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Research Report

Aid for Trade: an opportunity for re-thinking German aid for growth

Briefing Paper, No. 6/2010

Provided in Cooperation with:

German Institute of Development and Sustainability (IDOS), Bonn

Suggested Citation: Brüntrup, Michael; Voionmaa, Petra (2010) : Aid for Trade: an opportunity for re-thinking German aid for growth, Briefing Paper, No. 6/2010, Deutsches Institut für Entwicklungspolitik (DIE), Bonn

This Version is available at:

<https://hdl.handle.net/10419/199652>

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Aid for Trade – An Opportunity for Re-thinking German Aid for Growth

Aid for Trade (AfT) is a new concept for a variety of activities carried out to support the ability of developing countries to engage in trade. What is new in AfT is its bundling of these activities under one roof, its institutional and political links, particularly its embeddedness in trade agendas, and its strong orientation towards trade and competitiveness. The European Union (EU), i.e. the European Commission and the member states, has made commitments to increase AfT in quantity and quality, and to advance its AfT agenda on a joint basis. Some efforts to put these commitments into practice are under way. However, challenges remain for both the quantity and quality of AfT implementation.

As a member of the EU, Germany is committed to further integrating the AfT agenda into its aid strategy. German aid has a wealth of priority areas, instruments, agencies and experience, and a reputation for implementing AfT. It is argued that AfT presents an excellent opportunity to achieve more coherence among these elements. Care must be taken to coordinate at the European level, to assist countries and regions to develop consistent strategies, policies and programmes in which trade plays its due (but not excessive) role, and to align AfT with these plans.

Aid for Trade (AfT) is a new concept that encompasses a number of activities in support of the ability of developing countries to engage in trade. Such activities have been carried out individually by donors for decades. New is the bundling of these activities under one roof, its institutional and political links, particularly its embeddedness in (multilateral) trade agendas, and its clear orientation towards trade, competitiveness and coordination.

However, some of the paradigms underlying AfT, the complexity of the concept, political and institutional issues and its superimposition on traditional development assistance create challenges for implementation. This policy brief outlines opportunities and major difficulties as well as some possible ways forward in implementation, with special reference to German aid.

The origin of the AfT concept

AfT is rooted in the conviction that trade can be a decisive driver of growth and poverty reduction, while recognising that market access alone is of little use in achieving these potentially positive impacts. A wide range of obstacles on the supply side have prevented many developing countries from realising the potentials created by trade liberalisation. In addition, they face problems in cushioning the negative effects which parts of the population experience in the short and medium term when markets are opening up. Despite the overall positive correlation between trade and poverty alleviation, there is recognition that this link is not automatic but needs to be fostered and safeguarded by pro-active policies.

AfT arrived on the donor agenda in late 2005, when the WTO Hong Kong ministerial meeting declared that "Aid for Trade should aim to help developing countries, particularly Least Developed Countries, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade" (WTO 2005,

par. 57). This declaration, pushed by developing countries, was important for officially acknowledging that developing countries do not automatically profit from trade agreements and trade liberalisation but need support in order to benefit from them.

The World Trade Organization (WTO) has elaborated a comprehensive classification of AfT (Box 1) as well as quality requirements for AfT, which make strong reference to the international aid effectiveness agenda defined under the Paris Declaration. AfT was claimed to be "additional, predictable, sustainable and effective". The AfT concept clearly avows itself – beyond general trade – to the benefits of regional integration. Efforts have been made by the WTO, in collaboration with the Organisation for Economic Cooperation and Development (OECD), to specify AfT and to monitor its delivery.

Box 1: The six categories of the WTO-definition of AfT

1. *Trade policy and regulations, including:* Training of trade officials, analysis of proposals and positions and their impacts, support for national stakeholders to articulate commercial interests and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.
2. *Trade development, including:* Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, ecommerce, trade finance, trade promotion, market analysis and development.
3. *Trade-related infrastructure, including:* Physical infrastructure.
4. *Building productive capacity*
5. *Trade-related adjustment, including:* Supporting developing countries in putting in place accompanying measures that assist them to benefit from liberalized trade.
6. *Other trade-related needs*

Source: WTO (2006)

