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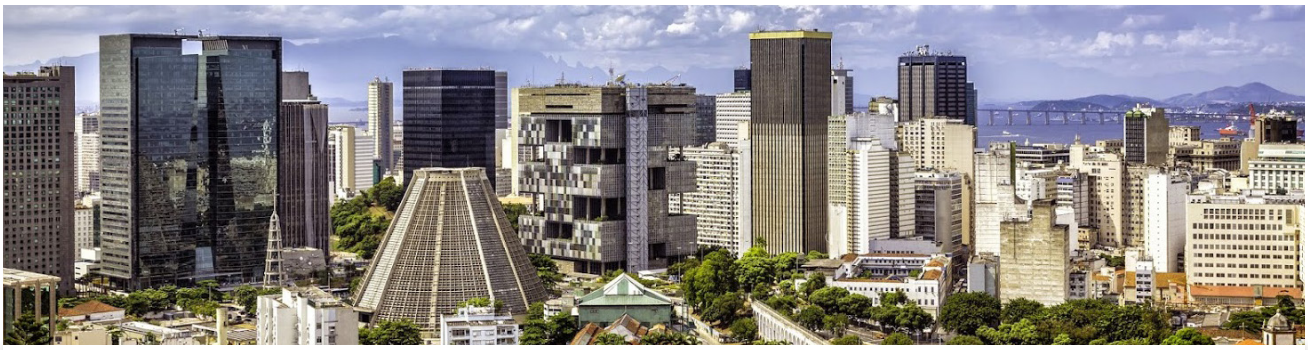

# Aid for Trade 10 Years On – What's Next?

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E15 Expert Group on
Trade, Finance, and Development

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# ABSTRACT

This paper assesses the achievements and challenges of the World Trade Organization- (WTO) led Aid for Trade Initiative. After listing the achievements, the paper asks what the emphasis of the Initiative should be; how to expand the partnership, enhance the effectiveness and, most importantly, how to retain donor interest for building trade capacities in developing countries. Next it considers whether different aid modalities might improve results. In conclusion, the paper suggests that the best aid for trade and development results are obtained in countries that focus on making trade an effective instrument for economic growth and poverty reduction through programmes which take a regional approach to tackling trade-related binding constraints while using finance from a combination of different donors, including providers of South-South cooperation and with engagement of the private sector.

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# LIST OF ABBREVIATIONS

| | |
|---|---|
| AIIB | Asian Infrastructure Investment Bank |
| COP21 | Conference of the Parties to the UN Framework Convention on Climate Change |
| DAC | Development Assistance Committee |
| EIAs | environmental impact assessments |
| ETI | Enabling Trade Index |
| G-20 | Group of Twenty |
| GDP | gross domestic product |
| ICT | information and communications technology |
| LDCs | least developed countries |
| LMICs | low and middle-income countries |
| MCC | Millennium Challenge Corporation |
| ODA | official development assistance |
| ODI | Overseas Development Institute |
| OECD | Organisation for Economic Co-operation and Development |
| OOF | other official flows |
| SDGs | sustainable development goals |
| UMIC | upper middle-income county |
| US | United States |
| WEF | World Economic Forum |
| WTO | World Trade Organization |

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# INTRODUCTION

## WHY AID FOR TRADE?

Successive rounds of multilateral trade liberalisation, preferential market access arrangements, regional free trade agreements, and expanding South-South trade have created many more trading opportunities for developing countries. Yet supply-side capacity limitations and trade-related infrastructure constraints still prevent some developing countries from converting these new opportunities into actual trade flows. Moreover, superfluous and restrictive regulatory requirements increase the cost of doing business for firms and raise the price of products and services for consumers. In a global economy characterised by fragmented production chains, these inefficient policies create high trade costs that exclude local firms from international markets, limiting their potential contribution to trade expansion, economic growth, and poverty reduction.

The Aid for Trade Initiative was launched at the 2005 Hong Kong World Trade Organization (WTO) Ministerial Conference to tackle these trade-related binding constraints. The stated objective of the Initiative is to "help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to implement and benefit from WTO Agreements and more broadly to expand their trade." Furthermore, "effective aid for trade should enhance growth prospects, reduce poverty, complement multilateral trade reforms, and distribute the global benefits of trade more equitably across and within developing countries" (WTO 2006).

## WHY MONITOR?

The WTO in collaboration with the Organisation for Economic Co-operation and Development (OECD) has created a monitoring framework to track progress in implementing the Aid for Trade Initiative to enhance its credibility and create incentives for more and better aid for trade. The monitoring is based on self-assessment, complemented by independent evaluation findings, and academic research. As a tool, it is best characterised as a spotlight, not a microscope—it provides general impressions and allows progress to be assessed at a global level.

The monitoring framework features two accountability mechanisms with the following objectives.

1. At the local level, to foster genuine local ownership and ensure that trade needs are integrated into national development strategies and adequately addressed by the donor community;

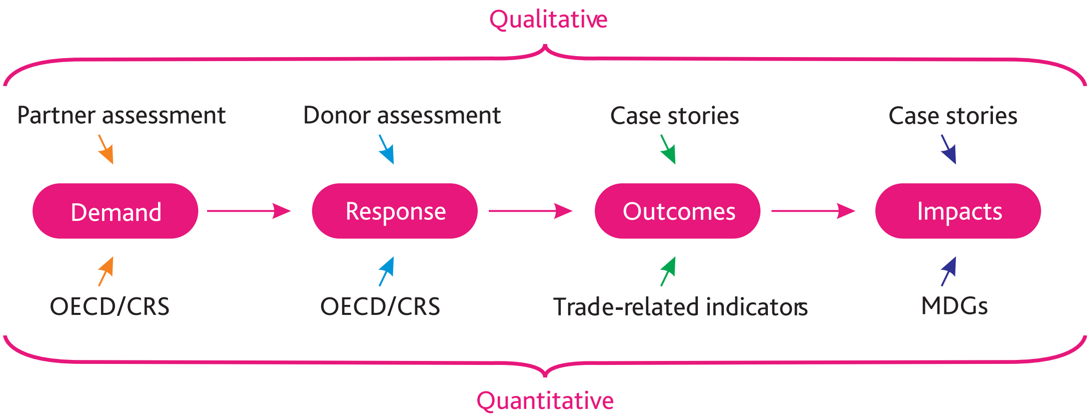
2. At the global level, to increase transparency about what is happening at the local level, what is not, and where improvements are needed.

