AID FOR TRADE
SHOWING RESULTS

UNDERSTANDING AID FOR TRADE

History has shown that openness to trade is a key ingredient for economic success and for improved living standards. By connecting local producers to domestic, regional and global markets, trade helps enhance the productive capacity of the entire economy and – depending on the pace and pattern of this growth process and complementary policies – reduce poverty. It facilitates the availability of technology, know-how and other services. It helps to make goods cheaper and more widely available. It also weakens the grip of local or regional monopolies. Many developing countries have succeeded in benefiting from the expansion of regional and global markets. Steady reductions in trade barriers have enabled these countries to rapidly integrate into world markets through export-led industrialisation and thereby share in the prosperity generated by globalisation. But simply opening the economy to international trade is not enough. Developing countries – especially the least developed countries (LDCs) – require help in building their trade-related capacity in terms of information, policies, procedures, institutions and infrastructure so as to integrate and compete effectively in global markets. To address this issue, the World Trade Organization (WTO) has led the call for aid for trade.

Following the 2005 Hong Kong WTO Ministerial Conference – where countries agreed to expand aid to support developing countries in increasing exports of goods and services, and benefitting from free trade and increased market access – the Aid-for-Trade Initiative was launched to more closely and coherently bring together the aid and trade policy communities. Aid for trade is not a new global fund, nor a new aid category. On the contrary, aid for trade is an integral part of regular official development assistance (ODA). It aims to help developing countries overcome the supply-side and regulatory reform and supported by aid for trade – can, when combined with appropriate complementary policies, help attract domestic and foreign investment, thereby stimulating economic growth and poverty alleviation.

The Aid-for-Trade Initiative continues to galvanise high-level political interest. The G20, for instance, adopted the Seoul Development Consensus for Shared Growth in which they, inter alia, committed to maintain overall support for aid for trade at the average of 2006-08 levels. The Initiative has also successfully reached out to non-DAC donors and providers of South-South co-operation, including Argentina, Brazil, Chile, China, Colombia, Ecuador, India, Indonesia, Mexico and Oman by putting emphasis on sharing experiences and good practices.

MEASURING AID FOR TRADE

To assess progress towards the desired objectives of the Aid-for-Trade Initiative, the OECD and WTO have jointly developed a monitoring framework that helps create political incentives needed for greater transparency and strengthened scrutiny of aid-for-trade programmes at the global level.

The framework has two components: The first component consists of quantitative monitoring, i.e. tracking and providing trends of annual aid-for-trade flows at the global, regional and national level. The second component consists of qualitative monitoring, based on self-assessment surveys completed by both donors and recipients of aid for trade (including providers of South-South co-operation) to provide a more specific and detailed picture of aid-for-trade activities on the ground. In addition, as part of the 2011 monitoring exercise focused on “showing results”, the OECD and WTO extended the monitoring exercise beyond self-assessments and launched a call for case stories to obtain first-hand knowledge about outcomes and impacts of aid for trade on the ground. These case stories about policies, processes and programmes have provided a wealth of evidence on what has worked and where aid for trade could work better.

How much aid for trade is there?

OECD statistics show that in 2009, global aid-for-trade commitments reached approximately USD 40 billion, a 60% increase from the 2002-05 baseline period. Other official flows (OOF) of trade-related non-concessional lending doubled, reaching USD 51 billion in 2009, a likely reflection of the donor response to the global economic crisis. Half of all aid for trade is provided in grant form, mainly to the poorest developing countries. Disbursements have been growing at a constant growth rate of between 11 and 12% for each year since 2006 – reaching USD 29 billion in 2009 – indicating that past commitments are being met.

The outlook for aid for trade is stable, but OECD countries are confronted with budgetary challenges and some donors are facing difficulties in responding to the higher demand for aid for trade from developing countries. Nonetheless, there are positive signs that trade-related South-South cooperation from G20 members such as China, India and Brazil is growing – flows not captured in the USD 40 billion total reported to the OECD statistical database, the Creditor Reporting System (CRS).

Aid for trade to sub-Saharan Africa increased by almost 40% to reach USD 16 billion (Figure 1). Africa now receives the largest share of total aid for trade among the different regions. Commitments to the Americas increased slightly, with 30% of aid for trade flows going to the region in 2009. The average share of aid for trade going to South Asia is 20%, while it has decreased in the Pacific and Latin America and the Caribbean regions. The relative importance of the Middle East region increased to 11% of total aid for trade in 2009, from 7% in 2006.

