AID FOR TRADE AND THE SUSTAINABLE DEVELOPMENT AGENDA: STRENGTHENING SYNERGIES

Frans Lammersen, William Hynes
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ABSTRACT

The 2030 Agenda for Sustainable Development with the Sustainable Development Goals at its core calls to “(...), increase aid-for-trade support for developing countries, in particular least developed countries.” This call echoes a similar appeal in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. In response, the OECD Action Plan on the Sustainable Development Goals: Better Policies for 2030 also argues for further promoting aid for trade and ensuring that it supports the achievement of the Sustainable Development Goals. This paper discusses how aid for trade can contribute to these goals. It argues that the Aid-for-Trade Initiative already takes an integrated and multi-dimensional approach to promoting trade, economic growth and poverty reduction. Aid-for-trade programmes are critical to turn trade opportunities into trade flows, but more is needed to make trade an engine for green growth and poverty reduction for both men and women. International companies are already increasing their financial and technical contribution to building trade-related capacities in developing countries. Strengthening private sector engagement further could be achieved by expanding platforms for project-based collaboration that create multi-stakeholder value. Such approaches will better facilitate trade for development and strengthen the contribution of aid for trade to the 2030 Sustainable Development Agenda.
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### ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AfT</td>
<td>Aid for trade</td>
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<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>ICTSD</td>
<td>International Centre for Trade and Sustainable Development</td>
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<tr>
<td>LDCs</td>
<td>Least developed countries</td>
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<td>LMICs</td>
<td>Low and middle-income countries</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>Sustainable development goals</td>
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<td>UMICs</td>
<td>Upper middle-income county</td>
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INTRODUCTION

Meeting at a special Summit at the United Nations in September 2015, world leaders committed to an ambitious global agenda “Transforming our World: The 2030 Agenda for Sustainable Development”. The Agenda is a plan of action for people, planet, prosperity, peace and partnership with the Sustainable Development Goals (SDGs) at its core. There is no specific trade goal in the SDGs, although some 20 targets in different SDGs relate directly to international trade and many more of the 149 other targets depend on an open, rule based trading system for their achievement. These trade-related targets follow two main tracks: one addressing the institutional framework, i.e. the multilateral trade rules under the World Trade Organization (WTO) and the other dealing with trade in its functional form, i.e. importing and exporting goods and services (UNCTAD, 2016). Both tracks recognise that international trade can help realise the SDGs as a key transmitter of goods and services, technology, knowledge and behaviour.

Already, successive rounds of multilateral trade liberalisation, increasing numbers of preferential market access schemes and regional free trade agreements as well as expanding South-south trade have created many more trading opportunities for developing countries. But too many developing country firms are still priced out of international markets because of high trade cost caused by obsolete or ill-adapted infrastructure, limited access to trade finance, cumbersome and time-consuming border procedures, and the need to meet an ever-broader array of standards. To exploit the full potential of trade, developing countries must pay greater attention to trade and investment opening in their own development strategies. In addition, some countries and least developed countries in particular may require technical and financial assistance to connect to and compete in international markets.

Aid for trade is part of SDG 8 which is aimed at promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Target 8.a is a call to “increase aid-for-trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework” (United Nations, 2015a). This is in line with the conclusions of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development that “Aid for Trade can play a major role and should strive to allocate an increasing proportion going to least developed countries, provided according to development cooperation effectiveness principles” (United Nations, 2015b). Achieving the SDGs will require integrated policy approaches and trade-offs. This implies that aid for trade programmes should continue to contribute to the economic objectives of developing countries by expanding trade, whilst paying particular attention to achieving social objectives by reducing poverty and inequalities and environmental objectives through climate mitigation and adaptation. In addition, aid for trade should help developing countries build resilience and adjust to shocks that cascade through international markets.

In response to the OECD Action Plan on the Sustainable Development Goals “Better Policies for 2030” (OECD, 2016), this paper will attempt to identify how aid for trade can best help achieve the 2030 Agenda for Sustainable Development. First, it examines how aid for trade already contributes to a number of SDGs and areas where additional focus and effort is needed. Next, it briefly addresses the broader financing for development context to highlight the continued importance of official development assistance including aid for trade, particularly to the least developed countries. This is followed by an analysis of the role of the private sector in aid for trade, showing how public-private partnerships are working in some cases, but also pointing out some possible pitfalls. The next section draws lessons from the monitoring of aid for trade that could be useful for tracking progress towards the SDGs, focussing on the challenge of achieving truly country-driven monitoring. The paper concludes that aid for trade is more than ever relevant in helping countries make trade a tool for progress towards the SDGs.
The international community has struggled to reconcile the economy with society and nature. The 1987 report of the Brundtland Commission, *Our Common Future*, called for governments to change their approach to economic growth. It set out the vision for a new era – one in which growth is robust and at the same time socially and environmentally sustainable. Realising this vision proved elusive. Nevertheless, analytical frameworks have been gradually broadened to assess better the nexus between economic growth and inequality on the one hand (inclusive growth), and between environment and growth on the other (i.e. green growth) (OECD, 2011; World Bank, 2012; OECD, 2014a). This section deals with the contribution aid for trade has made to inclusive growth and green growth. Further analytical work is needed to better examine the distributional, employment and skills implications of the transition to environmentally sustainable growth. Although Laurent et al. (2015) argue that environmental challenges are mainly social problems arising largely because of income and power inequalities; considerably less progress has been made concerning the social-ecology nexus.

A key lesson from the Millennium Development Goals (MDGs) was that sustained change cannot be achieved through one-dimensional or single sector goals. The SDGs with their broader focus require a response which incorporates multidimensionality into policy design. This involves identifying complementarities, trade-offs and unintended consequences of policy choices to improve and better target policy advice. Such integrated approaches necessitate collaboration and coherence in solving integrated problems, removing the compartmentalised approach that has limited the effectiveness of both aid and trade policies. It also involves a more sophisticated policy design which recognises that systemic spill overs can be beneficial as well as damaging. Consideration of these trade-offs is best undertaken at the national level where policy-makers can optimise among different trade-offs. To make sense of sustainable development, it helps to visualise inter-relationships between inclusive growth, social ecology and green economy and the three social, economic and environmental pillars (Figure 1).

