INTRODUCTION

Trade can play a powerful role in contributing to productivity, growth, incomes and jobs. The evidence is incontrovertible that openness to trade raises national incomes. Trade can also contribute to new and better jobs and improve overall working conditions. It is essential for the transfer of knowledge, technology and skills – and thus for development. Indeed, trade is in most cases the single most important external source of development financing. Aid for trade helps developing countries maximise the gains from trade by assisting them to analyse, implement and adjust to trade agreements and to build their supply-side capacity and infrastructure they need to compete internationally.

International trade is not a seamless process and frictions give rise to trade costs. The range of policies and procedures that affect trade costs is broad and located behind the border. They include as non-tariff regulatory measures, market access restrictions, trade finance availability and costs and general impediments to doing business, documentation and customs compliance requirements, lengthy administrative processes and other delays. Moreover, they occur at all stages of the international trade chain, such as during transport and in logistics. High trade costs effectively nullify comparative advantage by rendering exports uncompetitive.

The burden of trade costs falls heaviest on least developed countries (LDCs), although the impact may vary by region. Other factors (e.g. being landlocked) also play a role. LDCs are making progress in mainstreaming the issue of trade costs into national development policy frameworks, as assisted by the Enhanced Integrated Framework and other actors, but progress in bringing down trade costs varies widely. A virtuous circle of national action supported by aid for trade is laying the groundwork for export diversification and attracting FDI and can be observed in some LDCs – although in all too many others the situation remains challenging.

Trade costs are a major determinant of how developing country firms connect to GVCs – and their ability to draw benefits from their participation. The burden of trade costs falls heavily on SMEs, which – mindful of the positive employment and empowerment effects – increasingly focus their efforts on stimulating inclusive, sustainable growth in this segment of the economy. Non-tariff measures emerge strongly as a particular concern for SMEs, namely in connecting to value chains.

Several policy areas affecting value chain integration fall within the purview of the aid-for-trade initiative, in particular trade facilitation and the quality of infrastructure. The WTO Trade Facilitation Agreement represents a historic opportunity to streamline border procedures and reduce trade costs. Aid-for-trade facilitation has already scored measurable successes, but TFA implementation requires further sustained financial and technical support, notably for LDCs and landlocked countries. It will also require a coherent approach at the regional and national level that not only involves customs but also other border agencies and the private sector.

Aid for trade is helping reduce trade costs, particularly where partner governments, regional economic communities and transport-corridor initiatives are mainstreaming this issue into their development strategies and where other sources of financing are being leveraged so as to ensure medium-term sustainability. Where sequencing is right and the engagement of governments, development partners and the private sector is sustained, rapid progress can result. Research highlights how regional initiatives to address trade costs are gaining traction in some regions, while in others efficiency gains from regional initiatives remain unrealised. Aid-for-trade flows have held up through the financial crisis – and other sources of development finance (i.e. new actors and new approaches) are coming onstream. The challenge is how to use aid for trade in a catalytic way so as to leverage other development financing, with inclusive, sustainable growth objectives in mind and ensuring equity in distribution of those funds, particularly for LDCs.

Realising the inclusive, sustainable growth that lies at the heart of the post-2015 development agenda will require concerted, ongoing action on the trade agenda, including on bringing down trade costs. There is scope to use aid for trade to leverage other sources of financing and as a catalyst for the transformational, sustainable vision that lies at the heart of the SDGs. Reducing trade costs is an area where the private sector has much to contribute – and the development community much to learn on how to integrate the private sector in development planning frameworks.

MONITORING AID FOR TRADE

This is the fifth monitoring report on aid for trade. The aim of the report is to link accountability at the local and regional level with a global review process to build genuine partnerships and create incentives for delivering results in terms of trade performance, economic growth and poverty reduction. The monitoring framework provides transparency about the demand for aid for trade, which is based on the extent to which trade is prioritised in development strategies, the response in terms of aid-for-trade commitments and disbursements, the outcomes in terms of enhanced trade capacities and the impact in terms of trade performance and reduced poverty.

