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ADB Working Paper Series

**FACILITATE TRADE
FOR DEVELOPMENT:
AID FOR TRADE**

William Hynes and
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Abstract

The 2030 Agenda for Sustainable Development with the Sustainable Development Goals (SDGs) at its core calls to “increase aid-for-trade support for developing countries, in particular least developed countries”. This echoes the aid-for-trade reference in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. This paper discusses how aid for trade already contributes to the SDGs after highlighting the achievements of the Aid for Trade Initiative. This is followed by a section analysing the continued importance of aid in financing development, particularly in the least developed countries. Next, the role of the private sector in aid for trade is presented as an example of how to improve partnerships for development. Finally, the paper draws on lessons from the monitoring of aid for trade for the SDGs and the need, but also difficulty in making the process truly country driven. The paper concludes by stressing that aid for trade – ten years after its creation at the Hong Kong WTO Ministerial Conference – is more than ever relevant in helping developing countries make trade a tool for prosperity.

JEL Classification: D7, F1, F35, O19

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1. INTRODUCTION

Meeting at a special summit at the United Nations in September 2015, world leaders committed to an ambitious global agenda “Transforming our World: The 2030 Agenda for Sustainable Development”. The Agenda is a plan of action for people, planet, prosperity, peace and partnership with the Sustainable Development Goals (SDGs) at its core. The SDGs are aimed at promoting inclusive, sustainable and resilient growth and development. International trade can help realising the SDGs as a key transmitter of goods and services, technology, knowledge and behaviour. Successive rounds of multilateral trade liberalisation, increasing numbers of preferential market access schemes and regional free trade agreements as well as expanding South-south trade have created many more trading opportunities for developing countries.

In order to fulfil the potential of trade, developing countries and particularly the least developed require technical and financial assistance to connect and compete in international markets. Obsolete or ill-adapted infrastructure, limited access to trade finance, the complexity and cost of meeting an ever broader array of standards and cumbersome and time-consuming border procedures all price too many developing country firms out of international markets. During the last 10 years, the global community has promoted aid for trade to help developing countries tackling these obstacles. A total of USD 308 billion has been disbursed for financing aid-for-trade programmes and projects since the Initiative was launched in 2006. Moreover middle-income countries received an additional USD 190 billion in trade-related other official flows. There is now abundant evidence suggesting that aid for trade has been effective in reducing trade and transport costs, promoting trade expansion and achieving economic and social objectives.

Aid for trade is part of SDG 8 aimed at promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The goal calls to “increase aid-for-trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework” (United Nations, 2015a). This echoes the call in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development that “Aid for Trade can play a major role and should strive to allocate an increasing proportion going to least developed countries, provided according to development cooperation effectiveness principles” (UN, 2015a).

Both the SDGs and the aid for trade objectives are dependent on integrated policy approaches and trade-offs. Achieving the SDGs requires a transformation of the world economy. This implies that aid for trade should contribute to economic objectives of developing countries by helping their firms connect to international markets, expand trade and strengthen its contribution to inclusive economic growth, to social objectives by reducing poverty and inequalities and to environmental objectives through preserving the environment and adapting to climate change while exploiting comparative advantages in low-carbon production and environmental goods and services. In addition, aid for trade can help developing countries build resilience and adjust to shocks that ripple through international markets.

The paper will analyse how aid for trade can best help achieve the 2030 Agenda for Sustainable Development. It will do so by reviewing past aid-for-trade priorities, policies and programmes and assessing their contribution to sustainable development. Special attention will be paid to the role of aid for trade in promoting (green) growth and reducing poverty for men and women. This, together with a review of the aid-for-trade literature will be used to propose approaches to better facilitating trade for development

and strengthening the contribution of aid for trade to the 2030 Development Agenda. Particular attention will be paid to the role the private sector can play.

2. AID FOR TRADE

History shows openness to trade to be a key ingredient for economic success and raising living standards. Countries that have pursued an outward-oriented development strategy with trade liberalisation at its center not only outperformed inward-looking economies in terms of aggregate growth rates, but also succeeded in lowering poverty rates and registering improvements in other indicators of social progress. However, developing countries require assistance to analyse, negotiate and implement trade agreements and benefit from the resulting increased market access, while some have argued that the costs of implementing multilateral trade agreements are substantial and reflect little awareness of the capacity constraints of developing countries (Finger and Schuler, 2000).

The first WTO Ministerial Conference, held in 1996, acknowledges that the LDCs faced these types of constraints. This led to the creation of the Integrated Framework (IF), which was mandated to improve the capacity of the LDCs for trade policy formulation and implementation. However, the IF had modest success and trade rarely featured as a priority of either donors or recipients (WTO 2006a). Although donors did scale up their support to build capacities for designing trade policy and regulations, especially at the start of the Doha Round in 2001, a larger, more holistic effort was needed.

Zedillo et al (2005) called for supporting the poorest countries by putting in place measures to enhance competitiveness and productivity as well as to address adjustment costs. A significant increase in 'aid for trade'—that is, development assistance dedicated to increasing the recipient country's trade capacity—would help to ensure that more countries benefit from trade opportunities. Domestic supply constraints and high operating costs are the main reason for the lack of trade growth and diversification in many of the poorest developing countries. Prowse (2006) argued that without action to improve supply capacity, reduce transport costs, facilitate movement of goods across borders, connect farmers to markets, etc. trade opportunities cannot be fully exploited and the potential gains from trade will not be maximized.

At the WTO Hong Kong Ministerial Conference in 2005 Ministers recognised the need to move beyond just offering increased market access. Consequently, they launched the Aid for Trade Initiative to "help developing countries, particularly LDCs, 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, 2006b).

The remainder of this section reviews tools to identify binding trade related constraints first. Next, it assesses the extent to which the aid-for-trade objectives have been met since the Initiative was established ten years ago. In particular, the section will discuss whether trade has been mainstreamed as a priority in the development strategies of partner and donor countries, whether donors have increased their support and whether this support has been effective.

2.1 Identifying Constraints

Developing countries are often confronted by two types of binding constraints. It is unrealistic to address all needs and implement all required reforms simultaneously. Political capital for reform is at least as scarce as financial resources and both should be invested where maximum impact can be expected. Thus, rather than indiscriminately tackling a country's laundry list of needs, the focus should be on identifying and tackling the most binding constraints i.e. addressing first those that can have the greatest impact on expanding trade and promoting economic growth. Sound sequencing of reforms and projects are also critical in the design and implementation of effective aid-for-trade interventions.

Various diagnostic tools are available for identifying binding constraints. Stakeholder consultation, benchmarking, diagnostic trade integration studies and value chain analysis can all be used to pinpoint the trade needs and constraints preventing developing countries from expanding trade. All these methods have advantages, but also suffer from various shortcomings and limitations. Hallaert et al. (2013) suggests combining the different diagnostic tools in an appropriate framework to achieve prioritisation. Combining the various tools can help overcome the shortcomings and limitations of each diagnostic tool. It can also provide evidence for use in confirming the conclusions of any single approach and reduce the risks of misdiagnosis or capture by vested interest.

An adaptation of the growth diagnostics—originally developed by Hausmann et al. (2006) for guiding growth strategies—can provide an appropriate framework. By shifting the focus from growth to trade, this framework can be easily adapted by local authorities and development practitioners. The framework employs a decision tree in order to prioritise reforms and “get the biggest bang for the reform buck.” At each node of the decision tree, stakeholder consultation, benchmarking, and value chain approach can be used in order to rank the constraints. Drawing on a tool from the Enhanced Integrated Framework for least developed countries, a Diagnostic Trade Integration Study action matrix can then be used to identify the actions and reforms needed, as well as the sources of potential external financial support and technical assistance. This approach would have the advantage of increasing participation and ownership by stakeholders and, consequently, the chances of success of the reforms and of aid-for-trade interventions.

2.2 What Has Been Achieved?

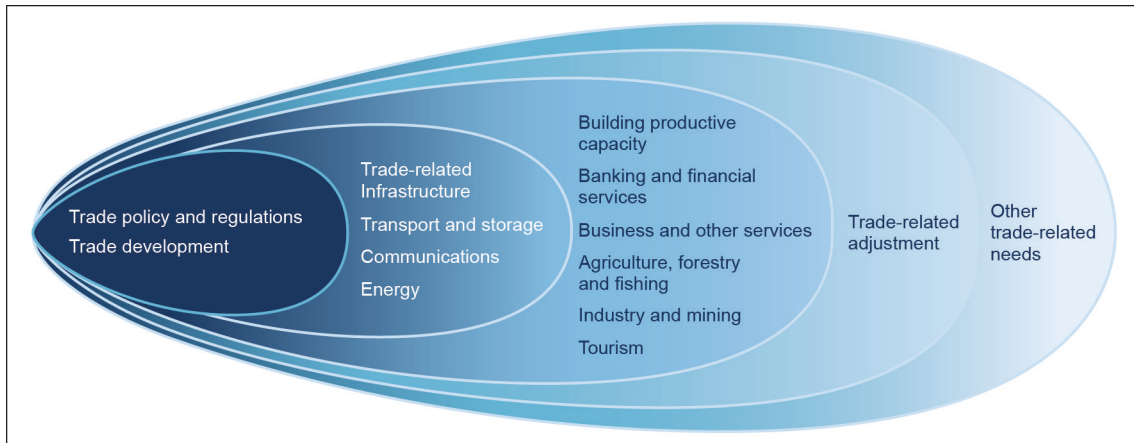
2.2.1 Prioritising Trade as a Tool for Development

Central to the Aid for Trade Initiative is the notion that trade should be (better) prioritised in the strategies of developing countries and donor agencies. Brenton et al (2014) find that while progress has been observed in mainstreaming trade in the strategies of developing countries, capacities among them remain rather uneven. The high number of developing countries that have actively participated in successive monitoring exercises that underpin the biennial 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 (EIF) suggest that progress in this area continues. In addition, most donor agencies have reported that they have specific aid for trade strategies and some donors such as European Commission and the United Kingdom are now in the process of updating these. Sometimes this is being done in the context of their broader private sector development strategy such as, for instance, in the case of Germany and the Netherlands.

