



# Aid for Trade Policy Dialogue 2013

Rapporteur's report





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The Aid for Trade Policy Dialogue on 16-17 January brought together a wide range of stakeholders from developing and developed countries to discuss how to continue delivering Aid for Trade results in a changing international environment for trade and development.

This dialogue was organised by the OECD Development Co-operation and Trade and Agriculture Directorates, in collaboration with the Government of Sweden and the Overseas Development Institute, with the support of the European Commission

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# 1. Introduction<sup>1</sup>

1. The OECD Policy Dialogue on Aid for Trade (AfT), organised in co-ordination with the Swedish government, the EU and the Overseas Development Institute, was held in Paris on 16-17 January 2013. A wide variety of stakeholders attended including ministers, senior officials, academics and think tank staff from a broad range of countries.
2. The Policy Dialogue featured opening remarks by OECD Secretary - General Angel Gurría and included four keynote addresses by the WTO Director General Pascal Lamy, the EU trade commissioner Karel de Gucht; the minister of foreign trade in Costa Rica, Anabel González; and the minister of state for trade and development from the Republic of Ireland, Joe Costello. There were seven moderated sessions featuring a range of speakers including representatives of governments, development agencies, international organisations, think tanks and academia. The final summing up was by rapporteur Dirk Willem te Velde of the Overseas Development Institute (ODI) and the closing by Frans Lammersen of the OECD.<sup>2</sup>
3. The policy dialogue made progress in three areas:
  - i. Consolidating progress and understanding the impact of AfT;
  - ii. Understanding the role of AfT in the new trading environment; and
  - iii. Conceptualising a new future for AfT.
4. The main conclusions of the dialogue are that: (i) there has been much progress on Aid for Trade as the volume has increased by 80% between 2005 and 2010 with a number of striking results and a better understanding of what factors drive the effectiveness of AfT, including the role of governance, but more needs to be done to understand the precise effects of AfT; (ii) AfT needs to adjust to the rapidly changing production patterns and in order to remain relevant AfT and its actors need to work better regionally and with the private sector; and (iii) there are widely differing views on the scope of the future of AfT, ranging from keeping a narrow focus to regarding AfT in the new context of a growing range of other financial flows and global challenges such as climate change. These issues could be further elaborated during and after the July 2013 Global AfT review in Geneva and 9<sup>th</sup> WTO ministerial conference in the December 2013 in Bali.
5. The structure of this report is around the three areas identified above. This structure relates well to the main sessions and key note speakers at the policy dialogue. Section 2 on consolidating progress and understanding impact covers dialogue session 2 on how to manage AfT and development results. Section 3 on understanding the role of AfT in the new trading environment will report mainly on dialogue sessions 3-6 on how to identify and prioritise trade-related binding constraints, how to reduce the thickness of borders, how to adapt to changing production patterns, how to engage the private sector and how to promote regional AfT. Section 4 on conceptualising a future for AfT will discuss the main findings in the session 7 on where next with AfT. Section 5 concludes.

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<sup>1</sup> Report written by Dr Dirk Willem te Velde, Overseas Development Institute, London. The views expressed in this report are those of the rapporteur and do not necessarily reflect those of the OECD or its member countries. Comments on this report can be sent to [dw.tevelde@odi.org.uk](mailto:dw.tevelde@odi.org.uk). This report has benefited from comments from a number of ODI colleagues.

