

**N°02**
APRIL 2012

POLICY BRIEF

UNITED NATIONS
UNCTAD

Key points

- LDCs have high expectations of what Aid for Trade should achieve but, to date, the programme has fallen short in key areas.
- Aid for Trade should continue to provide resources to expand LDC exports and build up their productive sectors through better infrastructure and policy frameworks.

AID FOR TRADE: A FAILING GRADE IN LDCs?

The Aid for Trade programme was launched at the 2005 World Trade Organization (WTO) Ministerial meeting in Hong Kong (China). Its reported aims are to bring greater coherence to existing trade-support programmes and to generate additional funds to assist developing countries to build supply capacity and trade-related skills, so that they can adjust to the post-Doha trading environment. There are some positives to take on the first of these aims but despite the expectation of supplementary resources ('additionality'), much of the programme has been a repackaging of existing trade-related aid flows. This has worrying implications for the future of the scheme and for the developmental impact of aid more generally.

Aid for Trade: An Unfinished Story

For more than four decades, UNCTAD has promoted an integrated approach to aid and trade in support of lasting developmental gains, especially for the Least Developed Countries (LDCs). Indeed, UNCTAD's seminal efforts to establish the 0.7 per cent aid target for the international community derived from an effort to link a growth target in developing countries, a complementary investment push to support structural transformation and a persistent balance of payments constraint facing many of these countries.

In recent years, that discussion has been refocused around the idea of Aid for Trade. Aid for Trade is seen as the main multi-agency apparatus for addressing supply side and institutional constraints that hamper the full gains to developing countries from their increased participation in the international trading system; as such, it has become a key component of international Official Development Assistance (ODA). Disbursements have grown steadily since its launch, in 2005, from approximately US\$ 15 billion to US\$ 25 billion in 2010. Aid for Trade to LDCs almost doubled, from US\$ 4.8 billion in 2005 to US\$ 8.8 billion in 2010, while other developing countries received a more modest increase, from around US\$ 10 billion in 2005 to US\$ 16.2 billion in 2010.¹ However, as a percentage of total ODA, Aid for Trade to LDCs represented, on average, less than 20%, whereas the share of Other

Developing Countries (non-LDC) reached almost 30% (Figure 1). The increase in Aid for Trade flows should be assessed with caution, given that the programme includes pre-existing aid flows which were not labelled as such; thus, the scheme does not necessarily reflect additional flows.

The 3rd Global Review of Aid for Trade took place in Geneva in July 2011. It offered an opportunity for donors and recipient countries to examine whether Aid for Trade and its related programmes are helping developing countries, particularly the LDCs, to overcome trade and productive capacity constraints. Drawing on the outcomes of the review,² this Policy Brief assesses whether Aid for Trade has met the expectations of the LDCs, and whether it has been effective in improving trade capacity in general, and reducing poverty in particular.

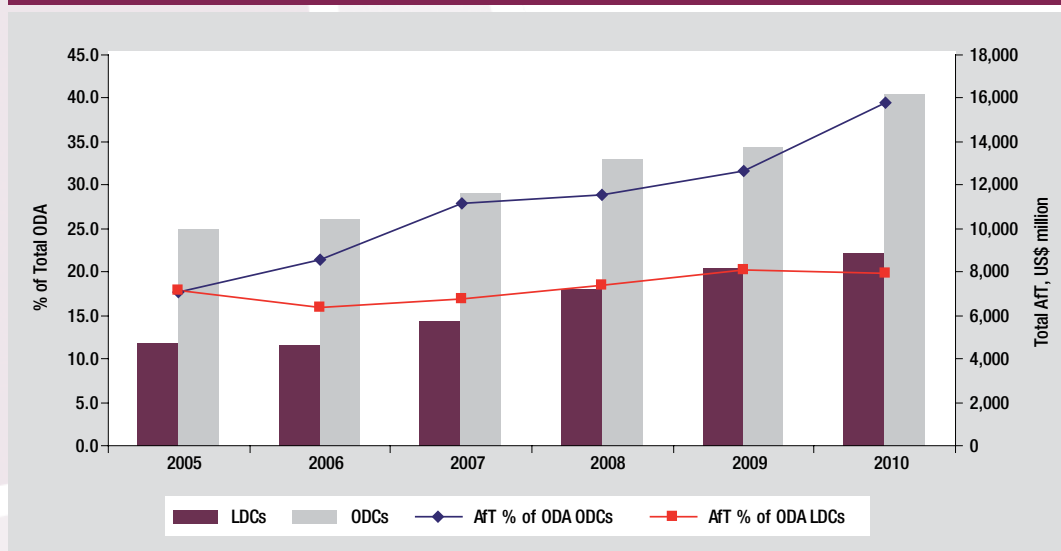
Aid for Trade has certainly helped to shift the aid debate towards building productive capacities. According to the WTO/OECD database, Aid for Trade is mostly disbursed to productive capacity-building projects and trade-related infrastructure. Until 2009, transport and storage, energy, and agriculture accounted for 80 per cent of Aid for Trade resources, and were identified by LDCs as priority areas reported in the Aid for Trade evaluation survey. At the same time, support for trade policies and regulation is marginal, and non-existent for adjustments linked to liberalization commitments. Neglect of these areas is hampering efforts to move the initiative forward.

