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Trade and Sustainable Development News and Analysis on Africa

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Aid for Trade: A Springboard for Sustainable Development?

SUSTAINABLE DEVELOPMENT GOALS (SDGS)
How can aid for trade help achieve the SDGs?

AFRICA
What are the strategic priorities for aid for trade on the continent?

REGIONAL INTEGRATION
Aligning aid for trade with regional priorities

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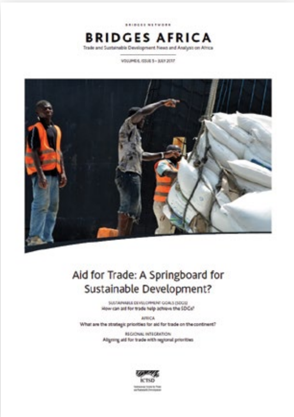
Aid for Trade: A Springboard for Sustainable Development?



The 2030 Agenda for Sustainable Development, adopted by the United Nations General Assembly on 25 September 2015, provides a comprehensive and ambitious global developmental framework. Firmly ensconced within the Agenda are the 17 Sustainable Development Goals (SDGs) which bring a clear multidimensional focus to the economic, social, and environmental pillars of sustainable development. The SDGs contain explicit references to some 20 different trade-related targets and trade policy has an important role to play in the implementation of this global agenda. Many of the SDG targets, such as ending all forms of discrimination against women, developing affordable and clean energy, or achieving access to quality health care, can be tied back to trade and trade-related outcomes.

The Aid for Trade Initiative, launched at the Sixth WTO Ministerial Conference in Hong Kong in 2005, has achieved notable successes in supporting the ability of developing economies to integrate into the global economy. As of 2015, official aid-for-trade commitments reached approximately US$53.9 billion, up from the 2006-2008 average of US$29.3 billion, with roughly US$19.2 billion directed towards least developed and low income countries and US$18.2 channelled to Africa (OECD Creditor Reporting System 2017).

The initiative has undergone a number of evolutions in terms of donor and recipient priorities. Trade policy and regulatory programmes have decreased in relative importance as demonstrated by their shrinking share of total aid-for-trade commitments—down from an average 3.4 percent of total commitments between 2006-2008 to less than 2 percent in 2015. Similarly, programmes focused on building productive capacity within sectors such as tourism and banking and financial services have seen their share of total aid-for-trade commitments decrease from 43.2 to 39 percent over the same period. In contrast, efforts to improve economic infrastructure, such as transport, communications, and electricity supply and generation, increased their share from 53.4 to 59 percent.

Given the fundamental changes that have occurred in the global economy since the inception of the Aid for Trade Initiative, such as the digitalisation of the economy, the increasing servicification of manufacturing, and the rise of global and regional production and distribution networks, ensuring that aid for trade interventions remain effective tools in facilitating inclusive and sustainable economic transformation in developing countries is of critical importance.

Rather than focus exclusively on Africa, this special issue takes a more systemic approach to aid for trade and sustainable development. The contributions, authored by leading experts in the field, shed light from different angles on the potential contribution of aid for trade to inclusive and sustainable developmental outcomes.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

SUSTAINABLE DEVELOPMENT GOALS (SDGS)

How Can Aid for Trade Help Advance the Sustainable Development Goals?

Jorge Moreira da Silva

The 2030 Agenda for Sustainable Development calls for increasing aid-for-trade support for developing countries, in particular least developed countries. How can this type of funding be fully leveraged in the implementation of the Sustainable Development Goals?

Meeting at a special Summit at the United Nations in September 2015, world leaders committed to an ambitious global agenda, entitled 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, while many more of the 149 other targets depend on an open, rules-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. trading goods and services across borders. Both tracks recognise international trade as a key transmitter of goods and services, technology, knowledge, and behaviour and, thus, an enabler for realising the SDGs.

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 already created many trading opportunities for developing countries. But too many firms in developing economies are priced out of international markets because of the high trade costs they face. These are caused by obsolete or ill-adapted infrastructure, limited access to finance, cumbersome and time-consuming border procedures, and the need to meet an ever-broader array of public and private standards. Exploiting the full potential of trade requires that developing countries prioritise market access issues in their development strategies. In addition, some of them, and least developed countries in particular, may need technical and financial assistance to connect to and compete in international markets, and make trade a tool for poverty reduction for women and men. This is the core objective of the Aid for Trade Initiative launched in 2006.

Promoting sustainable economic growth

Aid for trade is explicitly included in SDG 8, which aims at promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. Target 8.a calls to "increase aid-for-trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework." This is in line with the Addis Ababa Action Agenda adopted at the Third International Conference on Financing for Development, which emphasises that "Aid for Trade can play a major role" and underlines that it is important "to allocate an increasing proportion going to least developed countries, provided according to development cooperation effectiveness principles."

A key lesson from the Millennium Development Goals (MDGs) is 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. It also involves a more sophisticated approach to policy design which recognises that systemic spillovers can be beneficial as well as damaging. The compartmentalised approach that has limited the effectiveness of both aid and trade policies thus needs to be replaced by collaboration and coherence in solving integrated problems.

The development community has long recognised that the vicious circle of underdevelopment –in which high population growth, poverty, malnutrition, illiteracy, and environmental degradation are linked – can only be broken through comprehensive and broadly-supported policies. Such policies should integrate the objectives of promoting economic growth; enabling broad participation in the production processes; sharing the benefits of economic activity more equitably; and ensuring environmental sustainability. Thus, while aid for trade should continue to contribute to the economic objectives of developing countries by expanding trade, it should at the same time pay particular attention to achieving social objectives by reducing poverty and inequalities as well as environmental objectives such as climate mitigation and adaptation. In addition, aid for trade should help developing countries build resilience and adjust to shocks that can cascade through international markets.

The contribution of aid for trade

There is now abundant evidence to suggest that aid for trade helps to boost economic growth and, depending on its pace and distribution pattern, reduces poverty. But trade liberalisation is not the magic wand by which developing countries are guaranteed economic prosperity. Whilst trade generates growth, turning market access opportunities into trade flows depends critically on having the soft and hard infrastructure in place for connecting a vibrant private sector to markets. This is what aid for trade tries to do.

Since the start of the initiative aid-for-trade commitments have more than doubled and now stand at US$54 billion a year, with cumulative disbursements reaching almost US$300 billion. More than three quarters of total disbursements have financed projects in four sectors: transport and storage (28.6 percent), energy generation and supply (21.6 percent), agriculture (18.3 percent), and banking and financial services (11.1 percent). In addition, US$245 billion in other official flows (OOF) was also spent on improving the trade capacities of developing countries: US$117 billion to finance economic infrastructure programmes; US$63 billion for transport and storage projects, and US$52 billion for energy projects (figures 1 and 2).❶

Box 1: Aid for trade support for the SDGs

Successive aid-for-trade monitoring exercises indicate that many partner countries and donor agencies consider 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.

In the context of the OECD/WTO 2017 monitoring exercise, partner countries and donor agencies were asked about the potential support of aid for trade to the SDGs. More specifically, respondents had to answer the following question: Which SDGs can aid for trade help to achieve? They pointed to SDG9 (Industry, Innovation and Infrastructure) and SDG8 (Decent Work and Economic Growth), in particular. Also frequently mentioned were SDG1 (No Poverty), SDG 2 (Zero Hunger), and SDG17 (Partnerships).

There was less agreement between partner countries and donors about the contribution of aid for trade to the other SDGs.

Figure 1: Aid-for-trade commitments and disbursements by category

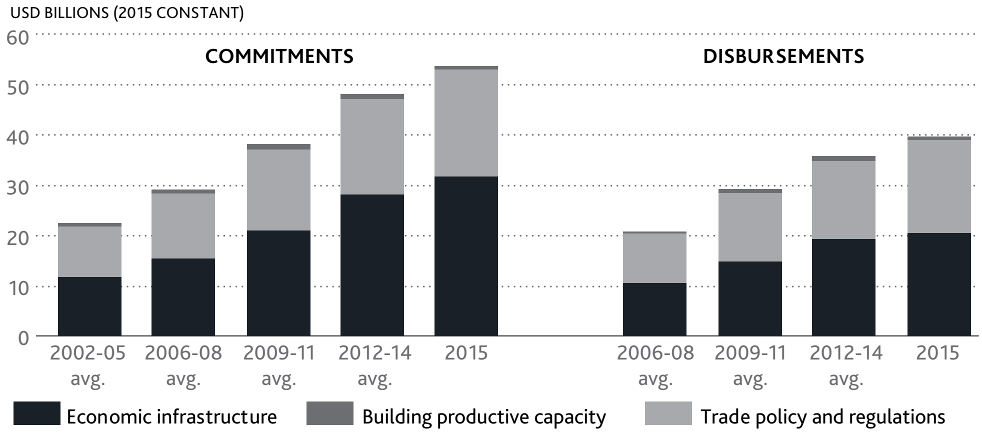
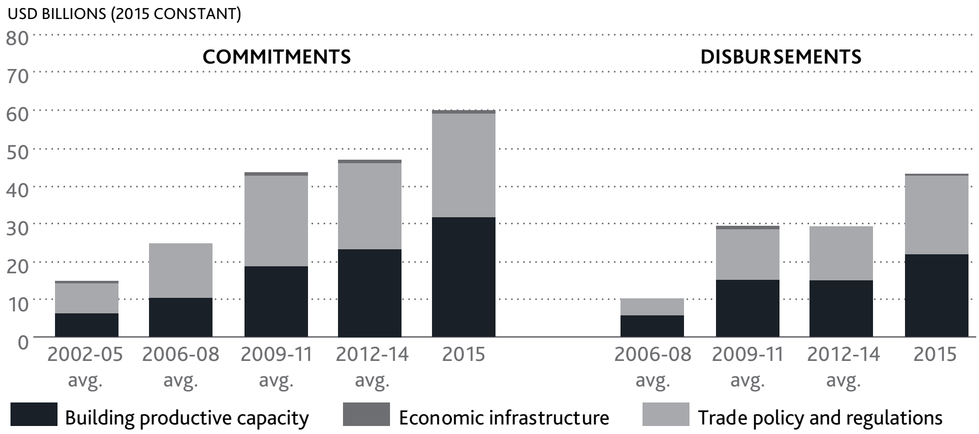


