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TRADE AND AGRICULTURE DIRECTORATE

**AID FOR TRADE JOINT MEETING OF THE DEVELOPMENT ASSISTANCE COMMITTEE AND
THE WORKING PARTY OF THE TRADE COMMITTEE**

AID FOR TRADE AT A GLANCE: SHOWING RESULTS

Chapter 2. What has changed since 2008?

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Members are requested to provide their comments by Friday 24 June COB Paris time.

The chapter will be edited before publication.

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CHAPTER 2: WHAT HAS CHANGED SINCE 2008?

EXECUTIVE SUMMARY

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

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

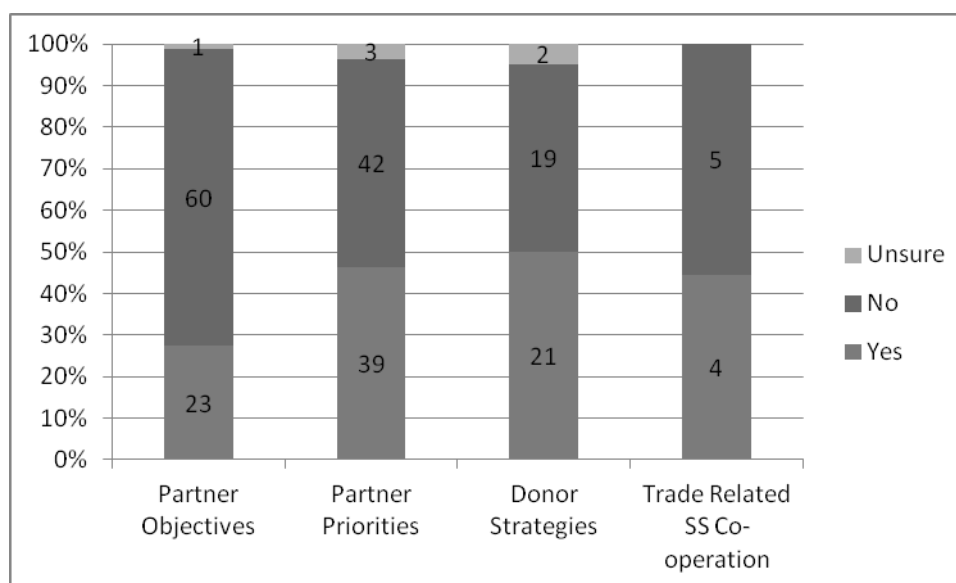
There are positive trends in partner country strategy mainstreaming, articulation and communication. Yet some donors face budget challenges and have difficulty in responding to perceived higher demand for aid for trade and regional assistance.

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

1. Introduction

1. Aid for trade is very much affected by global economic movements, from global trade flows and economic performance, commodity prices, to the budget situation and fiscal space in developed countries. It involves developing countries, emerging economies and the OECD countries supported by multilateral institutions and regional organisations. It brings together a community of trade and development experts, officials, the public and private sector to discuss how best to promote the interests of developing countries in using trade as a tool to achieve their development objectives. Aid for trade is therefore sensitive to changes in the global economy, in terms of demand, resources and ultimately results. It is also an interesting device with which to think about how much has changed since 2008. When the last *Aid for Trade at a Glance* was published in 2009, it highlighted that the generally positive progress of the Aid-for-Trade Initiative risked being undermined by a more negative outlook. The financial crisis and the succeeding economic crisis threatened to reverse the strong growth in aid-for-trade flows. Substantial declines in trade jeopardised the work done advocating trade as a development tool while the transmission of the shock risked undermining open markets and the potential of trade. In 2011 we can see that the world economy has started to heal but the crisis leaves a legacy which will continue to shape the aid for trade agenda in the years to come. This chapter examines how objectives, priorities, strategies and policies have evolved from partner countries, donors and providers of South-South co-operation. The chapter finds that on the basis of self-assessment, objectives have not changed much, priorities more so, and both donor and South-South approaches to trade-related cooperation have changed in about half of those countries that took part in this round of the monitoring exercise.

Figure 1. What has changed since 2008?



2. Partners increasingly prioritise competitiveness and export diversification to increase their resilience to shocks and decrease risk. For donors, the results agenda, monitoring and evaluation have become more important in response to the crisis. Overall changes are mostly driven by shifts in national circumstances such as changes of government, development policy, priorities and trade policy in partner countries. As might be expected objectives do not have many changes. Almost half of partner respondents do change their priorities. Half of the donors have changed their strategies and 44% of those providing South-South Co-operation have changed their trade-related cooperation policies. The rest of the chapter proceeds as follows; section 2 examines the changes which have occurred in objectives, priorities, strategies and policies for partner countries, donors and providers of South-South Co-operation. Section 3

looks at the main drivers of these changes. Section 4 looks at how demand for aid for trade and regional trade-related assistance has evolved over the last two years. Section 5 provides details on how aid-for-trade policies and strategies might change in the next two years and the outlook for aid for trade. Section 6 offers some conclusions which will be built upon in the subsequent analysis.

2. What has Changed?

3. This section is built on responses to the OECD/WTO Questionnaire on Aid for Trade which assesses changes since 2008 and provides an update to the previous questionnaire.

a) Objectives

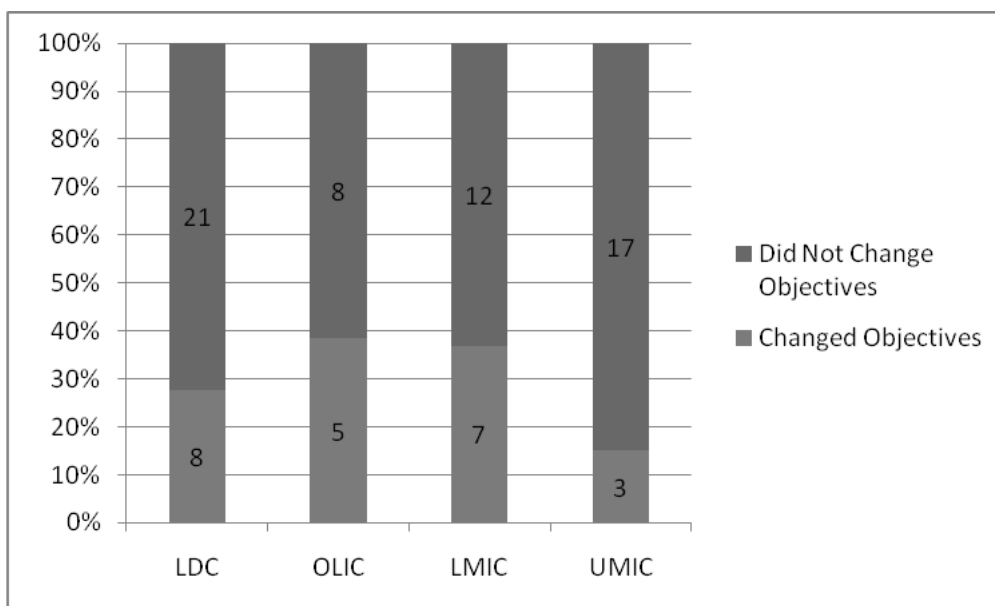
The WTO Task Force on Aid for Trade recommended the following objectives for the initiative:

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

4. Hallaert and Munro (2009) show that the four most common objectives of aid-for-trade projects (increasing trade, diversifying exports, maximising the linkages with the domestic economy, and increasing adjustment capacity) have the potential to boost growth and reduce poverty in developing countries. However, the potential of trade may not be realised as developing countries often face binding constraints that prevent them from turning trade opportunities into trade, and trade into growth.