2.2.2 Setting Aid-for-trade Benchmarks

Prioritising trade as a tool for economic growth and poverty reduction was expected to result in securing “additional, predictable, sustainable and effective financing for building trade capacities in developing countries” (WTO, 2006a). To assess additionality and ensure accurate accounting at the global level, WTO Members agreed on aid-for-trade benchmarks that were based on donor reporting to the OECD Creditor Reporting System (CRS). These CRS proxies include: official development assistance (ODA) and other official flows (OOF) to help developing countries elaborate trade development strategies, negotiate trade agreements and implement their outcomes; build roads, ports and telecommunications networks to better connect domestic firms to the regional and global markets; support the private sector in exploiting their comparative advantages and diversifying their trade; help countries pay for 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 the national development strategies of partner countries (Figure 1).

Figure 1: Aid-for-trade Creditor Reporting System Proxies

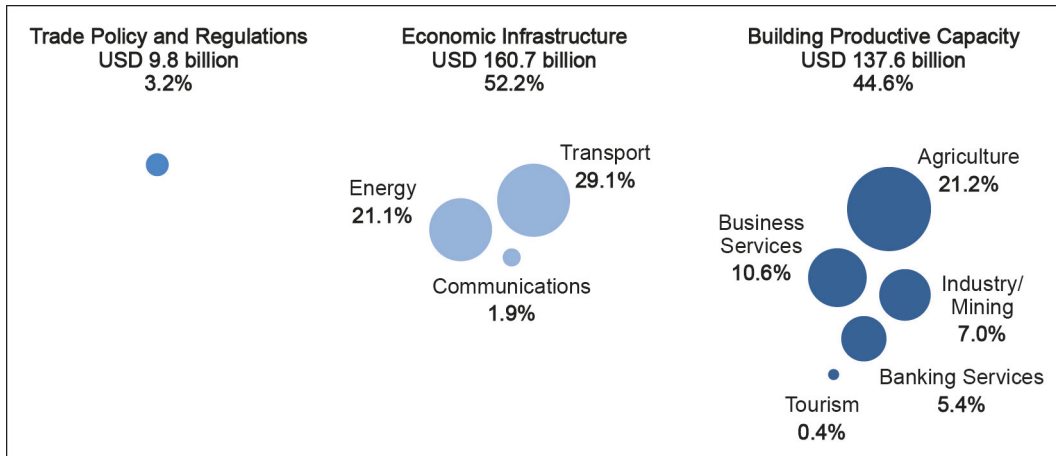


Source: OECD (2006a).

2.2.3 More Aid-for-trade

Since the Aid for Trade Initiative was launched in 2006, a total of USD 308 billion in ODA has been disbursed by bilateral and multilateral donors for financing aid-for-trade programmes and projects. Support for programmes aimed at reducing the infrastructure gap in developing countries received USD 160.7 billion, while programmes targeted at building productive capacities took USD 137.6 billion. Aid for trade in its narrowest sense of support for trade policy and regulation attracted a total of USD 9.8 billion and USD 200 million was spent on easing trade-related adjustment cost; one of the original arguments for the Aid for Trade Initiative. To date, almost 85% of total aid for trade has financed projects in four sectors: transport and storage (29.1%), energy generation and supply (21.1%), agriculture (21.8%) and business services (10.6%) (Figure 2). Geographically, 146 developing countries mainly in Asia (38.4%) and Africa (35.6%) received aid-for-trade assistance. In terms of population, the least developed countries took USD 15 per capita in aid for trade; the highest amount compared to other income groups and almost doubles the overall average aid for trade per capita.

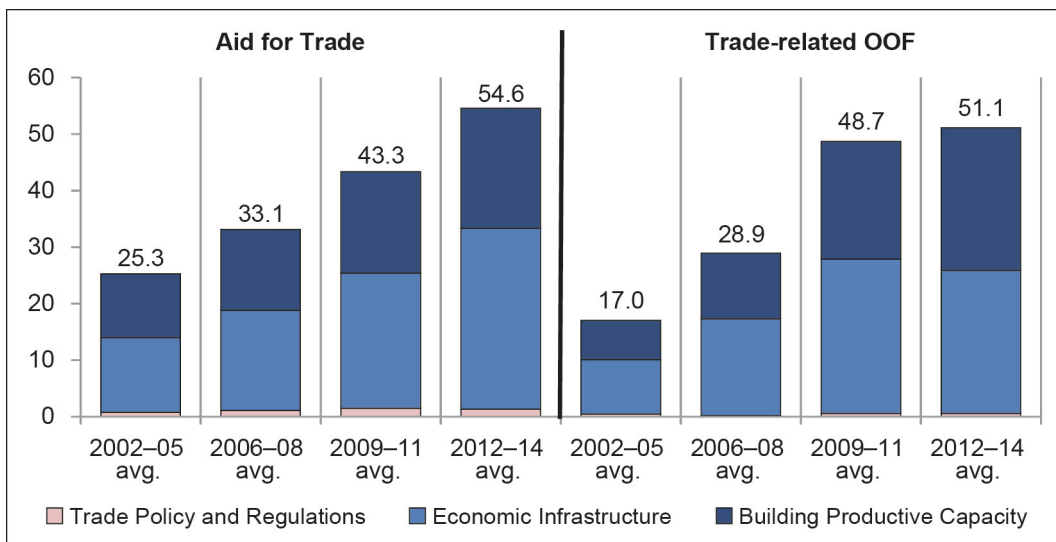
Figure 2: Aid-for-trade Disbursements



Source: OECD/DAC Creditor Reporting System (CRS).

In 2014, ODA commitments reached USD 55 billion, an additional USD 29.8 billion or 118% in real terms compared with the 2002–05 baseline average (Figure 3). This increased the share of aid for trade in sector-allocable aid from an average of 32.5% during the baseline period to 34.7% in 2014. Thus, within the expanding ODA budget envelope the share of aid for trade has increased even more. The 2.2 basis point increase could be considered as additional aid for trade.

**Figure 3: ODA and OOF Trade Related Commitments
2002–2014 Sector Distribution
(USD billion 2013 prices)**



ODA = Official Development Assistance, OOF = other official flows

Source: OECD/DAC Creditor Reporting System (CRS).

In addition, USD 232.8 billion in gross trade-related other official flows (OOF) has been disbursed since 2006 (Figure 3). The large increase was a counter-cyclical pay out coordinated by the international finance institutions after the 2007/08 financial crises. Most of this non-concessional funding supported projects in economic infrastructure

(46.5%) and building productive capacities (52.7%) and almost exclusively in middle-income countries (91.5%). Asia is also the main beneficiary of trade-related OOF at USD 90.2 billion, or 38.8% of the total support. At USD 38.3 billion, Africa is surpassed by Latin America and the Caribbean and also Europe with USD 57.2 billion and USD 43.9 billion respectively.

2.2.4 Positive Empirical Findings

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

An evaluation of USAID (2010) trade assistance that focused on export expansion, trade policy reforms, increased participation in trade agreements, and efficiency gains from trade facilitation assistance, finds that each additional USD increases the value of developing country exports by 42 USD two years later. Helbe et al. (2012) assessing the relationship between different aid-for-trade categories and trade performance find that a 1% increase in aid for trade facilitation could generate a USD 415 million increase in global trade. OECD/WTO (2013a) finds that one US dollar invested in aid for trade is on average associated with an increase of nearly eight US dollar in exports from all developing countries and an increase of twenty US dollar in exports from the poorest countries. These effects were found to be even more pronounced for exports of parts and components. Hünhe et al (2014) establishes that aid for trade increases recipient exports to donors as well as recipient imports from donors with the former dominating the overall positive effects. This corroborates similar findings and contradicts the sceptical view that donors grant aid for trade primarily to promote their own export interests.

Aid for trade also has great potential to reduce trade costs. Cali and te Velde (2011) found that an increase of USD 1 million in aid-for-trade facilitation associated with a 6% reduction in the cost of packing, loading and shipping. Busse et al (2012), 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. Gnangnon et al (2015) finds that a 1% increase in the aid for trade is associated with a 7.3 points rise of the export diversification at the intensive margin and a 1.16 point rise of improvement in export quality. Lee et al (2016) find that a 10% increase in annual aid for trade from the 5 biggest bilateral donors (i.e. Japan, the United States, France, Germany, and United Kingdom) translates to 25 additional Greenfield investment projects per year in the recipient countries.

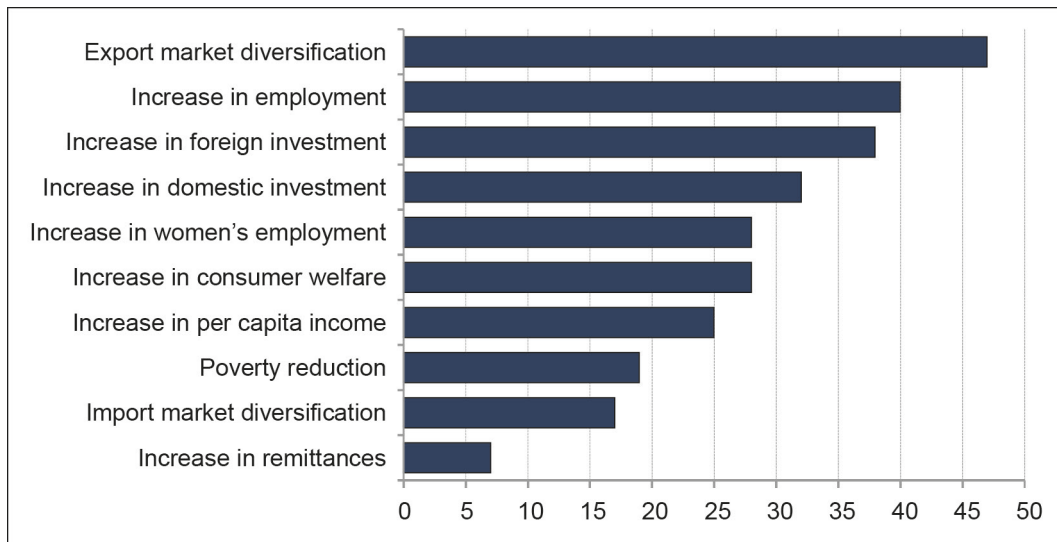
Martuscelli and Winters (2014) conclude on the basis of a literature review that trade liberalisation generally boosts income and thus reduces poverty, with predicting gains for workers in the export sector and losses in the import-competing. De Melo

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.