Figure 2: Trade-related OOF commitments and disbursements by category



The way forward: engaging the private sector and...

The vision underpinning the 2030 Agenda for Sustainable Development is broad and ambitious. The Third International Conference on Financing for Development and the Addis Ababa Action Agenda stressed the need for a significant additional development finance contribution from the private sector. 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. Others are focused on transfers of technology, know-how, and efforts to improve the business environment, such as access to finance for suppliers. The results of these trade-related capacity building programmes driven by the private sector 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 enhanced workers' skills, better working conditions, job creation, poverty alleviation, and improved environmental performance.

Strengthening private sector engagement could be further achieved by creating shared multi-stakeholder value and building platforms for project-based collaboration. Such reinforced partnerships 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 information about obstacles to be removed or incentives to be improved. Second, private sector actors could share the best practices they have observed in other donor programmes or in 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.

...using regional approaches

Given the relatively small market size in many developing countries, it is clear that sustained economic growth depends in part on creating larger, more viable markets. Deepening economic integration via regional cooperation has thus emerged as a key priority in the reform strategies of many developing economies, particularly in Africa. Regional aid for trade is contributing to this integration process and around US$45 billion has been disbursed to support this type of programmes since the start of the initiative.

However, as underlined in some previous OECD work, regional aid for trade is hampered by many practical complications, from technical standards to financing issues, while negotiations can be bogged down by poor inter-governmental communications and sometimes by a lack of trust across negotiating parties.[2] Moreover, implementing regional strategies is complicated by problems such as overlapping memberships in regional organisations; lack of implementation of regional agreements; poor articulation of regional priorities within national strategies; and national and regional capacity constraints. This creates major challenges in terms of ownership, as well as in mainstreaming and aligning national strategies around regional aid-for-trade priorities.

New approaches have emerged, including multi-donor programmes or regional initiatives based around trade and transport corridors and hubs, with active outreach to public and private investors. In addition, challenges surrounding regional programmes can be tackled through the following strategies: involving an "honest broker", such as regional development banks, which offer institutional mechanisms to better coordinate regional and sub-regional programmes among countries; offering financial incentives such as a higher concessionality level in financing regional programmes than for purely national programmes; building institutional and human capacities to respond to a wide variety of technical assistance needs covering a range of disciplines, including trade policy, customs, transport, and enterprise development; and harmonising regulations, which constitutes both a challenge and an opportunity to boost regional integration.

In conclusion, the substantial achievements of the Aid for Trade Initiative could be further strengthened through engaging the private sector and focusing more on regional programmes. These two priorities could go a long way in strengthening the role of trade as tool to deliver on the 2030 Agenda for Sustainable Development.

This article is adapted from a longer study published by the OECD. The author would like to thank Frans Lammersen and William Hynes for their substantial contribution to this article.

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1. Other official flows (OOF) are transactions that do not meet the conditions for official development assistance (ODA) eligibility, either because they are not primarily aimed at development or because they have a grant element of less than 25 percent.

2. Lammersen, Frans, and William Hynes. "Aid for Trade and the Sustainable Development Agenda: Strengthening Synergies." *OECD Development Policy Papers* No. 5. September 2016.

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AFRICA

Aid for Trade in Africa: What Are the Strategic Priorities?

Lily Sommer, Heini Suominen and David Luke

Taking stock of aid for trade in Africa over the last decade, how can the targeting and delivery of this development assistance be improved to achieve the continent's structural transformation, regional integration, and poverty reduction agendas?

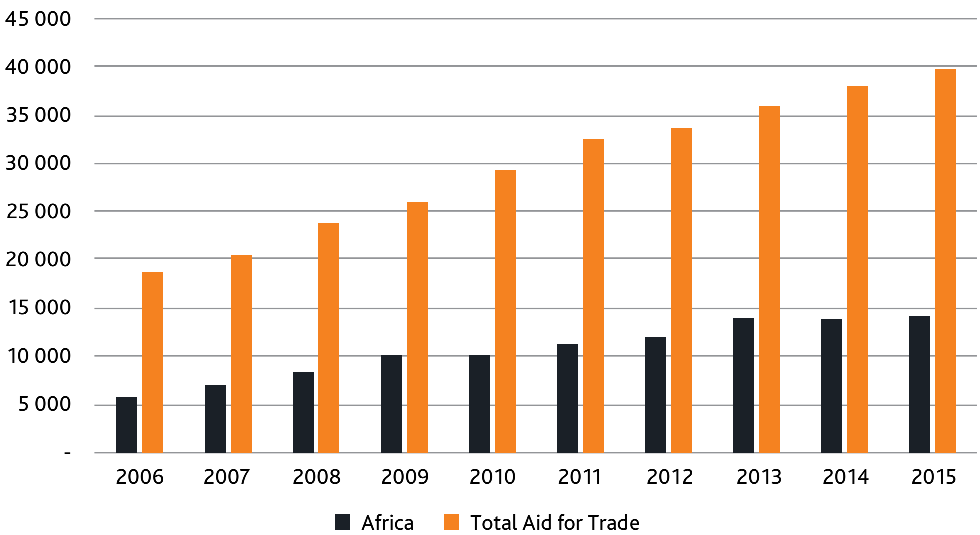
Aid for trade (AfT) is explicitly addressed in the Sustainable Development Goals (SDGs) under Goal 8: "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all." For AfT to deliver on the ambitions of this goal in Africa, along with the objectives contained in the African Union's (AU) long-term development vision and action plan, Agenda 2063, it is important to ensure that it is well-targeted and aligned with the continent's strategic priority of structural transformation.

This article provides some suggestions on how to achieve this. Many characteristics of AfT flows to Africa have remained relatively unchanged over the last decade. The current picture of AfT in Africa is presented, before recommending three key strategic priorities: (1) refocusing AfT for enhanced intra-African trade, (2) making AfT work for all, and (3) strengthening human and institutional capacities for effective AfT. These proposals are not exhaustive, but they can go a long way towards ensuring that, through AfT, trade is more effectively used as a tool to transform African economies and achieve the 2030 Agenda in Africa.

Aid for trade in Africa: A state of play

In 2015, AfT disbursements to African countries reached a record high of US$14.1 billion, representing an increase of over 150 percent from 2006.[1] From the beginning of the Aid for Trade Initiative, Africa – together with Asia – has been one of the key destinations for AfT, with its share of global disbursements fluctuating between 30 and 40 percent. AfT therefore represents a significant and growing channel of aid for African countries, as is evident in Figure 1.

Figure 1: Aid for trade disbursements, 2006-2015 (US$ million, constant 2015)



Source: OECD-Creditor Reporting System Database.

AfT flows to the continent are not evenly distributed, with a number of large economies dominating AfT funding. Since 2010, Egypt, Ethiopia, Kenya, Morocco, and Tanzania have attracted the largest disbursement flows. Together, these five countries have on average accounted for over 35 percent of the annual AfT disbursements to Africa. Both Morocco and Egypt alone have accounted for over 8 percent annually. These countries are also among those with the highest GDP on the continent, and Egypt, Morocco, and Kenya have been classified by the World Bank as lower-middle-income countries. Perhaps as a reflection of their more developed status, AfT represents a larger share of their official development assistance (ODA), up to 52 percent for Morocco, 44 percent for Egypt and 27 percent for Kenya. While the share of AfT in ODA to Africa has been increasing, at a continental level it stood at around only 24 percent in 2015.