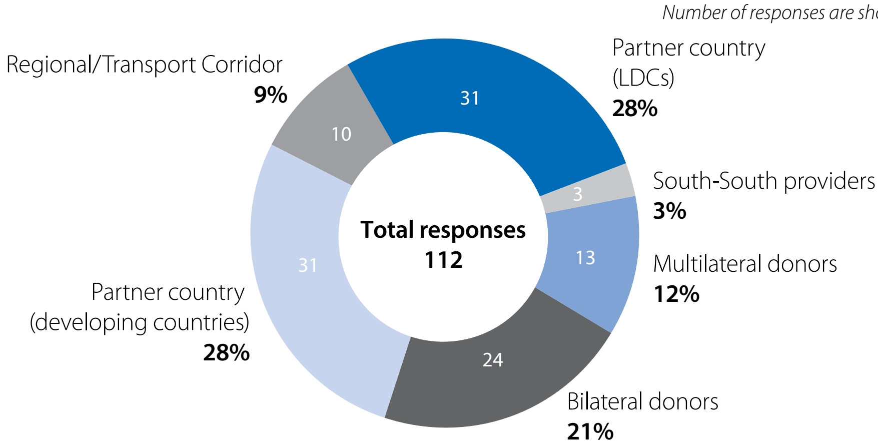
The framework consists of a qualitative and quantitative component. The qualitative component is based on self-assessments, case stories, evaluations and empirical studies. Quantitative monitoring tracks the aid-for-trade flows at the global level based on data extracted from the OECD Creditor Reporting System (CRS) database, following the aid-for-trade proxies that most closely match the measurement of aid-for-trade flows as agreed by the WTO Task Force on Aid for Trade (WT/AFT/1).

WHO PARTICIPATED IN THE MONITORING EXERCISE?

In 2015, 62 developing countries (half of them LDCs) submitted an aid-for-trade self-assessment in the context of the monitoring exercise. In addition, 10 organisations responsible for facilitating trade through transport corridors participated for the first time in the monitoring exercise. The total number of donors that participated in the 2015 survey reached 31, with 24 bilateral and 13 multilateral donors. Furthermore, three providers of South-South trade-related assistance (i.e. China, Chile and Indonesia) submitted a self-assessment. However, statistical data on their programmes remains anecdotal and has to be harvested from secondary resources (see chapter 3).

Figure 0.1 Questionnaires by respondents

Number of responses are shown in white.



Source: OECD/WTO aid for trade monitoring exercise (2015).

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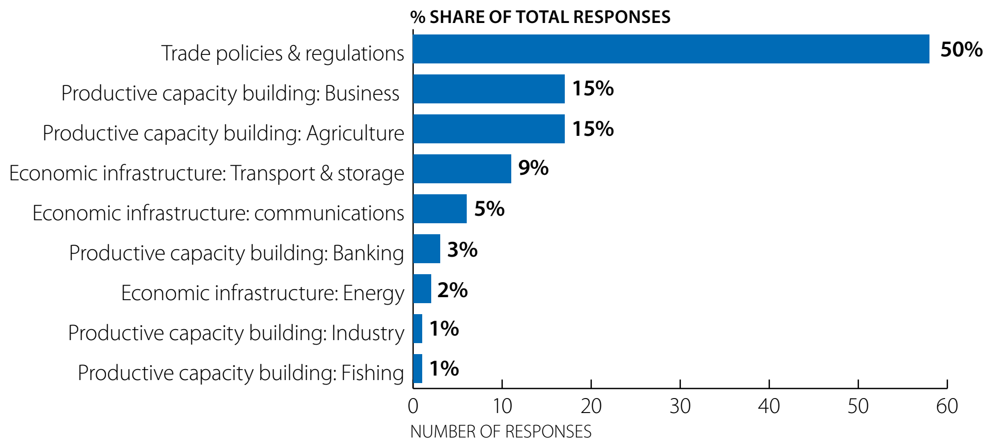
The 2015 monitoring exercise also included a call to the public and private sector to submit case stories about aid-for-trade programmes. This followed the success of the 2011 call for case stories, which resulted in an OECD/WTO publication, Aid for Trade in Action (OECD/WTO, 2013). The purpose of this call for case stories was to probe more deeply into the objectives, challenges and processes of trade-related assistance to better understand the results – particularly what was working in the provision of aid for trade, what were the key ingredients of success and what governments and practitioners could learn from experience.

Figure 0.2 Case stories by sector



Source: OECD/WTO aid for trade monitoring exercise (2015).