<sup>2</sup> The full programme, bios, background documents and podcasts are available from <http://www.oecd.org/dac/aft/aidfortradepolicydialogue2013.htm>

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## 2. Consolidating progress and understanding impact of Aid for Trade

6. There are many positive aspects to the AfT initiative. Gurria pointed out that AfT resources have grown by 80% since 2005, and in 2010 stood at US\$ 45 billion with a third going to LDCs. He also suggested that AfT has been additional, and that AfT has not been substituted by other aid. Pascal Lamy of the WTO suggested that the AfT initiative has mobilised US\$ 200bn in aid resources, with Africa receiving a 180% real increase and stated that we can be proud of what has been achieved. De Gucht applauded the success of AfT and said that ‘we are in it for the long haul’, but there is no room for complacency. Officials from both developed and developing countries also discussed the qualitative impact. The Irish minister for trade and development Joe Costello argued that trade had become part of a development strategy. Shree Baboo Servansing (Ambassador of Mauritius) suggested that AfT has been instrumental in supporting a new economic model of development involving economic reforms.
7. Participants cited several successful case studies throughout the two days of deliberation. Gurria mentioned one example in Africa where reducing inland transit time by one day would increase exports by 7% and another where a competitiveness in agriculture project in Senegal increased exports by almost 80% between 2005 and 2009. But there was also concern that on the ground outcomes might appear to look rather different. For example, Jacqeline Maleko (Ministry of trade and industry in Tanzania) asked whether AfT was blind to gender issues or the informal sector. There was a common view that more needs to be done on showing impact and identifying factors behind effective AfT. Several academic participants (e.g. de Melo) argued that there is a need for more rigorous impact evaluation. Talaat argued for more independent evaluations, more joint evaluation and better baselines. Tangible results would help to justify increases in AfT flows
8. Ministers and senior officials presented six case studies (Ghana, Colombia, Solomon Islands, Rwanda, Vietnam, Bangladesh) on the effectiveness of AfT using the results framework developed by the OECD. The work identified a range of factors behind successfully managing AfT for development results. This included the need for consultative processes (as emphasised in the case of Rwanda and Ghana) and the usefulness of targets and indicators. The case study on managing aid for results in Bangladesh emphasised the need for better coordination between donors and recipients and better use of national systems of M&E. In Rwanda, trade issues were systematically integrated into the national development plans and strategies, which helped to focus AfT. Vietnam emphasised the need for both soft and hard infrastructure in the remarkable progress achieved in the form of increased rice exports. Ghana pointed to the important role of public-private dialogue in setting context.
9. Erik Solheim (chair of the OECD’s Development Assistance Committee) summarised the case studies as follows - all case studies presented are great success stories with a number of common ingredients: they have a stable government and a strong state, they can use aid well, they are all integrated into the world economy being exporters and importers, and they either already have or are promoting a vibrant private sector.

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# 3. Understanding the role of Aid for Trade in a new trading environment

10. However, much needs to be done for AfT to remain relevant in the current circumstances. We need to understand how to prioritise trade-related binding constraints in the new context and then examine how AfT needs to (i) respond to increased fragmentation of global value chains (GVCs), (ii) address the thickness of borders as an increasing constraint, (iii) work more and better regionally, and (iv) work more and better with the private sector. Several sessions of the Policy Dialogue dealt with these issues.

## **(i) Prioritising trade-related binding constraints.**

11. A key note speech and one session focused on prioritising trade-related binding constraints. Tim Groser discussed the changing context of international trade. Even a small country such as Samoa can benefit from value chains (through producing automotive components in Toyota or high quality products for Body Shop). The enabling factors behind participation in GVCs included attention to quality standards. Safadi (OECD) emphasised that econometric studies identified a key role for the import regime in stimulating exports. Constraints related to both hardware and software, and to all sectors including services (because services comprise 50% of the value addition of manufactured products). However, Joyce Mapunjo (Permanent Secretariat, ministry of industry Tanzania) said she had too little information to understand the binding constraints to trade and that the situation around AfT on the ground is always different. Carlos Braga (IMD) mentioned the role of the growth diagnostics framework in identifying binding constraints. Infrastructure is generally seen as the most critical factor. Dirk Willem te Velde (ODI) explained the importance of institutional settings (state-business relations) behind the appropriate prioritisation of binding constraints.
12. Participants in this session on the binding constraints further highlighted that integration into value chains rather than market access was the main challenge. Countries need to focus on increasing value addition in value chains and this means understanding the role played by (private) standards. In this sense, the value chain approach is not old wine in new bottles (Braga). The information requirements are also different. It was felt important that both hardware and software need to come together to address binding constraints. Others suggested that weak external demand was the current most binding constraint to trade. If this was the case this would also mean a change in conceptualising AfT (e.g. for trade finance). This was echoed in other remarks on a changed focus of AfT in facilitating other financial flows (Te Velde).