Concentration of AfT is also evident at the sectoral level. A large majority of Africa's AfT has been directed towards projects related to economic infrastructure and productive capacity building. Infrastructure – including transport and storage, energy, and communications – accounted for around 55 percent of AfT funding in 2015. Given the significant infrastructure needs of the continent, this is not surprising. In 2012, it was estimated that US$68 billion was needed by 2020 to complete the priority projects of the Programme for Infrastructure Development in Africa (PIDA).

Productive capacity building is the second largest sectoral recipient of AfT in Africa. The majority – around 54 percent in 2015 – of this funding is directed towards the agricultural sector,[2] which still accounts for around half of Africa's total employment.[3] Only around 13 percent of productive capacity disbursements went towards industry. This is less than for banking and finance, which accounted for around 16 percent of AfT for productive capacity and 7 per cent of the total in 2015. Trade policy and regulations represented around 3 percent of total AfT, the bulk of which (around 60 percent) was accounted for by trade facilitation.

In terms of the form of aid, the trend over the years has been away from grants towards ODA loans and equity investment. In 2006, 62 percent of AfT to Africa was in grant form, but by 2015, the share had decreased to slightly below 48 percent. A similar share was accounted for by loans, while equity investment was still in minority at 3.8 percent. Multilateral partners, such as the World Bank, the EU, and the African Development Bank are the largest providers of AfT to Africa. At a bilateral level, Germany, Japan, United States, and France are the leading providers. Some new partners have emerged during the decade, including Kuwait, the United Arab Emirates, the Climate Investment Funds, and the OPEC Fund for International Development.

Priority 1: Refocusing aid for trade for enhanced intra-African trade

In 2012, African heads of state adopted the decision to fast-track the Continental Free Trade Area (CFTA) and the Boosting Intra-African Trade (BIAT) Action Plan. These twin initiatives are aimed at harnessing the transformative potential of intra-African trade, which is more diversified and industrialised than Africa's trade with the rest of the world. In 2014, manufactured goods accounted for 41.9 percent of intra-African exports, compared to only 14.8 percent of Africa's exports outside the continent.[4] The share of intra-African trade in total African trade was only 15.3 percent in 2015, compared to 46.8 percent in America, 61.3 percent in Asia and 66.2 percent in Europe.[5] Intra-African trade is therefore underexploited. Economic modelling conducted by the Economic Commission for Africa indicates that establishing the CFTA would boost intra-African trade by about 50 percent – with the highest estimated increase for industrial products.[6]

The removal of tariff barriers to intra-African trade will go some distance towards boosting and diversifying intra-African trade, but not the full distance needed to transform African economies. This is well recognised in the BIAT Action Plan, which was designed to address the non-tariff constraints to intra-African trade under seven priority clusters – namely, trade policy, trade facilitation, productive capacity, infrastructure, trade finance, trade information, and factor market integration. Economic infrastructure and productive capacity building – the two sectors attracting the most AfT funds in Africa – are reflected in the BIAT clusters. Indeed, data from the regular monitoring and evaluation exercises carried out in the context of global reviews of AfT has suggested that the priorities of the donors and recipients are well aligned. As Africa moves towards deeper integration with the CFTA, it is important that this link is maintained and enhanced. Intra-African trade should be placed at the centre of AfT cooperation.

Central to enhancing alignment will be to increase the share of regional or multi-country projects. In 2015, the share of regional projects in Africa's AfT was around 12 percent. While this is relatively high compared to other regions, there is room for improvement. For example, only 3 percent of AfT flows towards transport and storage went to regional projects. On the other hand, African countries have successfully attracted AfT for regional projects in other sectors such as industry (48 percent of funding towards regional projects) and banking and financial services (45 percent).

There is scope for AfT to contribute towards the CFTA process. The negotiations on trade in goods and services are being conducted against a tight December 2017 deadline. In the next phase of the negotiations, investment, intellectual property rights, and competition policy will be covered. The implementation and monitoring of the agreement in the 55 countries will be a challenging exercise. The current share of trade policy support in AfT is very small, and in real terms, this support declined between 2013 and 2015. While the low share of trade policy projects can partly be explained by the lower cost of implementation relative to hard infrastructure for example, there is scope to diversify support towards the urgent CFTA agenda.

Diversification of AfT funding should be considered beyond trade policy support. The other BIAT clusters are closely interlinked and have an important place in AfT cooperation. The BIAT Action Plan could act as a useful framework for ensuring that the projects implemented through AfT in these key areas are geared towards boosting intra-African trade, in view of its strong development impacts. A range of initiatives have already been implemented on the BIAT priority clusters by African countries and their partners.

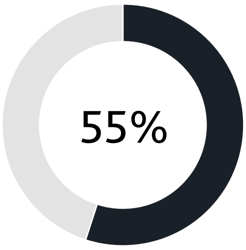
Many key recipients of aid for trade (AfT) in Africa are not least developed countries (LDCs). Improved targeting of AfT to LDCs is crucial.

Priority 2: Making aid for trade work for all

SDG 8a calls for increased AfT support for developing countries, in particular least developed countries (LDCs), including through the Enhanced Integrated Framework (EIF) for Trade-related Technical Assistance to LDCs. As presented above, many key recipients of AfT in Africa are non-LDCs. Improved targeting of AfT to LDCs is crucial.

More AfT funds could be channelled through the EIF. The first phase (2008-2015) of the EIF programme provided almost US$204 million in support to LDC beneficiary countries. The recently launched second phase of the programme (2016-2022) has secured US$70 million from contribution agreements so far, but would benefit from scaled commitments in the future. Almost three quarters of EIF funds are directed towards Africa, in areas key to inclusive trade – agribusiness, trade facilitation, plant and post-harvest protection, and pest control and fishery development. The EIF could, however, be better targeted on transformative regional projects, including through support to corridor management institutes, regional economic communities (RECs), and the African Union Commission's (AUC) programmes such as BIAT. Part of the problem is that EIF has a country focus, mirroring AfT. Increasing the share of regional projects should be a priority for both AfT and the EIF.

The targeting of AfT is particularly poor in the area of trade facilitation, a key area for trade policy support and one of the BIAT priority clusters. Disbursements in this area are largely



Infrastructure, including transport and storage, energy, and communications, accounted for around 55 percent of aid-for-trade flows to African countries in 2015.

directed at countries closest to the WTO's Trade Facilitation Agreement (TFA) targets, as captured by the OECD Trade Facilitation Indicators. Recent assessments indicate that a shift in trade facilitation disbursements towards LDCs and landlocked developing countries (LLDCs) would provide the highest returns for AfT funds.[7] The WTO TFA Facility established in 2014 to support developing and LDC members should be used to encourage a shift of AfT to trade facilitation measures centred on the poorest countries.[8]

AfT must also be better targeted within countries. The SDG aspiration is that no one should be left behind. To achieve this, AfT must be underpinned by a strong focus on vulnerable groups – including women, small-scale farmers, informal cross-border traders, and youth – who are often constrained in participating in welfare-enhancing trade. A good example of using AfT to ensure equitable outcomes was the integration of gender into Uganda's National Export Strategy. The project, supported by the International Trade Centre (ITC), helped 3,150 women entrepreneurs improve their business and enterprise management skills, supported the formalisation of women-owned businesses, promoted women's access to regional export markets, and ultimately contributed to increased household income.[9]

Small and medium-sized enterprises (SMEs) are key to channelling trade and growth into employment, poverty reduction, and women's economic empowerment. It is important that AfT contributes towards improving SMEs' access to export markets and regional and global value chains. In low income countries, seven out of ten new export relationships developed by SMEs fail within two years.[10] AfT projects seek to address the various competitiveness challenges faced by SMEs, but the trade dimension of SME development is often not adequately captured. Access to affordable trade finance and technical assistance on how to comply with cumbersome rules of origin and public and private standards must receive greater attention. South-South partnerships can play an important role, given the similar challenges faced by SMEs in partner countries.

Priority 3: Strengthening human and institutional capacities for effective aid for trade

Ownership is a crucial element of effective AfT. For this, strong institutional structures are needed to ensure the effective design, implementation, and monitoring of AfT projects.

AfT activities cut across several policy areas and sectors. It is therefore crucial that national institutions are supported to build the required capacities to exercise ownership. Weak coordination, governance structures, and technical capacities can undermine the efficiency and effective utilisation of AfT resources. This is particularly important given the current emphasis on results, including the use of impact assessments and greater attention to baselines and indicators. Inadequate capacities to meet these demands may partly explain the low share of AfT directed to LDCs. A larger share of AfT should be targeted at enhancing the human and institutional capacities needed to ensure sound management principles are followed.

The institutional and capacity challenges of regional AfT are even greater. An uneven distribution of the costs and benefits of regional projects, and the varying levels of economic development of programme beneficiaries, can make it difficult to align national priorities with regional programmes. Effective regional AfT requires strong coordination between a wide range of regional actors, as well as shared deliverables and indicators to assess results.