Figure 1. The Pillars of Sustainable Development

![Figure 1. The Pillars of Sustainable Development](image-url)
The development community has long recognised that the vicious circle of underdevelopment - linking high population growth, poverty, malnutrition, illiteracy and environmental degradation - can only be broken through comprehensive and broadly supported policies. Such policies should integrate the objectives of promoting sustainable economic growth; enabling broader stakeholder participation in the production processes; a more equitable sharing of their benefits; and ensuring environmental sustainability. Yet, integrated approaches are complex and challenging to execute. Ramalingam (2014) suggests that complex systems approaches enable a shift away from existing tools and business processes that reinforce a focus on tackling problems in a static, simple and linear manner. There is increasing evidence that these new approaches can help development partners better navigate the complex, dynamic realities they face on a day-to-day basis. A pilot approach applied to a range of DfID aid-for-trade programme in cross-border trade facilitation in Nigeria revealed clearly the factors that would contribute to the effectiveness of the trade system, as well as drag factors that do the opposite. It showed that a system such as trade facilitation benefits from a systemic programme response – specifically, the development of an evolving package of interventions could adaptively build and sustain enabling factors, as well as reduce and eliminate disabling factors.

Multi-country and multi-sectoral programmes are also difficult to orchestrate and implement. Complex political, procedural and institutional changes are often required for these to advance. These changes often threaten interest groups profiting from the status quo. Moreover, multi-country programmes usually require a level of intra- and inter-governmental co-ordination that can be politically challenging because it involves multiple levels of bureaucracy in several countries. The difficulties involved in attempting to improve the Beitbridge Border Post separating South Africa and Zimbabwe – including lengthy delays in signing memoranda of understanding – highlights the need for effective and high-level intergovernmental co-ordination. New approaches have emerged including multi-donor programmes such as TradeMark East Africa or regional initiatives such as USAID African Trade Hubs to address these problems. These approaches are based around trade and transport corridors and hubs, with active outreach to public and private investors (OECD/WTO, 2014).

Whether the focus of aid-for-trade programmes should be narrow or broad based has been a debated over the last ten years. Many commentators have made the case that the definition of aid for trade was too broad and that this diminished its effectiveness (Adhikari, 2011). But the WTO Task Force Recommendations and the ongoing OECD/WTO monitoring process have continually linked aid for trade to a broader set of objectives including poverty reduction, green growth and gender equality. In pursuit of the SDGs this broader approach makes even more sense and aid for trade can and should continue to contribute to multiple goals. In addition, there is mounting support for the idea that by strengthening the role that trade plays in development, aid for trade can help developing countries build capacities that in turn can contribute to a healthier environment and to fighting poverty.

The 2015 aid-for-trade monitoring exercise indicated that many partner countries, as well as donor countries, have high hopes that aid for trade can be a factor in improving a country’s capacity to achieve the SDGs. Expectations are particularly high regarding its potential contribution to economic growth and poverty eradication through inclusive and sustainable development and financing for development. The response to the OECD/WTO 2015 monitoring exercise confirms that countries consider trade as an effective enabler or a means of implementation for the SDGs. It also indicates that countries – particularly partner countries – are yet to be convinced that social and environmental outcomes, such as improving women’s economic empowerment or achieving green growth, are also bolstered by aid for trade (see Figure 2). This is an area that requires extra attention.
Inclusive Growth

There is general consensus in the economic literature that strong links exist between trade, economic growth, and poverty reduction. Countries that have embraced an outward-oriented development strategy, with trade liberalisation at its heart, have not only outperformed inward-looking economies in terms of aggregate growth rates, but have also succeeded in lowering precipitously poverty rates and registering improvements in other social indicators. The People’s Republic of China is an excellent example: since it began its “Four Modernisations” programme in the late 1970s, gradually opening up to trade and foreign investment, it has been the world’s fastest growing major country and propelled itself from a predominantly autarkic economy into the world’s largest exporter and second largest economy. Poverty fell *pari passu* with rising growth and 660 million Chinese have risen out of absolute poverty since 1981. Trade played a critical role in this phenomenal success story.

There are many channels through which trade leads to growth, and trade-induced growth leads to poverty reduction. Indeed, exports act as the vehicle through which countries exploit their comparative advantage, industries employ their resources more efficiently and profitably – labour is the most abundant resource in most developing countries – improve overall efficiency and labour productivity, and tap international markets. These factors expand demand, spur consumption, and reduce risks associated with reliance on the domestic market. They also increase employment in labour-intensive sectors and raise wages and standards of living. Imports permit countries to gain access to a wider range of goods and services and allow local firms to benefit from more, cheaper and newer technologies that increase productivity and competitiveness. Stimulating the private sector, trade creates jobs and fosters learning, which in turn helps attracting foreign direct investment flows and new opportunities for production and exports. Thus, although the relationship between trade openness, growth and poverty reduction is complicated, but there is little doubt that changes in trade directly, and indirectly, affect the welfare of households (Higgins and Prowse, 2011).
There are a number of channels through which trade openness affects poverty: economic growth and macroeconomic stability; impacts on households and markets; changes in wages and employment; and impact on government revenues. In each of these, trade can be a key driver of poverty reduction, although potential risks exist which need to be taken into account (Winters et al 2004). There is now abundant evidence to suggest that aid for trade helps boosting economic growth and depending on its pace and pattern reduces poverty (SDG 1). Martuscelli and Winters (2014) conclude on the basis of a literature review that trade liberalisation generally boosts income and thus reduces poverty, while predicting gains for workers in the export and losses in the import-competing sector. Nevertheless, trade liberalisation is not a “magic wand” by which developing-country governments are guaranteed economic prosperity. While trade does lead to growth, its effectiveness is critically a function of having the soft and hard infrastructure in place to connect to regional and global markets as well as a vibrant private sector to exploit these markets. The next section looks at how aid has helped building these trade-related capacities and how they are related to the SDGs.