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A total of 117 case stories were submitted; 94 from the public sector, 18 from the private sector, and five from NGOs and academia. Half of the case stories focused on support for capacity building in trade policy and regulations and, in particular, trade facilitation projects. Building productive capacities was the topic of 35% of the case stories, and the rest recounted experiences in building infrastructure. Projects in the high income countries was the topic of 45 case stories, followed by 27 in the LDCs, 21 in the UMICs, 11 in the LMICs and four in the OLICs.

The substantive response is a clear reflection of members' active involvement in the aid-for-trade initiative and their generally positive response to the global monitoring exercise. The sheer quantity of activities described in these stories suggests that aid-for-trade efforts are substantial, that they have taken root across a wide spectrum of countries and that they are becoming central to development strategies. The fact that nearly half of the stories were provided by developing countries underlines the salience of these programmes – and highlights the potential for knowledge-sharing.

THE STRUCTURE OF THE REPORT

The aid-for-trade initiative has allowed for the active engagement of a large number of organisations that are helping developing countries, and especially the least developed, build the infrastructure and supply-side capacity they need to connect to regional and global markets and improve their trade performance. Some of these organisations have contributed chapters which deal with specific aspects of the topic of reducing trade costs for inclusive and sustainable growth and which are related to their core competences. In addition, the World Economic Forum has provided the business perspective on these issues. These chapters are published under the responsibility of the respective international organisations.

Chapter 1 was written by the **World Trade Organization** and addresses the question of why trade costs matter for inclusive, sustainable growth. The chapter defines trade costs and argues that policies matter in reducing trade costs in the goods and services markets. Next, the chapter illustrates the scale of the trade costs many developing countries must face and shows that lowering trade costs will result in more trade and potentially higher incomes, particularly in developing countries. The chapter highlights how LDCs and developing country governments are using aid for trade to support action to tackle high trade costs and integrate countries in regional and global trade networks. The analysis highlights that there are good reasons to believe developing countries and their partners are taking this issue seriously and their action in this area builds from solid practical and theoretical foundations.

Chapter 2 was written by the **World Bank** and uses recent advances in trade theory and empirics to infer trade costs from the observed pattern of trade and production across countries. This then is used to provide evidence on recent trends in trade costs, focusing on the developing world. The data show that developing countries, particularly low income countries, suffer from relatively high trade costs. Although some middle income countries have been successful in reducing trade costs, low income countries and countries in sub-Saharan Africa have been proceeding at a much slower pace. They risk continued marginalisation from the global trading economy. However, empirical research suggests a variety of policies that can be effective in reducing trade costs, such as improving trade facilitation and logistics performance, boosting connectivity, and improving the business environment.

Chapter 3 was written by the **Organisation for Economic Co-operation and Development** and analyses aid-for-trade policies, priorities and flows. The chapter examines the USD 246.5 billion in aid for trade and an additional USD 190 billion in trade-related other official flows (OOF) that was disbursed between 2006 and 2013. Next, the chapter summarises the findings from empirical studies, evaluations and case stories to show the impact of this trade-related support. This is followed by a section that looks at the trade-related priorities of partner and donors countries and whether donors align their support around these priorities, including for reducing trade costs. The final section assesses the short-term outlook for aid-for-trade flows.

Chapter 4 was written by the **World Trade Organization** and focuses on the landmark WTO Trade Facilitation Agreement (TFA). The chapter starts with a brief explanation of the new Agreement. Next, it analyses the needs of developing countries and, in particular, the least developed countries (LDCs), as well as the available support from donors that report to the OECD CRS. The WTO TFA provides a new locus to the extensive and ongoing trade facilitation support that donors have expanded in recent years. As such, there is emerging good practice in implementing some of the provisions of the Agreement and the resulting benefits. There is, however, an ongoing concern on the part of developing countries that the specific support needed to implement the so-called Category C provisions (i.e. those that would need support to be implemented) may not be available or adapted to their implementation challenges – a concern that has prompted the WTO to create the Trade Facilitation Agreement Facility.

Chapter 5 was written by the **Executive Secretariat for the Enhanced Integrated Framework** and concentrates on the issue of reducing trade costs and the LDCs. The chapter starts with a discussion as to why trade costs matter, especially for the LDCs. This is followed by a section that analyses trends in LDC trade costs over the last ten years. The next section looks at LDCs' priorities in tackling trade costs and the role of development partners. Based on the EIF's experience, the chapter also investigates what works and what does not, as well as where improvements are needed in addressing the challenges of trade costs facing LDCs.