2.2.5 Case Stories Illustrate Successes

The empirical findings are illustrated by the results reported in the 111 case stories that the public and the private sector submitted in the context of the 2015 OECD/WTO monitoring exercise (Figure 4). The case stories about aid-for-trade priorities, policies and programmes mention 299 results in total. The most important ones are export market diversification (47 times), an increase in employment, including for women (45 and 27 times, respectively) and an increase in foreign and domestic investment (37 and 33 times, respectively). These results are followed by a rise in per capita income (25 times) and poverty reduction (18 times). The findings are rather similar to those reported in the 2011 monitoring exercise. However, any conclusion from the collection of case stories must be tempered by the awareness of its selection biases (OECD/WTO, 2014a).

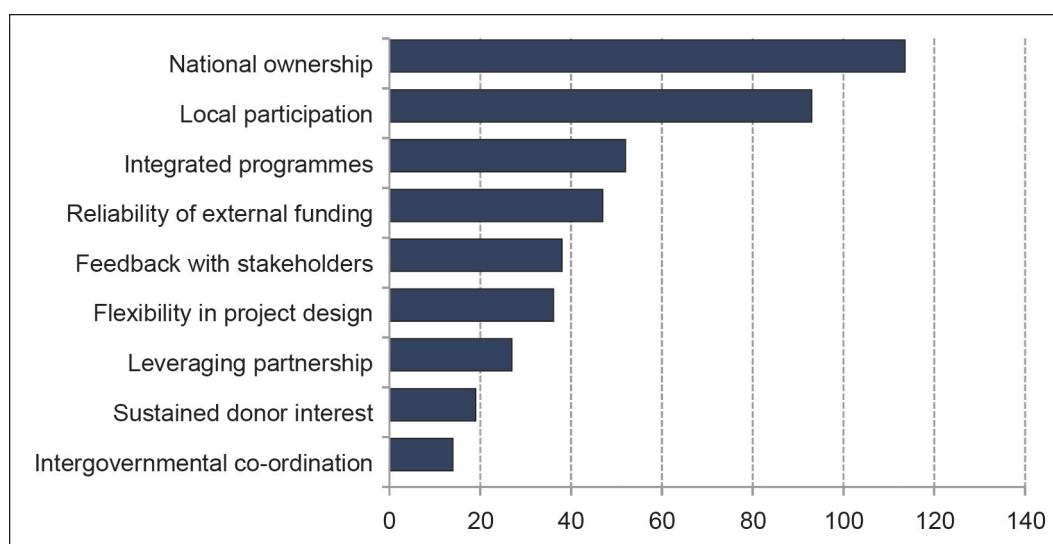
Figure 4: Aggregate Results from 111 Aid-for-trade Case Stories



Note: Multiple responses were allowed.

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

Critical aid-for-trade success factors mentioned in the case stories were country ownership at the highest political level and active local participation. Integrated approaches to development, for instance, by combining public and private investment with technical assistance, also increase the success rate. Equally, long-term donor commitment and adequate and reliable funding are considered essential. Other factors highlighted were leveraging partnerships including with providers of South–South co-operation and keeping project design flexible to facilitate adjustments in initial plans (Figure 5).

Figure 5: Success Factors Mentioned in the Case Stories

Note: Multiple responses were allowed.

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

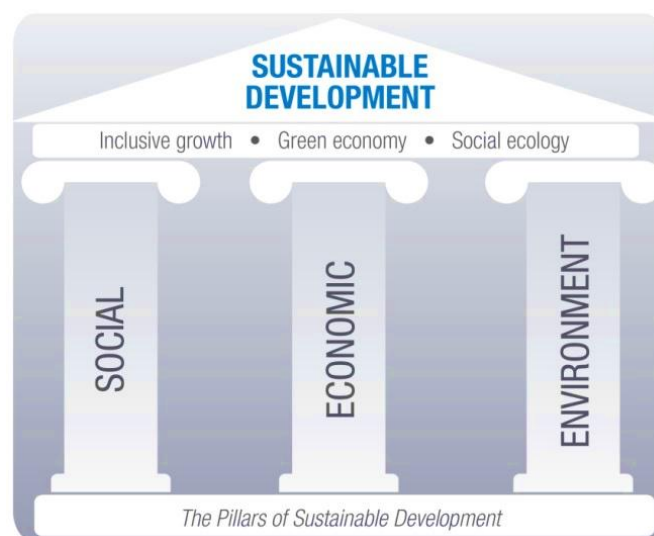
3. AID FOR TRADE AND THE SDGS

The international community has been struggling to reconcile the economy with nature and society. Gro Harlem Brundtland in her famous 1987 report *Our Common Future*, called for governments to change their approach to economic growth. She set out the vision for a new era – growth that is forceful and at the same time socially and environmentally sustainable. Realising this vision has proved elusive, but gradually the relevant policy signposts have been put in place. Analytical frameworks have been broadened to assess better the nexus between economic growth and inequality on the one hand (inclusive growth), and between environment and growth on the other (green growth) (OECD, 2011c; World Bank, 2012; OECD, 2014). This section largely deals with the contribution aid for trade can make to inclusive growth and green growth. Less progress has been made on the social-ecology nexus and further work is needed to better examine the distributional, employment and skills implications of the transition to environmentally sustainable growth. It could be argued that environmental challenges are truly social problems that arise largely because of income and power inequalities (Laurent and Pochet, 2015).

The Millennium Development Goals focused mostly on the social sectors. Less systematic attention was paid to economic growth, industrialisation and jobs as well as environmental sustainability and climate change. A key lesson of the MDGs was that sustained change cannot be achieved through one-dimensional or single sector goals. The SDGs with their broader focus require a response which incorporates multidimensionality into policy design. This involves identifying trade-offs, complementarities and unintended consequences of policy choices to improve and better target policy advice. Such integrated approaches to policy helps address economic challenges in a more realistic and effective fashion. It privileges collaboration and coherence in addressing integrated problems, removing the compartmentalised approach that has limited aid and trade policies and their effectiveness. It also requires a more sophisticated policy design in which systemic spill overs can be beneficial as well as damaging. Consideration of these trade-offs is best undertaken at the national level where policy-makers can optimise among different trade-offs. To make sense of

sustainable development, it is necessary to think about the inter-relationships between the different pillars (Figure 6).

Figure 6: The Pillars of Sustainable Development



Source: OECD.

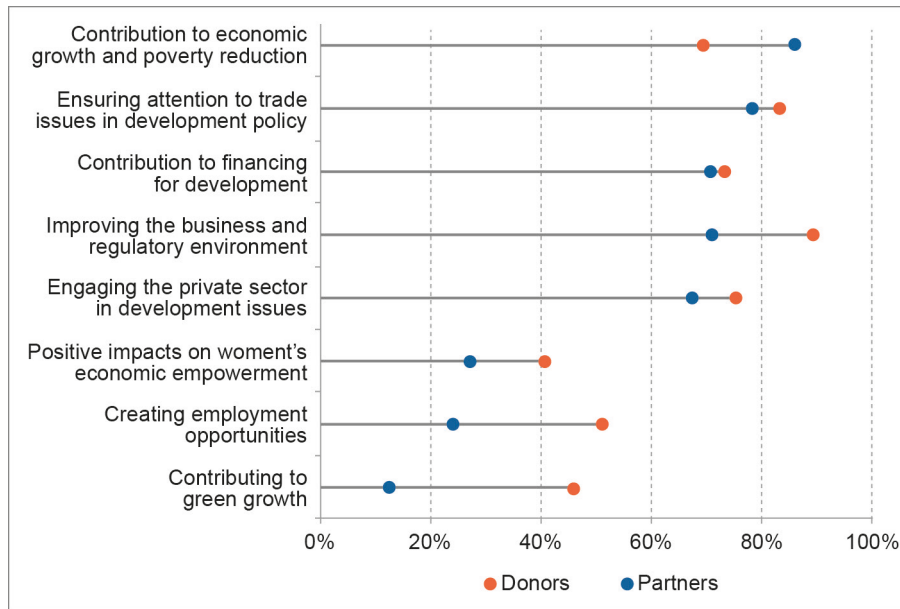
The development community has long recognised that the vicious circle of underdevelopment linking high population growth, poverty, malnutrition, illiteracy and environmental degradation can be broken only through policies which integrate the objectives of promoting sustainable economic growth; enabling broader stakeholder participation in the productive processes; a more equitable sharing of their benefits; and ensuring environmental sustainability (OECD, 1989). Yet integrated approaches are also challenging to execute, while experience with multi-sector programmes have been mixed so far.

Implementing aid-for-trade projects and programmes has required an integrated understanding of economic systems and their interaction with other systems which follow their own internal logic. A central debate over the last ten years has been whether the focus of aid for trade should be narrow or broad. Many commentators have made the case that the definition of aid for trade was too broad and this diminished its effectiveness (Adhikari, 2011). But the WTO Task Force Recommendations and ongoing OECD/WTO monitoring process have continually linked aid for trade to a broader set of objectives including poverty reduction, green growth and gender equality. In pursuit of the SDGs this broader approach makes even more sense and aid for trade can and should contribute to multiple goals. In addition, there is mounting support for the idea that by strengthening the role that trade plays in development, aid for trade can help developing countries build capacities that in turn can contribute to a healthier environment and to fighting poverty. Unfortunately, donors and partner countries do not always prioritise these broader objectives.

The 2015 aid-for-trade monitoring exercise indicated that many partner countries, as well as donor countries, have high hopes that aid-for-trade can contribute to improving a country's capacity to achieve the SDGs. Expectations are particularly high regarding aid for trade's contribution to economic growth and poverty eradication through inclusive and sustainable development and financing for development. This confirms that countries themselves see trade as an effective enabler, or a means of

implementation. The response also indicates that countries – particularly partner countries – are yet to be convinced that economic development and social and environmental outcomes, such as improving women’s economic empowerment or achieving green growth, are bolstered by aid for trade (see Figure 7).