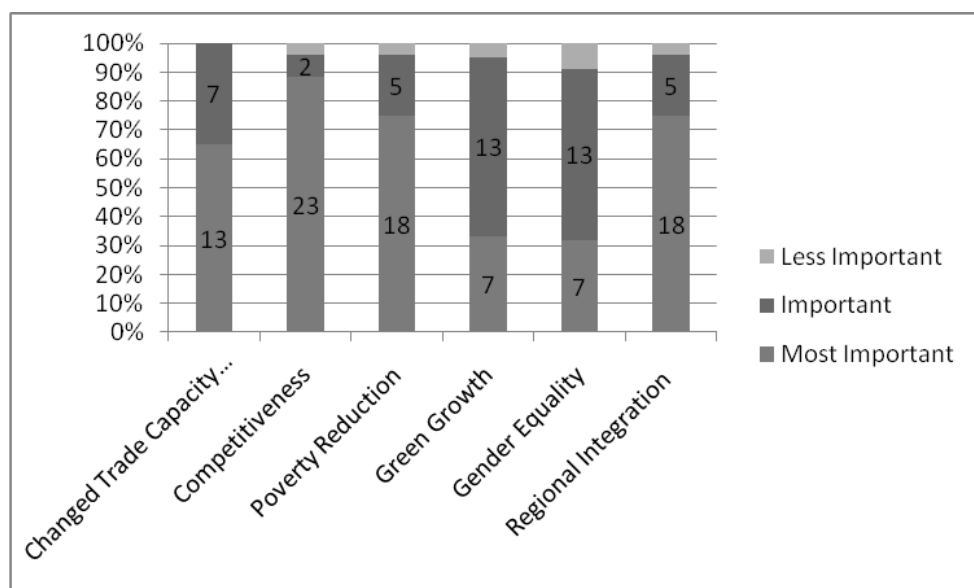
5. For the most part it might be expected that objectives should be relatively intransigent and less prone to change. Indeed, objectives in most partner countries did not change, with less than 30% of LDCs, fewer than 40% of OLICs and LMICs and about 15% of UMICs changing their objectives.

Figure 2. Did aid-for-trade objectives change?



6. Figure 3 looks at the changes made by partner countries. While all factors listed in the questionnaire are important, changes have been made primarily strengthening core issues. For instance Uganda’s key objectives focus on competitiveness, poverty reduction, and regional integration (because of their involvement in the East Africa Community common market). Botswana also highlighted the same three objectives, which were important, but they have since gained in importance due to “the turn of economic events in 2009/2010”. The Maldives is focusing on attracting FDI and engaging the private sector through Public-private partnerships. More emphasis is being given to competitiveness and diversification. Haiti retained its previous objectives but now also includes green growth and gender equality. Tonga’s objectives reflect its remoteness, smallness and the vulnerability of the economy to external shocks. The Solomon Islands does not have any coherent or articulated strategies, objectives or priorities which specifically refer to aid for trade. It is therefore difficult to assess to what extent the country’s aid for trade objectives and priorities have changed since 2008. It does however have broader development plans and objectives and for many partners this seems to be what is driving the change in aid for trade objectives. Generally the picture that emerges is that country specific factors led to changes in objectives.

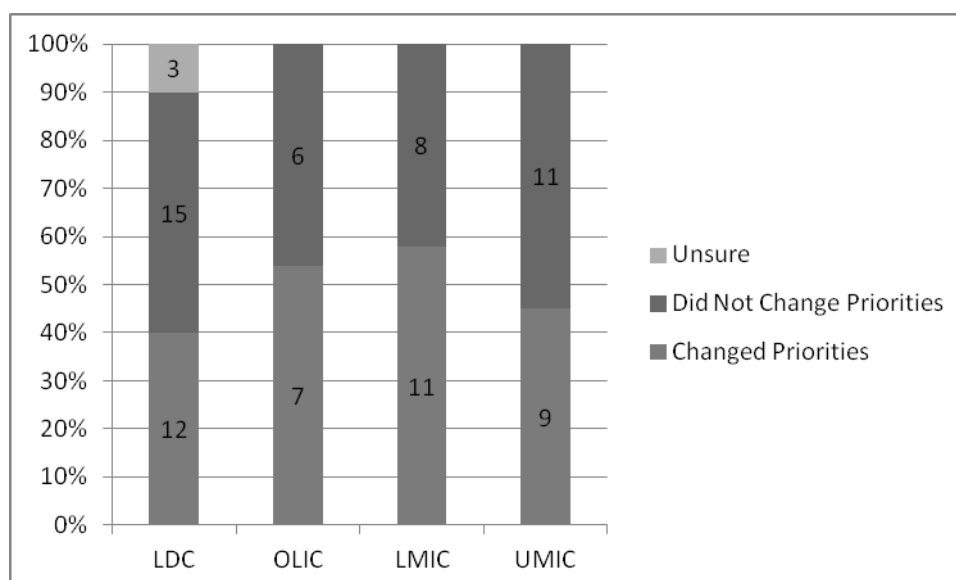
Figure 3. Changes in objectives



b) Partner Priorities

7. There is more of a change in partner priorities. 40% of LDCs have changed their priorities since 2008, for OLICs and LMICs this figure is around 55% and UMICs changed in 45% of respondents to the questionnaire.

Figure 4. Did partner country aid-for-trade objectives change?

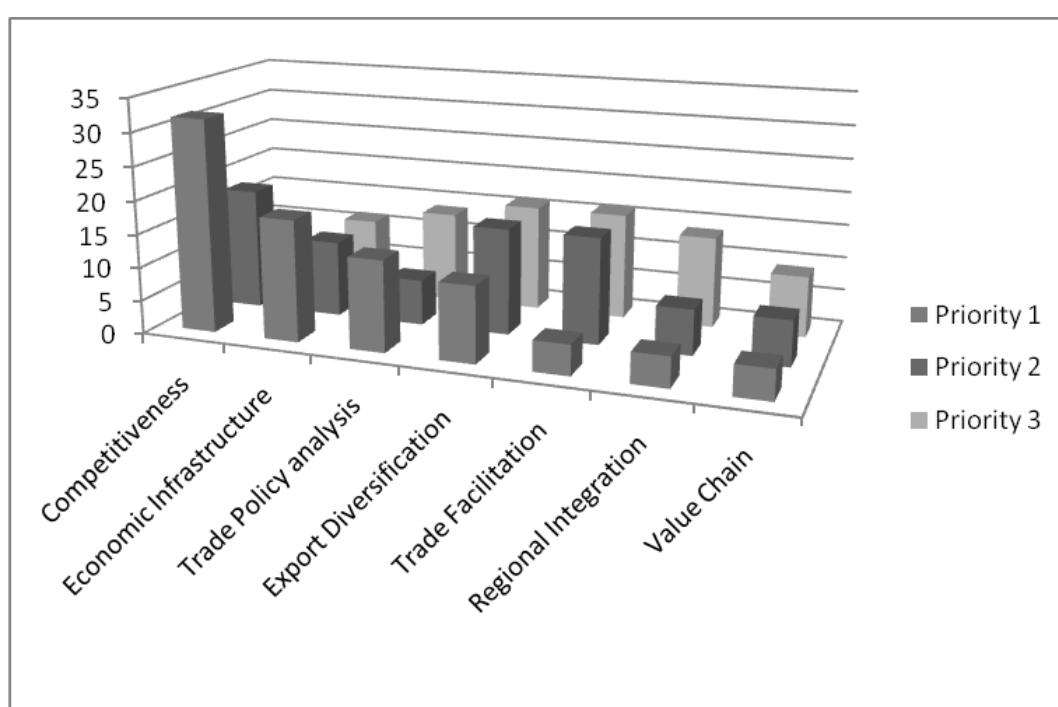


8. Partner countries identify similar aid-for-trade priorities to those identified in the last survey: competitiveness, economic infrastructure, export diversification and trade policy analysis, negotiation and implementation. However of those that changed their priorities, 30% made competitiveness their first priority. Competitiveness was the top priority across regions and income groups *e.g.* competitiveness is now the number 1 priority for 5 LDCs, 3 OLICs, 3 LMICs and 3 UMICs. While countries in four

continents prioritise it, competitiveness is particularly important in West Africa, Central America and the Caribbean. For LDCs, economic infrastructure is second followed by export diversification. For OLICs trade policy analysis, negotiation and implementation and trade facilitation are second and third. LMICs also place importance on trade policy as well as value chains. UMICs prioritise export diversification and economic infrastructure.

9. Overall 24 countries prioritise competitiveness, 19 prioritise export diversification and 18 economic infrastructure. As noted in the section on the economic crisis, these changes are perhaps related to using aid for trade to build resilience and diversify risk as well as strengthening the attractiveness of the economy. For example, Gambia prioritises export diversification to move away from traditional exports to harness opportunities in other sectors such as cashew, poultry, agro-processing and value addition.