¹ The data include Aid for Trade disbursements to individual developing countries. Multi-country Aid for Trade programmes are not included. Other Developing Countries (ODCs) follows UNCTAD's country classification, and comprises the Developing Countries excluding the LDCs; see <http://apps.unctad.unctad.org/en/Intrastat---UNCTADs-statistical-resource-center/Classifications/Country-and-region/>.

² WTO–OECD (2011). Aid for Trade at a Glance 2011: Showing Results. Geneva, Switzerland, 2011.

- Aid for Trade should not be hostage to the single undertaking of the Doha Development Round. A New International Development Architecture for the LDCs should shift the focus from aid to development effectiveness by overcoming financial constraints to growth in LDCs and promoting domestic resource mobilization.

Figure 1 Aid for Trade: Total disbursements and percentage of net ODA



Sources: own elaboration based Aid for Trade: OECD, CRS statistics (2012); Total Net ODA: OECD, DAC (2012); for GDP: UNCTAD, UNCTADstat (2012).

As part of the Aid for Trade agenda, the international community has also called for making the Integrated Framework (IF) - a multi-donor programme in support of tailoring trade policy to local development circumstances and related technical assistance for LDCs - more effective. However, expenditures emanating from IF and the subsequent Enhanced Integrated Framework (EIF) only represent a marginal share of the aid inflows: between 2002 and 2008, these expenditures never exceeded 0.13% of Aid for Trade disbursements for LDCs.

How effective has Aid for Trade been? Views from LDCs

The Aid for Trade initiative has raised significant expectations in the development community, especially in the recipient economies. In particular, trade capacity needs (infrastructure) and sectoral priorities (energy and agriculture) remain crucial concerns in most countries. The key question is: have the process and resources provided supported the achievement of the goals of the programme, particularly in terms of enhancing trade capacity and reducing poverty? The Aid for Trade review provides some interesting answers.

In the recent global review, recipient countries were asked to rate the success

of Aid for Trade in their own country along twelve broad criteria.³ The results show that there is consensus amongst LDCs that the programme should include greater resources, support export diversification, enhance the profile of trade in development strategy, reduce poverty, and promote economic growth. Most of the 'success' criteria in the questionnaires were rated either as 'most important' or as 'important'. Only 'greater environmental sustainability' and 'gender equality' were ranked somewhat lower. Interestingly, four out of 28 LDCs reported poverty reduction as 'less important' and one as 'not important'. However, it is not clear from the responses that this reflects short-termism, the belief that Aid for Trade is not directly linked to poverty reduction, or simply an indication of priorities.