Figure 7: Contribution of Aid for Trade to the Sustainable Development Goals



Source: OECD/WTO 2015 Aid for Trade monitoring exercise

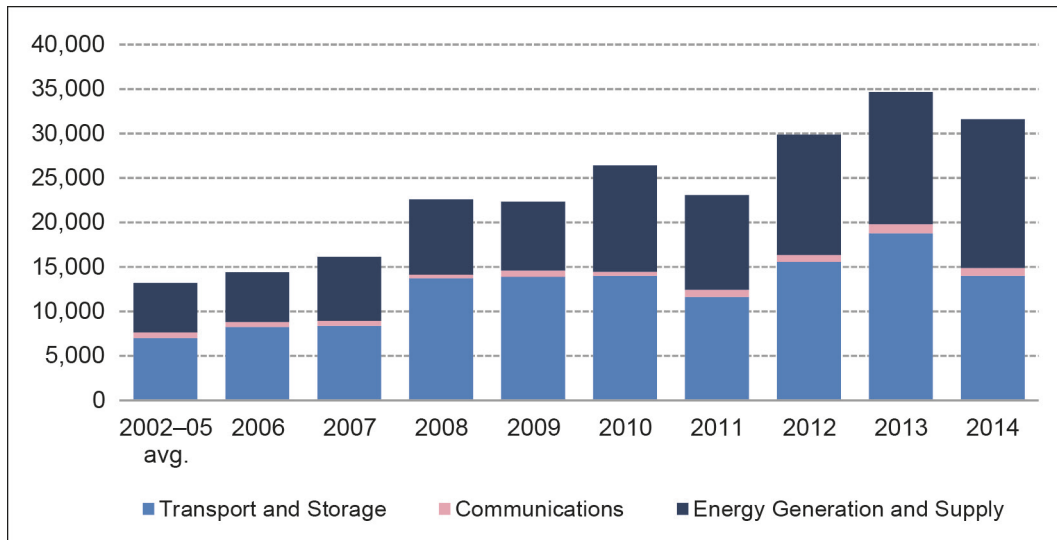
3.1 Inclusive Growth

As noted above, the bulk of aid for trade is committed to improving economic infrastructure and building productive capacity. Both play an important role in reducing trade and transport costs, improving the business environment and connecting local firms to regional and global value chains. There is now abundant evidence to suggest that aid for trade helps to boost economic growth and depending on the pace and pattern reduces poverty (SDG goal 1). The relationship between trade openness, growth and poverty reduction is complicated, but there is little doubt that changes in trade directly, and indirectly, affect the welfare of households (Higgins and Prowse, 2011). Aid for trade can be targeted to enhance inclusive growth.

3.1.1 Economic Infrastructure

SDG Goal 9 calls for resilient infrastructure, including regional and trans-border infrastructure to support economic development. Goal 9a is about facilitating sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing states. Annual commitments to transportation and storage averaged USD 13 billion between 2006 and 2014 (Figure 8). This has contributed to the improvement of roads and rail. Buys, Deichmann and Wheeler (2006) and Shepherd and Wilson (2008) have found that road improvements can have substantial positive effects on trade volumes. It also plays a role in reducing poverty by connecting rural producers to markets, and improving access to health services and education.

Figure 8: Aid for Economic Infrastructure
(USD million 2013 prices)



Source: OECD/DAC Creditor Reporting System (CRS).

The lack of electricity can dramatically affect production costs and reduce export competitiveness and, thus, trade performance. But the cost of unreliable electricity can be even greater. Unreliable electricity not only requires the purchase of generators but can damage machineries and equipment used in production due to fluctuation in power intensities (Hallaert et al, 2011). Several donors are involved in strengthening electrical transmission and build infrastructure for distribution from power sources to end users. Aid committed to the energy sector has expanded significantly from an average of USD 5.5 billion between 2002 and 2005 to USD 15 billion between 20012 and 2014. These efforts contribute to SDG Goal 7: Energy for All. This in turn can contribute to services delivery and better education outcomes.

It is also argued that aid can catalyse investment by crowding in the private sector. However empirical studies on the effect of aid on foreign investment indicate ambiguous relationships with inconsistent results. Harms and Lutz (2006) suggest that higher volumes of aid have no effect on private foreign investment. Conversely Selaya and Sunesen (2008) show that aid invested in complementary inputs such as social and economic infrastructure draws in foreign capital, while aid directly invested in physical capital crowds out private foreign investments. In addition Eden and Kraay (2014) find that on average every dollar invested in public infrastructure in developing countries crowds in two dollars of private investment.

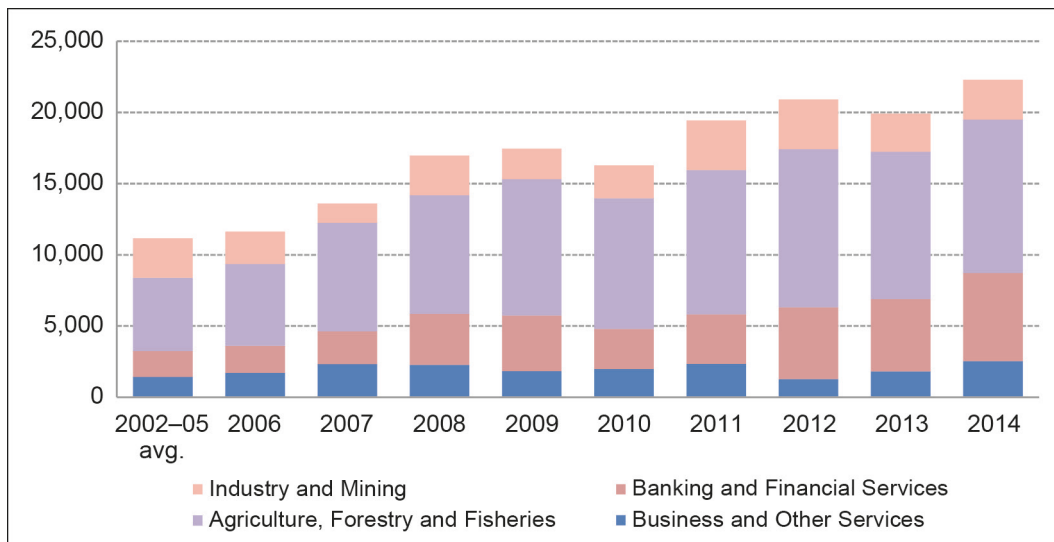
Development agencies have traditionally worked with developing countries to promote conditions for a dynamic private sector, strengthening the role of individual initiative, private enterprise and the market system. Developing countries have an obligation to ensure that their economy is not stifled by over-regulation, corruption and by powerful state and private monopolies. While countries claim they want to improve the conditions for investment, powerful colluding interests may prevent any reforms that threaten a privileged position or ulterior purpose. Also while improvements can be politically difficult, they do not necessarily lead to an immediate investment reaction (Moss, 2010). To help countries improve their business environment, development agencies support interventions using ODA funding which lower the costs of investment, reduce risks, improve competition and develop capacity.

In practice, aid for the private sector encompasses many types of activities. Most bilateral and multilateral donors provide support to the enabling environment, but others go beyond this. White (2004) shows that donors mostly support the business environment: including macroeconomic strategies, governance issues, and policy, legal and regulatory frameworks. Altenburg and von Drachenfels (2006) suggest that a range of complementary public policies is needed to create competitive sectors and overcome internal constraints, especially in small-scale economies. Some have argued that too much effort has been focused on achieving easily measured but low-impact regulatory reforms and too little on relieving important physical constraints such as a lack of infrastructure (Page, 2014).¹

3.1.2 Building Productive Capacities

Agriculture remains for a key economic activity for developing countries and a vibrant sector will help to make progress on SDG Goal 2 to end hunger, achieve food security and promote sustainable agriculture. Goal 2.4 aims to double agricultural productivity by 2030. This requires improvements in technology and management practices, expanded access to markets and credit, increased organisational and market efficiency, and restoration and protection of resiliency in production and livelihood systems. Aid for building productive capacities has been mostly targeted to agriculture with an average of USD 9.5 billion per year between 2011 and 2014 (Figure 9). Aid for agricultural development improves productivity through investments that foster increasing returns to land, labour, and capital. A recurring feature of aid projects in agriculture is an emphasis on rural poverty and food security.

Figure 9: Aid for Building Productive Capacities
(USD million 2013 prices)



Source: OECD/DAC Creditor Reporting System (CRS).

¹ The most common area of work among members of the Donor Committee on Enterprise Development (DCED) is in creating Business Enabling Environments, including a focus on infrastructure, improving the education and health of workers and enhancing economic reform and governance. Small and Medium Enterprise development is a cornerstone of more than two-thirds of DCED members. Others pursue trade and export issues, gender equity and youth empowerment as well as Public-Private Partnerships. Business Engagement is the latest area of work for many members – donors engage the private sector to increase the level of development outcomes in private sector core goals and involve business in formulating the government’s international development policy making.

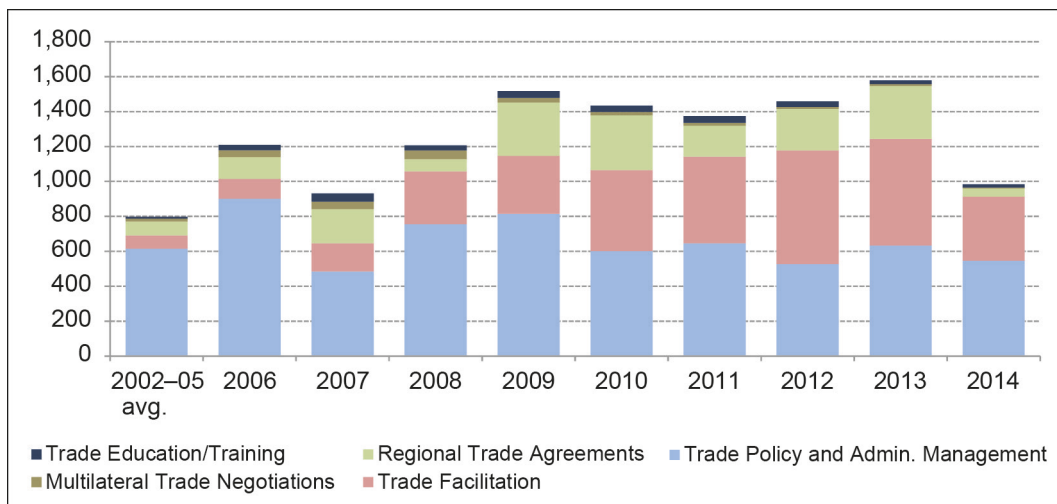
Strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all is the focus of SDG Goal 8.10. For the private sector to grow, access to finance is essential. Aid for banking has increased by USD 5.5 billion between 2012 and 2014. This supports central banks, financial intermediaries, credit lines, microcredit and credit co-operatives. In addition to credit, a healthy business and investment environment requires trade and business associations, legal and regulatory reform, private sector institution capacity building and advice, trade information, and public-private sector networking at trade fairs. These business services received funding of USD 2.5 billion in 2014, the highest level ever. The tourism sector has attracted less concessional resources but sustainable tourism creates jobs and promotes local cultures and products (Goal 8.9).