Figure 5. New partner priorities by type



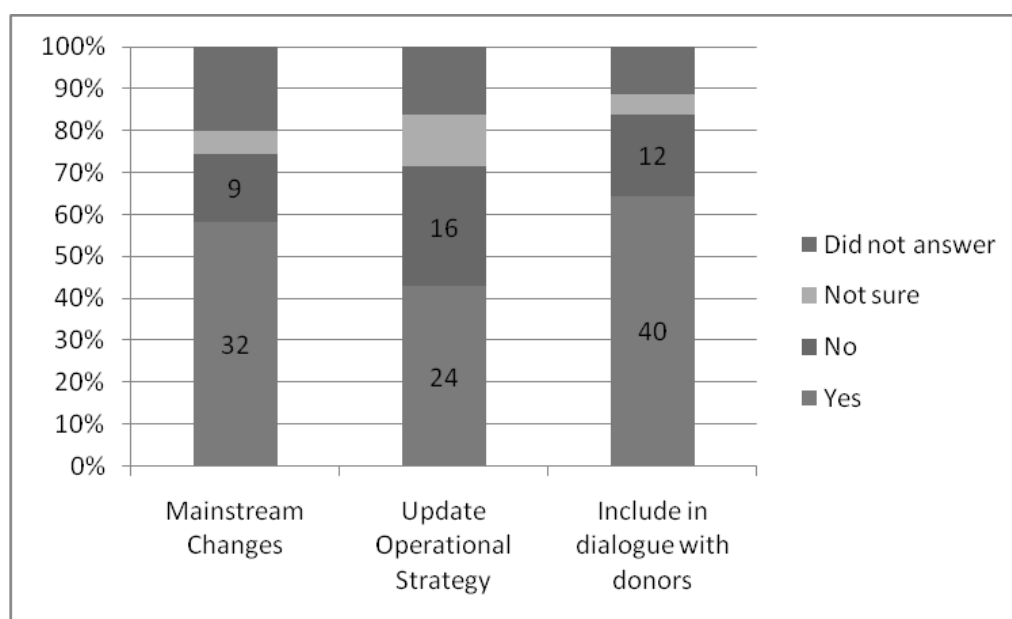
10. For some countries specific needs have arisen that have changed their priorities. For Mongolia aid-for-trade priorities remain largely unchanged, except for the fact that policy analysis and negotiations are prioritised due to the accelerated process of negotiating RTAs. Indonesia's first aid-for-trade priority is trade policy analysis; negotiations and implementation. This change was made in order to integrate environment laws passed in 2009. Also some priorities have changed due to the perception that these needs will receive funding. Kenya prioritises infrastructure because "OECD countries want to give aid [to] infrastructure". Fiji's suspension from the Pacific Islands Forum Secretariat (PIFS) and Commonwealth altered the trade *status-quo* in the region placing more emphasis on the need to venture into new markets particularly the Asian Markets through the Look North Policy initiative. The Ministry of Foreign Affairs and International Cooperation is currently working on the formulation of Fiji's first ever Trade Policy Framework to guide Fiji's trade and economic policies and to help achieve its national objectives, including meeting its Millennium Development Goals (MDG). The Trade Policy Framework will identify Fiji's trade and economic interests in goods and services in international markets, its objectives and strategies to be pursued over time as part of its overall sustainable economic development programme.

11. In Nigeria new development priorities have shifted government policies to quality of growth in terms of enhanced industrial productivity; value chain approach; greater employment intensity, effective link with wealth creation and poverty reduction. Trade Facilitation has been prioritised as the key to trade gains and has been brought to the centre-stage of Government Vision 20:2020 strategic planning process. Senegal mentions the importance of the food crisis in its new priorities on local competitiveness and sufficiency of food. While Ghana has changed its priorities because of the discovery and exploitation of oil and gas, Suriname identifies the need to be less dependent on the mineral sectors vulnerable to commodity price shocks. Their overall priority is to produce final products from domestic endowments.

Mainstreaming

12. In 2008 almost all partner countries (79 of 83) reported having national development strategies, and more than half (43) *fully* mainstream trade based on identified priorities and action plans. Another 32 partner countries *partly* mainstream trade – trade is mentioned in their national strategies, but these trade strategies lack operational objectives and action plans. Of the countries that changed objectives or priorities in the last two years, almost 60% mainstreamed these changes in development strategies. However just over 40% have updated their operational strategies. Over 60% though do include these changes in their discussions with donors.

Figure 6. Mainstreaming, operational strategies and dialogue for changes in priorities and objectives



13. Of the countries that have mainstreamed the changes into their broader development strategies, several give details. Gambia reports that its previous Poverty Reduction Strategy Paper (PRSP) did not mainstream trade priorities adequately however, the process has started as part of the discussion on its new development programme. In Sierra Leone changes have been incorporated into the President's National Agenda for Change. In Pakistan, the Strategic Trade Policy Framework and the Working Paper of the 10th Five Year Plan have been amended. Ghana has incorporated its new priorities into the medium term Shared Growth and Development Agenda. The Angolan government has adopted its revised trade priorities in its poverty reduction strategy.

14. Some countries do not as yet have specific aid-for-trade strategies, while others intend on mainstreaming changes when their development plans are revised. Swaziland is planning on conducting an

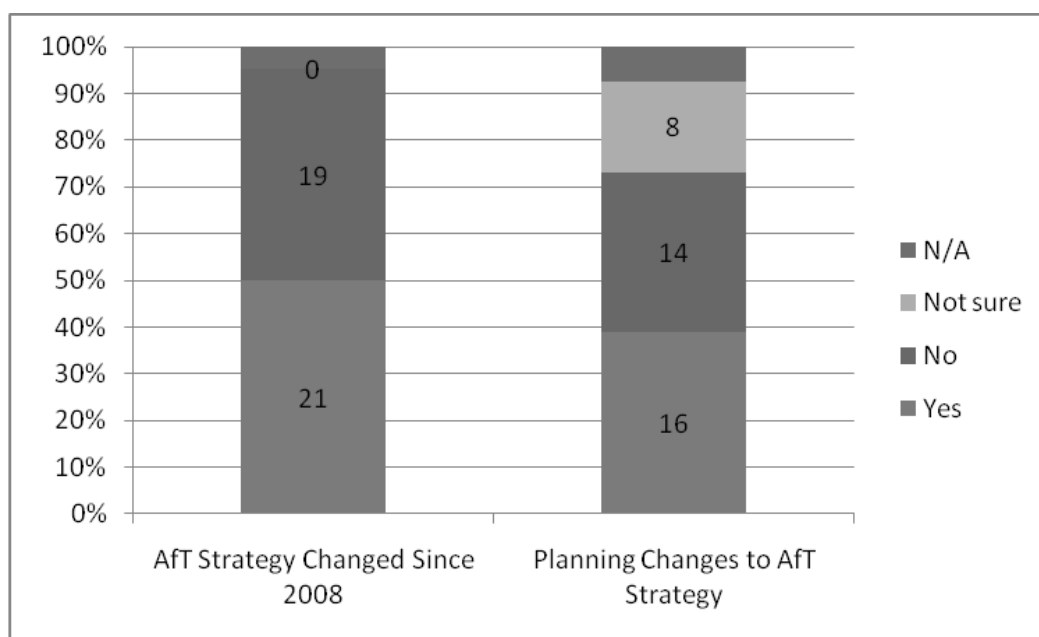
aid-for-trade needs assessment which will lead to an aid-for-trade strategy which will be incorporated into the country's development strategy. Suriname notes that implementation is already taking place but that the new priorities will be formally drafted in a forthcoming multi-annual development plan. Trinidad and Tobago's overall national development strategy, as well as the necessary operational strategies, are to be developed in the short to medium term. Botswana notes that most changes (*e.g.* economic diversification drive) are recent and while adopted by government they have not yet been included in the National Development Plan.

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

c) Donor Strategies

16. Donor strategies changed in half of those that responded to the donor questionnaire. Several large donors in volume terms such as United Kingdom, France and the World Bank changed their strategies while the EU, Japan and Germany did not revise their approach.

Figure 7. Past and future changes to donor aid-for-trade strategies



17. Both multilateral and bilateral donors agree on the three most important issues in aid for trade, those being economic growth, poverty reduction and regional integration. Multilateral donors attribute more importance to monitoring and evaluation results and less importance to a changing regional focus which makes sense given that many regional institutions have a specific geographical focus which is unlikely to change *e.g.* African Development Bank focus on Africa.