## WHAT HAS CHANGED?

Since the operationalisation of the Aid for Trade Initiative in 2006, much has changed in the trade and development landscape. The focus of analysis has shifted from countries to firms and value chains; from industries to tasks and business functions; from stocks to flows; and from public to private trade barriers. The development paradigm is also witnessing a significant change with the new sustainable development goals (SDGs) encouraging the transformation of natural

FIGURE 1:

Aid for Trade Logical Framework



resource-dependent growth patterns into more inclusive and sustainable ones. The Conference of the Parties to the UN Framework Convention on Climate Change (COP21), which meets at the end of the year in Paris, aims to agree on putting the world on track to a low-carbon, sustainable future. The Tenth WTO Ministerial Conference in Kenya in December should provide a major indication on how trade can contribute to these agendas and how aid for trade can help to make it happen.

### STRUCTURE OF THE PAPER

The remainder of this paper is structured as follows. Section 2 looks at the achievements of the Aid for Trade Initiative in terms of additional financing for alleviating trade-related binding constraints and the results of these programmes in improving trade performance and reducing poverty. Section 3 summarises the main proposals that have been formulated to (re)focus the Aid for Trade Initiative on knowledge sharing, or on linking it to the broader development agenda. Section 4 discusses challenges that need to be addressed to keep the Aid for Trade Initiative relevant, inclusive, and focused on results. Section 5 concludes.

## WHAT HAS BEEN ACHIEVED?

### PRIORITISING TRADE ...

Central to the whole Aid for Trade Initiative is the notion that trade should be (better) mainstreamed as a priority in the development strategies of developing countries and donor agencies. The high number of developing countries and donors that have participated in successive Global Reviews of Aid for Trade, as well as a recent review of the Diagnostic Trade Integration Studies undertaken by the Executive Secretariat of the Enhanced Integrated Framework suggest that this has been the case.

### ... ATTRACTING MORE OFFICIAL DEVELOPMENT ASSISTANCE AND OTHER OFFICIAL FLOWS ...

This prioritising of trade as a tool for economic growth and poverty reduction was hoped to result in securing "additional, predictable, sustainable and effective financing for building trade capacities in developing countries." To assess additionality and ensure accurate accounting, benchmark aid for trade proxies were agreed at the global level. These include official development assistance (ODA) and other official flows (OOF) to help developing countries elaborate trade strategies, negotiate trade agreements and implement their outcomes; build roads, ports and telecommunications networks to connect domestic markets to the global economy; support the private sector, exploit their comparative advantages and diversify their exports; help with the costs associated with trade liberalisation such as tariff reductions, preference erosion or declining terms of trade; and, finally, other trade-related needs if identified as trade-related priorities in partner countries' national development strategies (Figure 2).

### ... INCREASING DISBURSEMENTS, AND ...

A total of US$246.5 billion has been disbursed for financing aid-for-trade programmes and projects since the Initiative was launched in 2006. Between 2006 and 2013, a total of US$128.9 billion was disbursed to support programmes that are aimed at reducing the infrastructure gap in developing countries, while programmes aimed at building productive capacities received US$109.6 billion. Aid for trade in its narrowest sense of support for trade policy and regulation has attracted a total of US$7.6 billion since 2006. Only at total of US$60 million was spent on easing trade adjustment cost; one of the original arguments for the Aid for Trade Initiative (Figure 3).

### ... COMMITMENTS ...

In 2013, commitments reached US$55.4 billion, an increase of US$1.8 billion in real terms compared to 2012 and an additional US$30.1 billion or 118 percent in real terms compared with the 2002–05 baseline average. This increased the share of aid for trade in sector-allocable aid from an average of 32.5 percent during the baseline period to 38.4 percent in 2013. Thus, within the expanding ODA envelope, the share of aid for trade has increased even more and these 5.3 basis point increase could be considered as additional aid for trade. In addition, US$190.8 billion in trade-related OOF has been disbursed in real terms since 2006 (Figure 4).

### ... BUILDING TRADE CAPACITIES, ...

The significant amount of ODA and OOF spent to help developing countries build their trade capacities through improving the infrastructure and invigorating the private sector should show results. Empirical literature confirms that aid for trade, in general, is effective at both the micro and macro level (Commonwealth and ODI 2013). The impacts, however, may vary considerably depending on the type of aid-for-trade intervention, the income level, the sector at which the support is directed, and geographical region of the recipient country. For example, Ferro et al. (2012) found that a 10 percent increase in aid to transportation, information and communications technology (ICT), energy, and banking services is associated with increases of 2.0 percent, 0.3 percent, 6.8 percent, and 4.7 percent respectively in the exports of manufactured goods from the recipient countries.

## ... LOWERING TRADE COSTS, ...

Aid for trade also has great potential to reduce trade costs. Busse et al. (2011), using panel data for 99 developing countries for the period 2004–09, show that aid for trade is closely associated with lowering trade costs and therefore may play an important role in helping developing countries benefit from trade. Cirera and Winters (2015) find a positive impact on exporting and importing times, but factors other than aid for trade explain different experiences of structural change in sub-Saharan African countries.