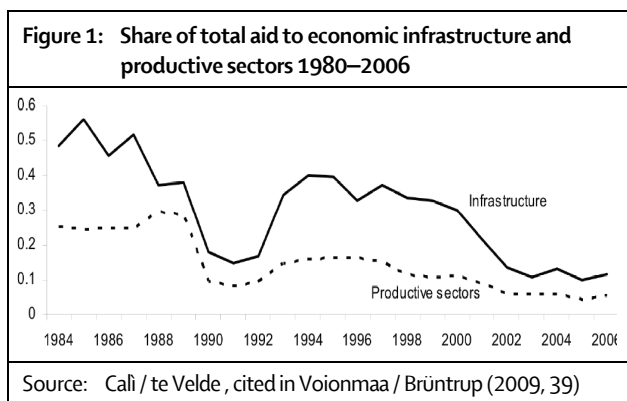
The WTO declaration on AfT was accompanied by financial commitments. In particular, the EU pledged to increase its “Trade-Related Assistance” (TRA, equivalent to AfT categories 1 and 2) to €2 billion per year by 2010 and to increase general AfT at least at the same pace as overall development assistance. This pledge was a joint commitment of the European Commission (EC) and the member states. In its later EU AfT strategy, the pledge was split equally among the EC and the member states, without further specifying the distribution among member states, enforcing collective EU decision making.

Germany (like other EU donors) has been confronted with the task of re-moulding its trade-related development cooperation to deliver on these commitments.

The added value of AfT for development

AfT is substantially more comprehensive than other concepts of support for trade. In particular, it goes beyond “Trade-Related Assistance” by including categories (3) and (4), thereby more comprehensively embracing all export-oriented needs of development countries. Category (5), “trade-related adjustment”, allows for inclusion of additional measures which often are required to restructure or compensate those sectors and actors that are challenged by or lose out in trade liberalisation.

The broadness of the AfT concept blurs the differentiation between trade-promoting and more general growth-oriented policies. AfT as defined now is quite flexible in addressing overall hindrances to growth. While this broadness is also a challenge to the agenda (see below), it should encourage all development partners to strongly integrate trade into their broader strategies. In fact, assistance to productive sectors and economic infrastructure is in dire need of political support, since it has substantially declined in the last decades (Figure 1).



Monitoring by the OECD and inclusion of AfT in the WTO agenda assures that commitments for AfT are taken more seriously than many other donor commitments. There is regular reporting on AfT, global and regional conferences are held, and the WTO is arguably very strong in enforcing international commitments, although AfT is legally not part of trade negotiations.

The trade perspective on (assistance to) growth provides some particular positive features. The emphasis on exports entails an indispensable quest for competitiveness

and efficiency which conventional industrial, agricultural and other growth oriented policies often do not pursue with the same rigour. The combination of coherent trade and other productive sector policies with trade-oriented assistance as well as development friendly import rules in international agreements and donor trade policies creates synergies for growth. On domestic markets, trade policies can help to improve the efficiency of local industries and economic welfare in that growing import competition exerts pressure on inefficient producers.

The international AfT agenda spotlights the potentials of regional integration as a stepping stone for full international integration, but also as an opportunity to access untapped regional markets, especially in times of international turbulence (i.e. food crisis, financial and economic crisis). The European AfT agenda in particular has a strong regional dimension due to the EU's regionally-negotiated Economic Partnership Agreements (EPAs).

In times of global economic crisis, when protectionism lurks around every corner, threatening weaker trade partners in particular, the value of a comprehensive AfT agenda is particularly evident. It should raise attention for the danger of protectionism for developing countries, and provide ready-made entry points for assistance to maintain export capacities, in particularly to defend market access and overcome shortages in trade finance.

General challenges of implementing the AfT agenda

Apart from these obvious opportunities, there are at least five challenges to the AfT agenda.