**Building economic infrastructure**

SDG 9 calls for resilient infrastructure, including regional and trans-border infrastructure to support economic development. Annual commitments to transportation and storage averaged USD 13 billion between 2006 and 2014 (Figure 3). This has contributed to the improvement of roads and rail. Buys, Deichmann and Wheeler (2006) and Shepherd and Wilson (2008) have found that road improvements can have substantial positive effects on trade volumes. Transportation links also play a role in reducing poverty by connecting rural producers to markets, and improving access to health services. Road rehabilitation can also reduce the market power of traders in remote areas, thereby raising the incomes of the poor selling agricultural products.

The lack of electricity can dramatically affect production costs and reduce export competitiveness and, thus, trade performance. But the cost of unreliable electricity can be even greater. Unreliable electricity not only requires the purchase of generators but can damage machineries and equipment used in production due to fluctuation in power intensities (Hallaert et al, 2011). Several donors are involved in strengthening electrical transmission and building infrastructure for distribution from power sources to end users. One high profile example is President Obama's Power Africa Initiative, which brings together the public and private sector to increase the number of people with access to power. Aid committed to the energy sector has expanded significantly from an average of USD 5.5 billion between 2002 and 2005 to USD 16.6 billion between 2012 and 2014. Aid committed to the energy sector has expanded significantly from an average of USD 5.5 billion between 2002 and 2005 to USD 16.6 billion between 20012 and 2014. These efforts contribute to SDG 7: Energy for All.

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1 See: https://www.usaid.gov/powerafrica
Building productive capacities

Agriculture remains a key economic activity for developing countries and a vibrant sector will help to deliver SDG 2 to end hunger, achieve food security and promote sustainable agriculture. Goal 2.4 aims to double agricultural productivity by 2030. This requires improvements in technology and management practices, expanded access to markets and credit, increased organisational and market efficiency, and restoration and protection of resiliency in production and livelihood systems. Aid for building productive capacities has been mostly targeted to agriculture with an average of USD 9.5 billion per year between 2011 and 2014 (Figure 4).

Aid for agricultural development improves productivity through investments that foster increasing returns to land, labour, and capital. With increasing tradability of agriculture products, productivity gains in agriculture will be transmitted less via lower food prices, and more through higher employment and wages. De Janvry et al. (2010) find that investing in fostering agriculture growth is an effective strategy for poverty reduction. This is more likely to be the case where agriculture is a high share of GDP, competitive advantage is located in agriculture, and the majority of the poor are in the rural sector. These are the defining characteristics of the “agriculture-based countries,” mainly poor countries located in Sub-Saharan Africa and also in Central America and the Caribbean. “Agriculture-based” conditions are also found in many regions internal to large countries, making the growth–poverty role of agriculture important outside of the poor countries as well.

Strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all is the focus of SDG 8. For the private sector to grow, access to finance is essential. Aid for banking has increased by USD 5.5 billion between 2012 and 2014. This supports central banks, financial intermediaries, credit lines, micro-credit and credit co-operatives. Beck et al. (2012) show that enterprise credit is positively associated with economic growth. In addition to
credit, a healthy business and investment environment requires trade and business associations, legal and regulatory reform, private sector institution capacity building and advice, trade information, and public-private sector networking at trade fairs. These business services received funding of USD 2.5 billion in 2014, the highest level ever. The tourism sector has attracted less concessional resources although it is the largest service export sector for many least developed countries creating jobs and promoting local cultures and products (Goal 8.9).

Figure 4. Aid for Building Productive Capacities
USD million 2013 prices

Source: OECD/DAC Creditor Reporting System (CRS)

Building trade capacities

SDG 16.8 aims to broaden and strengthen the participation of developing countries in the institutions of global governance. Aid for trade policy and regulation includes support to ministries and departments responsible for trade policy, trade-related legislation and regulatory reforms, policy analysis and implementation of multilateral trade agreements, e.g. technical barriers to trade and sanitary and phytosanitary measures. It also covers costs associated with mainstreaming trade in national development strategies. Flows for overall trade policy and regulations declined in 2014 to under USD 1 billion (Figure 5), while support for trade policy and regulations has stagnated averaging just under USD 600 million between 2010 and 2014. Support for multilateral negotiations is negligible but remains useful to further strengthen developing country involvement at the WTO.

Aid for trade facilitation covers support provided for the simplification and harmonisation of import and export procedures (e.g. customs valuation, licensing procedures, payments and insurance), customs departments and tariff reforms. After several years of expanding support for trade facilitation, flows also declined in 2014 to USD 368 million. Nevertheless USD 3.5 billion was committed between 2006 and 2014. Moisés (2013) estimates of potential cost reductions from the WTO Agreement on Trade Facilitation are 14.1% of total costs for low income countries, 15.1% for lower middle income countries and 12.9% for upper middle income countries. Improving customs procedures can also counteract smuggling and trade of...
illegal drugs. Trade facilitation can also have positive health effects in that it reduces the incidence of sexually transmitted diseases in the vicinity of border crossings when truck drivers spend less time crossing borders (Jouanjean et al, 2016).