**FIGURE 2:**

Aid for Trade Benchmarks

*Source: OECD (2006).*

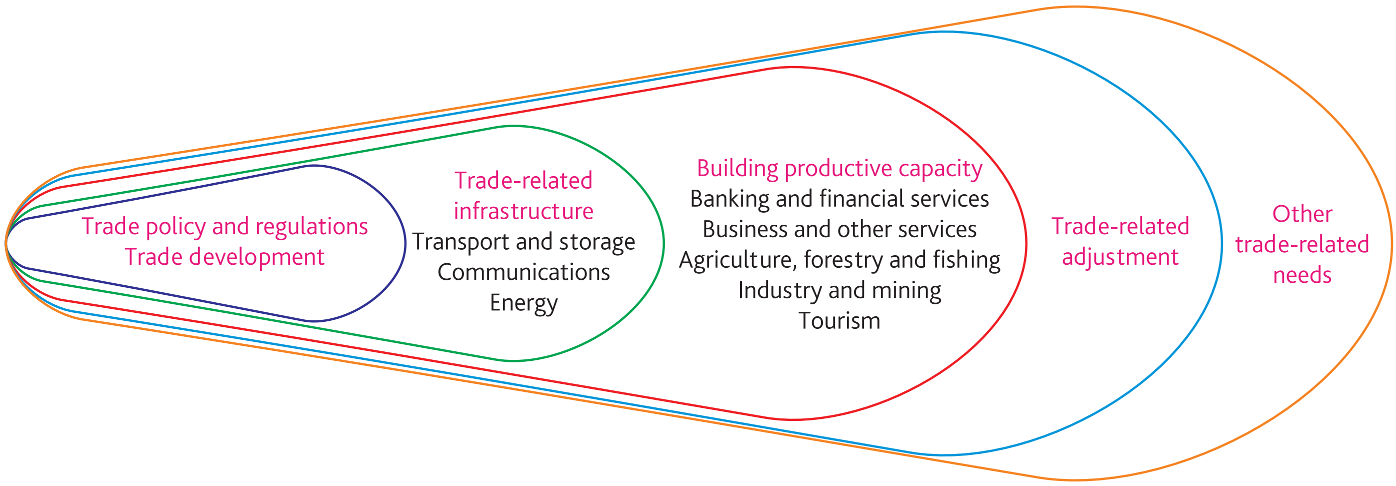
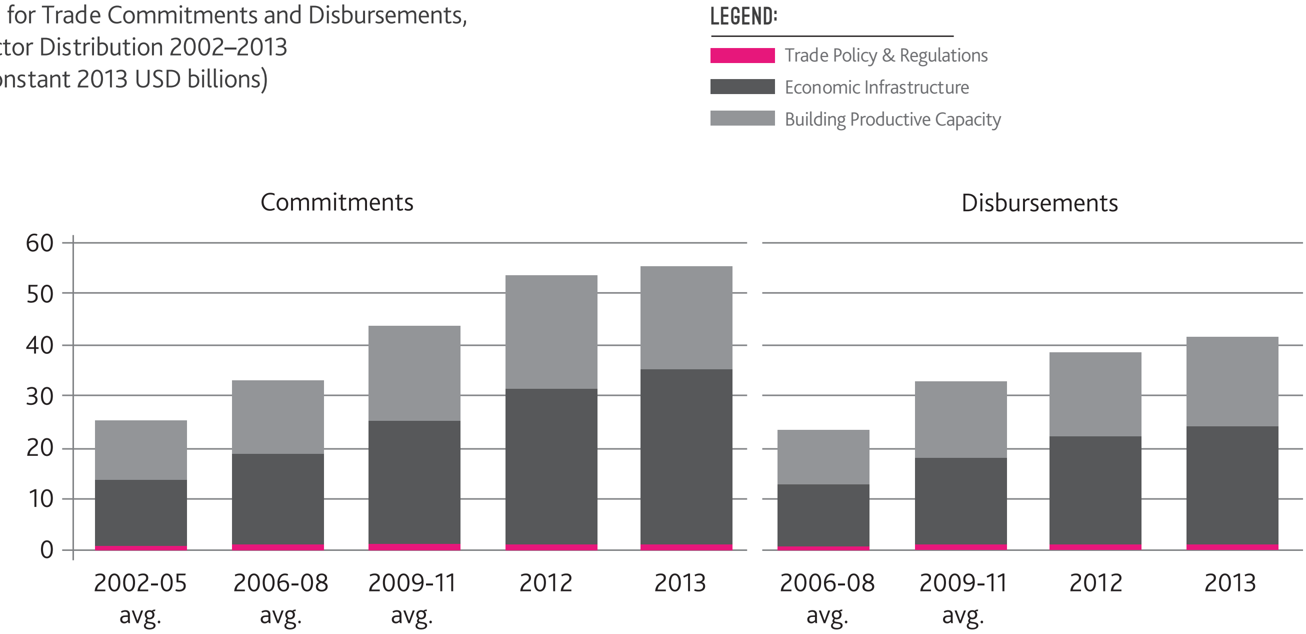



**FIGURE 3:**

Aid for Trade Commitments and Disbursements, Sector Distribution 2002–2013 (Constant 2013 USD billions)

*Source: OECD/DAC/CRS.*



## ... INCREASING TRADE, AND ...

Cali and Te Velde (2011) examine the impact of aid for trade on trade costs and exports and find that a US$1 million increase in aid-for-trade facilitation is associated with a 6 percent reduction in the cost of packing, loading, and shipping to the transit hub. OECD/WTO (2013) found that US$1 invested in aid for trade is on an average associated with an increase of nearly US$8 in exports from all developing countries and an increase of US$20 in exports from the poorest countries. These effects were found to be even higher for exports of parts and components.

