



The EC Communication on Trade, Growth and Development:

A Targeted Approach to Promoting Aid for Trade Effectiveness

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Aid for Trade (AfT) can be a powerful way to address trade and growth constraints in poor countries. The European Union (EU) provides more than a third of total AfT, and so it must play a leading role in the future. In doing so, it needs to put in place a more focused strategy in ensuring AfT will actually help production and trade flows in the poorest countries. Such a strategy consists of some of the following:

1. Efforts must not be limited to passively mainstreaming trade policies in the national development agenda, but must ensure trade policies remain alive and central to the design of development strategies.
2. Notwithstanding context specificities, priority should be given to developing trade infrastructure and connectivity, increasing production capability and capacity, building trade skills and knowledge and improving technical expertise to meet global trade standards.
3. Greater use of budget support and sector-wide approaches (SWAps) to delivering and implementing AfT investments is necessary.
4. Also key is improved coordination in the identification of AfT needs as well as joint monitoring and evaluation of AfT investments.

EU AfT flows

The EU together with its Member States remain one of the largest providers of AfT, providing about \$12.6 billion in AfT¹ to developing countries in 2010: about 40% of total AfT flows in that year. While the rate of increase was 9% from 2006 to 2009, it has since slowed to about 4%, thereby raising the importance of maintaining momentum behind the AfT agenda.

Allocation of AfT by the EU and Member States in 2010

Sector	AfT flows (US\$ m)	% of total	% change (2006-2010)
1 Energy	2,748	22	24
2 Agriculture	2,320	19	21
3 Transport and storage	2,182	18	7
4 Banking and financial services	1,524	12	15
5 Business and other services	820	7	10
6 Industry	766	6	8
7 Trade policies and regulations	707	6	28
8 Forestry	691	6	34
9 Communications	261	2	8
10 Fishing	127	1	6
11 Mineral resources and mining	86	0.69	17
12 Tourism	75	0.61	20
13 Total EU AfT	12,605	39	-
14 Worldwide AfT	32,417	-	-
15 Total EU aid	71,020	-	-

Note: These figures are based on calculations using the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting System (CRS) database. They are for AfT disbursements and use current US\$. Exchange rate: €1 = \$1.32.

Source: <http://www.openeurope.org.uk/Content/Documents/PDFs/eauid2011.pdf>.

The magnitude of AfT flows surpassed the EU's 2005 target of €2 billion by 2010, with the energy sector in developing countries the largest recipient (\$2,748 million in 2010), with an annual average growth rate of 24%. Agriculture (19% of the total) and transport and storage (18% of the total) were the second and third largest recipients. Trade policies and regulations stood seventh, with 6% of total 2010 flows, although this sector saw one of the highest (28%) average annual rates of increase in AfT flows between 2006 and 2010.

There is growing empirical evidence that AfT investments have a positive impact on developing countries' trade performance (Cali and te Velde, 2008), which in turn is a critical driver of economic growth. AfT investments have been addressing key bottlenecks – both institutional and physical – that inhibit trade growth. By unlocking the trade

potential in developing countries, particularly in LDCs, it has been able to translate trade into a locomotive for economic development at large. Moreover, trade, by promoting better allocation of resources, transfer of knowledge and technology and structuring investment incentives, can play an important role in addressing key developmental challenges such as food security, climate change, natural resource scarcity and so on. In doing so, AfT presents the best value for money.

Notwithstanding the impressive growth in flows, the EC Communication rightly points to some of the most pressing challenges in equally ensuring their quality and impact. In particular, it draws attention to better targeting and coordination which, in addition to monitoring and evaluating flows and impacts, are part of ODI's ongoing research on AfT.