Figure 5. Aid for Trade Policy and Regulations

USD million 2013 prices

Source: OECD/DAC Creditor Reporting System (CRS)

Trade related adjustment

Another way in which aid for trade could contribute to more inclusive growth is through trade-related adjustment. Aid for trade-related adjustment helps developing countries tackling the costs associated with trade liberalisation, such as tariff reductions, preference erosion, or declining terms of trade. Aid for trade could mitigate and compensate for the adverse impacts of these trade changes, particularly when they affect poor people. At the time there were hopes that an imminent conclusion of the Doha Round would increase the demand for aid for trade-related adjustment. Support peaked at approximately USD 60 million it has subsequently declined (Figure 6). The reform of the EU Sugar Regime in 2006 involved a loss of quotas and gradual reductions in the price guaranteed by the EU. It forced EU Sugar Protocol countries to introduce measures to improve the competitiveness of their sugarcane sectors, and to mitigate the negative economic and social impact of the reform. Much of the reported flows were part of this initiative.

2 In December 2013, WTO members concluded negotiations on a Trade Facilitation Agreement at the Bali Ministerial Conference. The Trade Facilitation Agreement will enter into force once two-thirds of members have completed their domestic ratification process. The Trade Facilitation Agreement contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.
Another important dimension of inclusive growth is gender equality. Gender is a relatively minor objective in aid-for-trade projects amounting to 16% of flows in 2014 (Figure 7). However, aid for trade can help advance gender equality (SDG 5) and empower women by expanding access to economic opportunities, particularly for sectors with a high share of women workers. It can also enable access to technology and information to promote the economic empowerment of women. In particular, reducing trade costs for SMEs will contribute to making trade more inclusive as it may allow SMEs to expand employment and increase wages. Gender equality can benefit from this, given that many SMEs are owned by women and employ more women than men. A literature review on the impact of trade on employment found evidence for a positive role of international trade in promoting female labour participation, which, however, may also increase their exposure to trade shocks (GIZ, 2016).

Through the Women and Trade Programme\(^3\), the International Trade Centre seeks to increase the participation of women entrepreneurs and producers in global value chains to ensure that they enjoy greater economic benefits from participating in international trade. Women play a major role in the global economy. They invest more in their families than men do, in areas such as education, health and nutrition, creating a secure foundation for the future of their families and communities. So empowering women economically, especially through their involvement in trade, creates job opportunities for everyone. Women own close to 10 million of the world’s small and medium-sized enterprises (SMEs). And SMEs account for almost 80% of jobs around the world, so increasing their competitiveness boosts the likelihood of creating jobs. Sustainable economic growth and the achievement of development goals are possible only through the active participation of women.

**Green Growth**

There have been long-running concerns that without major action, irreparable damage would be done to the resource base and natural environment in developing countries. These problems could become increasingly intractable and expensive, compromising current and future development prospects (OECD, 2012). In developing countries, poverty is both a cause and result of environmental degradation.

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Integrating the economic and environmental pillars of sustainable development provides the basis for green growth. This approach involves wiring together economic, environmental, technological, financial and development aspects into a coherent framework. This is key to achieving the SDGs 13-15. A possible avenue to assist the transition to green growth is through aid-for-trade programmes aimed at increasing the participation of poorer developing countries in international trade while at the same time strengthening environmental goods and services trade-related infrastructure and minimising supply-side constraints (OECD, 2012).

Trade is indispensable for accelerating the diffusion of green growth. Aid for trade will help ensure that trade plays this key role in transmitting new knowledge, technology and behaviour to developing countries. Environmental objectives are central to a number of aid-for-trade projects and programmes (Figure 7). Typical examples of aid-for-trade projects with environmental objectives include infrastructure projects designed with comprehensive and integrated environmental protection and management components; activities promoting sustainable use of energy resources (power generation from renewable sources of energy); and energy conservation. Examples of aid for productive capacities include environmental projects such as sustainable management of agricultural land and water resources; sustainable forest management programmes, combating land degradation and deforestation; sustainable management of sea resources; adoption and promotion of cleaner and more efficient technologies in production processes; measures to suppress or reduce pollution in land, water and air (e.g. filters); increasing energy efficiency in industries; and sustainable use of sensitive environmental areas for tourism (OECD, 2011c).

Figure 7. Aid for Trade with an explicit Gender or Environment Objective

<table>
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<tr>
<th>Years</th>
<th>Environment</th>
<th>Gender</th>
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<tr>
<td>2006</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>2007</td>
<td>2.0%</td>
<td>2.0%</td>
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<td>2008</td>
<td>3.0%</td>
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<td>2009</td>
<td>4.0%</td>
<td>4.0%</td>
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<td>2010</td>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<td>8.0%</td>
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<tr>
<td>2014</td>
<td>9.0%</td>
<td>9.0%</td>
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</table>

Source: OECD/DAC Creditor Reporting System (CRS)

4 Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) using the so called “Rio markers.” Every aid activity reported to the CRS should be screened and marked as either (i) targeting the Conventions as a ‘principal objective’ or a ‘significant objective’, or (ii) not targeting the objective.
The proportion of aid for trade with an explicit environmental objective, and thus contributing to the promotion of green growth has been trending upwards over time. While it averaged just 20% in 2007, as of 2014, the level stands at almost 40% (Figure 7). Almost half of total aid for trade with an environment objective is in the form of support for renewable energy – wind, solar, biogas etc. A significant amount is also reported under low-carbon transportation systems i.e. mass urban transit and rail. Sustainable agriculture also attracts significant levels of support. Japan and Germany are the two largest donors and provided 55% of total aid for trade with an environmental dimension in 2014.

Aid for trade or perhaps more precisely aid for building trade-related productive capacities and economic infrastructure does contribute to inclusive and sustainable economic growth as shown in the preceding analysis. During the past decade, many least developed countries have achieved advances in increasing growth and expanding external trade, while making only limited progress in realising a structural transformation. Although substantive and in general effective, ODA and OOF are considered insufficient to finance the significant needs of developing countries to expand their productive capacity and achieve the Sustainable Development Goals.