As previously argued, there is scope and reason to increase regional AfT in Africa, particularly in certain sectors. Although AfT is demand-driven, the international community's appetite for regional AfT could be strengthened through building institutional and human capacities at the regional level and involving regional partners to ensure effective coordination.[11] A strong CFTA institutional structure, centred at the AU, but also building on existing strengths and structures of the RECs, would help ensure the effective coordination needed to advance regional AfT efforts. The RECs and other regional agencies, such as corridor management institutions, have already been successful in attracting AfT and aligning their activities to national development plans. AfT support should be scaled up to further support this.

Conclusion

AfT flows to African countries continue to be an important source of support for development. The recent trends suggest that the distribution of AfT across priority areas, partners, and countries in the region has remained relatively unchanged in recent years. The key areas of support, economic infrastructure and projects aimed at building productive capacity, can meaningfully contribute to Africa's structural transformation.

While Africa is one of the main recipients of AfT funds, the targeting of these funds could be improved. Aligning AfT closer to continental frameworks such as the CFTA and BIAT Action Plan would allow African countries and development partners to better capture the transformative potential of intra-African trade. Furthermore, benefits must be felt by all for trade to act as an effective tool for development. To ensure inclusive gains, LDCs and LLDCs should receive a greater share of AfT. At a national level, vulnerable groups and SMEs must also be better supported through AfT. Intra-African trade can offer considerable opportunities to small-scale businesses due to the proximity of markets and lower barriers of entry relative to global markets. Actions taken to boost intra-African trade could therefore benefit smaller operators disproportionately, contributing to reducing inequality and delivering on Agenda 2063 and the SDGs. Finally, regional programmes should receive more attention. In addition to technical projects, AfT should strengthen regional institutions to ensure strong collaboration and effective delivery of AfT.

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1. All figures are in constant US$ (2015). Data relating to official development assistance and AfT has been drawn from the OECD-Creditor Reporting System Database, consulted in May 2017. A more extensive description of the trends will be available in the regional report prepared by the Economic Commission for Africa (in collaboration with WTO) for the Sixth Global Review of Aid for Trade.

2. 23 percent of all AfT.

3. Economic Commission for Africa (ECA). *Economic Report on Africa 2017: Urbanization and Industrialisation for Africa's transformation.* ECA: Addis Ababa, 2017.

4. Economic Commission for Africa (ECA). *Smart industrialization through trade in the context of Africa's transformation.* ECA: Addis Ababa, forthcoming.

5. ECA calculations using UNCTADStat data.

6. Economic Commission for Africa (ECA). *Assessing Regional Integration in Africa V: Towards an African Continental Free Trade Area*. ECA: Addis Ababa, 2012.

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10. International Trade Centre (ITC) and World Trade Organization (WTO). "SME Competitiveness and Aid for Trade: Connecting Developing Country SMEs to Global Value Chains." Geneva: ITC and WTO, 2014.

11. Lammersen, Frans. "Aid for Trade 10 Years On—What's Next?" E15 Expert Group on Trade, Finance, and Development. Geneva: International Centre for Trade and Sustainable Development and World Economic Forum, 2015.

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REGIONAL INTEGRATION

Regional Integration Imperatives and Aid for Trade in Africa

Cheikh Tidiane Dieye

Aid for Trade (AfT) has already been shown to be a valuable means for developing trade in Africa. In what ways could a reorientation of these flows from a national to a regional level further increase the benefits that African economies can obtain from AfT?

Aid-for-trade flows have evolved over the years. Even though the amount of support granted has periodically dropped, disbursements remain relatively important. Between 2005 and 2015, i.e. over a ten-year period, donor countries gave some US$ 264.5 billion in the form of aid for trade to finance 250,000 projects in 146 developing countries, 38.4 percent in Asia and 35.1 percent in Africa.[1] The OECD indicates that the impact of this aid on jobs, national and foreign investments, and living standards in recipient countries is significant, because the return on investment on this form of aid is around eight dollars of trade created in developing countries, and twenty dollars in low-income countries, for every dollar invested.[2]

It is generally accepted that aid for trade has had beneficial effects for numerous developing countries, especially in Africa. There is a need, however, to go beyond the intrinsic financial flows to analyse, on the one hand, the quality and the targeting of aid for trade and, on the other, to examine the approaches that govern its distribution between the various sectors to which it is directed.

Shedding light on the targeting of aid for trade in Africa

Why is the aid for trade directed towards Africa so massively concentrated in only two sectors? That is the question that one is tempted to ask looking at the division by sector of the aid-for-trade flows entering the continent. In 2015, more than half of this support, approximately 55 percent, was dedicated to trade-related infrastructure, while only 42 percent was dedicated to productive capacity building.[3] These two sectors account for the overwhelming majority of all the granted resources, leaving a congruent portion of around three percent of disbursements for trade policy and regulations, as well as a marginal part (less than one thousandth of the total) for trade-related adjustment. In the case of infrastructure, a large part of the resources are generally directed to transport, notably roads, and storage.

It can be noted that the distribution by sector of aid for trade in Africa is generally similar to that observed elsewhere in the world. There is also a certain rationality that justifies the concentration of support in the to the two sectors of trade-related infrastructure and productive capacity. It is indeed in both these sectors that African countries face the strongest trade constraints, as much internally as within regional markets or in commercial corridors leading to external frontiers, whether they are land, maritime, or air-based.

In a country like Nigeria, the second-largest African economy, for example, a study by the World Bank on domestic obstacles to trade has shown that the extra costs to transport a 20-foot container by road represents 21 percent of the total transport costs from Kano to Lagos, and 35 percent going the other way, principally due to high road-transport costs and, to a lesser extent, to informal payments.[4] The comparison between this internal corridor in Nigeria, which goes from Lagos to Kano, and the regional corridor which links the port of Tema in Ghana and Ouagadougou, the capital of Burkina Faso, shows that using the Lagos-Kano corridor is 25 percent more expensive and 150 percent longer. It is thus clear that internal trade costs can weigh heavily on the international competitiveness of African products, notably due to infrastructure weaknesses.

The rest of West Africa is also globally confronted with the same constraints, especially with regard to transport and road infrastructure. In a region where road transport represents nearly 90 percent of freight and human movements, the weakness of the highway network is one of the region's biggest obstacles to trade. West Africa only has 4.7 km of roads for 100 km², which is less than the average of 6.8 km for the African continent.[5]

This analysis also applies to productive capacity. The poor exporting performances of African countries can be explained by the weakness in their producing capacity. African economies' dependence on the export of a reduced number of primary products, on which they benefit from longstanding trade preferences, is a limiting factor which hinders the creation of regional value chains on the continent. Several African countries, like Cameroon, Ghana, Ivory Coast, and Nigeria, among others, are large-scale exporters of cocoa beans and could have, together, constituted a dynamic hub in the cocoa value chain. But they add little value to this product before exporting it.

The concentration of African countries in producing and exporting unprocessed raw materials leads them to abandon important financial resources as a result of the lack of value addition, and to export jobs that are deeply needed by their own young population to countries which have adequate productive capacity. Seen this way, support for African countries should not be looked at only from the angle of market access improvement, especially by maintaining certain trade preferences, which is a prior condition, but should be centred on developing productive capacities, especially in the food-processing sector. This sector is, in effect, at the heart of industrialisation, job creation, and food security for many countries.

Policies and initiatives aimed at realising regional integration struggle to produce structuring and long-lasting effects, notably because the material and infrastructural bases they build on are fragile, when they even exist.

The above constraints thus show that targeting aid for trade on infrastructure and productive capacity is appropriate, because help is given to the sectors which most restrain African trade. We still need to know whether the extreme concentration of aid at a national level should remain the primary option, or whether we should on the contrary turn more towards regional economic communities to support efforts to construct regional markets and create regional value chains.

Towards reinforcing the regional dimension of aid for trade

More than just a priority, regional integration throughout Africa seems to be a development imperative. Policies and initiatives aimed at realising regional integration struggle, however, to produce structuring and long-lasting effects, notably because the material and infrastructural bases they build on are fragile, when they even exist.

The crucial importance of regional integration is, however, barely taken into account in the distribution of aid for trade. Even though everyone recognises the importance of supporting the ongoing economic integration processes on the African continent, few countries or international institutions are inclined to devote important financial resources to projects which are designed and executed at a regional level. By habit or by pragmatism, donors seem to favour a national approach in disbursing aid for trade. In 2015, only 12 percent of aid for trade was directed at regional projects, which clearly shows the low level of importance given to regional integration regardless of current discussions. There is therefore substantial room for improvement at this level, which must be used in giving greater support to initiatives that correspond to regional priorities.

On the African continent, the priority given to regional integration and the acceleration of initiatives such as the Continental Free Trade Area and customs unions in the different regional economic communities should push bilateral donors and international institutions to give more attention to regional projects, relating to infrastructure as much as productive capacity.