Figure 1. Regional and sectoral distribution of aid for trade

Source: OECD/WTO 2011.
by almost 60% to reach USD 3 billion. Aid for trade to other regions declined: by 18% in Asia, 34% in Europe and 28% in Oceania, respectively, compared to 2008.

Driving this shift in regional distribution is the increased focus of aid for trade on low-income countries, which saw their share of commitments increased by 26% in 2009. The share of middle-income countries declined by 29%, although they received 90% of all OOF. Global and regional programmes continued to grow, receiving 18% (USD 7 billion) of total commitments in 2009.

At the sectoral level, aid to economic infrastructure and building productive capacity has dominated aid-for-trade flows, increasing steadily from the 2002-05 period until 2008, with economic infrastructure growing annually by 18% on average, and building productive capacity by 14%. In 2009, total aid to building productive capacity continued to increase, while support for economic infrastructure declined because of moderately less aid to transport and energy generation. The increases in building productive capacity were mostly in agriculture, banking and finance, a likely response to both the food and financial crises. Increases in non-concessional flows were mostly targeted to banking and finance, energy and transport, with 91% of total flows going to middle-income countries.

These numbers allow various stakeholders in the Aid-for-Trade Initiative to assess, at the global level, progress and patterns in resource mobilisation and distribution. However, partner countries sometimes have difficulty matching these global numbers with specific aid-for-trade flows at the country level. This is a generic problem and reinforces the need for stronger local monitoring and tracking systems.

**DELIVERING EFFECTIVE AID FOR TRADE**

The challenges of improving aid quality to enhance development results and outcomes are not unique to the Aid-for-Trade Initiative, but are part and parcel of the broader development effectiveness agenda. Given the significant volume — accounting for a third of all sector-allocable ODA — and the cross-cutting nature of aid for trade, it is only appropriate to consider improving the effectiveness of aid for trade within a broader discussion of development effectiveness.

Since 2006, the principles outlined in the Paris Declaration on Aid Effectiveness have laid the foundation for how aid for trade should be delivered. And the first requirement to improve the effectiveness of aid for trade is enhanced transparency. As such, donors and recipient countries have a responsibility to report on progress and results.

Putting the Paris Declaration principles broadly and widely into practice requires sustained effort and attention. From the outset, the Aid-for-Trade Initiative has accomplished major progress towards implementing the Paris principles. For instance, despite initial suggestions to set up a new dedicated aid-for-trade “vertical” fund, it was agreed not to replace or duplicate existing mechanisms but to make them work better and more effectively, with measureable results in a focused manner.

Partner countries are getting better at articulating, mainstreaming and communicating their trade-related objectives and strategies, notably LDCs. In turn, this has a positive impact on the alignment of assistance.

Country ownership has advanced the furthest and there is also evidence of broader consultations among public organisations and, increasingly, also the private sector and civil society. Donors continue to work towards harmonising their procedures and aligning their support around partner countries’ trade-related objectives, priorities and strategies.

Another achievement has been the adoption of a system of mutual accountability between partner countries and donors. This system links accountability at the country (or regional) level with accountability at the global level to foster local ownership and ensure that a country’s trade needs are integrated into its national development strategies. Strengthened in-country aid-for-trade structures, on the one hand, can improve local ownership and management for results, and also increase the transparency of financial flows from the commitment to disbursement of resources at the country level. The

WTO’s periodic global review of aid for trade, on the other hand, ensures that locally identified needs — whether financial or performance-related — are being addressed.

**Strengthening mutual accountability**

As outlined in the Paris Declaration on Aid Effectiveness, mutual accountability is designed to build genuine partnerships and focus them on delivering results. Three elements are central in establishing mutual accountability: i) a shared agenda with clear objectives and reciprocal commitments; ii) monitoring and evaluating these commitments and actions, and, closely inter-related, iii) dialogue and review.

The Aid-for-Trade Initiative is one of the clearest international examples of how these three elements create powerful incentives to carry out commitments and, ultimately, to change behaviour. Accountability between partners and donors is enhanced by transparency about the effectiveness of aid programmes and projects, and about learning what works and what does not work. The success of the Aid-for-Trade Initiative also depends on producing results. This need to demonstrate that aid for trade works is particularly pressing considering the significant additional resources that have been directed toward trade-related activities since the Initiative was launched in 2005.