Aid for trade or perhaps more precisely aid for building trade-related productive capacities and economic infrastructure contributes to inclusive and sustainable economic growth as shown in the preceding analysis. During the past decade, many LDCs have achieved advances in increasing growth and expanding external trade, while making less progress in realising a structural transformation. Although substantive and in general effective, ODA and OOF are insufficient to finance the significant needs of developing countries to expand their productive capacity and achieve the SDGs. The next section will look more closely at the means of implementation of the 2030 Development Agenda. It places aid and aid for trade in the broader context of the finance for development Addis Ababa Action Agenda (AAAA).

MEANS OF IMPLEMENTATION: FINANCE FOR DEVELOPMENT

The vision underpinning the 2030 Sustainable Development Agenda is broad and ambitious. It calls for an equally broad and ambitious financing strategy. The resources required are immense, as much as USD 4.5 trillion per annum according to some estimates (Sachs, et al 2014). The first International Conference on Financing for Development took place in 2002 in Monterrey Mexico. It highlighted that trade in many cases is the single most important external source of development finance (UN, 2002). The third International Conference on Finance for Development and the AAAA no longer emphasises the role of trade as a source of development finance. Instead, the Agenda highlights domestic resources and foreign direct investment as the main source for financing development. International trade is referred to as an engine for inclusive economic growth and poverty reduction, while aid for trade is referenced for its potential contribution towards achieving these goals. The remainder will highlight the continued relevance of ODA especially in the case of low income countries, while middle income countries are better positioned to attract foreign capital.

The need for additional development finance

The AAAA stresses the need for a significant additional development finance contribution from the private sector, although it also highlights the indispensable role of ODA in financing the SDGs. Until quite recently, ODA was the main external source of finance for development. Increasingly, it is considered as only a part of the overall funding for development. Since 2000, ODA levels have doubled in real terms, but remain well below the long-established UN target of 0.7% of the gross national income of developed countries—averaging about 0.3% in 2014. At nearly USD 134 billion in 2014, bilateral ODA represented only 20% of all official and private flows from the 29 member countries of the OECD’s Development Assistance Committee (DAC) and the International Financial Institutions. In addition, developing countries
received USD 68 billion in “other official flows” provided by public bodies at close to market terms. Private finance at market terms, such as net foreign direct investment, private grants from philanthropic foundations and non-governmental organisations amounted to USD 280 billion. Remittances stood at USD 435 billion in 2014 (Figure 8).

Aggregate flows, however, should be examined with care. The extraordinary period of expanding private inflows may not reflect future trends and there are a number of reasons to believe that such flows were the result of temporary circumstances. Developing countries will face a much tougher global environment moving forward. The commodity super-cycle which saw huge inward investment and windfalls for resource-exporting countries is coming to an end as demand from China slows. The post-crisis response and exceptional measures taken by OECD countries including prolonged low interest rates and unconventional monetary policy distorted the development finance landscape. It sparked a search for yield in emerging and developing countries leading to over-investment in these countries (as well as asset-price bubbles) and under-investment in OECD countries (OECD, 2015). As international interest rates normalise, capital that flowed to developing countries is returning back to developed countries as conditions there improve.

Figure 8. Volume of Financial Flows to Developing Countries by DAC and IFIs

USD billion, 2013 prices

![Graph showing volume of financial flows to developing countries by DAC and IFIs]

Source: OECD

ODA remains critical

ODA and other forms of official assistance continue to play a significant role in bolstering domestic development efforts in many countries. Used well, aid can generate large payoffs in terms of reducing poverty, meeting basic needs, and helping nations build human and institutional capacity. While aid has eradicated diseases, prevented famines, and done many other good things, its effects on growth is often difficult to detect given the limited and noisy data that is available. Arndt et al (2010) found that it was reasonable to assume that aid worth 1% of a country’s gross domestic product raised economic growth by 0.1% a year on average during the period 1970-2000. That is a small, but helpful impact. Clemens et al
(2012) found that aid causes some degree of growth in recipient countries, although the magnitude of this relationship is modest, varies greatly across recipients and diminishes at high levels of aid.

The significant amounts of ODA and OOF spent on supporting developing countries upgrade their infrastructure, invigorate the private sector and streamline trade policies should show results. Empirical findings confirm that aid for trade, in general, is effective at both the micro and macro level (te Velde et al., 2013). The impacts, however, may vary considerably depending on the type of aid-for-trade intervention, the income level, the sector at which the support is directed and the geographic region of the recipient country. For example, Vijil et al. (2012) shows that the quality of infrastructure is significantly correlated with aid to infrastructure. Ferro et al. (2012) finds that a 10% increase in aid to transportation, information, communication and technology, energy, and banking services is associated with increases of 2.0%, 0.3%, 6.8% and 4.7% respectively in the exports of manufactured goods from the recipient countries. Furthermore, Cirera and Winters (2015) observe a positive impact on exporting and importing times, but factors other than aid for trade explain different experiences of structural change in sub-Saharan African countries.

Not only is aid effective in general, the distribution and objectives of ODA are very different from other financial flows. Given its unique mandate to directly target development, improve welfare and reduce poverty, ODA remains essential in supporting many countries, especially the poorest with little access to private finance and low levels of domestic resources. ODA remains the largest international resource for countries with a per capita income of less than US dollars 2 000 (Figure 9). The switching point in relative importance between aid for trade and FDI lies around the LDCs GNI/GDP cut off, i.e. USD 1 045.

Figure 9. Share of Financial Flows to Developing Countries by DAC and IFIs

While the relative importance of ODA compared to private investments is decreasing in the lower middle income (LMICs) and upper middle income countries (UMICs), it can still contribute to their development through mobilising private flows, leveraging private investment and facilitating trade. Gavas et al (2011) argue if developing countries want to attract significant resources for aid for trade, e.g. to cover their infrastructure needs, they need to think outside the box and consider how grants can leverage in other resources (e.g. loans or private finance) and provide a bundle of blended aid-for-trade finance. However, the development merits of such ‘blended financing’ will depend on the specific transactions and projects.
being developed. Also blended finance carries some inherent risks such as a return to the ineffective practice of tying aid funded procurement to companies in the donor country.