3.1.3 Trade Capacity Building

Goal 16.8 aims to broaden and strengthen the participation of developing countries in the institutions of global governance. Aid for trade policy and planning includes support to ministries and departments responsible for trade policy, trade-related legislation and regulatory reforms, policy analysis and implementation of multilateral trade agreements, e.g. technical barriers to trade (TBT) and sanitary and phyto-sanitary (SPS) measures. It also covers costs associated with mainstreaming trade in national development strategies. Flows for overall trade policy and regulations declined in 2014 to under USD 1 billion (Figure 10), while support for trade policy and management has stagnated averaging just under USD 600 million between 2010 and 2014. Support for multilateral negotiations is negligible and has declined but it could be useful to strengthen developing country involvement at the WTO.

Aid for trade facilitation covers support provided for the simplification and harmonisation of international import and export procedures (e.g. customs valuation, licensing procedures, payments and insurance), customs departments and tariff reforms. After several years of expanding support for trade facilitation, flows also declined in 2014 to USD 368 million. Nevertheless USD 3.5 billion was committed between 2006 and 2014. Improving customs procedures can counteract smuggling and trade of illegal drugs. It also has positive health effects in that it reduce the incidence of sexually transmitted diseases in the vicinity of border crossing (Jouanjean et al, 2016).

Figure 10: Aid for Trade Policy and Regulations
(USD million 2013 prices)



Source: OECD/DAC Creditor Reporting System (CRS).

3.1.4 Trade Related Adjustment

Another way in which aid for trade could contribute to more inclusive growth is through trade-related adjustment. Aid for trade-related adjustment helps developing countries tackling the costs associated with trade liberalisation, such as tariff reductions, preference erosion, or declining terms of trade. Aid for trade could mitigate and compensate for the adverse impacts of these trade changes, particularly when they affect poor people. At the time there were hopes that an imminent conclusion of the Doha Round would increase the demand for aid for trade-related adjustment. Support peaked at approximately USD 60 million it has subsequently declined (Figure 11). The reform of the EU Sugar Regime in 2006 involved a loss of quotas and gradual reductions in the price guaranteed by the EU. It forced EU Sugar Protocol countries to introduce measures to improve the competitiveness of their sugarcane sectors, and to mitigate the negative economic and social impact of the reform. Much of the reported flows were part of this initiative.

Figure 11: Aid for Trade-related Adjustment
(USD million 2013 prices)



Source: OECD/DAC Creditor Reporting System (CRS).

3.2 Gender Equality

Another important dimension of inclusive growth is gender equality. Gender is a relatively minor objective in aid-for-trade projects amounting to 16% of flows in 2014 (Figure 12). Aid for trade can help advance gender equality (SDG Goal 5) and empower women by expanding access to economic opportunities, particularly for sectors with a high share of women. It can also enable access to technology and information to promote the economic empowerment of women. In particular, reducing trade costs for SMEs will contribute to making trade more inclusive as it may allow SMEs to expand employment and increase wages. Gender equality can benefit from this, given that many SMEs are owned by women and employ more women than men.

3.3 Green Growth

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

a cause and result of environmental degradation. Integrating the economic and environmental pillars of sustainable development provides the basis for green growth. This approach involves wiring together economic, environmental, technological, financial and development aspects into a coherent framework. This is key to achieving the SDGs 13–15. Aid for trade contributes in various ways to Goal 13 on climate change by promoting low carbon energy and transport infrastructure. Goal 14 on oceans is related to building productive capacity in sustainable fishing, while Goal 15 covers building capacities in sustainable forestry.

Experience suggests that green growth can open up new sources of growth through greater efficiency and productivity of natural resources, innovation, and new markets for green technologies, goods and services. Climate change and policies taken to mitigate it will shift patterns of comparative advantage. These potential changes in trade patterns, including new opportunities arising from achieving low-carbon standards, present trading opportunities for developing countries. An integrated approach is needed to tackle climate change, energy sustainability, biodiversity loss, food security and poverty alleviation.

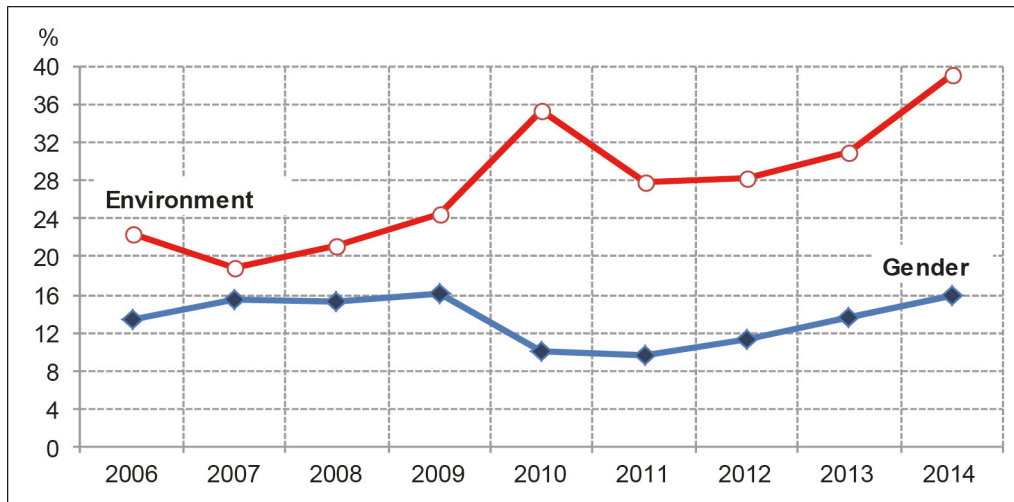
Developing countries can shift to lower-carbon paths while promoting development and reducing poverty, but this depends on financial and technical assistance available domestically and especially from high-income countries (Stern, 2009). A possible avenue to assist the transition to green growth is through aid-for-trade programmes aimed at increasing the participation of poorer developing countries in international trade while at the same time strengthening environmental goods and services trade-related infrastructure and minimising supply-side constraints (OECD, 2012).

Trade is indispensable for accelerating the diffusion of green growth. Aid for trade will help ensure that trade plays this key role in transmitting new knowledge, technology and behaviour to developing countries. OECD Ministers recognised the importance of aid for trade for achieving green growth with a declaration at the 2010 Ministerial Council Meeting that “in light of our shared interest in fostering sustainable and inclusive growth, we will pursue efforts to facilitate trade and investment in environmental goods and services and to promote effective Aid for Trade”.

Environmental objectives are central to a number of aid-for-trade projects and programmes.² Typical examples of aid-for-trade projects with environmental objectives include infrastructure projects designed with comprehensive and integrated environmental protection and management components; activities promoting sustainable use of energy resources (power generation from renewable sources of energy); and energy conservation. Examples of aid for productive capacities include environmental projects such as sustainable management of agricultural land and water resources; sustainable forest management programmes, combating land degradation and deforestation; sustainable management of sea resources; adoption and promotion of cleaner and more efficient technologies in production processes; measures to suppress or reduce pollution in land, water and air (e.g. filters); increasing energy efficiency in industries; and sustainable use of sensitive environmental areas for tourism (OECD, 2011c).

² Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) using the so called “Rio markers.” Every aid activity reported to the CRS should be screened and marked as either (i) targeting the Conventions as a ‘principal objective’ or a ‘significant objective’, or (ii) not targeting the objective.

Figure 12: Aid for Trade with a Gender or Environment Objective
(shares in total aid for trade)



Source: OECD/DAC Creditor Reporting System (CRS).

The proportion of aid for trade with an environmental objective, and thus contributing to the promotion of green growth has been trending upwards over time. While it averaged just 20% in 2007, as of 2014, the level stands at almost 40% (Figure 12). Almost half of total aid for trade with an environment objective is in the form of support for renewable energy – wind, solar, biogas etc. A significant amount is also reported under low-carbon transportation systems i.e. mass urban transit and rail. Sustainable agriculture also attracts significant levels of support. Japan and Germany are the two largest donors and provided 55% of total aid for trade with an environmental dimension in 2014.

4. MEANS OF IMPLEMENTATION: FINANCE FOR DEVELOPMENT

The vision underpinning the 2030 Sustainable Development Agenda is broad and ambitious. It calls for an equally broad and ambitious financing strategy. The resources required are immense, as much as USD 4.5 trillion per annum according to some estimates (Sachs, et al 2014). The first International Conference on Financing for Development taking place in 2002 in Monterrey Mexico highlighted that trade in many cases is the single most important external source of development finance (UN, 2002). The Addis Ababa Action Agenda (AAAA) no longer emphasises this role of trade as a source of finance. Instead, the Agenda highlights domestic resource mobilisation and Foreign Direct Investment as the main source for financing development. International trade is mainly referred to as an engine for inclusive economic growth and poverty reduction. This remainder of this section put ODA and OOF in the context of other development finance flows and highlights its continued relevance especially in the case of low income countries.

