CHAPTER 1:
IS AID FOR TRADE ADAPTING TO NEW REALITIES?

This chapter discusses how the evolving trade and development context is shaping aid for trade. It illustrates how partner countries, donors and providers of South-South trade-related co-operation are using aid for trade to assist developing countries to enter (and establish their own) value chains. Using the findings from the OECD/WTO questionnaire responses, the chapter provides a broad overview of how aid-for-trade policies, priorities and strategies are evolving. It investigates how much resonance value chains have in establishing developing country objectives, and the extent to which value chains are considered in the programmes of donor agencies and providers of South-South trade-related co-operation. Partner countries are focusing on how they can reduce the thickness of their borders, improve the business environment, and create conditions that will assist their firms to connect to regional and global value chains. Donors are responding to these priorities. They are putting more emphasis on public-private co-operation, and are adapting their programmes to target-specific sectors and supply chains. Providers of South-South trade-related co-operation are continuing to scale up their support to enhance South-South trade.

INTRODUCTION

Global trade is increasingly characterised by transactions within complex value chains. The global expansion of value chains is offering new opportunities for many developing countries. Value chains are no longer just North-South in character, but also involve increasingly complex regional and South-South trade interactions – and they are extending beyond goods into services. However, some developing countries, in particular the least developed countries (LDCs), remain on the margins of global trade, attract little foreign or domestic investment, and are locked into supplying a narrow range of goods or services. Aid for trade can play an important role in addressing the binding constraints that inhibit developing country firms from connecting to international value chains. National, regional and global value chains provide new opportunities, but also present risks for developing countries. Value chains reinforce the rationale for keeping markets open and highlight the costs of having thick borders. They also require new approaches to development co-operation.

This chapter discusses how the evolving trade and development context is shaping aid for trade. It illustrates how partner countries, donors and providers of South-South trade-related co-operation are using aid for trade to assist developing countries to enter (and establish their own) value chains. Using the 2013 OECD/WTO questionnaire responses, the chapter provides a broad overview of how aid-for-trade policies, priorities and strategies are evolving. It investigates how much resonance value chains have in establishing developing country objectives, and the extent to which value chains are considered in the programmes of donor agencies and providers of South-South trade-related co-operation.

Many low-income countries enjoy very limited penetration of value chains and remain mostly at the "bottom" of the value chains in which they do participate. Many donors have limited experience with value chains. For others, such as Denmark and Germany, promoting value chains has become a strategic priority. Major donors, including the United Kingdom and the United States, have numerous programmes that focus directly on the benefits of connecting to value chains for development.

The chapter begins by examining partner country priorities. It then explores how donors are responding to these priorities and considers the private sector's role in aid for trade. At the end of the chapter a number of conclusions are presented.

HOW ARE PARTNER COUNTRIES ADAPTING THEIR STRATEGIES?

Since the Aid-for-Trade Initiative commenced in 2006, partner countries have taken the lead in designing and implementing new trade strategies that are being adapted to new trends and paradigms of international trade. What is more, trade has been mainstreamed into overall development planning, policies and activities. This has been achieved with sound analysis of trade opportunities and strategic interventions, inclusive stakeholder engagement and co-ordinated action (UNDP, 2011). Monitoring exercises in 2009 and 2011 indicated that improvements had been made in all aspects of the planning and delivery of aid for trade, and that programmes were starting to show tangible results (OECD/WTO, 2011). Nevertheless, challenges remain in formulating operational trade strategies that are outcome oriented, with realistic prioritisation and resource allocation (UNDP, 2011). The strength of the 2013 OECD/WTO questionnaire responses (by 80 partner countries) shows that partner countries remain engaged in the Initiative and committed to improve the effectiveness of aid for trade. To be effective, aid for trade must be targeted at emerging trade-related priorities. Partner countries' responses suggest that, for many of them, these priorities continue to evolve. Aid-for-trade support must evolve, too.