## **(ii) Responding to the emergence of global value chains.**

13. In general there was broad excitement about the range of opportunities provided through the spread of global value chains. Pascal Lamy argued that products are not made in any particular country, but they are “made in the world”. Tim Groser argued that GVCs brought opportunities even to small island states such as Samoa. Minister of Foreign Trade in Costa Rica, Anabel Gonzalez, illustrated how Costa Rica has benefited from participating in value chain, moving from a coffee and banana producer to a textiles producer in the 1980s and to an electronics exporter after the location of an Intel plant in 1997, coinciding with increases in FDI. At the same time the spread of GVCs has also brought challenges, for example in social upgrading in the garment sector in Bangladesh.

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14. The emergence of GVCs has led to a new view on trade policies and AfT. The import regime has become an increasing constraint to trade. Angel Gurria argued that the “The capacity to imports is just as important as the capacity to export”. Anabel Gonzalez argued that AfT needs to be anchored in the monumental changes taking place. She provided practical examples of how AfT helped Costa Rica to take part in global value chains. They worked with the UN and Japanese donors on a database, conducting analyses, and with the IADB and Walmart on a project to provide finance for women in value chains. Costa Rica is now providing expertise in other countries (including Peru), an interesting example of South-South cooperation.
  15. The speakers in the session on how to adapt to changing production patterns confirmed many of these issues. Matti Anttonen (Ministry for Foreign Affairs of Finland) said that the role of trade facilitation is crucial as border problems multiply when goods cross borders several times. Pan Sorasak (Secretary of State, Cambodia) highlighted the positive role that trade has played in transforming the image of Cambodia and how an LDC such as Cambodia was able to benefit from value chains in agriculture and manufacturing. The IFC/ILO better factories programme for the garments industry was particularly helpful. This is an example of better standards for more market access.
  16. Debapriya Bhattacharya (CPD, Bangladesh) on the other hand brought up a range of power struggles and social tensions in the garments value chains in Bangladesh. How does an increase in exports benefit workers? Can AfT help to reduce the obstacles in global value chains and ensure there are better and more transparent partnerships between lead buyers and producer firms? Jorge Daccarett Bahna (Chilean International Co-operation Agency) presented an example of South-South / triangular co-operation between Chile and JICA, which was extended to Colombia, with co-operation helping development as well as integration. Virginia Brown of USAID highlighted how they were involved in helping the private sector in LICs to understand market opportunities, e.g. through upgrading standards in Kenyan horticulture. A Korean official explained in detail how value chain analysis can be used to (i) identify niches for AfT, e.g. in transport and communications; (ii) deregulation of services; and (iii) increasing efficiency of border measures.

### **(iii) Addressing the ‘thickness of borders’**

17. Participants and speakers in this highly interactive session agreed that border problems are traditional issues we have worked on for some time, but which have taken on increased importance with the emergence of global value chains. Frank Matsuert (CEO of TMEA) argued that problems at borders are not yesterday’s problem. One poignant example of this was the long queues of trucks waiting to be cleared at the border between Kenya and Uganda. Electricity cuts, weak customs procedures, and protest by truck drivers have led to major delays at border posts - this has made transport costs in Africa the highest in the world.
18. Yet, participants agreed that there had been progress on customs reform across the world. Khemmani Pholsena, (Vice Minister of Commerce, Lao PDR) highlighted that Lao PDR, a small, land-locked LDC, had succeeded in reducing trade costs and reduced time spent at borders to 1 hour for exports and 3 hours for imports. The Chirundu one-stop border post (between Zambia and Zimbabwe) reduced waiting time from days to hours. Bribery has decreased around the Bamako – Conakry route. Nonetheless, security around borders and the number of roadblocks had remained an important issue. Pradeep Mehta (CUTS) further discussed the vested interests of border inspectors in South Asia pointing to the political economy challenges of customs reform. There are still thick borders within India, comparing some Indian states with landlocked LDCs.
19. Participants presented a range of solutions to the problems posed by thick borders. Solutions included: (i) a deal on trade facilitation to complement a free trade agreement; (ii) training staff at borders (as the IDB group has long done in the MENA region) and provide physical hardware of customs posts; (iii) improving market structure and competition in transport services (especially in West Africa); (iv) implementation guides bringing together knowledge and advice on improving customs procedures (as provided by UNECE); (v) single windows and integrated border