In the context of West Africa, aid for trade could act as a catalyst with important impacts in terms of opening of the regional market, free circulation of goods, capital, and services, and competitiveness of companies. It could, in particular, support the principal driving forces behind regional trade, such as the WTO's Trade Facilitation Agreement (TFA), ECOWAS' Common External Tariff (CET) and ECOWAS' Trade Liberalization Scheme (ETLS).

The TFA is an external factor contributing to make trade more dynamic. Of the nineteen African countries which had ratified it by the date it came into force, eight are West African. The TFA's aim of increasing the speed of commercial transactions by modernising and rationalising border procedures, while encouraging better trade governance, goes hand in hand with the aims of the ECOWAS free-trade area established by the ETLS and of the customs union being set up following the adoption of the CET.

A good link between the TFA, the ETLS, and the CET, notably through the targeted financing of regional projects concerning infrastructure (regional road corridors; modernising transport systems) and productive capacities (helping develop regional value chains; setting up special economic zones for regional integration) could represent a significant opportunity.

By way of conclusion, it can be recognised that aid for trade has helped an increasing number of African countries to participate in world trade. One must, however, also recognise that, for various reasons, often linked to the conditions underlying public development aid, aid for trade has only benefitted a few countries within each regional economic community. Now that all the regional communities are moving towards greater integration of their markets, aid-for-trade programmes should also take this into account in order to help the latter build economic infrastructures that their member countries could not achieve individually. This would allow the removal of unequal treatment between countries in the same region, increase their complementarity, encourage both specialisation and scale economies, and create regional value chains as a precondition to integrating global value chains.

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GENDER

Aid for Trade and Gender: Lessons from African Women Entrepreneurs

Vanessa Erogbogbo

Gender-focused aid for trade initiatives in Africa have the potential to considerably accelerate the achievement of the Sustainable Development Goals. This article sets out the case and highlights key actions required to deliver transformative change for women and for African economies.

Aid for trade has the potential to speed up the achievement of the collective commitment set out by the United Nations in the Sustainable Development Goals (SDGs), especially Goal 1, to end poverty in all its forms everywhere, and the target of eradicating extreme poverty by 2030. Africa is a continent where over half the world's people living in extreme poverty reside, with 389 million people in Sub-Saharan Africa still living on less than US$1.90 a day in 2013. One of the most effective ways to catapult them to better lives is to connect firms owned by women to markets, and women to jobs in export sectors.[1]

While the nature of women's economic participation in Africa is varied, one thing is the same in every part of the continent: their high level of involvement in economic activity. The potential returns on their work are almost always unrealised, however, particularly where trade is concerned. While only 15 percent of exporting firms worldwide are owned by women, this figure is as low as 6 percent in Côte d'Ivoire and as high as 46 percent in Kenya. The majority of these firms are small and medium-sized enterprises (SMEs). They are on average smaller than male-owned firms, and when they engage in trade in tasks within a value chain, they are significantly more likely to trade across multiple regions than when they are only involved in trade in final goods. We also know that large, labour-intensive exporting companies tend to employ more women.

Why does the gender of the worker or the company owner matter?

There are only three million new formal jobs to offer the 13 million Africans who enter the workforce each year.[2] SMEs account for more than half of formal jobs, and ensuring they can participate in trade helps them create and sustain the jobs that are vital to the economic and social fabric of the continent. Although Sub-Saharan Africa boasts the highest rate of female labour force participation and thus the narrowest gender gap, analysis suggests that this is likely to reflect a need to work in the absence of social protection programmes. This is further substantiated by the high levels of employment in the informal sector.[3]

As firms owned by women expand their reach, they employ more women. Data from the International Trade Centre (ITC) show that the female share of employment in firms owned by women that trade globally is as high as 66 percent compared with 39 percent for firms trading in the home region.[4] Trade has provided higher incomes and formal employment to women in manufacturing, tradable services and high-value agriculture sectors, and cross-border trade has helped households in border areas achieve better levels of welfare.

These trends are encouraging, but if African women are to fully reap the benefits that trade can generate, a few things need to happen first.

Investing more

Last year, only 2 percent of total official development assistance focused principally on women's economic empowerment. A mere 16 percent of aid for trade flows explicitly mention gender in terms of objectives, and the share of investment with gender equality as a principal objective has not been calculated.

More investment in initiatives targeted at women and trade is required to address the specific challenges women face, ranging from legal impediments, to gender biases and gender-blind trade policies, as well as access to the information, networks, and resources required to trade.

Activating the private sector

But this will not be enough to bridge the gap between the US$55 billion spent on aid for trade initiatives and the total amount of financial resources required to achieve the 2030 Agenda for Sustainable Development, which could reach US$4.5 trillion per year according to some estimates.[5]

Laetitia Kayitesire's Rwanda-based Sake Farm offers a telling glimpse of the potential leverage that can be achieved by activating the private sector. Laetitia employs 30 workers, most of them women, to produce and process coffee for export from a 30-hectare plantation. She also purchases and processes coffee from 1,500 surrounding smallholder farmers. Under a partnership with ITC's SheTrades initiative, Sucafina and Jacobs Douwe Egberts, technical advice and targeted investment is helping to improve Sake Farm's productivity, efficiency, and coffee quality. Additionally, the partnership seeks to increase the incomes of the smallholder farmers by developing their service delivery structure and incorporating a major commitment to enhance women's participation in the supply chain.

More investment is required to address the specific challenges women face, ranging from legal impediments, to gender biases and gender-blind trade policies, as well as access to the information, networks, and resources required to trade.

Solving the challenge of access to finance

Supporting agribusiness entrepreneurs to grow their businesses should be an imperative for Africa to reduce its annual food import bill of US$35 billion. Monica Musonda is an example. Monica purchases produce from farmers locally and manufactures nutritional foods for the domestic market in Zambia. She is looking to expand her business regionally, to meet needs on the continent, and internationally, to cater to the fast growing health food sector in Western markets. But like many other women entrepreneurs who identify access to finance as their biggest impediment, she has not yet been able to access the funding required for expansion, despite a glowing track record of professional successes.

Combining aid for trade interventions that train, mentor, and connect women to export markets with financial instruments tailored to the specific challenges faced by small firms owned by women could spur credit and investment. This approach focuses on lowering risk and creating a flow of high quality deals that meet the requirements of lenders and investors.

Harnessing digitalisation

In the Silicon Savannah, digitalisation is driving innovation and helping to close gender gaps. Phyllis Mwangi is, among other things, a real estate agent in all but name. Her business, Tandao Commerce, is a full service e-commerce platform, operating out of Kenya, which enables SMEs to lease online stores and trade their goods and services globally. Phyllis's original business was selling flowers online, but digitalisation redirected her well-laid plans, unlocking an opportunity for her to leverage technological capabilities to create a scalable and innovative service business.

The same cannot be said for the majority of women in Africa, whose use of the internet still lags behind that of men by 23 percent. They face obstacles that include affordability, access to digital tools and skills, payments and logistics requirements, and regulatory restrictions on e-commerce transactions.

Policies, programmes, and digital infrastructure and tools are crucial to ensuring that African women entrepreneurs can harness digitalisation to innovate, grow, and open up new trade opportunities.

Comprehensive action

Laetitia, Monica and Phyllis are three of the 1 million women with whom ITC and its partners – including the private sector – are working to connect them to markets as part of the SheTrades initiative. Since joining SheTrades recently, Monica's company is beginning to attract the attention of investors. Laetitia has been able to improve the quality of her coffee and secure better prices by exporting to Switzerland. And Phyllis has received mentoring from global industry leaders, moving from a regional to an international reach, and increasing her number of employees by 50 percent.

The path to 2030 is shortening and the donor resources available to fuel the journey are limited. Well-targeted aid for trade focused on delivering comprehensive action that addresses the range of issues women face in Africa, in concert with the private sector, civil society, and governments, is the key to unlocking women's full economic potential.

The Sixth Global Aid for Trade review hosted by the WTO in July 2017, the first since the adoption of Agenda 2030, provides the perfect opportunity for WTO member states, the donor community, development organisations, and other trade stakeholders to articulate their vision and state their commitments to aid, trade, and the Sustainable Development Goals, including gender equality.

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STANDARDS

Can Aid for Trade Assist Firms in Developing Countries to Comply with Sustainability Standards?

Jim Redden

Sustainability standards can help foster sustainable development in developing countries, but also have exclusionary effects. How can aid for trade assist businesses in the developing world to comply with an ever-increasing number of public and private standards?

For a developing country exporter, for example, of fresh bananas from the Philippines seeking market access to the EU, it is necessary to comply with at least seven categories of sustainability standards, from food safety controls to labelling standards, with each category of compliance carrying with it a range of production guidelines and documentation – a somewhat daunting prospect for a semi-literate farming producer in rural Mindanao.

As such, one of the major contemporary challenges facing developing country firms, and especially small and medium-sized enterprises (SMEs) today, is the ever-increasing number of regulations and sustainability standards they are required to conform to if they are to integrate into global value chains (GVCs). The exponential increase in the complexity and diversity of standards and regulations – over 20,000 types of standards according to the International Standards Organisation (ISO) – is in response to a number of factors, including for example consumer demands in terms of health, safety, and environmental protection, as well as private sector-driven demand for quality, efficiency, and corporate reputation.