- Probably the most important deception of developing countries has been the accounting of additional AfT as Official Development Assistance (ODA). Many developing countries had interpreted additionality of AfT as meaning additional to existing commitments, in particular to the politically declared (though legally non-binding) target for developed countries to devote 0.7% of their Gross Domestic Product (GDP) to ODA. AfT was seen as a kind of compensation for opening up their markets, the benefits of which, it was assumed, would go primarily to developed countries. The present practice has upset many developing countries, and has cooled down enthusiasm for AfT in some quarters.
- Similarly, some initial unclear points and manifold changes in the AfT accounting rules led to doubts and fallacies concerning the amount of additional money that would be put into AfT. In fact, overall AfT flows have increased more than 10% p.a. since 2005, to more than 25 billion USD in 2007. In several cases, however, donors have achieved their pledges through the modified AfT accounting rules, i.e. without launching new projects. This has created the impression that the AfT agenda has led more to a donor re-labelling exercise than to genuine fresh aid. It is only under the accounting rules now settled that genuine increases can be thoroughly measured.
- While integrating developing countries into global markets is in their own interest, it is also in line with a

more “self-interested” perspective of the Western world as (future) trading partners and as drivers of the global trade policy agenda. It is impossible to draw a clear line between the two motivations, and this makes AfT prone to misuse

- Implementation of the aid effectiveness agenda is more difficult in the productive sectors than in other sectors. This is due to the broad range of topics involved and the leading role played by the private sector in trade-related activities. These features lead to stark conflicts of interest between stakeholders, increase complexity in dialogue and policy formulation, and thereby challenge the capacities of poor countries to formulate programmes that include support to the private sector. However, alignment of donors requires trade and AfT to be comprehensively incorporated into growth and poverty alleviation strategies and programmes of developing countries. In addition, the dimensions of trade-oriented productive sector support challenge donors who are used to co-ordination taking place (at best) in separate coordination groups (e.g. transport, private sector development, agriculture). A comprehensive AfT strategy cuts across these traditional support areas.
- Another risk of AfT is that it tends to underestimate the potential of domestic markets. For instance, rapidly growing populations and urbanisation in many African countries create great opportunities for domestic farmers and food industries, which often have advantages in meeting consumer preferences.

The problems described have led to obstacles and delays in implementing the AfT agenda. To sustain momentum and accelerate AfT, developing countries and donors alike need to increase their efforts. The case of Germany may serve to illustrate this.

The state of German Aid for Trade – an overview

Compared with other donors, Germany is a major provider of AfT, ranking third behind Japan and the US and first among EU member states between 2001 and 2006. With an average TRA of € 210 million between 2005 and 2007, Germany has more or less reached its self-defined basic target of € 220 million TRA as its contribution to the EU pledge.¹ TRA makes up about 20% of total German AfT (1% trade policy and regulation, 19% trade development). Building productive capacities accounts for 45%, trade-related infrastructure for another 35%.

However, the level of engagement fluctuated considerably during that period (see Figure 2). The lack of TRA stability is partially due to the fact that AfT is a by-product of other programmes, and because an important share of the German AfT portfolio is not subjected to systematic planning with regard to its AfT-content.

Total AfT has developed more steadily, reaching about € 1.2 billion in 2007. The regional focus of German AfT

¹ Germany assumes that its basic contribution to the EU pledge on TRA should equal its share in the EU budget and the 9th European Development Fund (both approx. 22 %), resulting in a provisional target of € 220 million per year from 2010 on.

and TRA is Asia (Table 1). The bulk of German AfT is implemented by KfW, while TRA is dominated by GTZ (Table 2).

Figure 2: Total German AfT and TRA (2005–2007)

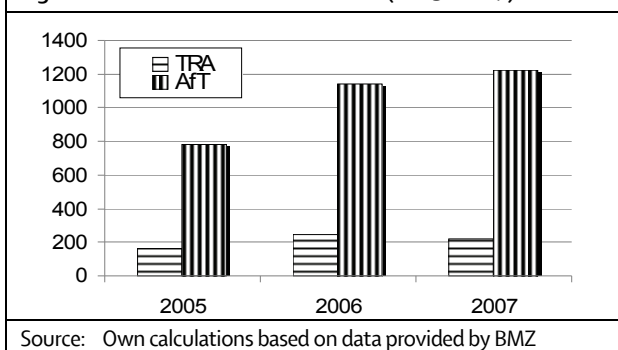


Table 1: German AfT and TRA by region (average 2005–2007)

	TRA	AfT
Europe	12,3%	10,0%
America	11,0%	10,2%
Asia	32,0%	44,1%
Oceania	0,03%	0,1%
Developing countries, ?unall.	19,6%	7,2%
Africa North	5,2%	11,9%
Africa SSA	19,0%	15,5%
Africa ?unall.	0,8%	0,9%