Figure 8. Importance of changes for bilateral donors

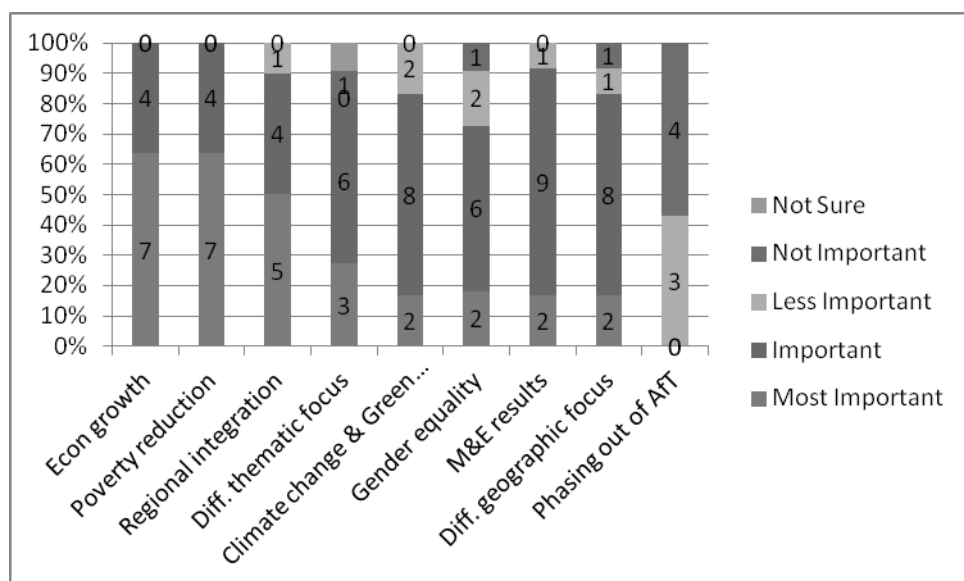
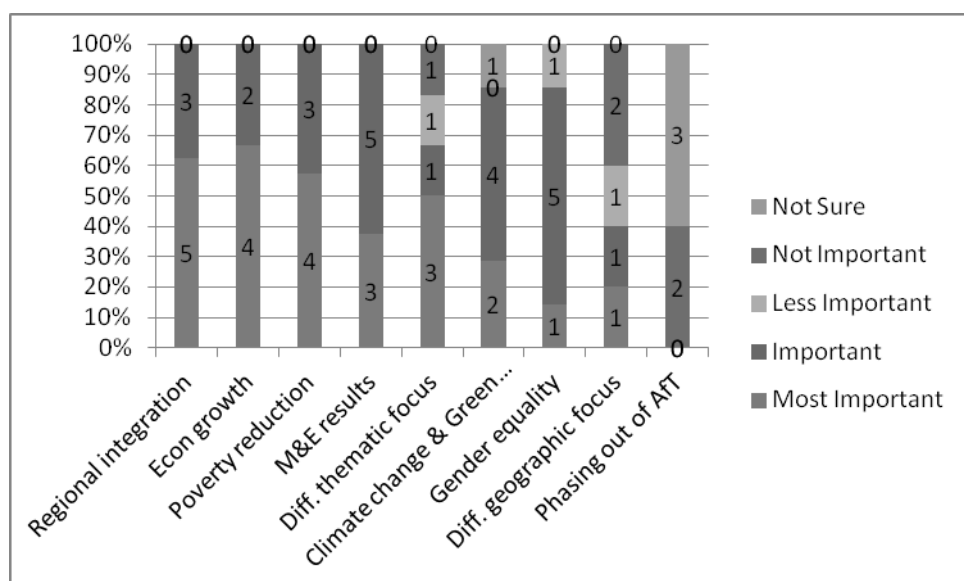


Figure 9. Importance of changes for multilateral donors



18. The Australian Government believes that economic growth remains the most powerful long term solution to poverty and that trade is a key driver of economic growth. Their continuing priorities for the 2008-10 period include: (i) support for economic infrastructure (particularly transport related); (ii) increased agricultural productivity and rural market development; (iii) trade reform; (iv) fisheries management; and (v) removal of barriers to private sector growth. There is greater effort being made on regional integration, especially in East Asia and the Pacific - the two main regions of focus for Australia's aid for trade. Finland's Aid for Trade Action Plan has remained unchanged since its launch in 2008. However, some new issues have emerged which were not identified in the Action Plan: geographical expansion of cooperation to Eastern Europe, Central Asia and South Caucasus on one hand, and to the Western Balkans on the other. In terms of overall funding allocations, the expansion has not been very

important. For the LDCs of sub-Saharan Africa, Korea's aid for trade is targeted toward building the foundation for production and trade capacity policies.

19. In 2010 the United Kingdom enhanced its approach to aid for trade with a stronger focus on driving results - both through programme planning and improving monitoring and evaluation techniques. The new Trade White Paper, published February 2011 sets out how the United Kingdom has refined its approach to aid for trade, seeking over the next few years to prioritise progress on: trade facilitation; capacity building - including a special focus on building capacity for negotiations; and improving country competitiveness, including through stronger engagement with the private sector. The United Kingdom has strengthened its support for regional integration, particularly across Africa but also in the Caribbean and new efforts in Asia. Other cross cutting foci include: - supporting initiatives that promote benefits for women traders and workers in export industries; building know how and support for linking aid for trade to support poverty reduction; and broader research to inform trade development and export policies and to improve aid for trade techniques. Italy has not set out an aid-for-trade strategy, thus it cannot measure any change since 2008. This is probably also the case with Portugal and Hungary which did not answer the question.

20. The new global trade environment, and the World Bank Group's (WBG) experience in delivering aid for trade assistance, led the WBG to focus its aid-for-trade priorities on increasing trade competitiveness and diversification; improving transport and logistics to facilitate trade; expanding market access and integration; and ensuring access to trade finance. The Inter-American Development Bank (IADB) has an increased emphasis on regional integration objectives. Thematic priorities include trade facilitation, trade and logistics, standards, and trade policy. Greater emphasis is being placed on monitoring and evaluating results.

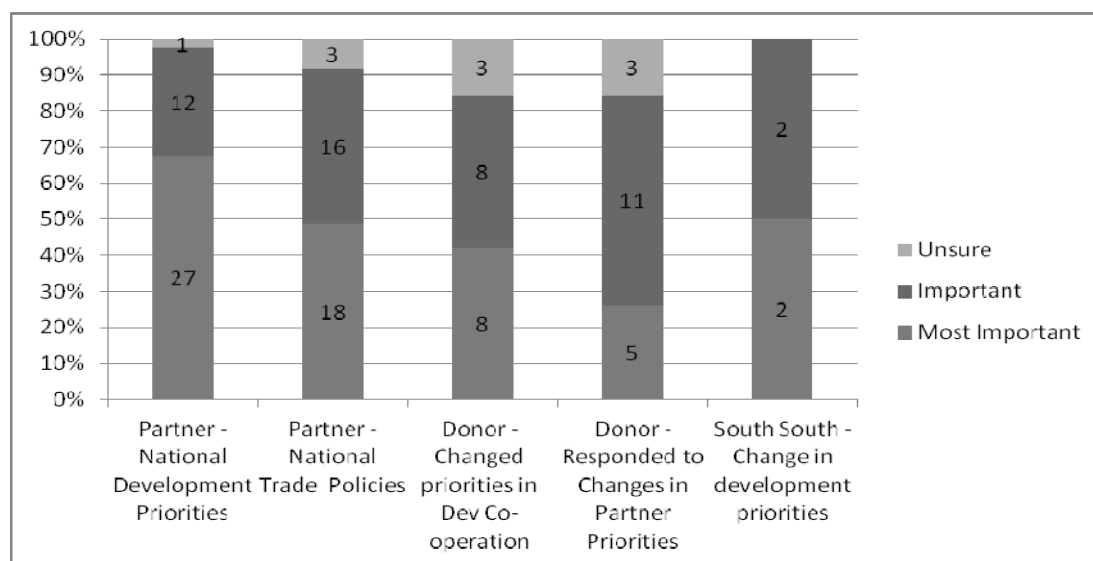
d) *South-South Co-operation Policies*

21. The trade-related cooperation policies of those countries engaging in South-South Co-operation changed in 4 of the 9 responders to the South-South Questionnaire. Policies changed in Ecuador, Mexico, Oman and Indonesia. However there were no reported changes for the major providers of South-South Co-operation including China, Chile, Brazil, Colombia and India. Of these all but Colombia responded to the previous questionnaire on South-South in 2008. The major driving forces of changes in South-South Co-operation policies appear to be changes in development priorities and new approaches, procedures and instruments. New policies are more focused on results, the regional dimension and green growth.

22. Oman is providing more infrastructure facilities such as ports and airports and also easing procedures by using information technology portals to ease trade flows. Brazil ranks the most important feature of its planned changes in strategy as climate change and green growth. A major part of its support will be in biofuels and agriculture particularly in Africa. India is also planning a revision of its activities with a greater focus on results and a particular regional dimension. It intends to "intensify aid for trade assistance".