Despite the momentum towards introducing a true performance culture in development assistance, measuring results remains intrinsically difficult. For instance, the 2011 Survey on Monitoring the Paris Declaration shows that while some progress has been achieved in a number of countries where sound, results-based monitoring frameworks have been established, the pace is still too slow. More work is needed to better understand the results of aid for trade in different contexts and their wider applicability. Such knowledge-sharing should also address the question of how to better demonstrate that aid for trade is a worthwhile investment for improving trade performance, generating economic growth and reducing poverty. It is about strengthening accountability in aid for trade through deepening the partnership between governments, regional organisations, the private sector, civil society and the development community at the country level.

**Hearing partners and donors alike**

Partner countries consider that aid for trade should, first and foremost, deliver export expansion and diversification. Donors consider aid for trade a success when it boosts trade and long-term economic growth and reduces poverty. Providers of South-South co-operation consider aid for trade a success when it enhances awareness about the role of trade in development and improves the delivery of aid for trade.

Stakeholders acknowledge that supportive macroeconomic and structural adjustment policies are crucial for achieving the long-term objectives of the Aid-for-Trade Initiative. In particular, fiscal policy, regulatory reform, and good governance are considered critical to the success of aid-for-trade programmes and projects. While there are positive signs of regular discussions on complementary policies, more dialogue is needed.

While partner countries expect aid for trade to boost trade, they note that achievements to date relate more to raising awareness about the role of trade, improving aid delivery, and increasing resources. This difference between expected results and observed outcomes likely reflects a time lag between aid delivery and its impacts, although some of the results described in the case stories (see the next section) give confidence that this will improve over time. Moreover, there are well-documented methodological and practical
difficulties in assigning trade outcomes and impacts directly to aid-for-trade programmes.

SHOWING RESULTS

The Third Global Review of Aid for Trade, held on 18 and 19 July 2011, yielded a strong narrative about the Aid-for-Trade Initiative’s impact on the ground. The 2011 monitoring exercise associated with this review generated a vast amount of unique information through 269 case stories and more than 140 self-assessments submitted by partner countries, bilateral and multilateral donors and providers of South-South co-operation and regional economic communities (Figure 2). Together, these stories provide a rich and varied source of information on the results of aid-for-trade activities on the ground – an indication of the progress the Aid-for-Trade Initiative has achieved.

The case stories cover more than 150 countries — ranging from the smallest states, such as Lesotho, Solomon Islands and Comoros, to the largest, such as China and India — and all major developing regions and income categories. The sheer quantity of activities described in these stories suggests that aid-for-trade efforts are substantial, that they have taken root across a wide spectrum of countries, and that they are becoming central to development strategies. The fact that nearly half of the stories were provided by developing countries underlines the salience of these programmes — and highlights the potential for knowledge-sharing.

Some stories contain detailed information — e.g. donors’ involvement, amounts invested and associated results — while others had only a smattering of quantitative information. But collectively, they reveal in rich detail the efforts governments and the international community are making to promote trade. Moreover, although not always easy to attribute causality and effect, the case stories show clear results of how aid-for-trade programmes are helping developing countries build the human, institutional and infrastructure capacity that they require to integrate into regional and global markets and to benefit from trade opportunities. Results reported range from increased export volumes to more employment, to faster customs clearance times and impacts on poverty (Figure 3).

A large number of stories detail how industry-specific programmes address market failures to help the private sector better access foreign markets and increase growth. For instance, an aid-for-trade project to support the competitiveness and the sustainability of the agricultural sector in Senegal increased export by almost 80% between 2005 and 2009 and helped create 85 new businesses.

Other stories describe how demand-driven, technical capacity-building programmes are helping countries define export-oriented growth strategies. For example, an aid-for-trade programme in Vietnam helped to increase the level of exports to the United States from USD 1.1 billion in 2001 to USD 8.6 billion in 2006, and increased the level of imports from the United States from USD 460 million to USD 1.1 billion. Another case story describes how aid-for-trade and WTO accession has played a catalytic role in supporting Cape Verde’s economic growth strategy – a strategy which has seen the country transform into a globally competitive economy, make significant progress on the Millennium Development Goals (MDGs) and graduate out of the LDC status.

Several stories recount government and donor efforts to empower and raise incomes of women through trade. One programme in Uganda trained some 3 832 women entrepreneurs in business management, many of whom were located in rural sectors and with low levels of literacy, and their businesses saw an increase in sales of more than 50% in two years, creating employment for 500 people and increasing investment.

Stories about aid programmes that assist companies in meeting international standards report successes about becoming part of global value chains. Projects in Sri Lanka, for example, helped increase export volume to the European Union from 13 532 metric tonnes in 2002 to 20 594 metric tonnes in 2008. A programme for helping Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and the Dominican Republic expand agricultural trade generated export revenues to the value of USD 100 million since 2006, with positive impacts on employment creation for women.