## REDUCING POVERTY ...

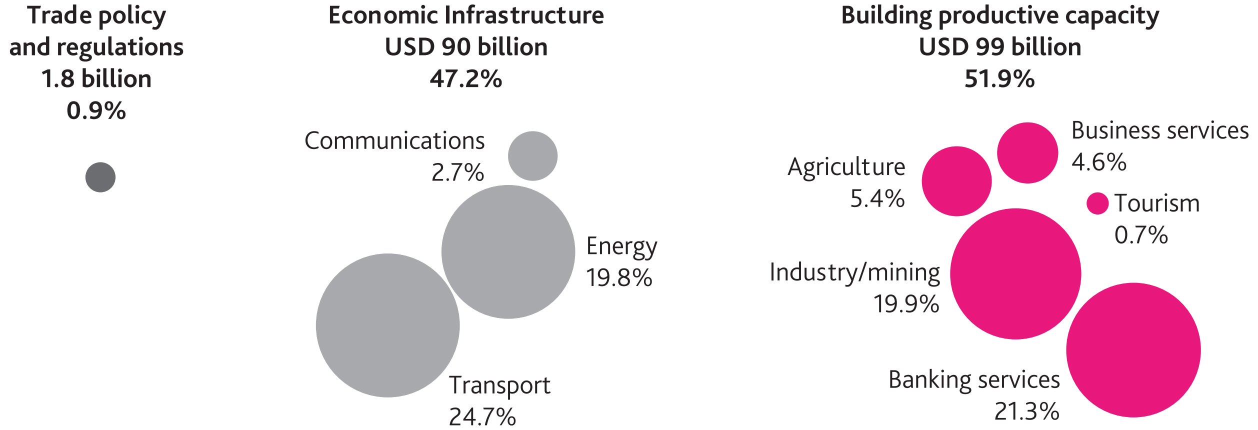
These empirical findings are confirmed by anecdotal evidence, which can be gleaned from the 111 case stories that were submitted by the public and the private sector in the context of the 2015 OECD/WTO monitoring exercise. The case stories mentioned 299 impacts. The most important ones were export market diversification (47 times), an increase in employment, including for women (45 times and 27 respectively), and an increase in foreign and domestic investment (37 and 33 respectively). These impacts were closely followed by a rise in per capita income (25 times) and poverty reduction (18 times) (Figure 5). These findings are similar to those of the 2013 exercise (OECD/WTO 2014; Newfarmer 2014).

Winters and Martuscelli (2014) conclude on the basis of a review of recent literature that trade liberalisation generally boosts income and thus reduces poverty, with working in the export sector predicting gains and in the import-competing sector, losses. A fairly common finding is that female workers gain from trade liberalisation. De Melo and Wagner (2014) confirm these findings and show that aid for trade has also helped reduce poverty through other channels. For example, targeted aid to building productive capacities in agriculture and insurance schemes to remove risks can raise the productivity of households close to the poverty line. Road rehabilitation can also reduce the monopsonistic power of traders in remote areas, thereby raising the incomes of the poor selling agricultural products.

FIGURE 4:

Trade-related OOF Disbursements, Aggregate 2002–2013

*Source: OECD-DAC/CCRS aid activity database.*



# PERSPECTIVES ON THE AID FOR TRADE INITIATIVE

The Aid for Trade Initiative has generated considerable debate about its governance structure, the need to focus it on knowledge sharing, and linking it to the broader sustainable development agenda.

## A VERTICAL FUND, OR ...

It has been argued that building trade capacities requires concerted action outside the WTO (Hoekman 2002). Zedillo and others (2005) also called for the creation of a dedicated aid–for-trade vertical fund. Stiglitz and Charlton (2006) suggested the creation of a multilateral aid–for-trade fund and subsequently called in 2012 for enforcing aid-for-trade commitments within the WTO system with charges of non-compliance brought against any country that reneged on its commitments.

## USING EXISTING MECHANISMS BETTER

The World Bank/IMF (2005) argued that while there was a rationale for increased funding of trade-related and infrastructural reforms, they were against the creation of a new and dedicated multilateral fund for trade-related adjustment support. The OECD (2006) argued that multilateral funds were good at attracting resources but less good at disbursing them. It also highlighted the contradiction between creating another new dedicated fund and the Paris Principles for Aid Effectiveness. The donors in the Task Force on Aid for Trade agreed with these views, though some developing country groupings were more favourable to a new, dedicated aid-for-trade fund.

## FOCUS ON KNOWLEDGE SHARING, ...

Building on progress to date, Hoekman (2010) suggests creating a new aid-for-trade public-private partnership to leverage the dynamism in the private sector for strengthening trade capacity. In addition, he suggests launching a Group of Twenty (G-20) global initiative to provide dedicated financial support for collecting cross-country datasets to allow more effective monitoring and evaluation of aid for trade. Cadot et al. (2011) also take up the issue of better monitoring and evaluating and suggest that rising demands for results and accountability from donors and clients alike require that aid for trade evaluation strategies need more ambition and rigour. Following the 2013 Agreement on Trade Facilitation, Hallaert (2013) proposes narrowing the scope of the Initiative and complementing it with independent and robust impact evaluations and research to be hosted by the World Bank or others.

## ... OR LINKING TO GLOBAL ISSUES

Te Velde (2013) argues for expanding the scope of aid for trade and connecting it to finding solutions for trade-related problems in the area of food security, job creation, and climate change. This would involve learning from emerging economies, and offering packages of support (investment for trade) to connect poor countries to value chains, managed and facilitated by actors who are well connected to domestic state and business sectors.