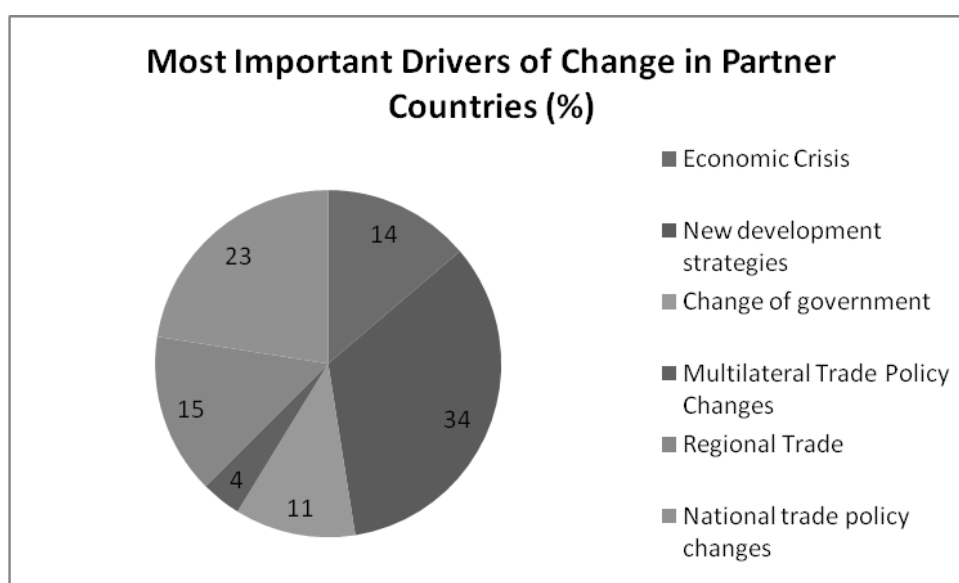
e) *What were the drivers of change?*

23. In terms of the drivers of change, it seems that these were mostly driven by domestic considerations. Where there were changes in government, this had an impact. The main drivers seem to be those affecting broader changes in development priorities and strategies and this is the case across different stakeholders (see Figure 10). In the case of partner countries, changes in development and trade policies were identified as the most important driver of changes in priorities. Donors also changed their strategies based on the changing priorities of partner countries. South-South partners which changed their policies mostly did so because of changes in their development priorities.

Figure 10. What are the drivers of change?

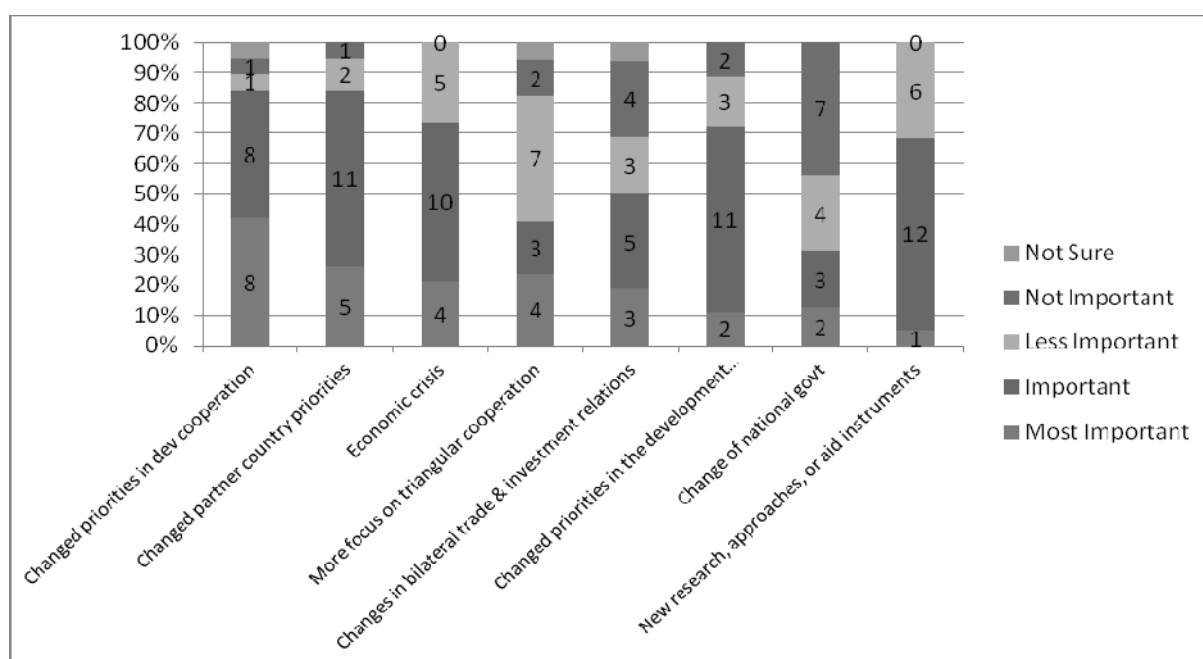
Partner Countries

24. *Just over a third of partner countries that changed their priorities identify new development strategies as the most important driver of change.* Burkina Faso has launched the accelerated growth and development strategy which prioritises external trade promotion and private sector development. Tonga is in the process of formulating a National Export Strategy, National Private Sector Development Strategies and Labour Export Strategies. Guatemala is updating its foreign trade policy and striving to enhance the competitiveness of the external sector. Regional Trade Agreements and Economic Partnership Agreements have also led some countries to shift their priorities. Swaziland's priorities changed due to recent engagement in trade in services within COMESA and the EPAs. Kenya's aid-for-trade objectives changed due to the need to align to objectives set in the new Kenyan constitution.

Figure 11. Drivers of change according to partner countries

25. The next most important factor was changes in national trade policies and some countries changed their priorities because of new trade strategies. Nepal recently launched its Trade Integration Strategy with priorities to strengthen trade negotiations (especially bilateral), the domestic technical capacity to deal with Non Tariff Barriers (NTB), the export capacity of inclusive export potential goods and services, and the Government's capacity to co-ordinate and manage Trade Related Technical Assistance (TRTA) and Aid for Trade to implement the strategy. Diagnostic Trade Integration studies (DTIS) and action matrices also led to a change of priorities in Comoros. Regional Trade was third most important and identified by 15% of respondents. Multilateral trade was a lot less important likely because of the lack of progress made in the Doha Round negotiations. The economic crisis was most important for 14%; this is less than the corresponding number for donors. A change of government shaped priorities in El Salvador, Gabon, Ghana, Guatemala, Tonga and Suriname.

Figure 12. Drivers of change according to Donors



Donor and South-South providers

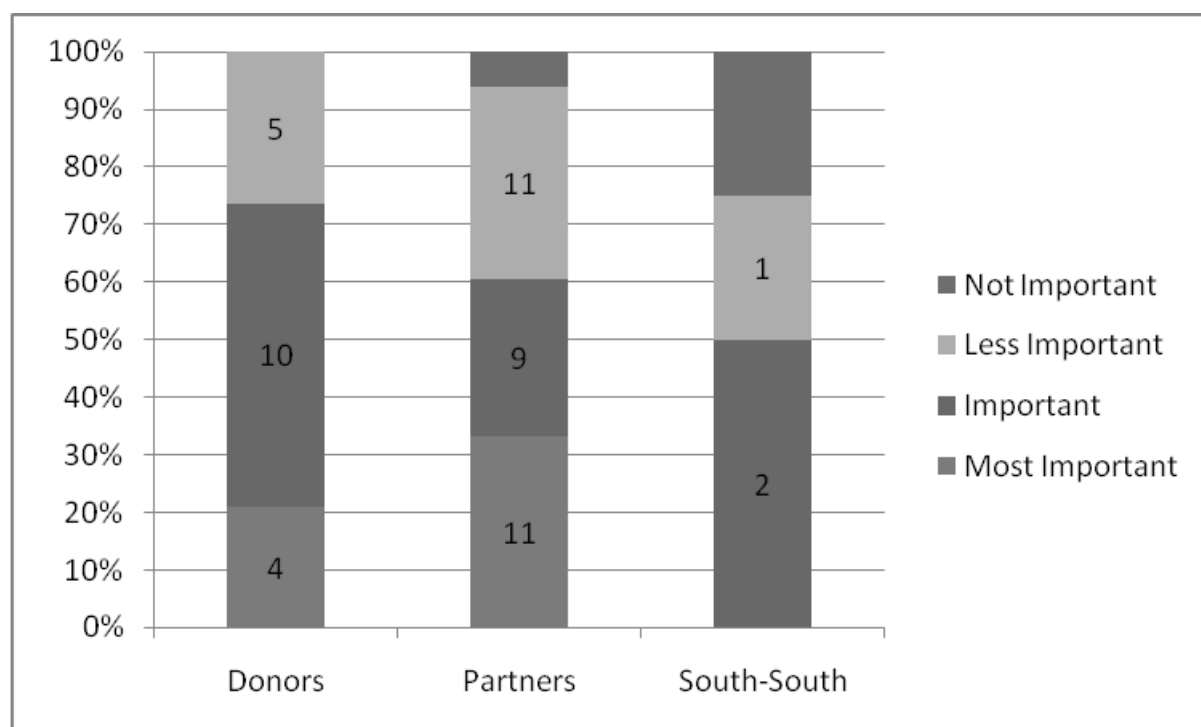
26. In terms of the drivers of change that donors identify, as mentioned above changed partner country priorities and changed development cooperation priorities are the most important factors. The economic crisis also played a role. Change of national government only affected a few donor countries but where it happened it was important. New research and approaches were also considered important but only one donor considered these the most important. Triangular co-operation still has limited influence on aid-for-trade strategies. The next section looks at the economic crisis and emerging issues in the aid-for-trade discussion; environment and gender.