Sustainability standards such as those governing production processes, quality and safety requirements, or environmental and labour standards can, and do contribute to progress towards the Sustainable Development Goals. Successful exporters can expect an increase in export income and sustainable profits, with flow-on effects for the local community.

However, sustainability standards can also be exclusionary. The cost of compliance is often forbidding for SMEs and small-scale producers in developing countries. Standards compliance may involve for example, certification costs, the purchase of infrastructure, the cost of laboratory testing or protective clothing, packaging and labelling measures, the cost of membership to a relevant standards institution, and a reasonable budget for training management and staff. Inspections from an authorised standards institution can cost around US$310, audits can average US$650, and the laboratory testing which is often required to export agricultural or manufactured goods can reach the thousands of dollars. So, can aid for trade (AfT), with a key objective of assisting developing countries to overcome supply-side barriers to trade, play a constructive role in supporting developing country firms, and especially SMEs, to comply with the ever-growing number of sustainability standards? To explore this question, consultations were held with a range of SME traders, standards organisations, and donor bodies from around the world, in concert with an examination of recent literature and case-studies.

The compliance needs of developing country SMEs

On the question of key challenges faced by SMES, and therefore of their needs to meet standards compliance, eight categories of needs were identified.

Awareness of standards

One of the common needs identified by SMEs and small producers is access to information about the various standards required for GVC participation in their sector. Women managing SMEs in the textile trade from Cambodia, Sri Lanka, Mauritius and Bangladesh all highlighted difficulties in obtaining the appropriate information, not only about the actual sustainability standards they need to comply with, but in some cases also about the production processes or types of testing required to meet the standards.

Market intelligence
A related issue concerns information and intelligence on market access opportunities. Sustainability standards vary considerably between markets. The level of food safety requirements for market entry into Burkina Faso, for example, are significantly different from those required by the EU.

Cost of compliance
SMEs need to develop the capacity to constantly upgrade their products, services, or production processes in order to comply with standards in a particular the value chain. The costs of doing this are not just confined to the expenses related to certification, labelling, and testing requirements, as these are often dwarfed by the cost of the process changes required to meet the demands of lead firms in GVCs.

Conformity assessment
Conforming with sustainability standards often requires inspections, testing, and certification. Ensuring appropriate and mutually recognised testing is in place is not always easy. For example, an SME exporter of textile toys from Sri Lanka noted the large range of tests and regulations required for market access to the EU, including for example:

- EN 71, Part 1, Safety of Toys, Mechanical and Physical Tests
- EN 71, Part 2, Safety of Toys, Flammability Test
- EN 71, Part 3, Safety of Toys, Migration of Certain Elements

Culture of documentation and customs compliance
SMEs often do not have the skilled staff or the culture of documentation and customs compliance that are necessary to meet a plethora of regulations, licencing requirements, and certification in order to import or export.

Access to quality trade-related infrastructure is cited by numerous small and medium-sized enterprises as a vital component for meeting sustainability standards.

Gender biases
Women managing an SME or working for an SME engaged in international trade usually face a particular set of obstacles in their efforts to comply with standards, whether due to access to finance, discrimination and sexual harassment, or lack of time and skills to implement requirements in the production or service delivery process.

Appropriate and functioning infrastructure
Access to quality trade related infrastructure is cited by numerous SMEs as a vital component for meeting sustainability standards. While some cases are related to major infrastructure developments, such as high-grade cold storage facilities, for many micro and smaller producers, access to simple but appropriate technology and infrastructure is often the cutting edge between compliance or non-compliance.

Lack of skills both within and outside of SMEs
In Bangladesh, one textile and clothing SME, run by a female entrepreneur and with a staff of 26 mainly women workers, needed to re-evaluate her workforce based on a standard's requirements in order to meet, among many other requirements, "colour fastness" in her textile and clothing business. In this example, apart from the need for stitchers, sewers, designers, and packaging expertise, what was also required was expertise in monitoring

+185 tonnes

Following aid-for-trade interventions by the EU and Australia, Tongan exports of watermelons increased from 86 tonnes in 2010 to 271 tonnes in 2013.

and testing for the standard's requirements, including for colour fastness. However, she found it difficult and costly to retrain her own staff or find semi-skilled and skilled workers outside of the company to carry out these tasks.

In order to overcome some of these types of obstacles, the lead firm of a GVC, an industry body, or a local government institution can offer compliance support through training, technical assistance, or the provision of guidelines. But unless the firm is already well integrated into the GVC and is, for example, an indispensable supplier of a particular good or service, the lead firm may well look elsewhere, indicating that in many cases the cost of compliance falls on the SME and can act as a means of exclusion.

Aid for trade can therefore play a particularly strategic role by filling the gaps where other institutions or lead firms are unwilling or unable to go. Not unsurprisingly, this can apply to overcoming all eight of the needs mentioned above. A case-study from Tonga serves to illustrate.

Tongan watermelons and aid for trade
In 2010, New Zealand stopped importing watermelons from Tonga due to the high number of contaminated watermelon shipments it had received. Tongan watermelon growers were competitive in terms of production cost but were unable to consistently meet New Zealand's strict biosecurity regulations, particularly as it applied to fruit flies.

In order to meet sustainability standards, including New Zealand's biosecurity regulations, as well as the Hazard Analysis and Critical Control Point (HACCP) certification, Tonga producers, principally a mix of female and male run small producers, needed appropriate infrastructure and food safety processes to be in place. Watermelon GVC export pathways require an efficient fumigation chamber as well as HACCP certification. This requires high standards of food production, storage, and sound monitoring systems for identification and control of health hazards, including contamination.

Two key sources of aid for trade were able to gradually address the compliance needs of Tongan SMEs. Initially, the EU provided a fumigation chamber and supported some of the processing facilities and processes. In 2011, the Australian-funded Pacific Horticultural and Agricultural Market Access (PHAMA) program began assisting Tonga's farmers, SME exporters, and the Tongan Ministry of Agriculture to build their capacity to comply with New Zealand's biosecurity requirements and HACPP certification. Tonga's national development goals included private sector development and the growth of agricultural production, meaning that the AfT support it received strategically aligned with the country's national priorities and allowed for strong local ownership of the program.

The support provided by the EU, and subsequently by Australia, included the following elements: a comprehensive review of production methods; assistance with post-harvest handling and export procedures; the delivery of training and training materials on standards compliance; the compilation of an operational manual and training for the use of the fumigation chamber; and the establishment of a project management team to oversee export pathway compliance in general.

The AfT support has resulted in exports of watermelons increasing from 86 tonnes in 2010 to 271 tonnes in 2013. New Zealand imports 2,500 tonnes of watermelon annually and now provides an opportunity for Tonga to grow its market share.

Impact on the Sustainable Development Goals
Many Tongan families rely for their livelihood on retaining and improving their access to agricultural markets. The reopening of the watermelon export pathway to New Zealand, as well as the HACCP certification and the provision of the fumigation chamber for other agricultural products, has had a significant impact. Both female and male-run SMEs involved in the production and export process have benefited from increased income, with positive welfare effects for the local Tongan community. In terms of the Sustainable Development Goals (SDGs), it has directly contributed to SDG 1 (no poverty), SDG 5

(gender equality), SDG 8 (decent work and economic growth), and SDG 9 (industry, innovation and infrastructure). It is likely to also have had a secondary multiplier effect that will support Tonga's ability to achieve several other SDGs.

Future policy implications for aid for trade

There are numerous other AfT stories that help to highlight, along similar lines, some important policy implications for AfT targeted at supporting SMEs in standards compliance. These policy implications include:

- The need for a quality infrastructure that is appropriately designed and integrated with existing systems, to also include the servicing and maintenance of infrastructure through the training of existing staff and/or of local service suppliers to be able to provide support at affordable rates – in other words maintaining the hardware as well as the software.
- AfT programs need to support local ownership and ensure the compliance project aligns with national interest. Donor goals and objectives should include capacity building and training of government officials on relevant trade and standards policy regulations, as well as advice on how best to maintain export pathways.
- In conducting the initial value chain analysis, AfT projects need to ensure that reforms and standards compliance will lead to increased market access with key trading partners. Market access to New Zealand was obviously a vital component is the case presented above, with the country remaining open and committed to the import of Tongan watermelons once sustainability standards were met.
- It is important to leverage trade negotiations and agreements. Australia, New Zealand, and Pacific Island countries recently finalised a trade and economic cooperation agreement (PACER Plus) and this, in part, motivated both Australia and New Zealand to examine opportunities to support Pacific Islands to engage and benefit from more integrated and open trading systems through AfT.

