that the Initiative remains relevant in this changing trade and development landscape, these issues should also be discussed at the 9th WTO Ministerial Conference in Bali.

1 Summary

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

6. As a new feature of the 2013 monitoring exercise the views of the private sector were solicited on how aid for trade can assist in connecting to value chains. Not only was the exercise itself an innovation, but so too were the partnerships established to undertake the exercise, *i.e.* with Grow Africa, the International Chamber of Commerce (ICC), the International Trade Centre (ITC), the International Telecommunications Union (ITU) and the United Nations World Tourism Organization (UNWTO). The 514 responses submitted by firms and business associations in developing countries present strong views on the binding constraints they face in linking to, moving up and establishing value chains, while the 183 responses from lead firms show the obstacles they face in engaging with enterprises in developing countries. Together the 697 responses from the private sector indicate the areas that offer the greatest potential for public-private partnerships to deliver the objectives of the Aid-for-Trade Initiative.

Priorities

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

8. However challenges remain. Promoting private sector development and upgrading hard and soft infrastructure through instruments such as public-private partnerships are not without problems. Although improvements are noticeable, many projects remain bedevilled by different expectations about appropriate roles and sharing of costs and benefits. Donors should be open-minded about new solutions in engaging the private sector; In particular, the public sector should be prepared to play a supporting role to the private sectors' own initiatives. All stakeholders remain strongly engaged in the Aid for Trade Initiative and it seems that the opportunities offered through the rise of value chains have reinvigorated debate. While the provision of aid for trade does not seem to be decisive in shaping the strategies and policies of partner countries, donors or providers of south-south co-operation, budget pressures do increase the urgency to show results and this is reconfirmed as one of the priorities.

Investment in trade capacities

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

10. After several years of increasing aid for trade flows, the financial crisis and subsequent budgetary economic challenges faced by OECD donors have put downward pressure on aid budgets and are also affecting the volume of the aid for trade. In 2011, commitments amounted to USD 41.5 billion – an increase of 57% compared to the 2002-05 baseline average, but a 14% decline from 2010 levels. However, and reflecting the increasing priority that partner countries and donors attach to private sector development, aid to this sector increased in 2011 by USD 171 million and reached USD 18.23 billion, up 58% from the

baseline. Furthermore, the trade development objective of these programmes has more than doubled from USD 2.6 billion in 2007 to USD 5.4 billion in 2011. Support for multi-country programmes which often have a higher impact than national programmes reached its highest ever level at USD 7.7 billion.

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

Value chains as a development path

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

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

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

The potential of regional approaches

15. Regional production networks boost trade performance and create a demand for trade-enhancing measures to strengthen efficiency through, for example, trade facilitation and better soft and hard infrastructure. Participating in these regional networks allows for ready-made external markets for local

production and has a “learning-by-doing” effect on local firms as the economy gradually opens up to regional and global markets. Regional co-operation holds especially significant opportunities for small LICs, which in the past have been generally excluded from beneficial FDI-trade links. As such, regional co-operation can serve as a stepping-stone for facilitating linkages to value chains and deeper integration into wider regional and global markets.

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

Tangible results

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

17. Aid for trade works best when focused on reducing trading costs through improvements in infrastructure, trade facilitation, trade-related public institutions (such as customs, standards administration, and export promotion), and policies (including eliminating policy barriers to competition). Furthermore, aid for trade best boosts trade performance and promotes trade-led growth when recipient countries have a supportive business environment, stable macroeconomic policies and an investment climate that encourages private investment. The absence of peace and security have a large dampening effect on export performance, and these have the power to wipe out any benefits from investment in aid for trade. Similarly, high and unstable inflation, corruption, not well defined property rights, and erratic microeconomic policies that undermine the effectiveness of all aid also applies to aid for trade.

If policy matters, so do government management systems. Governments that work together with donors in the context of a well formulated programme with specific goals to overcome supply side constraints are likely to have the greatest pay-off. This implies government ownership, mutual accountability and overall alignment and harmonisation and management for results, *i.e.* adherence to the Paris Principles of aid effectiveness. A first step towards such cooperation is to build in clear quantitative objectives for every project at each phase of the results chain and indicators to measure progress. Assistance to help governments build this type of results-based management capacity has a high pay-off for all development assistance as well as for trade.

2 The way forward

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

19. The original aim of the bi-annual monitoring exercise was putting a spotlight on aid for trade, *i.e.* raising awareness about the role of trade as an engine of growth and economic development, measuring the aid for trade flows to assess the additionality and sustainability, and creating incentives for more and better aid for trade. The monitoring has subsequently evolved to examine implementation, effectiveness and results and created a community of knowledge sharing about best practices in aid for trade. The monitoring framework has broadened the partnership involved in the Initiative with strong participation from the donor community, partner countries and providers of South-south co-operation, and as highlighted by this report, the private sector.

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

Revisiting the monitoring framework?

21. The aid for trade monitoring relies on self-assessments through questionnaires. This approach ensures that all stakeholders have a channel for feedback. Furthermore, the self-assessments have generated ample amounts of unique information allowing for extracting best practices concerning aid-for-trade policies, programmes and procedures. This does not imply that these findings should be accepted uncritically, or preclude more rigorous systematic analysis. On the contrary a key strength of the Initiative has been its flexibility in incorporating new results and embracing evaluation, impact assessments and research findings from international organisations, think tanks and academia. The global monitoring effort that the Initiative embodies helps give these other approaches direction. As the agenda has evolved, the Initiative has stimulated a broad range of diverse initiatives and activities at the regional and country level. Without the global spotlight effect, these initiatives would likely have attracted limited attention.

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

23. As outlined in the Paris Declaration on Aid Effectiveness, mutual accountability such as the Aid for Trade Initiative is designed to build genuine partnerships among different communities and focus them on delivering results. Three elements are central in establishing such partnerships; a shared agenda with clear objectives and reciprocal commitments; monitoring and evaluating of these commitments and, closely related, dialogue and review to create incentives for honouring commitments and, ultimately,

¹ WT/AFT/1 (2006)

changing behaviour. In fact, the Aid for Trade Initiative has been characterised “...as one of the key examples of global partnerships for development at work”.²

Informing the Post 2015 Agenda

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

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

Renewing the commitment

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

² UN System Task Team on the post 2015 development agenda (2013: 6)