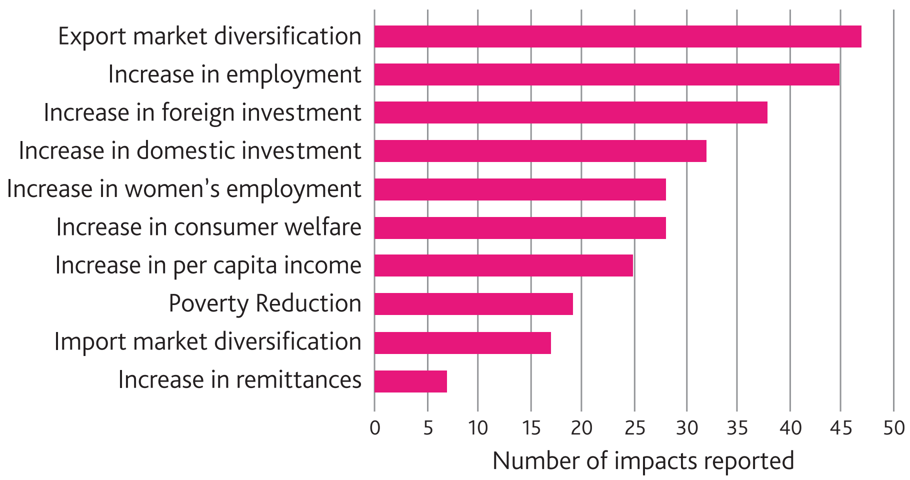



**FIGURE 5:**

Aggregate Impacts from 111 Aid for Trade Case Stories

*Note: Multiple responses were allowed.*

*Source: OECD/WTO, "Aid for Trade Case Stories" (2015).*

# WHAT ARE THE CHALLENGES?

Despite the significant achievements of the Aid for Trade Initiative over the past 10 years, challenges remain in keeping it relevant. In particular, there are questions about emphasis, country targeting, and partnership.

## WHAT EMPHASIS?

The question of the appropriate focus of the Aid for Trade Initiative has never been conclusively settled, as is evident from the views summarised above. At first sight, an economically rational definition of aid for trade would be based on export competitiveness. This competitiveness is determined by two main factors—(i) domestic productivity as expressed though production and trade costs, which set the cost of moving goods and services; and (ii) the level of effective market access, which is a function of unilateral, regional, or multilateral trade reforms, and the capacity to meet standards and overcome information gaps on export markets. Unfortunately, however, this type of definition does not differentiate between an aid-for-trade agenda on the one hand and the general economic development agenda on the other (OECD 2006). The Task Force on Aid for Trade bypassed this problem by defining aid for trade as those trade-related programmes and projects that were prioritised in national development strategies (WTO 2006).

## WHICH COUNTRIES?

Gambaroni and Newfarmer (2014) developed a methodology to identify empirically the potential aid-for-trade needs of countries. Although the match is not perfect, they find that aid-for-trade commitments as a share of gross domestic product (GDP) are larger in recipient countries with greater needs. The World Economic Forum (WEF; 2015) analysed the distribution of aid-for-trade disbursements against countries' score on the WEF Enabling Trade Index (ETI) and find that disbursements have largely been aligned with the needs of developing countries. Those which score relatively worse in the ETI generally received proportionately more aid since the start of the Aid for Trade Initiative (Figure 6). There are exceptions, especially in Sub-Saharan Africa, where some economies have so far received relatively few resources in light of their needs. Gamberoni and Newfarmer (2014) suggest that this might be due to other pressing development priorities that require external development finance, or to that the constraints do not require much money to resolve.

## HOW TO EXPAND PARTNERSHIPS?

The pivotal role of the private sector has always been recognised in the Aid for Trade Initiative. Increasingly, a new generation of programmes has emerged, involving donors, partner countries, and private firms. The impact of these programmes has been 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 development community, such as improved workers' skills, poverty alleviation, job creation, better working conditions, improved health among workers, and improved environmental performance. Consumers also benefitted from lower prices. The main drivers of the engagement are company-based and relate to firms' core business strategies, while the corporate social responsibility agenda of firms also explains their actions in this area (OECD/WTO 2013). For example, the Grow Africa programme is a partnership platform convened by the Commission of the African Union, the New Partnership for Africa's Development, and the WEF and seeks to accelerate private-sector investments, enable multi-stakeholder partnerships, and expand knowledge and awareness of best practices and existing initiatives, with a view to fostering transformative change in African agriculture based on national agricultural priorities (OECD/ WTO 2013a).

Raising awareness is a precondition for identifying synergies and the potential for scaling-up or replicating successful initiatives elsewhere, as well as generating new public-private or private-private partnerships. Strengthening engagement could be achieved through i) incorporating the private sector as an actor in the Initiative; ii) building a platform for collaboration; and iii) creating an environment to allow for shared multi-stakeholder value. Such new types of partnership could be achieved at four different stages of the aid-for-trade project life cycle.

1. The identification of the projects to alleviate binding trade-related constraints, where the views of the private sector could be solicited to provide information about obstacles to be removed or incentives to be improved.

2. The conception of the projects, where the private sector could share best practices they have observed form other aid for trade programmes or from programmes they have implemented themselves.

3. The implementation of the projects, where governments, donors, and private companies could join forces to scale up their actions and maximise their impact.

4. The management and evaluation of the projects, where the private sector could provide evidence of success or failure (Figure 7).