Turning to the perceived results of Aid for Trade, using the same criteria, the emerging picture is mixed (Figure 2). LDC responses suggest that Aid for Trade has led to increased resource flows and, therefore, to have complied with the recipient countries' main expectations. Other areas in which Aid for Trade is reported to have produced either significant or moderate results include policy, governance and awareness. That is, the resources have led to a greater understanding of trade, an enhanced profile of trade in development strategy (mainstreaming), and

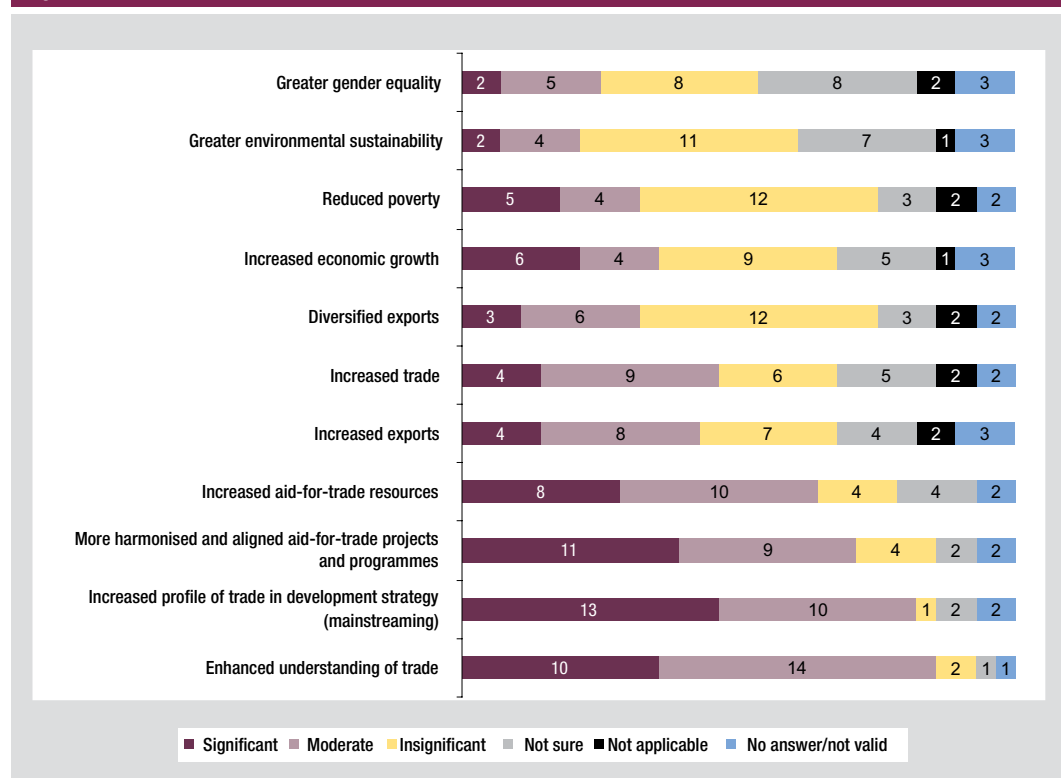
³ The criteria include: enhanced understanding of trade; increased profile of trade in development strategy (mainstreaming); more harmonised and aligned Aid for Trade projects and programmes; increased Aid for Trade resources; increased exports; increased trade; diversified exports; increased economic growth; reduced poverty; greater environmental sustainability; greater gender equality; and 'other'.

better aligned projects and programmes. Interestingly, these areas are closely linked to the goals of EIF, but, as noted earlier, they are also those receiving the least Aid for Trade resources.

Nevertheless, the criteria capturing trade and economic performance (increased exports, trade and growth, export diversification, and poverty reduction) show either moderate or insignificant results. Not even half the countries reported that trade or exports had

increased either significantly or moderately, and even fewer reported that Aid for Trade had led to more diversified exports, increased economic growth or poverty reduction. This is worrying both in terms of poverty reduction targets and maximizing the long-term gains from increased trade. The responses concerning environmental sustainability and gender equality are even more ambiguous, which makes it difficult to assess the results of this survey.

Figure 2 Has Aid-for-Trade resulted in...



Source: own elaboration based on the Aid for trade questionnaires for partner countries, 2011, WTO/OECD online.

Note: The reviewed sample in Figure 2 refers to 28 LDCs; the number of responding countries is included inside each bar.