The general challenge will be how to adapt current aid practices to work with new actors and operators (e.g. from the private sector) with a different set of motivations to traditional donors, using new mechanisms and modalities that may be largely unfamiliar (at least to most development practitioners). The ascendance of an ‘innovative finance’ agenda will oblige donors to deepen their understanding of private sector involvement in development in the near future. One important distinction to explore might be made, for example, between activities designed ultimately to promote and benefit the local private sector, and those that seek to harness broader private sector resources for involvement in projects (or businesses) with development-oriented goals. Policy makers seeking to maximise the role that private finance can play in development must recognise its limitations. The next section will address that question.

PARTNERSHIPS: ENGAGING THE PRIVATE SECTOR

Both the 2030 Development Agenda and the AAAA highlight the importance of the private sector in development. The Aid for Trade Initiative stressed both the importance of improving the productive capacities of the private sector, but also the important role international business plays in helping the private sector in developing countries build the capacities to connect to regional and global markets, increasingly through value chains. This section will address the role of the private sector as an actor in development, the role of business in aid for trade and approaches to further create multi stakeholder value creation through building platforms for project-based collaboration. These lessons learned in aid for trade can help engaging the private sector in delivering the 2030 Development Agenda.

The private sector as a development actor

Private sector development has long been considered a key component for promoting economic growth and reducing poverty. Current opinions consider the private sector as an actor that could and should be directly involved in addressing development challenges. Although already noticeable on earlier occasions, the role of the private sector was stressed at the 2011 High Level Forum on Aid Effectiveness in Busan. Participants recognised the private sector as a key partner and on equal footing with all other development actors. They agreed to “enable the participation of the private sector in the design and implementation of development policies and strategies” (OECD, 2011a). In the face of complex, cross-border, and multi-sectoral problems, the importance of cooperation between state and non-state actors has gained recognition. This multi-actor approach to confronting 21st century development challenges has been accompanied by the redefinition of the role and nature of business and is mirrored in the increased attention to the active role of firms in development. Attributing a more active role to enterprises, and therefore responsibility, as key actors in development, is central in the current ‘private turn’ (Vaes and Huyse, 2015).

With a growing number of companies looking to the developing world for new markets, the private sector has an interest in trade-related infrastructure, an educated workforce, and quality standards for inputs to their goods. Companies are embracing the concept of “inclusive growth” and they realise that it is in their core business interests to build capacity in their target markets. International companies contribute more and more to building trade capacities, increasing connectivity and the fluidity of trade and investment along supply chains and thereby promoting transfers of capital, knowledge, and skills. Thus, the time is ripe to explore new partnerships between the public and private sectors (OECD/WTO, 2015).
The role of business in aid for trade

The pivotal role of the private sector has always been recognised in the Aid-for-Trade Initiative and since 2006 considerable progress in engaging the private sector has already been made. A new generation of programmes is emerging, involving donors, partner countries, and private firms both in developing and donor countries. Some of these programmes focus on human capacity building. Insofar as the workforce is deficient in specific skills, foreign companies often establish training programmes. While benefiting the company in the short-run, such programmes can contribute to sustainable long-term benefits and create country wide spill-over effects. Other programmes are focused on transfers of technology, know-how and efforts to improve the business environment, such as through providing access to finance for suppliers (World Bank, 2011).

An important conduit for capacity building is the integration of local firms into regional or global value chains. This capacity building can span any link in the chain, ranging from design to production, assembly, packaging, marketing, distribution to consumption. In most cases, SMEs in developing countries are establishing links to GVCs that are involved in the agribusiness industry. Assistance in meeting quality and safety standards is important to help incorporate local producers. Promoting the inclusion of small producers into global value chains is fundamental to fighting poverty: 75% of the world’s poor live in rural areas and of these, 86% depend on agriculture. If small scale producers are able to link to the chain while at the same time obtaining assistance to help with needed certification for products (e.g. organic production) and financing they will be able to take much better advantage of market access opportunities (OECD/WTO, 2013a).

The results of these private sector driven trade-related capacity building programmes have been judged as largely positive: they have helped firms develop new products, increase their exports and save costs. In addition, the results are aligned with the objectives of the development community, such as improved workers’ skills, better working conditions, improved health among workers, job creation, poverty alleviation and improved environmental performance. Consumers have benefitted from lower prices. The main drivers of the engagement are company-based and relate to firms’ core business strategies, while the corporate social responsibility agenda of firms also explains their actions in this area (OECD/WTO, 2015).

Trade facilitation is a major concern for the private sector as red tape and inefficiencies in border management and corridor performance can raise transport costs substantially. Initiatives and projects led by firms and industry groups range from road safety initiatives in Africa to more efficient customs processes through customised software development in Africa, Asia and Latin America. With the 2013 WTO Agreement on Trade Facilitation this area has become a focal point of public – private cooperation. For instance, Australia, Canada, Germany, the United States and the United Kingdom sponsor the efforts of the Centre for International Private Enterprise, the International Chamber of Commerce and the World Economic Forum who have joined forces to launch the Global Alliance for Trade Facilitation.5

Creating multi-stakeholder value

Strengthening private sector engagement further could be achieved by creating shared multi-stakeholder value and building platforms for project-based collaboration. Such reinforced partnership could be forged by scaling up and systematically including the private sector in the four different stages of the project life cycle. In the first place, the views of the private sector could be solicited to provide

5 www.tradefacilitation.org/
information about obstacles to be removed or incentives to be improved. Second, the private sector could share best practices they have observed from other donor programmes or from programmes they have implemented themselves. Third, governments, donors and private companies could join forces to scale up their actions and maximise the impact. Finally the private sector could provide evidence of success or failure.