Chapter 6 was written by the **Organisation for Economic Co-operation and Development** and looks at the influence of trade costs and trade facilitation on connecting firms to regional and global value chains (GVCs). The chapter starts with analysing the global and regional value chains, in particular how countries engage in GVCs and what determines their participation. Next, the chapter provides a regional perspective on trade costs and, in particular, trade infrastructure and trade facilitation. This is followed by a section on regional aid-for-trade (facilitation) initiatives and their results.

Chapter 7 was written by the **International Trade Centre** and analyses how aid for trade can help reduce the burden of trade costs for small and medium sized enterprises (SMEs) in developing countries. First, the chapter defines SMEs and why fixed trade costs matter for them. Next, the chapter reports on the perception of SMEs regarding trade costs and, in particular, those that are fixed. This is followed by a section on how trade support institutions can help address these and other costs, which are often related to the problem of SMEs finding buyers.

Chapter 8 was written by the **Organisation for Economic Co-operation and Development** and looks at how to deepen private sector engagement in aid for trade. The chapter starts with highlighting the changing context of public-private co-operation for development, then it analyses how OECD countries are promoting private sector engagement to achieve economic growth and development. The next section looks at donor support for building productive capacities and the results of these programmes. The last section highlights some lessons learned about working with the private sector to achieve development outcomes.

Chapter 9 was written by the **United Nations Conference on Trade and Development** and discusses the role of trade in the post-2015 development agenda and the implications for the aid-for-trade initiative. The chapter describes how trade is a means of implementing the sustainable development goals (SDGs) and how trade can help LDCs achieve them. The chapter finally highlights how aid for trade can be made more useful in the new development environment.

Chapter 10 was written by the **World Economic Forum** and argues that it is important to engage the private sector at the beginning of aid-for-trade planning. Moreover, a constant dialogue between the government and the private sector can help adapt reforms to meet the needs of users and enhance their impact. The chapter reasons this should not only be limited to trade issues but also to investment matters. Finally, the chapter provides some examples of successful company-led efforts to reach trade tipping points.

Chapter 11 was written by the **Organisation for Economic Co-operation and Development** and **World Trade Organization** and assesses whether the aid-for-trade initiative it is still fit for the purpose of helping developing countries, particularly LDCs, build the supply-side capacity and trade-related infrastructure they need to implement and benefit from WTO agreements and more broadly expand their trade. The concluding chapter highlights some of the main achievements and challenges of the initiative and suggests a focus on the reduction of trade and investment costs could serve as a rallying point for integrated approaches to ensure inclusive and sustainable development outcomes.

The remainder of the report contains the **aid-for-trade factsheets** of the countries that participated in the monitoring exercise and the **aid-for-trade statistical data** used in the report. Lastly, all the information used in this report, including the self-assessments and case stories, is available on the OECD/WTO aid-for-trade website: www.aid4trade.org.

TABLE 0.1 Responses to the Aid for Trade questionnaire

	Overall total	Partner country	LDCs	Donors	South-South
Responses 2015	112	62	31	37	3
Responses 2013	133	80	36	43	9
Responses 2011	146	84	31	43	10

Source: OECD/WTO aid for trade monitoring exercise (2015).