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management systems (e.g. in Costa Rica or Rwanda) which saves time and raises funds; and (vi) increased co-ordination amongst relevant institutions.

20. The participants concluded that trade facilitation conditions are improving, with different solutions in different locations, but it remains as a key issue which we should be working on in the future.

#### **(iv) Working regionally**

21. Joe Costello and several others pointed to the comparatively low level of intra-regional trade in Africa (10% of total trade; although UNDP claimed it was closer to 20% more recently) compared to the EU (around 60%) and argued it was important to support regional integration (and supported by De Gucht and Pam). Costello also said it was important to conclude Economic Partnership Agreements. Much progress on trade has already been made at regional level (Valentine Rugwabiza, WTO) but working regionally can be difficult (Michael Plummer, John Hopkins University) - different regions are at different stages. Regional AfT can be difficult, especially with respect to mainstreaming regional thinking into national policies. The transaction costs of working regionally are high (Braga).
22. Working regionally is more challenging than working nationally (the representative of the IADB) because: (i) there are significant time lags in implementation; (ii) benefits of collective action are not always self-evident; (iii) the benefits can often be seen in the long-run; and (iv) technical issues in lending regionally. There are a number of missing links that need to be overcome in order to make regional programmes work better: (i) applied research and cost/benefit analyses of regional interventions to motivate political will; (ii) an inclusive policy dialogue; (iii) an efficient institutional architecture; (iv) capacity building; and (iv) brokerage.

#### **(v) Working with the private sector**

23. Working more with the private sector was a recurring theme and the subject of a specific session at the policy dialogue. Participants and speakers suggested various ways in which the aid and trade communities can work better with the private sector to increase effectiveness of AfT. There was still unease in donors to work with the private sector, and this needed to be addressed so that healthy collaborations can emerge. Several officials and academics suggested that effective public-private dialogue was an important factor behind the prioritisation of trade-related binding constraints and the success of AfT (Ghana, Cambodia, Costa Rica, Rwanda). Clay Forau Soalaoi (Minister of Solomon Islands) argued that the private sector is the engine of growth.
24. Fiona Bruce argued that the private sector was an untapped resource, pointing to the example of enterprise development in Rwanda. Karel de Gucht suggested the private sector needs to be integrated more in AfT and that it can contribute financially. Margareta Drzeniek-Hanouz of the World Economic Forum suggested that the private sector should be involved in evaluating AfT. Others asked how companies could be incentivised to have greater development impacts, e.g. through stimulating CSR. Ajesh Patel (Invesco) suggested making it easier for business people to travel akin to 'entrepreneurs sans frontieres'.
25. There was also much discussion of how to involve the private sector in home countries and leverage more and better home country investment in developing countries. Costello talked about how to involve the Irish private sector in Africa, linking them to local business and generating local employment. The Dutch development agency is working on improving CSR in Dutch companies in Bangladesh. DFID has set up a £75 million Global Impact Investment Fund to improve demonstrable social impact and return on capital. Pranav Kumar (Confederation of Indian Industry) suggested that aid is not sustainable and hence there needs to be more private investment. He went on to discuss the role of Indian investment in Africa. Thomas de Man (BIAC task force on development) concluded that there should be closer involvement between home governments and business.