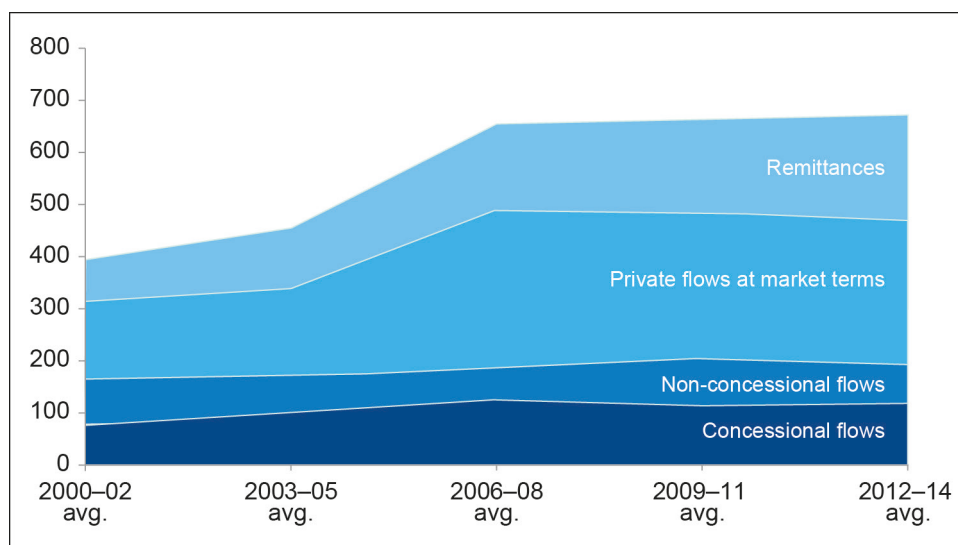
4.1 ODA Remains Critical

The AAAA stresses the need for a significant additional development finance contribution from the private sector, although it also highlights the indispensable role of ODA in financing the SDGs. Until quite recently, ODA was the main external source of finance for development. Increasingly, it is been considered as only a part of the overall funding for development. That said, ODA, and other forms of official assistance continue to play a significant role in bolstering domestic development efforts in many countries. Used well, aid can generate large payoffs in terms of reducing poverty, meeting basic needs, and helping nations build human and institutional capacity.

While aid has eradicated diseases, prevented famines, and done many other good things, its effects on growth is often difficult to detect given the limited and noisy data that is available. Arndt et al (2010) found that it was reasonable to assume that aid worth 1% of a country's gross domestic product raised economic growth by 0.1% a year on average during the period 1970–2000. That is a small, but helpful impact. Clemens et al (2012) found that aid causes some degree of growth in recipient countries, although the magnitude of this relationship is modest, varies greatly across recipients and diminishes at high levels of aid.

Since 2000, ODA levels have doubled in real terms, but remain well below the long-established UN target for advanced countries of providing 0.7% of gross national income in ODA—averaging about 0.3% in 2014. At nearly USD 114 billion in 2014, ODA represented only 20% of all official and private flows from the 29 member countries of the OECD's Development Assistance Committee (DAC) and the International Financial Institutions. In addition, developing countries received USD 68 billion in “other official flows” provided by public bodies at close to market terms. Private finance at market terms, such as foreign direct investment, private grants from philanthropic foundations and non-governmental organisations amounted to USD 280 billion (Figure 13).

**Figure 13: Flows to Developing Country
by DAC Members and Multilateral Agencies**
(2013 constant, USD billion)



Source: OECD.

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

Table 1: Estimates of Concessional Finance for Development (ODA-like Flows) of Key Providers of Development Co-operation that do not Report to the CRS
(gross disbursements, USD million)

Country	2010	2011	2012	2013	2014	Source
Brazil ¹	500	n.a.	n.a.	n.a.	n.a.	Institute of Applied Economic Research (IPEA) and Brazilian Cooperation Agency (ABC).
Chile	16	24	38	44	49	Ministry of Finance.
People's Republic of China	2,564	2,785	3,123	2,997	3,401	Fiscal Yearbook, Ministry of Finance.
Colombia	15	22	27	42	45	Strategic institutional plans, Presidential Agency of International Cooperation.
Costa Rica	n.a.	n.a.	n.a.	21	24	Annual Budget Laws.
India ²	708	794	1,077	1,223	1,398	Annual Reports, Ministry of Foreign Affairs.
Indonesia	10	16	26	49	56	Ministry of National Development Planning.
Mexico	n.a.	99	203	529	n.a.	Mexican Agency for International Development Cooperation (AMEXCID).
Qatar	334	733	543	1,344	n.a.	Foreign Aid reports, Ministry of Foreign Affairs.
South Africa ²	154	229	191	191	148	Estimates of Public Expenditures, National Treasury.

PRC = People's Republic of China.

n.a. = not available.

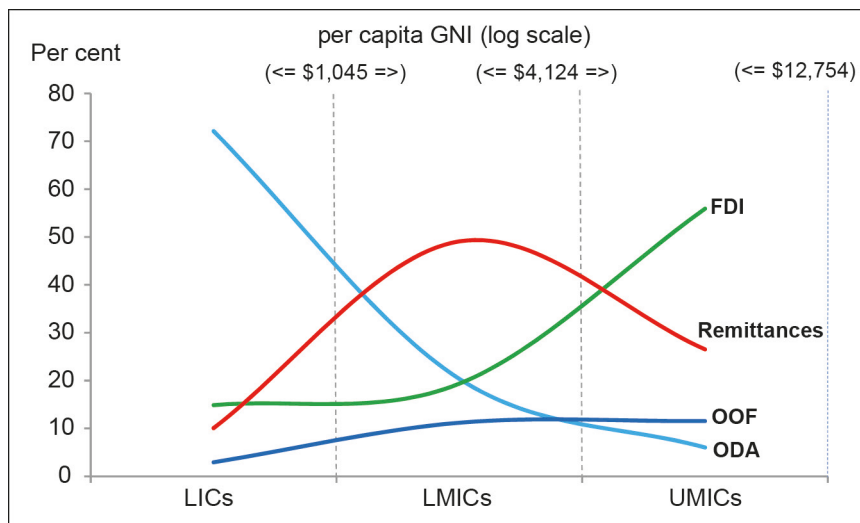
Note (i) Data includes only development-related contributions. This means local resources, financing from a country through multilateral organisations earmarked to programs within that same country, are excluded. Moreover, as for reporting countries, coefficients are applied to core contributions to 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 part channelled through multilateral organisations is (partly) based on websites of multilateral organisations, www.aidflows.org and data from UN Department of Economic and Social Affairs (DESA) except for Brazil and India.

Brazil's development co-operation is significantly higher according to the official figures published by the Brazilian government. The OECD uses these data but, for the purposes of this analysis, only includes in its estimates: 1) activities in low and middle-income countries; and 2) contributions to multilateral agencies whose main aim is promoting economic development and welfare of developing countries (or a percentage of these contributions when a multilateral agency does not work exclusively on developmental activities in developing countries). The OECD also excludes bilateral peacekeeping activities. Brazil's official data may exclude some activities that would be included as development co-operation in DAC statistics, and so are also excluded from the OECD estimates that are based on Brazil's own data.

Southern providers of development co-operation are also increasingly important global players. The PRC is now a major source of development assistance, particularly in Africa. In addition, the PRC accounts for 20% of all foreign direct investment in developing countries. India is also becoming increasingly active especially in neighbouring countries and in Africa. Based on their own experience, Brazil and Mexico assist Latin American neighbours (OECD, 2014).

The distribution of ODA is very different from other financial flows. Also, ODA performs very different functions to other financial flows. Given its unique mandate to directly target development, improve welfare and reduce poverty, ODA remains essential in supporting many countries, especially the poorest with little access to private finance and low levels of domestic resources. For almost three-quarters of countries with government spending of less than USD 500 per person, ODA is the largest international resource flow they receive (Figure 14).

Figure 14: External Financial Flows to Developing Countries by OECD members and IFIs (Share of total (2013))



Source: OECD.

While the relative importance of ODA compared to private investments is decreasing in the lower middle income (LMICs) and upper middle income countries (UMICs), it can still contribute to their development through mobilising private flows, leveraging private investment and facilitating trade. For instance, market failures or even missing markets might impede linking-up the large pools of savings in developed countries and the opportunities for high-return investments in developing countries. Obstacles include, amongst others, the absence of bankable projects and the lack of capacity among institutional investors. Multilateral development banks and national development finance institutions can address these market failures through targeted financial interventions, thereby leveraging substantially larger amounts of private financing participation (OECD, 2016).

However, the development merits of such 'blended financing' will depend on the specific transactions and projects being developed. Moreover, the rhetoric around 'blended finance' may be misleading. The development community has coalesced around the objective of 'turning billions into trillions'. But that is an argument about what is desirable, not about what is possible. If it costs as much to catalyse private finance

as to provide the equivalent public finance, it does not help closing the financing gap (Carter, 2015). Also blended finance runs the risk of returning to the ineffective practice of tying aid money to procurement from the donor country

Donor support for private investment has come in for criticism and policy makers seeking to maximise the role that private finance can play in development must recognise its limitations. In developing countries, the private sector is dominated by micro, small and medium enterprises, yet they find it particularly difficult to access external private financing sources. Close to 80 % operate in the informal economy, which not only reduces the government's tax base and can impact decent working practices, but is also a major obstacle for both enterprises' and workers' access to finance, insurance, social safety nets and formal commercial opportunities.

5. PARTNERSHIPS: ENGAGING THE PRIVATE SECTOR

Private sector development has long been considered as a key component for promoting economic growth and reducing poverty. The renewed emphasis on the private sector in development is in fact not new at all, but a return to earlier development approaches. The dominant interpretation of development has always revolved around economic well-being and economic growth. What has changed is the role of the state vis-à-vis the market and non-state actors. Despite periods with more attention for the role of the state, basic needs, redistribution, social service provision or good governance, the undercurrent of international development approaches have continuously favoured the market, with economic growth, trade and financial liberation presented as the main pathways to development (Kindornay, 2013).

Using aid to support private sector development though has a mixed record. Schulpen and Gibbon (2002) critically reviewed private sector development policies, arguing that they were shaped mostly by the nature and interests of the private sector in donor countries themselves, incorporated a high proportion of tied aid, and failed basic tests of coherence. Moss (2010) claims that donor attempts to address the investment constraints that hinder private sector growth, while constructive and positive have been inefficient and sometimes haphazardly deployed. The lack of selectivity, prioritisation or strategic focus has hampered the effectiveness of aid.

The United Kingdom's Independent Commission for Aid Impact (ICAI) assessment of DfID's private sector work identified failures to develop a realistic, well-balanced and joined up country level portfolio of programmes. A major constraint for donors is that objectives essential for private sector development, including regulatory reform and relaxation of international trade rules, lies not only outside its control but also outside its core competencies as an aid agency (ICAI, 2014). More recent reviews are more positive. For example, an EU evaluation of private sector development (PSD) programmes found that while there is broad consensus on the importance of PSD for job creation, linkages between EU support for PSD and employment generation have remained very distant (EC, 2013). The evaluation also found that the EU has made valuable contributions to the development of the private sector in middle income countries, notably through policy dialogue, alignment, and the clarity of the EU's role in PSD.