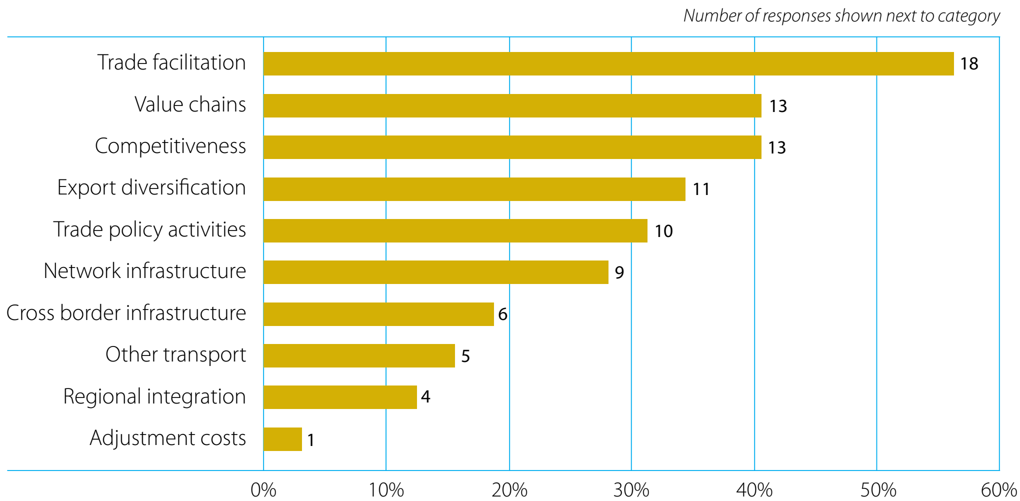
Trade facilitation, value chains and competitiveness are emerging as priorities for partner countries.

Since 2010, almost 40 percent of partner countries (31 countries) have changed their trade-related priorities. Figure 1.1 shows that trade facilitation has much more salience (with 18 countries identifying it as one of their top priorities). Moïsé and Sorescu (2013) have found that improvements in trade-related information, simplification and harmonisation of documents, streamlining of procedures, and use of automated processes can lead to significant reductions in trade costs, with as much as a 14.5 percent reduction of total trade costs for low income countries. Value chains and competitiveness are also increasingly being given high priority (13 countries each). In fact, value chains have emerged as the most significant priority in those LDCs that have changed their strategies since 2011. Partner countries hold the view that increased participation in value chains is good for economic growth and social development. This is in marked contrast to the responses to the 2011 questionnaire, on which trade facilitation ranked fifth and value chains seventh out of seven priorities. As articulated by Niger, traditional aid-for-trade issues such as supply-side problems, lack of competitiveness and infrastructure deficits remain important but have been supplemented, if not replaced, by new ones. Morocco reports that while it has articulated new priorities, economic infrastructure and trade policy and regulation remain important.

Competitiveness continues to be an overarching priority. The top priorities are closely intertwined: to connect to value chains and diversify exports, firms and countries need to be competitive, which in itself requires reducing the thickness of borders. Further investments are also required to improve the business environment, make credit and market information available, and reduce transport and energy costs. These issues remain priorities for aid for trade.

While value chains and trade facilitation have emerged, priorities in many partner countries have not changed. Export diversification, infrastructure, and trade policy and regulations are also prominent in partner countries that have updated their aid-for-trade priorities. WTO accession costs and trade-related adjustment are ranked as much less important.

Figure 1.1 New aid-for-trade priorities
(percentage of partner country responses (ranks 1-3 combined)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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Where partner countries have changed their aid-for-trade priorities, this has often been driven by their new overarching development priorities and strategies. That is the case for 24 of the 31 countries which have changed their aid for trade priorities. For instance, the Dominican Republic adopted new legislation in early 2011 establishing a National Development Strategy 2030. Gambia completed the formulation of its Programme for Accelerated Growth and Employment (PAGE) in 2011 and its National Export Strategy (NES) in 2012. Both the PAGE and the NES recognise value chains and trade facilitation as important areas for enhancing competitiveness and growth. The new Diagnostic Trade Integration Study (DTIS) for Gambia also emphasises the development of value addition processes to promote the development of micro, small and medium enterprises (MSMEs) and exports for poverty reduction.