Issues and challenges

Coordination of AfT needs and strategies remains an area of concern, both within developing countries and between donors and recipients (Luke and Bernal, 2011). In order for AfT to be effective, it must be aligned with trade and development strategies on the national development agenda, whereas in many cases, particularly in Least Developed Countries (LDCs), trade issues are either absent or muted. When trade is mentioned, it is often limited to 'improving trade performance' and does not accompany associated policies and strategies to achieve such goals. Furthermore, rather than proactively leveraging trade as an integral component of achieving border developmental outcomes, it is given merely a passive mention. The point being raised with regard to making AfT effective is that there exists a sequencing issue in AfT coordination. First, trade and trade issues must be mainstreamed into the national development agenda, whereby the linkages between trade and the rest of the economy are well articulated, the weakest links identified and strategies devised to address them. This relates to internal coordination with different line ministries, private sector, civil society and research bodies in the developing country. Second, AfT will be effective in the presence of such articulation, as it facilitates better and more strategic targeting of AfT. Here, the issue will be coordination between the donor and the recipient country.

Experience thus far shows that the articulation of trade and trade issues on the national development agenda remains limited. LDCs benefit from Diagnostic Trade Integration Studies (DTISs) under the Integrated Framework process. These provide valuable articulation between trade and the rest of the economy; however, many fail to be mainstreamed into the national development agenda, thereby existing parallel with other similar development policy documents.

Nonetheless, the EC and EU Member States have been playing a leading role in facilitating donor–recipient coordination on AfT at the country level. In many LDCs, the EC or EU Member States play an important as 'donor coordinator' in the Integrated Framework process. As the LDC selects this donor coordinator, many have favourably identified the EC or the EU Member States for this role. Trade officials in developing countries have stated that their preference is based on their perception of EC and EU Member States having more knowledge of and better working relationships on AfT and trade issues, and being more likely to foster consensus and coalition between various domestic and external actors. The EC's work on budget support has also helped to build such perceptions in developing countries.

The Communication's mention of budget support in the context of AfT is welcome, but it will need to be developed further in order to operationalise such an approach, which exists for other aid flows for the most part. In our research, the majority of developing country respondents to the OECD/World Trade Organisation (WTO) question on AfT in 2011 stated that they would like to see more usage of budget support and SWAs in AfT flows and interventions. However, a recent report by Stephen Booth and Siân Herbert (2010) caution on the usage of such tools given that they remain untested. Cambodia has employed a SWAp in its AfT programming (particularly in the Integrated Framework), which has shown positive results. Such experiences could be studied to identify best practices that can be scaled up and replicated for AfT programming in other developing countries.

In noting the above, the Communication stops short of discussing some vital trade and development issues. It acknowledges the importance of Non-trade Barriers (NTBs), yet linking these and trade facilitation issues to AfT would have further enriched it. For example, many LDCs, whose exports are predominantly non-manufactured goods, for which such barriers are acute, face insurmountable challenges and lack the resources and capacity needed to meet complex technical requirements and standards. Discussion on trade facilitation issues such as these and AfT would have sharpened the focus of the Communication. Furthermore, while the Communication discusses the changing landscape of the world economy, it fails to discuss adequately emergent trade issues such as the implications of climate change, natural resource scarcity, food security, industrial policy, labour mobility and so on. Trade can play a critical role in addressing and alleviating these challenges. Moreover, linking these emergent trade issues to the discussion on AfT would have presented practitioners with a more powerful lens going forward.

References

- Booth, S. and Herbert, S. (2010) *EU External Aid? Who Is It For?* London: Open Europe.
- Cali, M. and te Velde, D.W. (2008) *The Effectiveness of Aid for Trade: Some Empirical Evidence*. London: Commonwealth Secretariat.
- Luke, D. and Bernal, L. (2011) 'Rethinking the Governance of Aid for Trade', in C. Deere-Birkbeck (ed.) *Making Global Trade Governance Work for Development*. Cambridge: Cambridge University Press.

Footnotes

1. The WTO AfT Working Group defines the scope of AfT broadly as 1) trade policy and regulations; 2) trade development; 3) trade-related infrastructure; 4) building productive capacity; 5) trade-related adjustment; and 6) other trade-related needs. However, actual AfT flows are recorded in terms of support to trade policy and economic sectors, as shown in the table.