What do these findings suggest? LDCs have high expectations of what Aid for Trade should achieve but, to date, the programme has fallen short in key areas. Is it a matter of unrealistic expectations, or is there a lag until it can deliver results, since institutional arrangements need time to produce the desired outcomes? Alternatively, does the implementation and/or evaluation of Aid for Trade merit further revisions over and above the inputs provided by the qualitative assessment? For example, should Aid for Trade be evaluated vis-à-

vis other multilateral efforts to increase trade and reduce poverty? The literature and recent policy evaluations suggest that greater awareness, understanding and mainstreaming of trade, together with better aligned and harmonized donor processes are necessary but insufficient to improve the performance of trade and support faster growth and poverty reduction. The bottom line is that the findings of the questionnaire do not seem to indicate that Aid for Trade is, as yet, an effective mechanism for poverty reduction in LDCs.



According to the global review, Aid for Trade has contributed to the achievement of EIF objectives, namely mainstreaming and understanding of trade, better aligned and harmonized programmes and more aid linked to programmes to boost trade. However, the EIF funding is a marginal and unpredictable component of Aid for Trade resources; therefore, its contribution requires more detailed examination.

Aid for trade in context

Stable long-term finance remains a key constraint on sustainable and inclusive growth in many developing countries, particularly the LDCs. Aid flows have risen quite strongly from their low point in 1997, although they remain short of the levels promised by the international community. There have also been significant efforts to address the issue of aid effectiveness, with a growing consensus around the need to increase the predictability of aid, address the fragmentation of flows among alternative sources and destinations, and transfer the ownership of aid programmes to the recipient countries. These have been long-standing UNCTAD positions.⁴ However, the lack of a permanent forum to discuss these issues from the perspective of the recipient countries continues to hamper constructive debates about the international aid architecture (including Aid for Trade). Filling this gap should become a priority for the international community.

There also remains a bias in aid programmes towards short-term social outcomes, often at the expense of supporting new productive capacities. This has diverted attention from what should be the principal preoccupation of

development cooperation, that is, how to overcome the financial constraints to growth and encourage domestic resource mobilization. The ultimate goal of aid is to make itself unnecessary. Aid for Trade can be seen as an attempt to shift the discussion in this direction. Accelerating this shift is central to UNCTAD's efforts to promote a New International Development Architecture for the LDCs. In this context, UNCTAD has suggested that the focus of cooperation should shift from aid to development effectiveness; that is, it should address both the quality and the quantity of aid. These goals will be more easily reached if Aid for Trade achieves an appropriate scale, includes genuine new funding in excess of current aid commitments, and is accompanied by appropriate trade and industrial policies adapted to local conditions and tailored to breaking the pressing constraints on growth and structural transformation.

Finally, it is important to insist that Aid for Trade is a trade as well as a development finance issue. It might be the case that the developmental impact of Aid for Trade is being undermined by its dual location between the aid regime and the multilateral trade agenda. In particular, Aid for Trade to LDCs should not be hostage to the single undertaking of the Doha 'Development' Round. Rather, it should continue to provide resources to expand LDC exports and build up their productive sectors through better infrastructure and an improved policy framework, thus contributing to the structural transformation of their economies, poverty reduction, and the constructive integration of the LDCs into the global economy.

Contact

Richard Kozul-Wright
Office of the
Secretary-General
Tel.: + 41 (0)22 917 56 15
e-mail: richard.kozul-wright@unctad.org



For further discussion of Aid for Trade and related issues see:

UNCTAD, Economic Development in Africa Report, 2006, Doubling Aid to Africa: Making the Big Push Work, Geneva, UNCTAD

UNCTAD, Least Developed Countries Report, 2010, Towards a New International Development Architecture for LDCs, Geneva UNCTAD.

Also several UNCTAD/G24 Discussion Papers on Aid for Trade

⁴ UNCTAD (2011) *Report of the Secretary General of UNCTAD to UNCTAD XIII, Development Led Globalization: Towards Sustainable and Inclusive Development Paths*, New York and Geneva.