The Economic Crisis

27. The figure below shows the sharply contrasting ways in which the crisis has been perceived and the differential impact it has had on different countries, whether they are donors or partners. While for over 30% of partner countries it was one of the most important factors that led to changes in their priorities, for 40% it was either less important or not important. Similarly for donors, over 20% saw it as the most important factor in their change in strategy while for over 25% it was less important. For South-South

partners it was important in only half of those that changed their policies. As the previous section has pointed out, changes in objectives and strategies tend to be mostly driven by national characteristics. Yet the crisis does seem to have strengthened the focus of partner countries on competitiveness, export diversification, and strengthening their resilience to economic shocks. For many donors, their focus is increasingly on demonstrating results.

Figure 13. How important was the economic crisis in changes to Aid for Trade?



28. While for many partner countries the objectives and priorities of aid for trade did not change, the economic crisis affected them and as Grenada points out, it highlighted the importance of the objectives and the urgency in addressing priorities. The economic crisis reduced the spending power of citizens, further reducing the revenues from exports and economic activities. Sierra Leone states that the economic crisis has affected the sourcing of funds to address priorities and objectives. According to Canada, in the wake of the economic crisis, and the growing importance of trade and investment promotion in addressing recovery, aid for trade is figuring prominently amongst developing countries as means of supporting economic growth. Countries are investing more in building economic infrastructure, productive capacity, and export-led development, changes that will increase the demand for aid for trade. Germany also notes an increase in demand for aid for trade in the context of the economic crisis, especially for trade financing and competitiveness/productivity of the private sector. New Zealand indicates that the economic crisis has exacerbated existing economic and fiscal challenges in Pacific island countries, prompting renewed efforts to strengthen economies and reduce vulnerabilities. These seem to provide a strong rationale for the prioritisation of competitiveness and export diversification in partner country plans. So the crisis, while not explicitly identified as a key causal factor, does seem to have implicitly shaped the agenda.

29. Many donors indicate that future budget cuts in development assistance are likely but are continuing to prioritise aid for trade. For the United Kingdom, the economic crisis and wider contextual issues such as meeting aid targets have driven a stronger focus on ensuring that aid for trade is effective and efficient as possible - both through programme planning and improving monitoring and evaluation techniques. Many other donors highlight the greater emphasis on monitoring and evaluating results. Due to

the economic crisis and new budgetary cuts, the Netherlands is reconsidering its spending plans. The outcome is not clear but “aid for trade remains a priority, to the extent that it will not be hit hard by expenditure cuts”. In spite of budget pressures, the Australian Government remains committed to increasing Australia's ODA to 0.5% of GNI by 2015-16 and to supporting developing countries to achieve the Millennium Development Goals (MDGs). As is the case for many donors, Australia's aid-for-trade efforts help achieve this, particularly for MDG 1 (poverty eradication) and MDG 8 (rules based predictable non-discriminatory trading and financial system).

Environment/Green Growth

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

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

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

33. New Zealand is seeking to mainstream climate change issues throughout its Aid Programme. They are working to ensure that infrastructure projects - including trade-related infrastructure - are climate-proofed. This is particularly important as many of their Pacific partners, the key region for their work, are highly vulnerable to the environmental impacts of climate change. In supporting sustainable economic development, New Zealand is increasingly focusing on specific sectors; agriculture, fisheries, and tourism, productive sectors that are key to its partners future growth prospects, and infrastructure and energy. A climate lens is important for aid for trade because there is a risk of maladaptation where decisions made increase vulnerability to climate change or overlook opportunities for adaptation (OECD, 2009). Chinese Taipei is focusing on climate change and environmentally sustainable development as well as growth and poverty reduction. Among IADB's cross-sectoral priorities are environment/climate change and green growth. This issue will be mainstreamed into the IADB's Aid for Trade Strategy and Agenda. Singapore

aims to provide more technical assistance programmes in climate change. Germany plans to elaborate further on the relations between aid for trade and green growth.

34. Green Growth also holds potential for innovative financing and use of Public private partnerships (PPP). Korea provides an example of a "Project for the Creation of a Green Village and Provision of Water Utilizing Renewable Energy in Kazakhstan (2 years/USD 150 million)", which will provide a wind and solar power producing system and clean water in the region. A Korean energy company promotes and conducts the project with the Korean Development Agency and is sharing its technical knowledge to enhance the impact. The Austrian Development Cooperation Agency has recently signed Memoranda of Understanding (MoU) with SADC and ECOWAS, which include cooperation in trade related infrastructure and more specifically in renewable energy. In this context, ADC has joined the "Energy and Environment Partnership with Southern and Eastern Africa (EEP)". The EEP is open to both public and private sector and is implemented via calls for proposals. It promotes institutional support and knowledge management, project and business development assistance for renewable energy and national or regional pilot and demonstration projects. Finland is also undertaking an energy and environment partnership, though this is not exclusively aid for trade.

35. Most of the prioritisation of green growth seems to be in donor agencies rather than developing countries. Yet there are some partners that are expressing interest in this agenda and the potential of aid for trade to build capacities in the development of alternative energy, agriculture and expansion of tourism. Trinidad and Tobago expresses an interest in sustainable development. Paraguay also considers this an important issue. Maldives highlights a potential risk that climate change and green growth may become donor priorities not widely shared by partners. Green growth can not be a donor driven agenda. Nevertheless for a country like Maldives, donors are willing to support areas such climate change and good governance and these areas are given prominence over trade.

36. United Nations Environment Programme (UNEP) provides an example of green growth and trade promotion through the East African Organic Products Standard which was adopted in 2007 by the East African Community as the single, official standard for organic agriculture production in the region. The standard is a key output of the joint UNEP and the United Nations Conference for Trade and Development (UNCTAD) "Capacity Building Task Force on Trade, Environment and Development" (UNEP-UNCTAD CBTF) initiative. The standard was the result of a multi-stakeholder process involving intensive consultations and participation by national governments, the private sector, non-governmental organizations, and international institutions. Although authoritative evaluations are still outstanding, the standard has been pivotal in promoting organic agriculture production in the East African region and has influenced the development of other regional standards.

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

Gender Equality

One of the guiding principles of aid for trade, as set out in the Recommendations of the WTO Task Force on Aid for Trade was that it should be "rendered in a coherent manner taking full account, *inter alia*,

of the gender perspective and of the overall goal of sustainable development” (WTO, 2006). The impact of trade expansion on the distribution of income and employment differs between women and men. Women are more vulnerable to chronic poverty because of gender differences in the distribution of income and lack of access to productive assets such as land and credit. Furthermore, within households, men may constrain women’s employment and control the income they earn. Inequalities between women and men in accessing opportunities, or “resources, rights and voice”, are thus closely linked to women’s empowerment, as well as to children’s well-being (Morrison *et al.*, 2007).