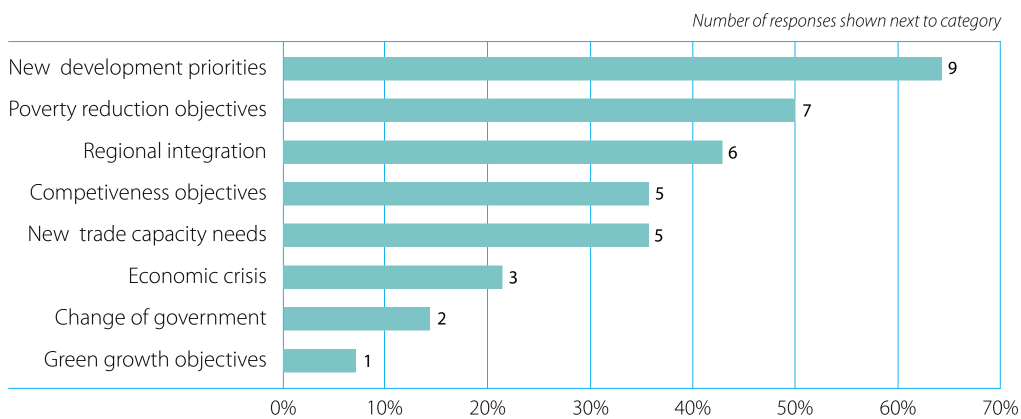
As noted, the need to improve competitiveness (13 countries) emerges strongly in the questionnaire responses. For example, the main driver of change in Rwanda's aid-for-trade priorities is improving its competitiveness through trade facilitation and cross-border infrastructure. To achieve this, in 2012 it installed one of Africa's most advanced electronic one-stop trade clearance systems. TradeMark East Africa (TMEA), a multi-donor funded programme, supported the introduction of a computerised scheme called the Rwanda Electronic Single Window (RESW). Under one electronic roof it brings together all the agencies that are required to clear, approve, and charge duty on imports and transit goods transparently. The introduction of this scheme has cut the time it takes to clear cargo by 40 percent, or one full day, representing direct savings of around USD 8-12 million a year (TMEA, 2012).

Reflecting the improvements in dialogue with donors on trade issues reported in the previous *Aid for Trade at a Glance* (OECD/WTO, 2011), most developing countries report that they include these new priorities in national development plans and in dialogue with donors. Indeed, 30 out of 31 partner countries reflect new priorities in their national development strategies (with 26 having updated their strategies and 4 in the process of doing so). Furthermore, 28 countries have communicated their priorities in dialogues with donors.

LDCs see trade as an important transmission mechanism for poverty reduction …

Apart from overarching new development priorities, the main driver of change among the trade-related priorities of LDCs is poverty reduction. This shows clear recognition that aid for trade plays a major role in ensuring that trade acts as a transmission channel for reducing poverty (Figure 1.2). It is consistent with the aim of aid for trade articulated by the WTO Task Force on Aid for Trade to "enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs)" (WTO, 2006). In general, aid-for-trade projects do not necessarily directly target the poor; rather they serve to strengthen the role that trade can play in reducing poverty. The latest OECD/WTO questionnaire responses emphasise that partner countries recognise the importance of trade for poverty reduction. Donors are similarly motivated to provide aid for trade because of its potential to strengthen economies and reduce poverty.