Current opinions, however, transcend the traditional approach to development. In this view, the private sector is an actor that could and should be directly involved in addressing development challenges. Although already noticeable at earlier occasions, the role of the private sector was stressed at the 2011 High Level Forum on Aid Effectiveness in Busan. Participants recognized the private sector as a key

partner and on equal footing with all other development actors. They agreed to “enable the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction” (OECD, 2011a).

What could be considered new is the underlying multi-actor approach. In the face of complex, cross-border, cross-issue problems, the importance of cooperation between societal sectors has gained recognition. The awareness has grown that not only governments but all societal actors will need to play their part in addressing development challenges. This multi-actor approach to confronting 21st century development challenges has been accompanied by the redefinition of the role and nature of business and is mirrored in the increased attention to the active role of firms in development. It may not be about state or business or civil society, but about state and business and civil society. Attributing enterprises an active role, and therefore responsibility, as key actors in development, is central in the current ‘private turn’ (Vaes and Huyse, 2015).

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

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

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

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

The results of these programmes have been judged as largely positive: they have helped firms develop new products, increase their exports and save costs. In addition, the results are aligned with the objectives of the development community, such as: improved workers' skills, better working conditions, improved health among workers, job creation, poverty alleviation, and improved environmental performance. Consumers have 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, 2015).

Strengthening private sector engagement further could be achieved by creating shared multi-stakeholder value and building platforms for project-based collaboration.³ Such reinforced partnership could be forged by scaling up and systematically including the private sector in the four different stages of the aid-for-trade project life cycle. In the first place, the views of the private sector could be solicited to provide information about obstacles to be removed or incentives to be improved. Second, the private sector could share best practices they have observed from other aid-for-trade programmes or from programmes they have implemented themselves. Third, governments, donors and private companies could join forces to scale up their actions and maximise the impact. And finally the private sector could provide evidence of success or failure.

Expanding the partnership with the private sector should respect international agreements which discipline the potential distortion of trade flows with aid money. Thus, involving the private sector in donor programmes should not reintroduce the bad practice of tying aid to donor companies. The OECD Arrangement on Officially Supported Export Credits offers an extensive framework for the orderly use of officially supported export credits, while the 2001 DAC Recommendation unties ODA to the LDCs and HPICs. Furthermore, the WTO Agreement on Subsidies and Countervailing Measures contains binding disciplines for the use of subsidies.

³ Innovative financing involves non-traditional development approaches such as Public-Private Partnerships (PPPs), and catalytic mechanisms that (i) support fund-raising by tapping new sources and engaging investors beyond the financial dimension of transactions, as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground. In general, the use of concessional funds to mobilise private investment has to be carefully considered. Doing so should not damage sustainable local capital markets or undermine market-determined private flows. Among the various approaches, there is an interest in how to develop ODA-backed public-private partnerships (PPPs) that can encourage investment, not least in the infrastructure sector. PPPs hold much promise as a means of bringing together public and private – as well as local and international – resources and expertise, but much is required from all involved to realise their potential (OECD, 2006b).

6. ENSURING ACCOUNTABILITY

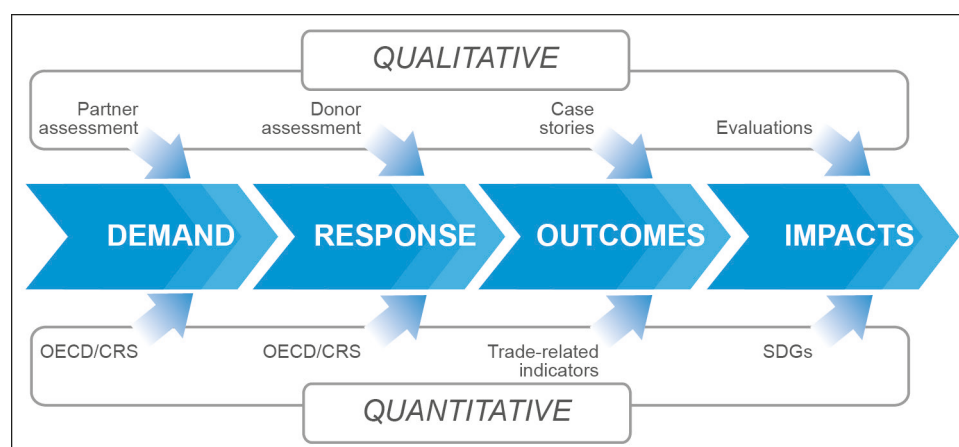
The UN report on the follow-up and review of the 2030 Agenda for Sustainable Development calls for a voluntary, effective, participatory, transparent and integrated monitoring framework. The report encourages Member States to conduct reviews of progress at the national and sub-national levels. These national reviews should be country-led and country-driven and provide incentives for helping to translate the Agenda into a nationally owned vision with clear objectives and geared towards accelerating implementation. The reviews should also aim to enable mutual learning across countries and regions and help all countries to enhance their national policies and institutional frameworks. Finally it should mobilise necessary support and partnerships for the implementation of the SDGs. The report argues that the value of a unified and universal approach to such reviews can be found in the WTO Trade Policy Review Mechanisms (United Nations, 2016).

In addition, an annual High-level Political Forum on Sustainable Development will be tasked with “assessing progress, achievements and challenges faced by developed and developing countries” and ensuring “that the Agenda remains relevant and ambitious”. The annual meetings of the high-level political forum, held under the auspices of the Economic and Social Council, should pave the way for its quadrennial meeting under the auspices of the General Assembly. The WTO in collaboration with the OECD has created a similar review framework to track progress in implementing the Aid for Trade Initiative. The next section will draw some lessons learned.

6.1 Shining a Spotlight

The WTO/OECD monitoring framework consists of three accountability mechanisms with different but complementary objectives. At the **local level the framework aims at fostering** local ownership and ensuring that trade-related needs are prioritised in national development strategies and adequately funded by the donor community. At the regional level the objective is to focus attention on regional trade-related constraints and galvanise collective action to tackle them. Finally at the **global level the Initiative provides a spotlight on** what is happening at the local and regional levels, what is not, and where improvements are needed.

The monitoring exercise collects qualitative and quantitative information from a number of different sources such as self-assessments from developing and developed countries and IFIs, statistical data on aid-for-trade proxies extracted from the OECD Creditor Reporting System (CRS) and country profiles that show links between development finance inputs and trade and development results. This information is buttressed by case stories on aid-for-trade programmes, research from international governmental organisation, non-governmental organisations, findings from independent evaluations and academic research (Figure 15).

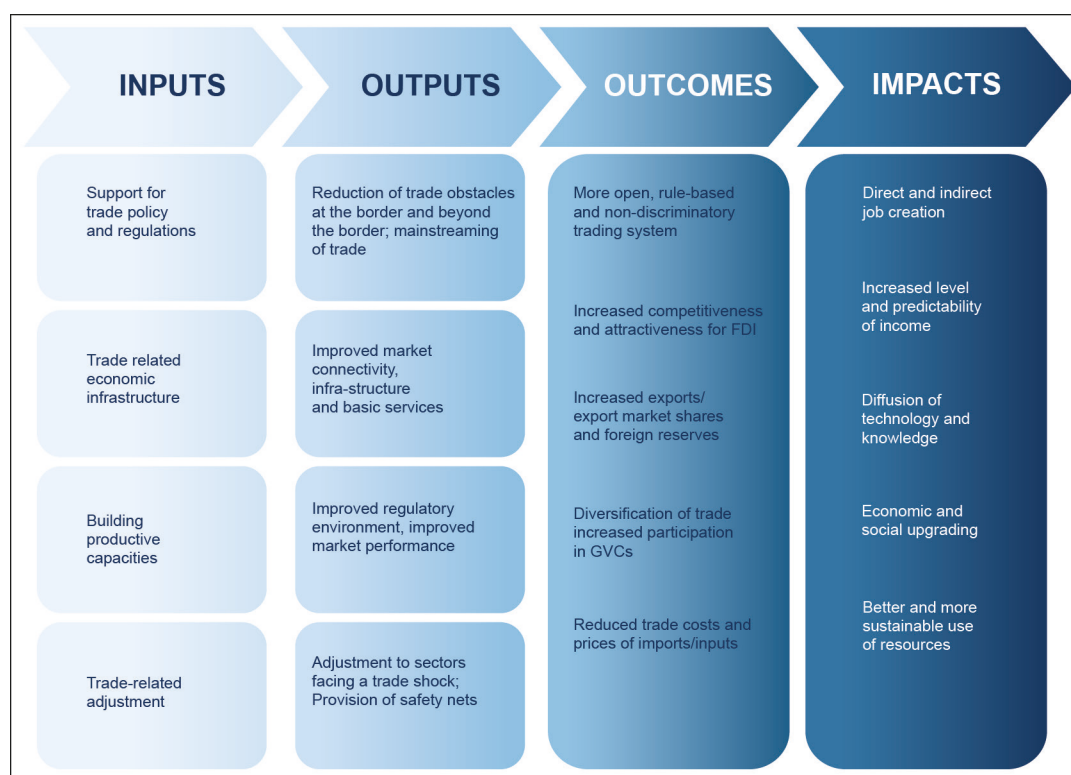
Figure 15: Aid-for-trade Monitoring Framework

Source: OECD.

6.2 A Trade and Development Results Framework

A number of efforts have been made to move the aid for trade results agenda forward. The OECD provided a comprehensive overview of existing evaluation approaches, methods and processes and proposed a menu of trade-related indicators (OECD, 2011b, 2013). In addition, a number of attempts have been made in the literature to develop indicators for monitoring trade capacity, trade performance, and aid for trade results. The International Finance Corporation (IFC, The World Bank Group) Doing Business Project has played a major role in promoting the culture of results by monitoring selected indicators and benchmarking countries against each other. In addition, Doing Business contains a Trading Across Borders indicators series that specifically measures a country's trade facilitation capabilities. The OECD's trade facilitation indicators measure a country's trade facilitation capabilities that identify areas for action and enable the potential impact of reforms to be assessed. Estimates based on the indicators provide a basis for governments to prioritise trade facilitation actions and mobilise technical assistance and capacity building efforts for developing countries in a more targeted way (OECD, 2015). The aim is to compare a country's performance on the basis of selected indicators allowing for country group benchmarking. The results chain framework describes the causal sequence of development interventions based on four main elements: (i) inputs and activities (ii) direct outputs, which in turn lead to (iii) intermediate outcomes that contribute to (iv) long-term impacts (Figure 16).