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## 4. Conceptualising a new future for Aid for Trade

26. The final part of the policy dialogue considered the future of AfT in the new context of climate change and increased emergence of new types of financial flows. The future of the AfT concept is still wide open, but essentially three views became apparent:
- (i) AfT needs to remain narrow in scope focusing on trade facilitation (as emphasised by Servansing), and there should be a working group on non-tariff measures to implement this;
  - (ii) AfT need to be broader in scope and find a role in the new context of diversifying financial flows (many speakers made the point for AfT to go beyond aid and include considerations of private flows); and
  - (iii) AfT needs to address other challenges such as climate change, as argued by Ricardo Melendez (ICTSD) and Simon Maxwell (ODI), and food security.
27. Throughout the conference, participants emphasised the need to consider AfT in the context of other financial flows. One of the reasons is that there are concerns over the likelihood of declining aid volumes. But the experiences of several successful developing countries (e.g. Cambodia, Vietnam) also point to the importance of private flows. Other financial flows were stressed in cases such as Costa Rica or Samoa. Participants suggested the need for aid to increase investment, investment for trade and AfT; but they also stressed the need to avoid tied aid. Pascal Lamy argued that we need to move to ‘investment for trade’; this was endorsed by several others speakers at the dialogue such as the BIAC and WEF representatives, but also officials and ministers such as Gonzalez and Lamy.
28. Angel Gurría stated that there was a reversal of the decline in untied aid. This is potentially damaging for development as we know that cost of tied aid is decreased efficiencies is between 30-50%. Joe Costello stated that tied aid is not the way forward, but at the same time, there is much scope for synergies between donors and private sector. These views were echoed by Erik Solheim who said that the future of AfT lies in aid for investment, leveraging more and better private investment, but not in tying aid. Joe Costello further argued that AfT must be fundamental to future development strategies in the post-2015 world.

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# 5. Conclusion and what is next en route to the global Aid for Trade review and after the 9<sup>th</sup> WTO Ministerial conference in Bali?

29. The Policy Dialogue reinvigorated the debate on AfT. Several Ministers strongly supported the Initiative and praised the contribution by the OECD. Others noted that the Policy Dialogue had made “an incontrovertible case” for AfT. AfT could be transformational if sustained, systematic and strategic. However, in order to remain relevant it must connect with broader development finance flows and with new providers of assistance. It should also be based on sustainability. AfT must work with and not against new market opportunities created by climate mitigation and adaptation.
30. A major issue since the start of the Initiative in 2005 has been whether AfT should focus on a narrow trade facilitation agenda or connect to a broader set of issues including investment, private sector development and infrastructure. The discussion on value chains with its emphasis on skills development, investment climate and reducing broad trade costs indicates the appropriateness of the latter in the next phase of AfT. In short, AfT should operate in the context of a broad reform process in developing countries and catalyse inter-ministerial dialogue around the promotion of competitiveness.
31. Nevertheless the policy dialogue highlighted challenges such as the likelihood of declining aid volumes, increased tying of aid and that outside the “aid-for-trade bubble”, a strong case still needs to be made to justify AfT against other priorities for development co-operation. So it is clear that despite successes, there is no room for complacency. As attention shifts towards the Global Review in July and the Bali Ministerial in December, the OECD, in co-ordination with other stakeholders, will need to continue to play a strong role in promoting AfT.
32. The rapporteur ended with his thoughts on what should be done next in the coming months:
  - (i) We need to be even better at estimating and showing the diverse impacts and results of AfT;
  - (ii) We need to unpack the concept of global value chains, and more generally the theme of connectedness with others flows and actors at various levels, as well as examine what the emergence of value chains means for a more appropriate targeting of AfT; and
  - (iii) We need to begin to conceptualise on what is next for AfT after the Bali ministerial in December 2013 and institute a new task force.



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