Figure 1.2 Factors driving changes in least developed countries' strategies
(percentage of LDC responses, ranks 1-3 combined)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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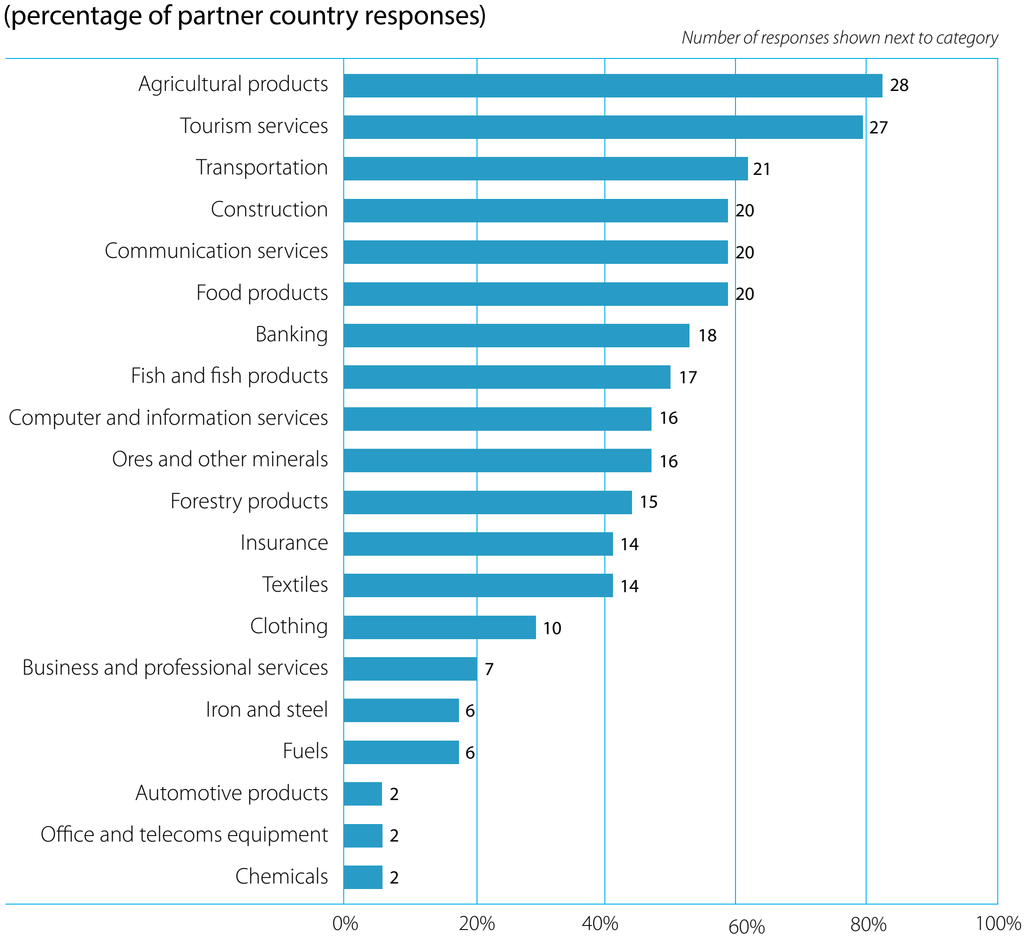
As a demonstration of the strong planning structures established in LDCs through the Enhanced Integrated Framework, all LDC respondents have included (or plan to include) new trade-related priorities in their national development strategies, as well as in donor consultations and dialogue. Most national development strategies identify specific sectors as sources of growth. Agriculture is the sector most regularly identified. Agricultural products are identified by 28 LDCs. Specific references to manufacturing are much less common in development plans, but where they appear they are generally linked to textiles (14 LDCs) and clothing (10 LDCs). Non-fuel commodities are also important in this regard (16 LDCs), while fuels are less so (6 LDCs) (Figure 1.3). An unexpected result is the weight given by LDCs to services, identified by 80 percent as a growth sector.

… and value chains are the most significant factor driving changes in trade strategies …

Value chains are prominently mentioned by LDCs as drivers of new aid-for-trade needs. A number of LDCs mention specific export products they are producing, including handicrafts and carpets, leather and leather products, footwear and plastic products, cultural and recreational goods and services, pharmaceutical products, gum arabic processing, light engineering and shipbuilding. These examples highlight the diversity of activities taking place in LDCs and the increased value addition and production of intermediate goods. Most of these countries produce finished food (39 LDCs), clothing (39 LDCs), textile (32 LDCs) and chemical (24 LDCs) products. It seems clear that many of them are moving up the value chain. For example, in regard to textiles 24 LDCs are producing more advanced intermediate products. Furthermore, almost all the LDCs have specific strategies for connecting to value chains in their priority sectors. For example, Gambia reports that its National Agricultural Investment Programme emphasises the importance of boosting commercial farming for increased production, as well as the development of food processing chains and the promotion of domestic, intra-regional and extra-regional trade. According to Gambia, the development of the manufacturing sector is predicated on the need to improve competitiveness and value addition to improve access to the regional market through the Economic Community of East African States (ECOWAS) Trade Liberalization Scheme (ETLS) Although there are no sectoral strategies for services and intellectual property as yet, the trade strategy currently being finalised will include goods and services.