TABLE 0.2 Partner country responses to the Aid for Trade questionnaire

Region	Responses to questionnaire 2015	Responses to questionnaire 2013
Africa (28)	Benin; Botswana; Burkina Faso; Cameroon; Central African Republic; Chad; Comoros; Congo DPR; Côte d'Ivoire; Gambia; Guinea; Guinea Bissau; Lesotho; Madagascar; Malawi; Mali; Mauritius; Nigeria; Rwanda; São Tomé and Principe; Senegal; Sierra Leone; Swaziland; Tanzania; Togo; Tunisia; Uganda; Zimbabwe	Benin; Botswana; Burkina Faso; Burundi; Cape Verde; Central African Republic; Chad; Comoros; Congo, Dem. Rep.; Côte d'Ivoire; Djibouti; Ethiopia; Gabon; Gambia; Ghana; Guinea; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Morocco; Mozambique; Niger; Nigeria; Rep. of Congo; Rwanda; Senegal; Sudan; Tanzania; Togo; Tunisia; Uganda; Zambia; Zimbabwe
Arab and Middle East (1)	Yemen	Jordan; Oman; Yemen
Asia and Pacific (14)	Bangladesh; Bhutan; Cambodia;Indonesia; Lao DPR; Mongolia; Nepal; Pakistan; Papua New Guinea; Samoa; Solomon Islands; Thailand; Tonga; Vanuatu	Bangladesh; Bhutan; Cambodia; Fiji; India; Indonesia; Nepal; Pakistan; Papua New Guinea; Samoa; Tuvalu; Vanuatu
Central and Eastern Europe and Central Asia (1)	Afghanistan	Afghanistan; Turkey
Latin America and the Caribbean (18)	Antigua and Barbuda; Belize; Colombia; Costa Rica; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Haiti; Honduras; Mexico; Panama; Paraguay; Peru; St. Lucia; St. Vincent and The Grenadines; Trinidad and Tobago	Antigua and Barbuda; Bahamas; Barbados; Belize; Colombia; Costa Rica; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Haiti; Honduras; Jamaica, Mexico; Nicaragua; Panama; Paraguay; Peru; St. Kitts and Nevis; St. Lucia; St. Vincent and the Grenadines; Suriname; Trinidad and Tobago; Uruguay
LDCs (31)	Afghanistan; Bangladesh; Benin; Bhutan; Burkina Faso; Cambodia; Central African Republic; Chad, Comoros; Congo DPR; Gambia; Guinea Bissau; Guinea; Haiti; Lao DPR; Lesotho; Madagascar; Malawi; Mali; Nepal; Nigeria; Rwanda; São Tomé and Principe; Senegal; Sierra Leone; Solomon Islands; Tanzania; Togo; Uganda; Vanuatu; Yemen	Afghanistan; Bangladesh; Benin; Bhutan; Burkina Faso; Burundi; Cambodia; Central African Republic; Chad; Comoros; Congo, Dem. Rep.; Djibouti; Ethiopia; Gambia; Guinea; Haiti; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mozambique; Nepal; Niger; Rwanda; Samoa; Senegal; Sudan; Tanzania; Togo; Tuvalu; Uganda; Vanuatu; Yemen; Zambia

Source: OECD/WTO aid for trade monitoring exercise (2015).

TABLE 0.3 Donor country response to the Aid for Trade questionnaire

Region	Responses to questionnaire 2015	Responses to Questionnaire 2013
Bilateral (24)	Australia, Austria, Belgium, Canada, Chinese Taipei, Czech Republic, Denmark, EU, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Korea, New Zealand, Norway, Sweden, Switzerland, Netherlands, UK, US, UNDP-Uzbekistan	Australia; Austria; Belgium; Bulgaria; Canada; Czech Republic; Denmark, EU; Finland; France; Germany; Greece; Ireland; Italy; Japan; Korea; Lithuania; Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; Chinese Taipei; UK; US
Multilateral (13)	AfDB; AsDB; EBRD; IaDB; IsDB (ITFC); ITC; UNCTAD; UNDP; UNECA; UNECE; UNIDO; UNESCAP; WB	AfDB; EBRD; EIF; FAO; IaDB; IMF; IsDB; ITC; UNCTAD; UNDP; UNECA; UNECE; UNIDO; World Bank; WTO

Source: OECD/WTO aid for trade monitoring exercise (2015).

TABLE 0.4 Providers of South-South co-operation responses to the Aid for Trade questionnaire

Region	Responses to questionnaire 2015	Responses to Questionnaire 2013
3	Chile, China, Indonesia	Chile; China, Colombia; Costa Rica; Indonesia; Mauritius; Mexico; Morocco; Oman; Sudan

Source: OECD/WTO aid for trade monitoring exercise (2015).

TABLE 0.5 Regional & Transport corridor questionnaire

Responses to questionnaire 2015	Regional Economic Communities	Regions
10	NCTTCA, OECS, Trade Mark East Africa, SIECA, OCTA, COMESA, CARICOM, SADC, PIFS, ECOWAS	Africa (5), Latin America and the Caribbean (3), Asia and the Pacific (2)

Source: OECD/WTO aid for trade monitoring exercise (2015).

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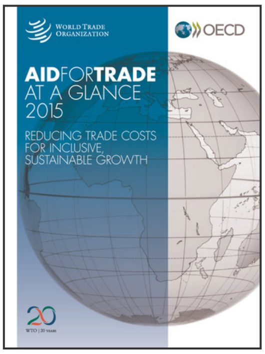

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