In trade, time is money. Accounts of trade facilitation programmes and economic infrastructure projects, including regional corridors, describe how trade costs are significantly reduced and how regional integration has been boosted. For example, a regional project in East Africa improved transit times at the border from three days to three hours. Another case story describes how improving the international transit of goods between El Salvador and Honduras reduced clearance times from 62 minutes to an average of eight minutes. The project’s success has stimulated interest in neighbouring countries and the project has been extended to Mexico, Guatemala, Nicaragua, Costa Rica and Panama.

In addition, the case stories highlight several factors or conditions that are essential for successful aid-for-trade programmes (Figure 4). Country ownership at the highest political level and effective intra-governmental co-ordination are frequently reported as critical factors for success. Active local participation and involvement of stakeholders (including the private sector and civil society) in the preparation and implementation of activity is also crucial. Integrated approaches to development, for instance, by combining public and private investment with technical assistance, increase the success rate. Equally, long-term donor commitment and adequate and reliable funding are considered essential.

Other elements of success highlighted in the case stories include leveraging partnerships – including with providers of South-South co-operation – keeping project design flexible to facilitate adjustments in initial plans, and sharing knowledge and transferable lessons at local and global levels. Furthermore, supportive macroeconomic and structural adjustment policies as well as good governance are also vital for delivering the longer-term trade and development objectives of the Aid-for-Trade Initiative. Conversely, delays and changes caused by exogenous factors such as natural disasters, political crises and global recessions threaten successful outcomes.

THE STEPS AHEAD

The results achieved to date must also be tempered by the scale of the task which still remains, and recognition of the shortcomings which continue to exist in the way that aid for trade is delivered and its results reported. In a less favourable environment for continued growth of development assistance, taking steps to better measure results is essential for showing that progress is being made towards the short- and long-term goals of the Aid-for-Trade
There is much to gain from working together to develop aligned approaches to measure progress towards partner countries’ trade and development targets based on trade-related indicators. This can strengthen country ownership – the critical factor in ensuring the aid-for-trade programmes and projects enhance trade capacity and promote economic growth and development. Active knowledge-sharing should also be encouraged through strengthened in-country dialogue among stakeholders. These discussions should not only focus on bridging “demand” and “response” but increasingly on the broader question of how best to demonstrate that aid for trade is a worthwhile investment for improving trade performance, generating economic growth and reducing poverty. It is about strengthening accountability in aid for trade.

The WTO Director-General has recommended that the upcoming theme for review by the Aid-for-Trade Initiative be “deepening coherence.” Indeed, the same call was made during the 2011 OECD Ministerial Council Meeting when Ministers adopted a New Paradigm for Development calling on the Organisation to pay particular attention to policy coherence to promote worldwide development.

With this in mind, further attention needs to be given to the following areas:

- Resource mobilisation must remain at the core of the Initiative. At the same time, however, innovative thinking is needed to make the best use of the resources at our disposal. For example, the Seoul G20 commitment to maintain aid-for-trade resources at 2006-08 levels needs to be combined with new thinking as to how to leverage this funding with additional sources of financing. This implies looking beyond traditional international concessional funding and examining, *inter alia*, leveraging financing from the private sector. The thrust on ensuring adequate trade finance must also be maintained.

- Trade affects all sectors of the economy. The complexity of trade and its interdependence with a country’s overall development strategy makes mainstreaming trade in development policy essential. Progress has been made in mainstreaming trade into national and regional development strategies. That said, it should not be a one-off process.

**End notes**

1. Designed to make aid more effective, the five principles outlined in the Paris Declaration on Aid Effectiveness are: ownership (developing countries set their own strategies for development, improve their institutions and tackle corruption), alignment (donor countries bring their support in line with these objectives and use local systems), harmonisation (donor countries co-ordinate their action, simplify procedures and share information to avoid duplication), managing for results (developing countries and donors focus on producing and measuring results) and mutual accountability (donor and developing countries are accountable for the results that have been previously identified, notably intellectual property, services, standards and trade finance, as well as links with the broader sustainable development agenda, in particular food security, gender empowerment, climate change adaptation, etc.).

2. Additional four case stories were submitted by Cambodia after the deadline on 31 January 2011.

**REFERENCES AND FURTHER READING**

- WTO/OECD (2011), *Aid for Trade and LDCs: Starting to Show Results*.