In addition, there is also renewed interest in how to advance ODA-backed public-private partnerships that incentivise investment, not least in the infrastructure sector. Moreover, innovative financing and catalytic mechanisms are sought to tap into new sources of finance or engage the private sector as partners and stakeholders in development for instance through delivering financial solutions to development problems on the ground. Although these partnerships appear promising as a means of bringing together public and private – as well as local and international - resources and expertise, but much is required from all involved to realise their potential (OECD, 2006b).

The use of concessional funds to mobilise private investment has to be carefully considered. It should not destabilise local capital markets nor undermine market-determined private flows. Furthermore, expanding partnerships with the private sector as an actor should avoid turning firms into benefactors. These types of programmes should respect international agreements that set out provisions for disciplining the potential distortion of trade flows with aid money. Thus, involving the private sector in donor programmes should not reintroduce the bad practice of tying aid to promote companies in donor countries. The OECD Arrangement on Officially Supported Export Credits offers an extensive framework for the orderly use of officially supported export credits, while the 2001 DAC Recommendation unites ODA to the LDCs and HPICs. Furthermore, the WTO Agreement on Subsidies and Countervailing Measures contains binding disciplines for the use of subsidies. These and other issues will come to the fore during the review processes of the Sustainable Development Agenda, but also the Global Review of Aid for Trade. These processes will be discussed in the next section.

REVIEW: ENSURING ACCOUNTABILITY

Regarding the follow-up and review of the 2030 Agenda for Sustainable Development the UN has called for a voluntary, effective, participatory, transparent and integrated monitoring framework. The UN encourages its Member States to conduct the reviews of progress at the national and sub-national levels. These reviews should be country-led and country-driven and provide incentives for helping to translate the Agenda for Sustainable Development into a nationally owned vision with clear objectives. The WTO in collaboration with the OECD has also created a review process to track progress in implementing the Aid-for-Trade Initiative. The findings of the biennial aid-for-trade review can feed into those of the SDG, but the aid-for-trade monitoring experiences over the past 10 years also holds lessons for the SDG review. The remainder of this section will address these two topics.

Shining a spotlight

The UN has proposed that the review of the 2030 Development Agenda should enable mutual learning across countries and regions and help all countries enhance their national policies and institutional frameworks. Moreover, it should aim at mobilising the necessary financial support and partnerships for the achievements of the SDGs. The report also argues that the value of a unified and universal approach to such reviews can be found in the WTO Trade Policy Review Mechanism (United Nations, 2016). An example of a voluntary, effective, participatory, transparent and global review mechanism is the WTO/OECD aid-for-trade monitoring framework which tracks progress with the articulation, prioritisation and implementation of regional and national trade-related development strategies and programmes.
The aid-for-trade monitoring framework encompasses three accountability mechanisms with different but complementary objectives. At the local level, the framework aims at fostering local ownership and ensuring that trade-related needs are prioritised in national development strategies and adequately funded by the donor community. At the regional level, the objective is to focus attention on regional trade-related constraints and galvanise collective action to tackle them. Finally, at the global level the review provides a spotlight on what is happening at the local and regional levels, what is not, and where improvements are needed. This process is aimed at incentivising mutual learning.

The monitoring exercise is based on qualitative and quantitative information collected from a number of different sources and stakeholders, such as, aid-for-trade self-assessments submitted by developing and developed countries and multilateral donors, as well as statistical data on aid-for-trade proxies extracted from the OECD Creditor Reporting System. This information is buttressed by case stories submitted by partner countries, donors, and the private sector about their aid-for-trade priorities, policies and programmes. This is supplemented with research from international governmental organisation, non-governmental organisations, findings from independent evaluations and academic research (Figure 10). The information is analysed and published in joint OECD/WTO Aid for Trade at a Glance publications which provides the background information for the biennial Global Review on Aid for Trade. The publication also contains contributions from the Enhanced Integrated Framework, the International Trade Centre, UNCTAD, the World Bank and the World Economic Forum.

Figure 10. Aid-for-trade monitoring framework

Source: OECD

A trade and development results framework

A number of efforts have been made to move the aid for trade results agenda beyond monitoring and evaluation. OECD has provided a comprehensive overview of existing monitoring and evaluation approaches, methods and processes and proposed a menu of trade-related indicators (OECD, 2011b, 2013). In addition, a number of attempts have been made to develop indicators for tracking trade capacity, trade performance and aid-for-trade results. For instance, the International Finance Corporation (IFC, The World Bank Group) Doing Business Project has played a major role in promoting the culture of results by tracking selected indicators and benchmarking countries. The Doing Business reports also contain a section on Trading across Borders with indicators series that specifically measures a country’s trade facilitation capabilities. OECD has also developed trade facilitation indicators to measure a country’s trade facilitation capabilities, assess the potential impact of reforms. These assessments provide a basis for governments to
prioritise trade facilitation actions and mobilise technical assistance and capacity building efforts in a more targeted way (OECD, 2015).

Other initiatives have followed, which attempt to provide a more or less comprehensive list of trade-related indicators, sometimes aggregated in indexes and or global rankings. These have included, amongst others, the World Trade Indicators collected by the World Bank Institute, which contains a broad set (about 500 variables) of trade policy and outcome indicators for 211 countries and territories, and the World Economic Forum Global Competitiveness and Enabling Trade indexes, which contain over 100 indicators of relevance to trade, supply chain management, and competitiveness issues. Some more specific indexes have also been developed, for example and by the World Bank in the field of logistics or by the OECD in the area of trade facilitation as mentioned above or service restrictiveness.6

The aim of these indicators is to help developing results frameworks that describe the causal sequence of development interventions. In aid for trade this theory of change is based on four main elements: (i) aid for trade inputs and activities which result (ii) outputs such as improved connectivity, regulatory reform, or reduced trade costs, which in turn lead to (iii) outcomes such as increased competitiveness and trade performance which should contribute to (iv) long-term sustainable development impacts such a more and better jobs for men and women, higher disposable income etc. (Figure 11). Since trade is outcome that is dependent on many exogenous factors such as for instance the exchange rate, it is almost impossible to establish attribution. Contribution is the most that could be hoped for in aid-for-trade programmes.