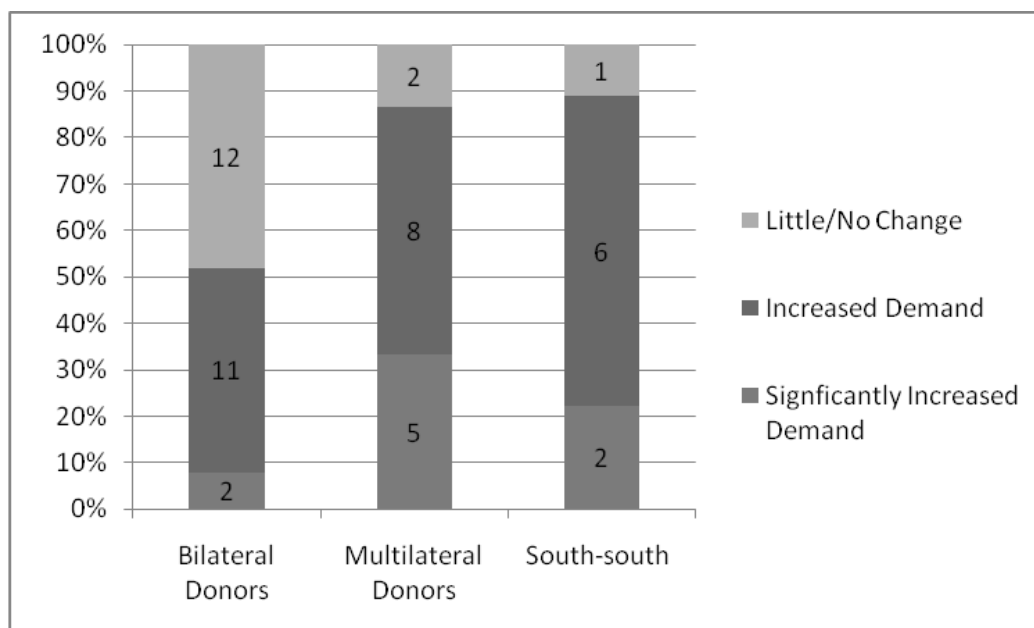
While it is clear that trade has very different impacts on women and men due to such gender relations, in practice the impacts of trade are felt by all individuals as fluctuations in prices (and hence the availability of goods) and changes in output (what is produced, how, and under what conditions).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

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

f) Demand for aid for trade has increased

39. Donors and South-South providers perceive an increase in demand for aid for trade and regional trade-related programmes. 60% of donors indicate that demand has increased or significantly increased. Of the seven donors that experienced significant increases, five were multilateral donors (IADB, AsDB, UNECA, UNCTAD and ITC) and two were bilateral (Australia and Finland). Just over half of bilateral donors have received increased demand whereas over 85% of multilateral donors have increased demand with over 30% having a significant increase. South-South partners mostly point to increasing demand with Brazil and China indicating a significant increases in demand.

Figure 14. Has demand for Aid for Trade increased?



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

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

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

development as well as quality infrastructure development for SPS/TBT compliance are the two main areas of growth for UNIDO.

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

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

Demand for Regional Integration Programmes

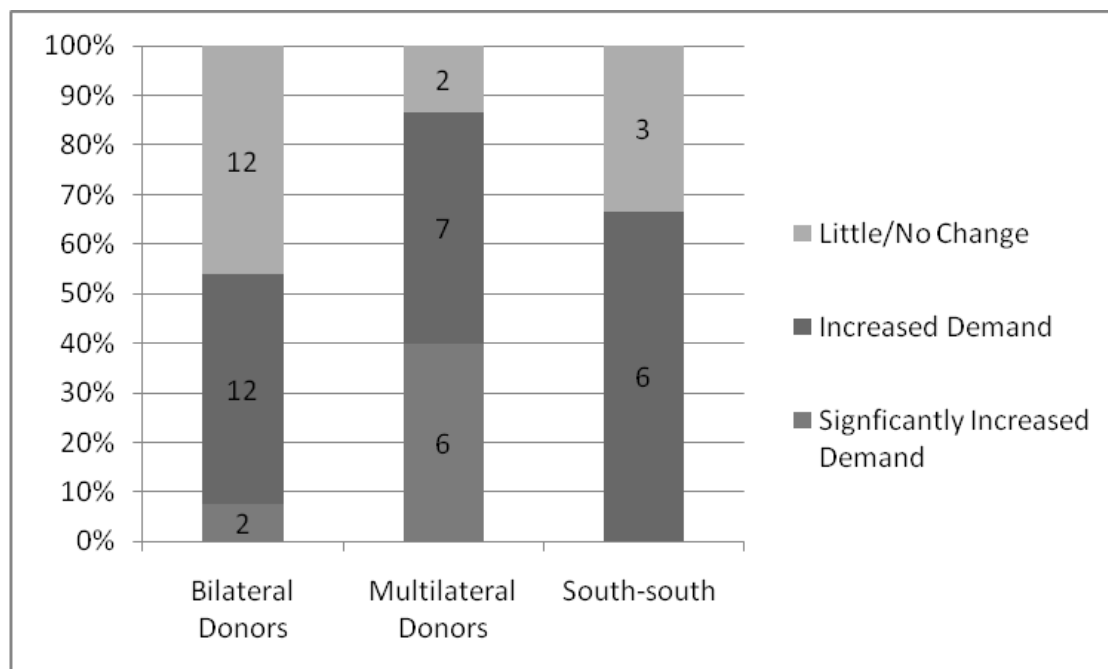
45. Similar trends emerge in demand for regional integration programmes and regional trade-related assistance. Over half of the bilateral donors indicate an increase in demand with Australia and Belgium experiencing significant increase. Belgium highlights the increase in demand is especially clear at the regional level, where partner countries with little prior experience of negotiating at this level have requested support for negotiation and implementation capacity. Australia has seen an overall increase in demand for regional integration processes, particularly by countries in the ASEAN, Mekong and Pacific regions.

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

47. Japan has emphasised approaches to promote regional dimension and there has been a “remarkable increase in demand for Japan’s aid for trade from African countries and Mekong region countries” in for example, regional infrastructure development, promotion of trade and investment, development of customs clearance. Sweden has increases from several regions but notably from Africa for trade capacity building, trade facilitation and areas related to quality infrastructure. The United Kingdom has scaled up their support for African regional integration with the development of the United Kingdom’s African Free Trade initiative – “which encompasses political support, investment and technical assistance in support of African ambition in this area”. In terms of aid for trade this involves the development of a flexible programme to support West African regional integration efforts and flagship Trademark programmes in southern and eastern Africa focused on support at the country and Regional Economic Community level. Significant investments are being made to reduce transit times of goods and people across three African trade corridors by investing in trade facilitation initiatives such as one stop border

posts". Finland cautions that the demand has increased for regional cooperation but not really for regional integration.

Figure 15. Demand for regional integration / trade-related assistance



48. Among multilateral donors, six have noted significantly increased demand for regional programmes; African Development Fund, ITC, UNECA, UNIDO, IADB and the World Bank. Demand has increased from regional bodies in Africa and Middle East and North Africa for trade facilitation and infrastructure projects according to the World Bank. The EU gives specific support to regional integration for the African Caribbean and Pacific (ACP) countries.¹ The level of demand is similar to the situation in 2008. Out of 89 EU delegations in the world (also non ACP), 62 report that they have supported the partner country in strengthening the inclusion of strategic regional integration priorities (relevant to aid for trade) in the national development plan, or the trade strategy. 57 out of 89 report that this is an improvement as compared to 2008. This would seem to suggest an increase in demand for this type of support. This priority also emerged from partner countries in this survey with many countries including a stronger focus on regional integration.

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

g) What is the outlook for aid for trade?