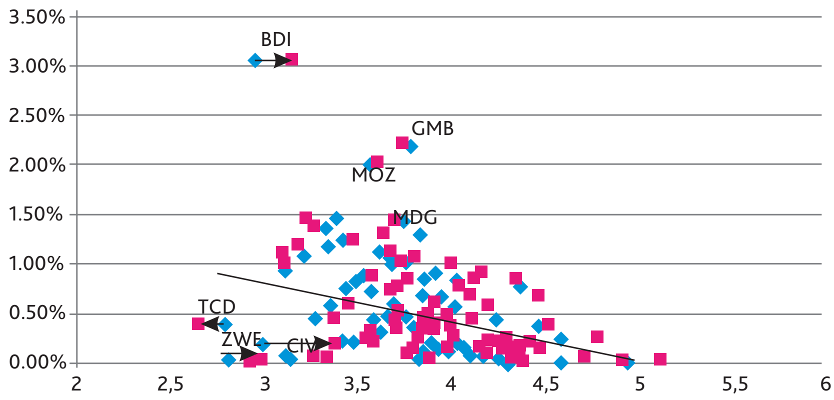



**FIGURE 6:**

Enabling Trade Index (2010–14) Compared to Average (2005–12) Aid-for-Trade Disbursements (GDP share)

**LEGEND:**

- 2010 ETI score
- 2014 ETI score
- Line (2010 ETI score)

*Source: WEF/ETI – OECD/CRS.*

**FIGURE 7:**

Public-Private Partnerships for Managing Trade-related Programmes


**TABLE 1:**

Estimates of Development Cooperation Flows from Providers that Do Not Report to the OECD-Development Assistance Committee

(Gross, USD millions, current prices)

*Source: Rethinking Trade and Finance, ICC, 2014.*

*Notes: — = not available; * Figures for India and South Africa are based on their fiscal years. For example, 2012 data correspond to fiscal year 2012–13; ** The decrease in South African development co-operation from 2013 onwards reflects exchange rate fluctuations.*

*i) Data includes only development-related contributions. This means local resources, financing from a country through multilateral organisations earmarked to programmes within that same country, are excluded. Moreover, as for reporting countries, coefficients are applied to core contributions to multilateral organisations that do not exclusively work in countries eligible for receiving ODA. These coefficients reflect the developmental part of the multilateral organisations' activities.*

*ii) The flows channelled through multilateral organisations are (partly) based on websites of multilateral organisations, www.aidflows.org and data from the UN Department of Economic and Social Affairs, except for Brazil and India.*

*iii) The estimates should be treated only as an indication of the volume of the development co-operation provided and would tend to be a low estimate.*

| Country | 2010 | 2011 | 2012 | 2013 | Source |
|---|---|---|---|---|---|
| Brazil | 500 | — | — | — | Institute of Applied Economic Research (IPEA) and Brazilian Co-operation Agency (ABC) |
| China | 2,561 | 2,776 | 3,114 | 3,009 | Fiscal Yearbook, Ministry of Finance |
| India* | 709 | 788 | 1,076 | 1,257 | Annual Reports, Ministry of Foreign Affairs |
| Indonesia | 10 | 17 | 27 | 12 | Ministry of National Development Planning |
| South Africa** | 151 | 227 | 188 | 183 | Estimates of Public Expenditures 2013, National Treasury |

The contribution of South-South cooperation is an important characteristic of the Aid for Trade Initiative. South-South providers have become significant sources of foreign assistance in Asia, Latin America, and especially in Africa. China and India are two of the leaders in South-South cooperation (Table 1). They typically combine aid with investment and enhanced market access opportunities, delivering expertise and financial support to foster the economic and social welfare of other developing countries (Zimmermann and Smith 2011). Moreover, the Asian Infrastructure Investment Bank (AIIB), launched at Beijing in October 2014 and expected to be operational at the end of 2015, will provide finance to infrastructure projects in the Asia Region. As of 15 April 2015, there were 57 Prospective Founding Members; 37 in the region, and 20 outside.

The availability of large additional flows of development finance beyond ODA and OOF would seem to raise an issue of coordination, especially at the local level. However, in three case studies covering Ghana, Senegal, and Timor-Leste (OECD 2014a), it was found that strengthening coordination mechanisms were not a high priority for any of the three governments, which generally preferred bilateral channels of dialogue and negotiations.

## HOW TO IMPROVE EFFECTIVENESS FURTHER?

In general, aid-for-trade programmes are found to be relatively effective, although regional programmes might offer "more bang for the buck," while new forms of aid delivery also hold promise. For example, ICTSD and SAWTEE (2013) conclude on the basis of case studies in eight developing countries, including four least developed countries (LDCs; Bangladesh, Cambodia, Malawi, and Nepal), three low and middle-income countries (LMICs; Ghana, Guatemala, the Philippines) and one upper middle-income county (UMIC; Peru), that aid for trade is effective when the right conditions prevail. However, these conditions are often absent. Overall, they suggest that their findings are not radically different from what has emerged from the more general aid effectiveness debate. In that respect, aid for trade is no exception and might actually have done slightly better than other areas of ODA. They recommend that the Aid for Trade Initiative should refocus on building the institutional mechanisms that are critical to the effective delivery of aid.

**Through regional programmes, and ...**

Given the many small markets in developing countries, it is clear that sustained economic growth needs to rely in part on creating larger, more viable markets through the rule-based sharing of resources and production assets. Deepening economic integration via regional co-operation has thus emerged as a key priority in the reform strategies of most developing economies. Regional aid for trade is contributing to this process with commitments that almost tripled from US$1.2 billion during the 2002–05 baseline to US$3.1 billion in 2013, although its share is still only 5.5 percent of total aid for trade.

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 lack of trust across negotiating parties (OECD 2014b). In fact, regional aid for trade is still insufficiently understood and appreciated in national line ministries and among stakeholders. Moreover, implementing regional strategies is complicated by membership of overlapping regional organisations; lack of implementation of regional agreements; poor articulation within national strategies; and national and regional capacity constraints. This is creating significant problems in terms of ownership, mainstreaming, and aligning national strategies around regional aid-for-trade priorities.