Other initiatives have followed, which attempt to provide a more or less comprehensive list of trade-related indicators, sometimes aggregated in synthetic indexes and country fact-sheets or global rankings. These have included the World Trade Indicators collected by the World Bank Institute, which contains a broad set (about 500 variables) of trade policy and outcome indicators for 211 countries and territories, and the World Economic Forum (WEF) Global Competitiveness and Enabling Trade indexes, which contain over 100 indicators (based on available statistics and on surveys) of relevance to trade, supply chain management, and competitiveness issues. Some more specific indexes have also been developed, for example by the World Bank in the field of logistics (Logistics Performance Index, LPI).

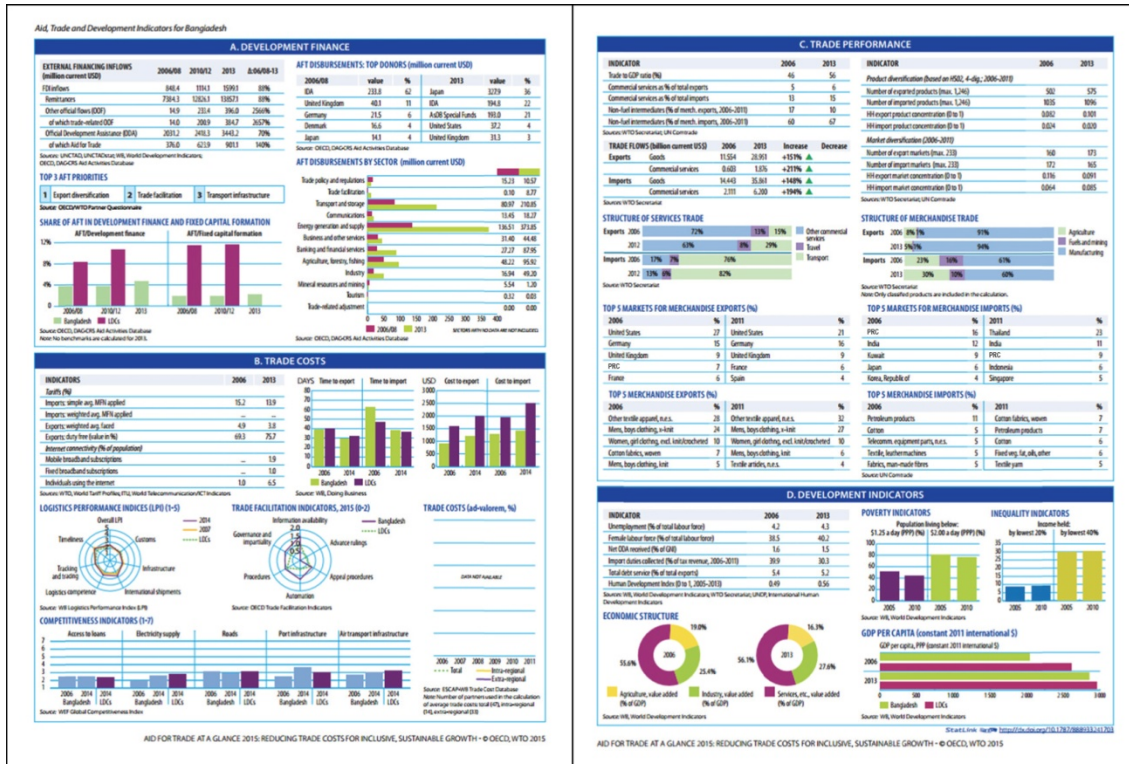
Figure 16: Aid for Trade Results Framework

Source: OECD 2014.

6.3 Accountability at the Local Level

The aid-for-trade country profiles transpose the idea behind project-based analytical tool to the macro level and allow for tracing a possible sequence of aid-for-trade interventions to achieve trade and development objectives (Figure 17). The country profiles therefore present indicators in four sections: Development Finance; Trade Costs; Trade Performance; and Development Indicators. The country profiles do not posit a causal link; they do not attempt to test or estimate the causal impact of aid for trade at the macro level. Instead, they give a dynamic perspective on development of a specific country. In this sense, the sequence traced is one of contribution, not attribution. Where such contribution can be discerned, the country profiles provide ground for further in-depth, country-based discussion fuelled by further research. In this sense, the country profiles contribute to a greater understanding of the important role that aid-for-trade flows play in a country's achievement of the trade and development objectives targeted by these flows. This could also provide a model for the SDG country discussions.

Figure 17: Aid for Trade Country Profile



PRC = People's Republic of China

Source: OECD/WTO.

The Task Force on Aid for Trade recommended that an ‘assessment of Aid for Trade – either as a donor or as a recipient – should be included in the WTO Trade Policy Reviews. This was reinforced by the agreement at the December 2006 General Council that a general assessment of Aid for Trade should be included in future Trade Policy Reviews. The 2010–11 WTO aid-for-trade work programme sought to operationalize these recommendations through ‘systematically integrate an analysis of national Aid for Trade strategies and experience as part of the Trade Policy Review (TPR) process’. It was further agreed that there would be a series of pilot TPRs and that based on their further consideration would be given to ‘including an aid-for-trade analysis in future TPRs’.

Six pilot TPRs were completed and the process was welcomed by WTO Members, especially by developing countries who considered that an inclusion of Aid for Trade brought additional value to the TPR process. It was also clear that the process led to additional internal coordination on aid-for-trade issues. However, the failure to put in place a more systemic follow-up mechanism where the country under review and its development partners can have a dedicated focus on Aid for Trade undermined the full integration of aid for trade in the TPRM. Since 2012 aid for trade sections are no longer included in the TPRM.

This absence of national aid for trade discussions points to a more general problem which also might manifest itself with the SDGs. The aid for trade discussion is well established at the global level in particular in headquarters of Regional Economic Communities and intergovernmental organisations. At the country level both in OECD capitals and in donor-recipient discussions the focus of the debate is still very much sectoral, such as for instance on infrastructure, or rural development, or private sector

development. Only in cases where countries focus their development strategies explicitly on improving trade performance does aid for trade resonate at the country level and among stakeholders beyond the government agencies that are directly involved. Given country heterogeneity, a differentiated focus of countries development strategy is only justified. Not all countries should prioritise improving trade performance. In some countries a focus on governance or social sectors might be more appropriate.

The SDGs acknowledges that different countries have different priorities at different stages of development and should set their own development trajectory with their own targets and performance indicators. Introducing such management systems more broadly requires considerable investments in human and institutional capacity building. Once these investments have been made, these management systems do provide powerful tools to ensure that aid and development finance does contribute to meeting the ambitious development objectives. As stressed in the Paris Declaration on Aid Effectiveness and outcome documents of subsequent high level meetings such as in Accra and Busan, the ultimate objective is to ensure that aid and other forms of development finance are fully integrated in national schemes. More specifically, country-based approaches will increase transparency and objectivity of decision making, promote alignment of donors with partner country's sustainable development objectives and targets, reduce parallel results reporting processes, increase mutual accountability and allow for country comparisons. This works best in countries where the political leaders work cohesively towards common objectives and requires internal consensus on policy objectives and leadership through multiple levels of public administration and feedback mechanism (OECD, 2013).

7. CONCLUSIONS

The MDGs showed that sustained improvements are unachievable through one-dimensional or silo approaches. The SDG with their comprehensive scope and universal coverage require a response which incorporates multidimensionality into policy design. The aid community has long recognised that the vicious circle of underdevelopment can only be broken through policies which integrate the objectives and requirements of promoting sustainable economic growth, enabling broader participation of all the people in the productive processes and a more equitable sharing of their benefits and ensuring environmental sustainability.

This involves identifying trade-offs, complementarities and unintended consequences of policy choices to improve and better target policies. Such integrated approaches should help addressing economic, social and environmental challenges in a more realistic and effective manner. Moreover, it should privilege collaboration and coherence in addressing integrated problems, removing the compartmentalised approach that has limited the effectiveness of policies. Finally, it requires a more sophisticated policy which systemic spill overs can be beneficial as well as damaging.

The SDGs and aid for trade are both dependent on integrated policy approaches and trade-offs. This implies that aid for trade should contribute to economic objectives of developing countries by helping them connect their firms to international markets, expand trade and strengthen its contribution to inclusive economic growth, to social objectives by reducing poverty and inequalities and to environmental objectives by preserving the environment and adapting to climate change while exploiting comparative advantages in low-carbon production and environmental goods and

services. In addition, aid for trade can help developing countries build resilience and adjust to shocks that ripple through international markets.

Implementing effective aid-for-trade projects and programmes has always required an integrated understanding of economic systems and their interaction with other systems which follow their own logics. Such a holistic approach has been the essence of the success of the Aid for Trade Initiative, together with its flexibility to adapt to changes in the trade and development landscape and its inclusive partnerships with among different donor communities, the private sector and civil society.

The 2030 Agenda for Sustainable Development calls to “increase aid-for-trade support for developing countries, in particular least developed”. This echoes a similar appeal in the Addis Ababa Action Agenda. The 10th WTO Ministerial Conference in Nairobi also highlighted the need for continuing the Aid for Trade Initiative. It is clear that international trade can help realise the SDGs as a key transmitter of goods and services, technology, knowledge and behaviour. High trade costs, however, continue to inhibit many developing countries from fully exploiting their trade and development potential. In particular, landlocked and small and vulnerable economies (notably geographically remote island economies) face inherent challenges in this regard. Consideration of trade-offs is best undertaken at the national level where policy-makers can optimise among different conflicting demands. National discussion about comprehensive challenges among different policy communities and stakeholders prove to be difficult if there isn’t strong political leadership and national engagement. The challenge to agree on local trade-related goals and indicators appears to be less daunting than in some other areas such as those related to people and planet.

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