![Figure 11. Aid-for-trade results framework](http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm)

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6 [http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm](http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm)

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**Accountability at the local level**

The aid-for-trade country profiles transpose the idea behind the project-based analytical tool to the macro level and allow for tracing a possible sequence of aid-for-trade interventions to achieve trade and development objectives (Figure 12). The country profiles therefore present indicators in four sections: development finance; trade costs; trade performance; and development results. The country profiles do not posit a causal link; they do not attempt to test or estimate the causal impact of aid for trade at the macro level. Instead, they give a dynamic perspective on trade-related development of a specific country. In this sense, the sequence traced is one of contribution, not attribution. Where such contribution can be discerned, the country profiles provide ground for further in-depth, country-based discussion fuelled by further research. In this sense, the country profiles contribute to a greater understanding of the important role that trade-related development finance flows play in a country’s achievement of the trade and development objectives targeted by these flows.

![Figure 12. Aid-for-trade country profile](source: OECD/WTO (2015)).

Introducing such results-based management systems more broadly requires considerable investments in human and institutional capacity building. Once these investments have been made, these management systems do provide powerful tools to ensure that development finance contributes to meeting ambitious development objectives. As stressed in the Paris Declaration on Aid Effectiveness and the outcome documents of subsequent high level meetings, such as, in Accra and Busan, the ultimate objective is to ensure that donor support is integrated in national schemes to deliver results. More specifically, country-based approaches will increase transparency and objectivity of decision making, promote alignment of
donors with partner country’s sustainable development objectives and targets, reduce parallel results reporting processes, increase mutual accountability and allow for country comparisons. This works well in countries where political leaders work cohesively towards common objectives. It requires internal consensus on policy objectives and leadership through multiple levels of public administration and feedback mechanism (OECD, 2013).

In order to promote local ownership the Task Force on Aid for Trade recommended that an 'assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews (TPR). The December 2006 General Council agreed that a general assessment of Aid for Trade should be included in future Trade Policy Reviews. The 2010-11 WTO aid-for-trade work programme systematically integrated an analysis of national aid-for-trade strategies and experience as part of the TPR. It was further agreed that there would be a series of pilot TPR and that based on their findings further consideration would be given to including an aid-for-trade analysis in future TPR. Six pilot TPRs were completed and the process was welcomed by WTO Members, especially by developing countries who considered that an inclusion of Aid for Trade brought additional value to the TPR process. It was also clear that the process led to additional internal coordination on aid-for-trade issues. However, the failure to put in place a more systemic follow-up mechanism where the country under review and its development partners can have a dedicated focus on Aid for Trade undermined the full integration of aid for trade in the TPR. Since 2012 aid for trade sections are no longer systematically included in the TPR.

This absence of national aid-for-trade discussions points to a more general problem which might also manifest itself with the SDGs. The aid for trade discussion is well established at the global level in particular in headquarters of Regional Economic Communities and intergovernmental organisations. In OECD and non-OECD countries as well as partner-donor discussion at the country level, the focus of the debate is still very much sectoral, such as for instance on infrastructure, or rural development, or private sector development. Only in cases where countries focus their development strategies explicitly on improving trade performance and linking the poor to markets does aid for trade resonate at the country level and among a broader group of stakeholders. Given country heterogeneity, a differentiated focus of countries' development strategy is only justified.

CONCLUSIONS

The 2030 Sustainable Development Agenda and aid for trade are both dependent on integrated policy approaches and trade-offs. This implies that aid for trade should contribute to economic, social and environmental objectives of developing countries. Such support could be provided through helping these countries with connecting their firms to international markets, expanding trade and strengthening the contribution of trade to reducing poverty and inequalities. Such support should preserve the environment and help adaption to climate change, amongst others, through exploiting comparative advantages in low-carbon production and environmental goods and services. In addition, aid for trade can help developing countries build resilience and adjust to shocks that ripple through international markets.

Implementing effective aid-for-trade projects and programmes has always required an integrated approach based on the understanding of economic systems and their interaction with other systems which follow their own logics. Such a holistic approach has been the essence of the success of the Aid-for-Trade Initiative, together with its flexibility to adapt to changes in the trade and development landscape and its inclusive partnerships with different donor communities, the private sector and civil society. It is clear that international trade can help realise the SDGs as a key transmitter of goods and services, technology, knowledge and behaviour.
High trade costs, however, continue to inhibit many developing countries from fully exploiting their trade and development potential. In particular, landlocked and small and vulnerable economies (notably geographically remote island economies) face inherent challenges in this regard. At the factory or farm-gate level, products can be competitively priced but still fail in export markets due to excessive trade costs. High trade costs also erode consumer welfare. A focus on connectivity and trade costs will provide an operational focal point for an action-oriented agenda among a broad collation of stakeholders, including the providers of South-South co-operation and the private sector. The advantages of such targets are also that they are neutral in the sense of benefiting not just exporters, but also importers and households.

The Sustainable Development Agenda acknowledges that different countries have different priorities at different stages of development and should set their own development trajectory with their own targets and performance indicators. Consideration of trade-offs is best undertaken at the national level where policy-makers can optimise among different conflicting demands. National discussion about comprehensive challenges among different policy communities and stakeholders prove to be difficult when strong political leadership and national engagement are absent. Strengthening private sector engagement further is also needed and could be achieved by creating shared multi-stakeholder value and expanding platforms for project-based collaboration. Such approaches will better facilitate trade for development and strengthen the contribution of aid for trade to the 2030 Sustainable Development Agenda.
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