For regional aid-for-trade programmes to be effective, these gaps can be tackled through the following steps.

- Involving an "honest broker" such as regional development banks and, or multi-donor programmes such as TradeMark East Africa, or regional initiatives such as USAID African Trade Hubs, which all offer institutional mechanisms to better co-ordinate regional and sub-regional programmes. (See https://www.trademarkea.com/ and http://www.oecd.org/aidfortrade/47434962.pdf).

- Creating financial incentives such as providing a higher concessionality level for financing regional programmes other 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.

- Harmonising regulations, which makes it both a challenge as well as an opportunity to increasing the potential to boost regional integration.

- Involving the private sector more closely in regional aid for trade to increase effectiveness.

**... New forms of aid delivery**

A proliferation of new ideas under names such as "payments for performance," "output-based aid," and "results based financing" are being promoted as more effective than traditional forms of aid delivery. Vijaya (2014) highlights that these forms of results-based management are promoted for a mix of reasons based on different theories of how linking disbursements to results will ensure more effective programmes—by appealing to governments' pecuniary interests to shift domestic priorities; by drawing the attention of politicians and managers to results; by establishing accountability to constituents; and by giving recipients discretion to engage in local problem-solving.

Savedoff (2011) proposes to classify the range of incentives by emphasizing two particular dimensions—the agent whose behaviour the incentive seeks to change, and the specificity of the output or outcome measure. On that basis, he distinguishes six different categories—conditional cash transfers (families/focused objectives), output-based aid (firms/few objectives), performance-based financing (facilities/multiple objectives), prizes for high yields (individuals or firms/focused objectives), advance market commitment (firms/focused objectives), cash on delivery (country/focused objectives), and budget support (country/broad objectives).

Only budget support and variants thereof appear to be an appropriate form for aid-for-trade programmes beyond those aimed at institutional capacity building. Most budget support programmes are aimed at creating a partnership and sharing responsibility between funders and recipients. In this way, they are not specifically framed in terms of incentives. Rather they are described as opportunities for policy dialogue, mutual accountability with reference to performance, and provision of funds that feed into and improve the receiving countries own financial, budgeting, and implementation capacities. One example is the Millennium Challenge Corporation (MCC), a United States (US) development programme that applies the principle of country selectivity to its programmes (see https://www.mcc.gov/). Countries can be eligible for MCC grants if they demonstrate having met certain standards for good governance.

Based on the MCC model, the Centre for Global for Development proposes a Doing Business Facility, which would determine a country's eligibility for technical and financial assistance on the basis of third-party measurements of its performance in addressing business-sector constraints. The facility would use performance-based filters to identify a few reforming countries each year and then implement programme agreements to reinforce and advance further reforms to the business climate. The facility would both target assistance on countries that will use it well and create reform incentives for countries on the threshold (CGD 2010).

Ramachandran (2014) proposes "Service Performance Guarantees" as an extension of results-based aid, but one that provides a different pattern of accountability—of a "partnership" of donors and recipient governments towards their investor clients. This is in contrast to conventional results-based aid approaches that condition disbursement of donors' funds to recipient governments on the achievement of service outputs or outcomes without a direct link to the clients for the services. The Guarantees would instead pay private firms when commitments—for example, to reform regulation or improve infrastructure—were not met.

Focussing the Aid for Trade Initiative more on reducing trade costs would allow for the introduction of these results-focussed approaches. However, it remains to be seen whether partner countries would welcome such accountability programmes focused on their own quantifiable progress towards trade cost reduction. Developing country support for accountability programmes could be higher if the focus were on an assessment of donor performance. Rwanda has introduced this kind of assessment to great effect to contribute to its 2020 goal of raising incomes to a level where aid is no longer necessary (OECD 2014c).

## HOW TO RETAIN INTEREST?

Donor attention to the Aid for Trade Initiative seems to be waning. Although aid-for-trade flows continue to grow, the focus of the donor community seems to be moving towards the promotion of foreign direct investment, private sector development, and domestic resource mobilisation. These issues are important in their own right, but should not be pursued in isolation from or instead of promoting international trade, which in many cases is the single most important external source of development financing, particularly to small developing countries and LDCs. Part of the reason for the diminished interest among donors for building trade capacities seems to be the stalemate in the multilateral negotiations on the Doha Development Agenda and the move towards mega-regional trade negotiations (which do not include any LDCs). However, when multilateral trade agreements are being concluded, the donor community does re-engage. For example, it has supported implementation of the 2013 Bali Agreement on Trade Facilitation by boosting aid for this purpose to US$680 million annually, an eight-fold increase compared to the 2002–05 baseline level.

### Focus on reducing trade costs?

The initial premise of the Aid for Trade Initiative was that enshrining market access in trade agreements is an essential, but not sufficient step to achieve market presence—other factors needed be addressed too. Past Global Reviews and publications have sought to galvanize attention and action on this issue. The OECD/WTO Aid for Trade at a Glance (2015) underlines that this strategy is working, but that high trade costs remain a significant impediment for developing countries. In the worst cases, prohibitive trade costs can price the poorest countries out of global markets altogether, leaving them locked into low-value regional trade where growth possibilities are stymied. At the factory or farm-gate level, products can be competitively priced but still fail in export markets due to excessive trade costs—and also in domestic markets if domestic trade costs are too high.

High trade costs effectively nullify comparative advantage by rendering exports uncompetitive. High trade costs deny firms access to technology and intermediate inputs, preventing their entry to, or movement up, global value chains. High trade costs also erode consumer welfare, narrowing the range of goods and services on offer and pushing up prices. While trade costs alone do not fully explain the development pathways of economies, they are a major factor explaining why some countries are unable to grow and diversify. The same is also true for many regions, often disadvantaged, within countries.