For Tonga, the challenge ahead will be to maintain and upgrade agricultural production processes and infrastructure, especially for the fumigation chamber, and to continue to comply with the demands of sustainability standards required for accessing key markets. This will require developing maintenance programs and financial systems resourced by the industry and the government of Tonga where appropriate. A major challenge for all AfT programs is to try and ensure continuity and local ownership once donor funding ceases. That said, there was little doubt among those consulted about the strategic role aid for trade can play in assisting firms to meet sustainability standards into the future.

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SERVICES

How Can Aid for Trade Facilitate Trade in Services?

Ben Shepherd

Aid for trade has made important interventions in services sectors, but going forward, there needs to be more emphasis on regulatory reform and building productive capacity, rather than just infrastructure spending.

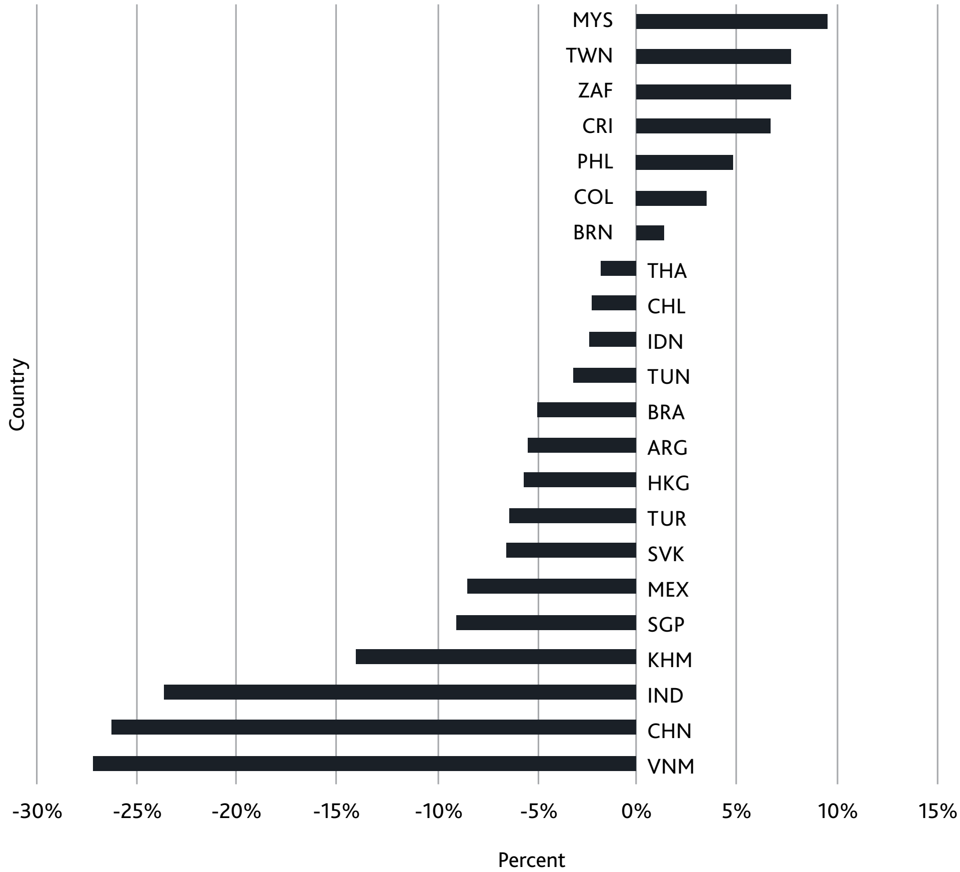
The services economy is already large in developing countries, typically at least 50 percent of GDP, even in low income countries, and much more in higher income countries. As such, it makes sense to ensure that aid-for-trade (AfT) resources give appropriate attention to services trade, and in particular help to facilitate it.

What does trade facilitation for services mean? One interpretation, by analogy with APEC's approach to trade facilitation in goods, is to aim to reduce trade costs by a particular percentage over a particular time, but with countries left free to choose their own approaches. The advantage of this approach is that if it succeeds, it can result in a substantial freeing up of services markets. It also takes full notice of the lack of progress on traditional services negotiations in the WTO, where request-offer seems to have broken down as an effective way of trading "concessions". Focusing on reducing trade costs as the core of a trade facilitation concept for services sits well with the G20's commitment to reduce trade costs, which is not limited to goods but is broad enough to include services as well. The analogy with goods breaks down somewhat in terms of the WTO's Trade Facilitation Agreement—although India has proposed a similar agreement for services, it is difficult to see what it could cover that is not the subject of request-offer negotiations, other than perhaps additional rules on administrative transparency.

Although data are scarce for services trade, the OECD-WTO TiVA dataset includes a full set of bilateral trade data, based on observations and model-based estimates. We can use that dataset to construct estimates of trade costs, which the recent literature shows can be inferred from cross-country patterns of trade and production, without the need to build them up measure by measure.

Based on new calculations using the TiVA dataset, Figure 1 reports the percentage change in trade costs between 1995 and 2011 for developing countries in the dataset. A negative number indicates that trade costs have fallen, while a positive one indicates they have increased. The figure clearly shows that a wide range of countries have been very successful in reducing services trade costs over recent years, although data on many developing countries, particularly low income and African countries, is not available. Small countries have done well, but so too have emerging markets like China and India. Although trade costs (in levels) are typically higher in services than in goods, there is evidence that they are coming down rapidly in at least some parts of the world. Interestingly, these developments have taken place in the absence of multilateral liberalisation. Although there has been some preferential liberalisation in services, research shows that it is often de facto MFN, in the sense that it applies equally to all trading partners.[1] The primary purpose of regional agreements has been to assist individual governments in solving the political economy problem of how to be able to implement serious reforms. The key dynamic is therefore unilateral reforms—perhaps anchored by an external engagement, like China's WTO accession, but fundamentally based on a domestic political decision.

Figure 1: Percentage change in services trade costs, 1995-2011, selected developing countries.



Source: Shepherd (Forthcoming). [2]

Against this background, what role has AfT been playing? Has it been supporting the process of facilitating trade in services? In fact, a significant proportion of total AfT flows has at least some connection with services, although the categories that are commonly tracked, and which are mandated by the WTO General Council, reflect the effort to analyse AfT using existing data sources that do not always correspond to the categories suggested by economic analysis. In terms of sector-specific flows, services-related AfT is heavily skewed towards social services, like health and education. These flows are very important from a development perspective, and should be encouraged. But it is not clear that they truly facilitate trade in services: they are more about building potential to deal with domestic health and educational needs. This is not to take away from the importance of these flows, just to question their potential to support trade integration.

In terms of the core AfT categories of trade policy and regulations, economic infrastructure, and productive capacity building, services play a role in all three. However, there are arguably some misallocations in terms of the sectors likely to promote growth and development in the developing world. For instance, productive capacity building is heavily skewed towards agriculture. Of course, agriculture is important as a source of income and employment, but there is an argument for developing other sectors, including services, to act as magnets for workers freed up as agricultural productivity improves. Expenditures on trade policy and regulations are relatively small, which is not surprising as they are not as resource intensive as infrastructure projects, but in services there is a strong case for prioritising interventions here. Regulatory reform is relatively low cost but high impact. It is also strongly trade facilitating.

Aid directed towards economic infrastructure and services is heavily skewed towards infrastructure projects. Building power plants, roads, and other infrastructure is of course important for services, but does not itself help to support trade integration in services sectors. There needs to be regulatory reform accompanying infrastructure investment if it is to have its full payoff. Supporting regulatory reform in a wide range of services sectors is not nearly as resource intensive as building and maintaining infrastructure, but it is usually difficult from a political economy point of view.

What can AfT do to support the process of regulating key services sectors? The most important intervention is supporting domestic policy mechanisms and institutions that help develop effective and efficient services regulations. Effectiveness means that regulation achieves important social goals, while efficiency means that it does so at the lowest economic cost. Such an approach is fully consistent with the goal of facilitating trade in services, as it can help reduce trade costs even further. Experience has shown that negotiating regulatory objectives and mechanisms is hard, even among relatively similar countries, let alone among the WTO's diverse membership. By contrast, agreement on the objective of reducing trade costs in services, and on effective and efficient regulation as the mechanism, has the potential to allow countries to move forward productively even while negotiations in Geneva are stalled.

In services sectors, it is important to strike the right balance in AfT between infrastructure interventions, measures to support good policymaking, and building productive capacity. The touchstone is competitiveness: the outcome should be firms that can compete in world markets, with a strong basis of infrastructure and regulation behind them. Judged on that basis, there is still considerable work to do, as instances of developing country success in services markets, while important, are still more the exception than the rule.

Moving forward on AfT in services requires a better understanding of the services economy in the developing world, and in particular the important role it plays in boosting competitiveness for other sectors of the economy. All types of goods and services use other services as inputs into production, whether it be transport and distribution services, finance, or business services. Based on the available data, which largely cover the developed world, we know that a significant proportion, perhaps one-third or more, of the value of gross exports in manufacturing is in fact made up of embodied services value added. The trade facilitation agenda in goods is therefore largely also about services, focusing on areas like transport and distribution, as well as logistics. Donors and beneficiary countries need to work together to better understand the services sector, and in particular the regulatory measures that are holding back domestic and foreign service suppliers. Regulating efficiently and effectively can boost the trade integration of developing countries, at the same time as ensuring that important domestic policy objectives, like consumer and environmental protection, are met.