50. Looking ahead to 2013, more than half of the reporting donors (16) are planning to revise their aid-for-trade strategies. Many others may change and adopt a new focus or priorities but this is contingent

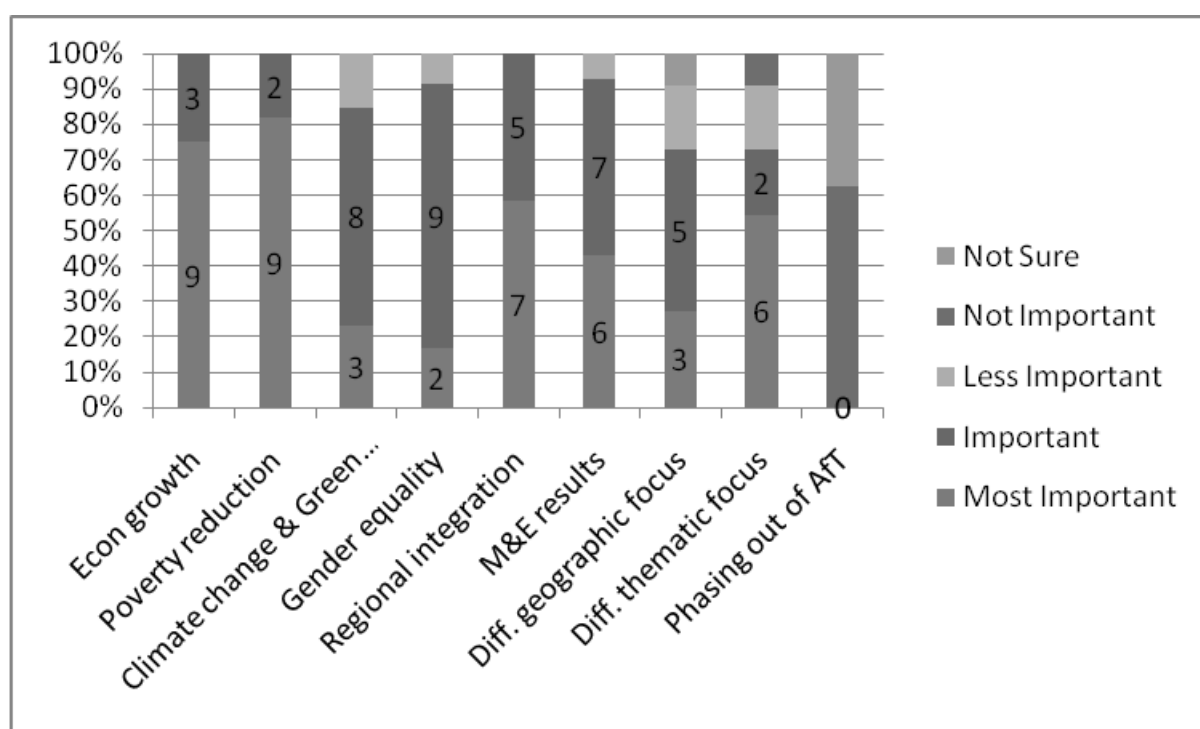
¹ The allocation for the period 2008 to 2013 is € 1.783 billion, of which around 70 % is for economic integration.

on changes in trade and development plans, future evaluation findings and potential new focus or priorities. 14 do not plan to change their approaches but have just set up a specific strategy *e.g.* the United Kingdom's broad direction and priorities have been driven since 2010 and expect to remain in force over the next four years. Recent changes instituted by the IADB, including new priorities will be implemented through 2015.

Changed Focus of Aid-for-trade Strategies

51. Of those that are planning changes, the specific focus of new plans were articulated. As with partner priorities and donor strategies, three major factors stand out. Figure 16 gives details of the issues which are receiving increasing focus. The rating for many responses including Germany's refers rather to the importance of the issues in absolute terms than to the significance of the change. Economic growth, poverty reduction and regional integration are most important. No donor is planning to phase out aid for trade. Monitoring and evaluation is most important for Germany, Australia as well as multilaterals World Bank, WTO, African Development Fund and the IADB.

Figure 16. Importance of each of the following changes your government is planning



52. The United States has a new strategy for development. The approach to global development addresses the new strategic context faced by the United States through three pillars: 1) A policy focused on sustainable development outcomes that places a premium on broad based economic growth, democratic governance, innovations, and sustainable systems for meeting basic human needs; 2) A new operational model that positions the United States to be a more effective partner and to leverage its leadership; and 3) a modern architecture that elevates development and harnesses development capabilities spread across government in support of comment objectives - including a deliberate effort to leverage the engagement of, and collaboration with, other donors, foundations, the private sector and NGOs - not just at the project level, but systemically.

53. Germany's internal procedures and steering instruments will be adapted with the aim of integrating aid for trade more systematically in planning, designing, implementing, evaluating and steering

German sector strategies, programmes and projects. Based on past experience and also on thematic and regional strengths, German development cooperation will put special emphasis on the following aid for trade intervention areas: a significant share of total aid for trade will continuously be implemented in the Federal Ministry for Co-operation and Development (BMZ) priority areas sustainable economic development (in particular private sector development and financial services) and agriculture (including value chains and food security). Other increasingly relevant areas are quality infrastructure, trade facilitation and cooperation with the German private sector. In all areas of cooperation capacity development is decisive and will be focused on.

54. Netherlands priorities in the next few years include food security and water management. The Swedish government's overall development priority of poverty reduction will be clearer in the new Aid-for-Trade strategy. Sweden's thematic focus is virtually unchanged since 2008 but is now more detailed and widened to include social issues. UNDP will further emphasise the contribution of trade to poverty reduction and gender equality within the context of efforts to accelerate progress to achieve the MDGs. Singapore In 2011-2013, plans to maintain and refine their aid-for-trade strategy in response to changes in the global economic environment and the needs of partner economies, within their overall capacity to contribute.

55. There is increased focus through UNDP regional programmes, particularly in Africa and Eastern Europe/CIS in supporting Aid for Trade strategies. Renewed engagement by UNDP in the context of the Enhanced IF - which became fully operational in July 2009 - is expected, especially in Africa and the Asia Pacific regions. For Germany regional (economic) integration will be focused on more strongly. Not only will Germany increase support to regional integration commissions and secretariats, focusing on institution building and organisational management but will also highlight more explicitly the regional dimension of productive sector development, which offers further potential for inclusive growth and poverty reduction.

Evaluation Findings

56. Many donors will amend their approaches and priorities based on evaluations being planned or currently undertaken (See Chapter 4 for a discussion of current donor approaches to evaluation). Australia's aid programme is currently being reviewed in terms of its effectiveness and efficiency. It is expected that the review will make recommendations on how to improve the structure, policy and delivery of Australian aid. It is unclear at this stage as to what extent aid for trade will be part of the review's analysis and recommendations. The precise nature of how the United Kingdom will implement its priorities will not be available until approval processes are completed in March 2011. Adjustments will be made in the coming years based on ongoing monitoring, evaluation, research findings, the outcome of pilot initiatives and dialogue with key partners. Norway's current aid-for-trade strategy will be evaluated in 2011 and this might lead to thematic changes. Finland's Aid for Trade Action Plan (as well as its entire Development Policy) will be renewed due to a transition resulting from elections in April 2011 and a new government. The new priorities will build upon the results of the upcoming aid-for-trade evaluation, experiences and political priorities. Specificities are not yet known. UNDP's evaluation policy is also being reinforced and will have an impact on UNDP programmes.²

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

Forthcoming review of development policies

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

New Commitments to Aid for Trade

58. The G20 commitment on aid for trade is also having an effect in bolstering support. The commitment made as part of the Multi-Year Action Plan on Development in Seoul noted the G20's commitment to at least maintain, beyond 2011, Aid for Trade levels that reflect the average of the last three years (2006 to 2008). The G20 also resolved to strengthen the role of South-South trade co-operation and to reinforce the involvement of the private sector in these measures. In parallel with the implementation of these commitments, the G20 ensured that aid flows to other sectors are sustained (2011 and beyond). Japan launched the Development Initiative for Trade in 2009. The Initiative consists of improving aid for trade implementation and meeting the commitments of the G20 London Summit in April 2009 in the area of trade finance. The higher target demonstrates "Japan's stronger commitment... to aid for trade". Germany also confirms its financial commitment to aid for trade. The United Kingdom has committed to spending at least EUR672 million annually as part of their G-20 commitment on aid for trade and expect to exceed this by at least EUR100 million per year.

Outlook for ODA

59. There has been much discussion recently about the future of ODA. The Development Assistance Committee has a new focus on aid and beyond. Aid for trade has demonstrated the key role that aid can play in stimulating dialogue, formulating plans and strategies and using resources to address capacity and supply-side constraints which enable trade to be better used as a development tool. The aid-for-trade experience will be brought to discussions on Aid Effectiveness which will take place at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea in November.

60. The short term outlook for ODA flows is relatively modest. Global recovery has been sluggish, and many strong supporters have budget deficits. Emerging economies have strengthened and their share of global GDP has increased. Sharp differences have arisen over currency and trade, yet tensions have not yet escalated. Some donors have sovereign debt issues and many larger economies such as US, Japan and the United Kingdom have public debt and deficit problems which have become major political issues. Against this backdrop there are certainly risks for maintaining aid-for-trade flows. All stakeholders must continue to make the case for aid for trade and more evidence must be generated as to its effectiveness.

h) Conclusions

61. This chapter highlights several positive developments in aid for trade. New aid-for-trade objectives are connecting the Initiative to the broader development agenda and aid for trade is playing a

Improvements in the use of evaluation are expected to have a positive impact on the quality of UNDP's trade-related programmes.

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

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

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