Embedding a trade cost perspective at the centre of the Aid for Trade Initiative would provide an operational focal point for action among a broad collation of stakeholders. The advantages of a trade cost reduction target are that lowering trade costs is neutral in the sense of benefiting not just exporters but also importers and households. It should be left to governments, in dialogue with stakeholders, to identify which costs are most distorting, how best to reduce them, and how to use the varied forms of development finance provided by different providers. Such an approach would also allow for a critical assessment of the domestic regulatory framework, which often stifles growth of the service sector. Finally, such an action-focused approach would allow for greater accountability for outcomes and even the introduction of innovative donor approaches such as cash-on-delivery and other forms of impact programming.

**Promoting green growth?**

Green growth promises great potential for developing countries and aid for trade could play a role in realising green growth. The WTO Task Force Recommendations on Aid for Trade not only recognised sustainable development as a guiding principle of aid for trade but also recommended that donors strengthen the application of environmental impact assessments (EIAs). Donors and partner countries are jointly committed to strengthen the application of EIAs and deepen common procedures for projects, including consultations with stakeholders; and develop and apply common approaches for "strategic environmental assessments" at the sector and national levels.

The green growth agenda has been embraced by many developing countries; some are already attempting to take advantage of emerging trade and investment opportunities. Many developing countries are looking at maintenance of ecosystem services through reforestation and restoration as crucial for enabling economic development. Developing countries can shift to lower-carbon paths while promoting development and reducing poverty, but this depends on the financial and technical assistance available domestically and particularly from high-income countries (Stern 2009). A possible avenue to assist the transition to green growth is through aid-for-trade programmes while concurrently strengthening environmental goods and services trade-related infrastructure and minimising supply-side constraints.

(Keane et al. (2009) makes the point that while donors are increasing resources to climate change mitigation and adaptation, there need to be standardized checks to ensure compatibility between these programmes and aid for trade. This is necessary "in order to avoid competing demands between the priorities of the international system in mitigating climate change, with country priorities, and so that trade-related country policies and donor activities may be better monitored and evaluated." Indeed, there is much 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.

**Contributing to the SDGs?**

The post-2015 development agenda, with the SDGs at its core, suggests that the world should transform its natural resource-dependent growth pattern to a more inclusive, sustained, and sustainable one. The earlier synthesis report of the UN Secretary General reaffirmed that trade is one of the essential means of implementing a sustainable development strategy. Aid for trade can play a big role in supporting the SDGs. It can help developing countries build the capacities that in turn can contribute to a healthier environment and to fighting poverty. Aid for trade shares many of the objectives of the SDGs and if used in "a complementary and reinforcing manner, … 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).

**The next production revolution**

The spread of global value chains, the increasing importance and mainstreaming of knowledge-based capital, and the rise of the digital economy are ushering in the "next production revolution" (OECD 2015). Countries, rich and poor, need to seize this opportunity to harness innovation to boost economic growth and spur job creation. It is uncertain, however, what robotics and 3D printing will mean for the way in which production and trade are organised—whether they will lead to near-sourcing or further dispersion of value chains (Lipson and Kurman 2013; McKinsey 2013). The trade and development community should consider how possible science and technology-driven developments in selected production technologies will change the role that trade plays in development strategies. What is certain is that developing countries must work on boosting their connectivity, reduce trade and transport costs, and improve energy access so as to take advantage of shifting production patterns, changing environmental imperatives, and new technologies.

# CONCLUSIONS

Much has changed in the trade and development landscape over the last ten years. Trade and investment flows are driven by the growing fragmentation of the production process. This offers opportunities for developing countries, but also highlights the need for an open, predictable, and transparent trade and investment regime, since tariffs, non-tariff barriers, and other restrictive measures affect not only foreign suppliers, but also domestic producers. Meanwhile, the development landscape has seen the rise of many providers of South-South cooperation, giving new impetus to trade-promoting development assistance.

The Aid for Trade Initiative has achieved much since its inception in 2006. The Initiative has succeeded in rekindling awareness among developing countries and donor agencies about the positive role that trade can play in promoting economic growth and development. Developing countries, notably LDCs, are getting better at articulating, mainstreaming, and communicating their trade-related objectives and strategies. In turn, this has had a positive impact on the alignment of donor support with aid-for-trade flows steadily growing since 2005. Econometric analysis suggests that aid for trade is broadly correlated with improvements in trade performance, which, in turn, is related to reductions in poverty. These effects are confirmed by a growing number of studies, using different methods, which yield a strong narrative about the positive impact of aid-for-trade programmes.

The success of the Initiative is attributed to the strong partnerships it has formed within the trade and development communities. It has brought together various stakeholders, particularly, developing countries, different donors, academia, and the private sector, all with a common aim—to help make trade work for development. The Initiative has been flexible enough to adapt to the changing trade and development landscape, as witnessed by the focus of successive Aid for Trade at a Glance reports on "Maintaining Momentum" (OECD/WTO 2009), "Showing Results" (OECD/WTO 2011), "Connecting to Value Chains" (OECD/WTO 2013), and most recently "Reducing Trade Costs" (OECD/WTO 2015).

The delivery of aid for trade has been largely effective, but more could be done, especially through regional approaches. Experimental new forms of aid delivery, which strengthen accountability between donors and partners, might help in improving results. Despite increasing aid-for-trade flows, an important emerging issue is how to retain donor interest, which is increasingly focused on promoting private sector engagement and foreign direct investments. Highlighting the pivotal role of trade for economic growth and poverty reduction remains important, but more emphasis should be given to the potentially beneficial role of trade and aid for trade in delivering the SDGs.

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