Source: Own calculations based on data provided by BMZ

Table 2: German AfT and TRA by implementing agency (average 2005–2007)

	TRA	AfT
KfW	15,0%	56,5%
DEG	17,8%	18,3%
GTZ / PTB / BGR	35,4%	15,7%
CIM	3,9%	1,5%
DED	4,2%	1,7%
InWEnt	5,8%	2,5%
PPP	17,8%	3,8%

Source: Own calculations based on data provided by BMZ

When we look behind these numbers and into a sample of projects and programmes (for details see Voionmaa / Brüntrup 2009), it appears that German development cooperation has regularly taken up trade issues in its private sector and agricultural development programmes. However, this was generally done without a consistent strategic approach with regard to transforming access to regional and international markets into real business. Trade has not been systematically considered in all relevant policy documents. For instance, the thematic areas “Food Security and Agriculture” or “Governance and Society” hardly mention trade and AfT.

Positive features of German AfT have been said, in case studies, to be proximity, long-term engagement, technical expertise, a wide array of instruments, and trust. On the negative side, too rarely are the different aspects of trade-related needs tackled through comprehensive German programmes combining different instruments

and implementation agencies. Policy advice is not generally considered to be a strength of German development partners. Regional linkages are judged to be weak. Finally, poverty issues have not been sufficiently conceptualised, and they are not tracked in impact monitoring.

In mid-2009, the Federal Ministry for Economic Cooperation and Development (BMZ) introduced an internal target line (*Zielgröße*) of € 140 million per year for Trade-Related Assistance (TRA). The new government has confirmed this target. This is an important manifestation of the political will to stabilise and mainstream AfT in Germany aid.

What is not yet visible is a close coordination of German AfT within the EU framework.

Next steps for German development cooperation

There are valid arguments that donors in general and the EU in particular should strengthen their support for AfT. Especially in the context of support to EPAs, more AfT by Europe will become necessary. There are also good reasons why Germany should take on a disproportionately large engagement: German aid has a wealth of priority areas, instruments, agencies, and experience, and a reputation for implementing AfT.

Challenges exist with regard to both the quantity and quality of AfT implementation. Ownership, alignment and harmonisation in the productive sectors require special efforts. More generally, there is need for careful consideration of the right balance between social and productive, inward- and outward-looking, developing and developed countries' interests in trade and AfT.

For all these reasons, it is essential that the use made of the AfT initiative be very careful, transparent and participatory. Germany should in particular proceed in the following fields:

- AfT should be scaled up not as a stand-alone area but primarily on the basis of a comprehensive and deep integration of trade into existing priority areas. Otherwise the comprehensive nature of AfT may be lost, and German aid will be further fragmented. Especially "Sustainable Economic Development" and "Food Security and Agriculture" are candidates, but also other areas such as "Governance and Civil Society" and "Environment and Resource Protection" would provide opportunities as well.
- A comprehensive German AfT strategy should be elaborated. This appears necessary to establish AfT as a cross-cutting issue and hence to incorporate it into the sector and geographic priorities and programmes of German development cooperation.
- German efforts should go beyond the self-defined base line in TRA and should also reinforce general AfT in order to do justice to the comprehensive nature of

the concept. Ultimately, the distinction between TRA and AfT support should be abandoned.

- Germany should use the opportunity of the AfT initiative to better integrate its existing tools and implementing agencies.
- Increased effort in AfT should focus primarily on Sub-Saharan Africa, due to the special needs of this region, its low degree of trade diversification and regional integration and the imperative need to assist it in digesting EPAs.
- Trade-poverty linkages require more comprehensive analysis and conceptual underpinning. More care needs to be devoted to formulating indicators for monitoring poverty effects of trade-related activities.
- Germany should strive to use existing configurations for donor coordination as efficiently as possible in advancing its AfT strategy, e.g. by creating interlinkages between relevant sector groups or by addressing AfT on a higher (regional) level of the coordination structure. It should support the EC in taking a stronger lead in (European) donor coordination.

It must be reiterated that trade and AfT are not ends in themselves but means to achieve the ultimate goal of reducing poverty. AfT must be embedded in overarching national economic growth (and poverty) strategies that are designed to balance inward and outward orientation.



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