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1 Miroudot, Sébastien, and Ben Shepherd. "The Paradox of 'Preferences': Regional Trade Agreements and Trade Costs in Services." *The World Economy* 37, no. 12 (2014).

2 Shepherd, Ben. "Trade Costs in Services: Database Update." Working Paper, Developing Trade Consultants, Forthcoming.

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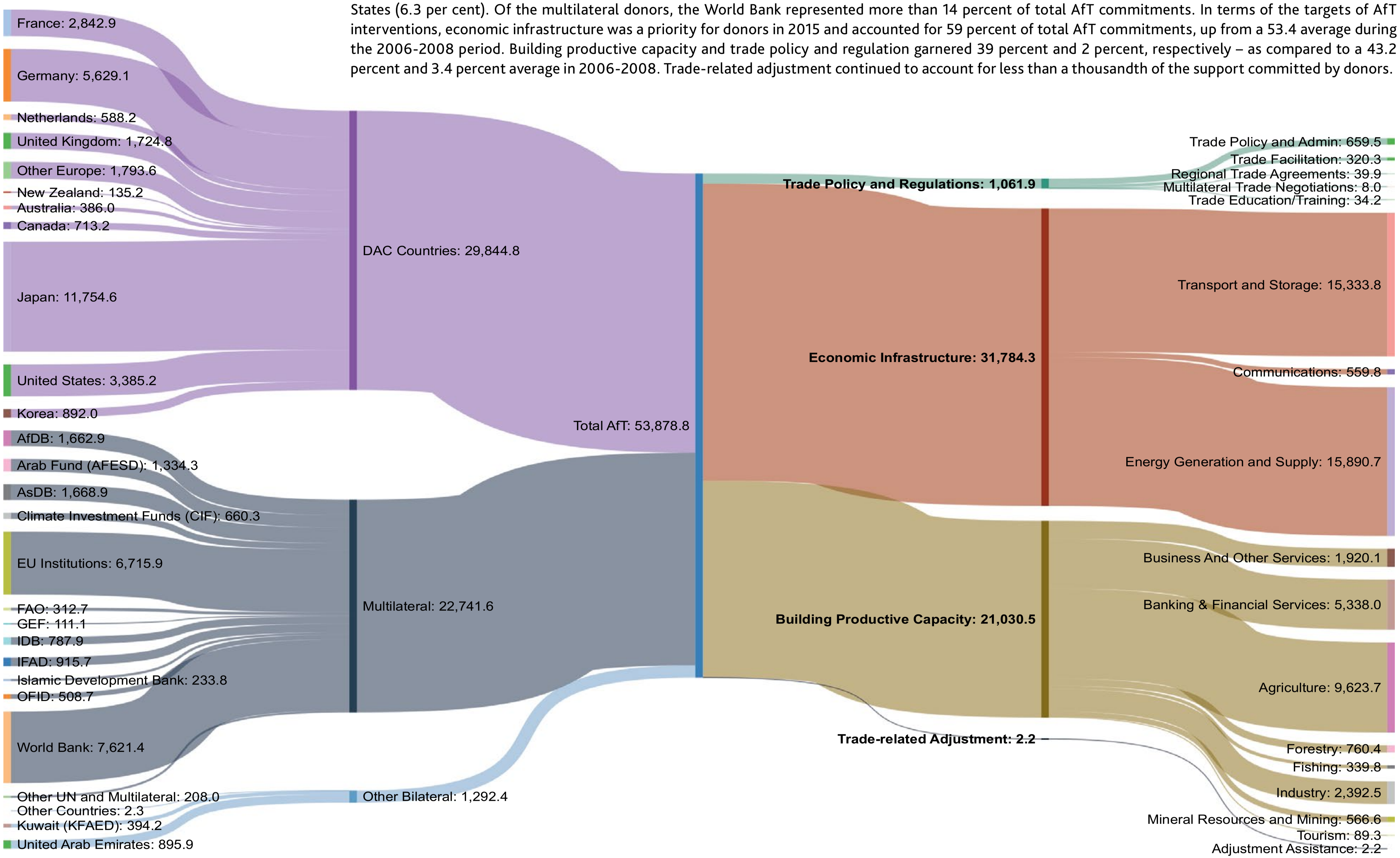
Aid-for-trade Commitments in 2015

The data visualisation shows Aid for Trade (AfT) commitments in 2015 according to different providers of AfT funding as well as by category and subcategory. Official AfT commitments reached US$53.9 billion in 2015, up from the 2006-2008 average of US$29.3 billion. In terms of the contribution of Development Committee Assistance (DAC) members, Japan accounted for the largest share (21.8 per cent) of total AfT commitments followed by Germany (10.4 per cent) and the United States (6.3 per cent). Of the multilateral donors, the World Bank represented more than 14 percent of total AfT commitments. In terms of the targets of AfT interventions, economic infrastructure was a priority for donors in 2015 and accounted for 59 percent of total AfT commitments, up from a 53.4 average during the 2006-2008 period. Building productive capacity and trade policy and regulation garnered 39 percent and 2 percent, respectively – as compared to a 43.2 percent and 3.4 percent average in 2006-2008. Trade-related adjustment continued to account for less than a thousandth of the support committed by donors.

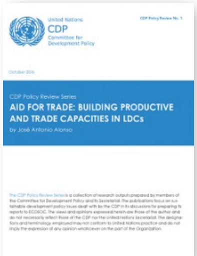


Data Note: The DAC countries category contains the "Other Europe" subgrouping, which comprises European countries whose aid for trade commitments did not exceed US$ 500 million in 2015, namely Austria, Belgium, Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, Italy, Luxemburg, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, and Switzerland. Likewise, the multilateral data flow contains the "Other UN and Multilateral" grouping, which includes the Caribbean Development Bank, CEB, Enhanced Integrated Framework, ILO, ITC, UNDP, UNECE, UNESCAI, UNESCW, UNIDO, WTO, and other multilateral donors. Similarly, the bilateral data flow contains the subgrouping "Other Countries" which includes the non-DAC countries of Estonia, Lithuania, and Romania. Data was sourced from the OECD's Creditor Reporting System (CRS).

Publications and Resources

Beyond Brexit: Four Steps to Make Britain a Global Leader on Trade for Development – Center for Global Development – January 2017
This paper looks at how the UK can, after Brexit, develop a world-leading trade for development policy. It uses a systematic assessment of how rich country trade policies affect developing countries to identify the leading approaches used elsewhere. It then identifies and describes four key steps: i) eliminating or lowering tariffs; ii) improving preferential access for the very poorest countries; iii) cutting red tape at the border; and iv) enhancing the effectiveness of its aid for trade. http://bit.ly/2sWY0wM

Aid for Trade and the Sustainable Development Agenda: Strengthening Synergies – OECD – December 2016
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. This paper discusses how aid for trade can contribute to these goals and argues that the Aid for Trade Initiative already takes an integrated and multi-dimensional approach to promoting trade, economic growth, and poverty reduction. http://bit.ly/2udbe7W



Aid for trade: Building Productive and Trade Capacities in LDCs – UN Committee for Development Policy – October 2016
This paper looks into the origins of Aid for Trade (AfT) and its objective of assisting developing countries to increase exports of goods and services and integrate into the multilateral trading system. Pointing out that AfT is not a new development fund nor a new aid category, the paper looks into the flows and impact of official development assistance resources allocated to AfT. It argues that most aid for trade is allocated to middle income countries and that a shift in this allocation pattern is needed to give more attention to LDCs. http://bit.ly/2siyZtE

Reducing Trade Costs in LDCs: The Role of Aid for Trade – WTO – July 2016
This study analyses the role of aid for trade in reducing trade costs in least developed countries (LDCs), which are particularly high compared to other countries and constitute a major impediment to their participation in international trade. The analysis builds on questionnaires and case stories submitted as part of the aid-for-trade monitoring and evaluation exercise for the Fifth Global Review of Aid for Trade, as well as diagnostic trade integration studies and existing econometric work. http://bit.ly/2shPCpm

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Aid for Trade and the Trade Facilitation Agreement: What They Can Do for LDCs – FERDI – May 2016
The Trade Facilitation Agreement (TFA), which entered into force last February, provides an opportunity to narrow the scope of aid for trade activities and to heed the call for "Managing for Development Results" (MfDR). This paper provides an evidence–based discussion of the potential of aid for trade in terms of trade cost reduction, distinguishing between Least Developed Countries (LDCs) and Landlocked LDCS (LLDCs). It also includes new estimates of time in transit for international parcel data. http://bit.ly/2tiIPRq

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