Figure 1.3 Sectors and subsectors identified as sources of growth in least developed countries' national development strategies
(percentage of partner country responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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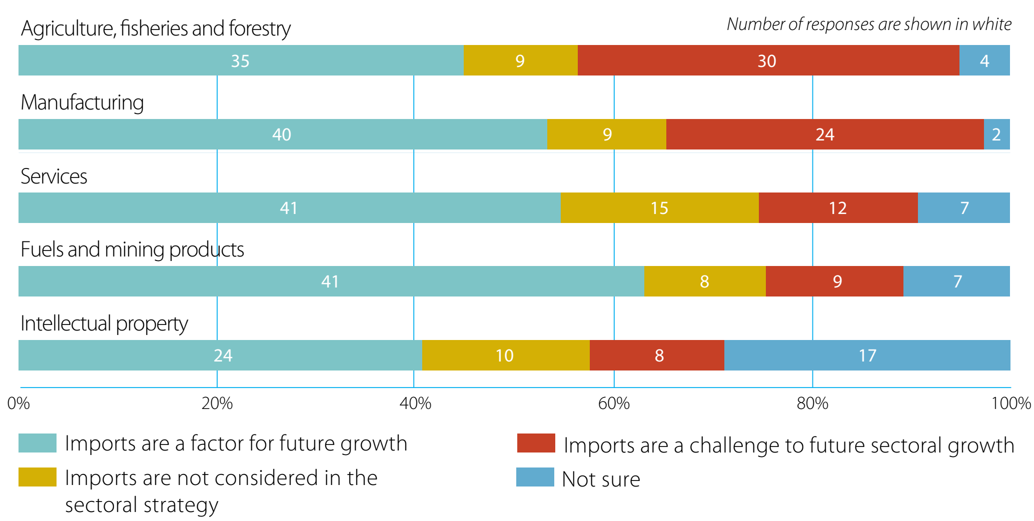
… while imports are becoming a more important factor for future growth

Hallaert, Cepeda and Kang (2011) consider that the crucial contribution of imports to economic growth is "not well understood beyond the circle of trade economists". They also state that imports are at best marginal in public debate, policy-making decisions, and the design of aid projects and programmes. The OECD/WTO questionnaire responses (Figure 1.4) suggest that this is changing. Imports are perceived as an important factor for future growth, especially in manufacturing, services, and fuels and mining products (40 or 41 countries each). Yet many partner countries still see imports as a challenge to growth in agriculture, fisheries and forestry (30 countries) and, to a lesser extent, in manufacturing (24 countries). Despite the perceived importance of services, partner countries report that they are less likely to be considered in sectoral strategies than other types of imports. Fewer than 10 partner countries do not consider imports in other sectoral strategies, indicating that, for the most part, imports are no longer marginal in trade policy and development discussions. In the context of value chains, imports are increasingly a component of exports. In keeping with the growing prioritisation of value chains, partner countries are putting greater emphasis on imports in their trade strategies.

Figure 1.4 The role of imports
(percentage of partner country responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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ARE DONORS RESPONDING TO NEW PATTERNS OF TRADE?

Some donors have implemented new aid-for-trade strategies. Almost all providers of aid for trade and trade-related support responded to the self-assessment survey. The questionnaires completed by donor agencies reflect sharply contrasting outlooks in bilateral agencies compared to multilaterals. Only 40 percent of bilateral agencies have changed their strategies, whereas 60 percent of multilaterals have revised their approaches. The largest bilateral donors in volume terms, Japan and the United States, have not changed their strategies. Japan considers that attracting foreign direct investment is the most efficient way for developing countries to further benefit from the multilateral trading system. Its aid for trade therefore plays a significant supporting role in creating a better investment climate.[1] The United States has increasingly focused on trade facilitation and standards. Moreover, it has established a Standards Alliance to help build capacity in developing countries to adopt globally recognised standards and norms for products; this will assist those countries in clarifying and streamlining their regulatory processes.

The German Federal Ministry for Economic Cooperation and Development (BMZ) published a new Aid for Trade Strategy in 2011.[2] The priority goal of Germany's trade-related development policy is to assist partner countries in successfully integrating themselves into the global economic system and regional economic communities, diversifying their economies and exports, and using trade in goods and services and foreign direct investment to reduce poverty more effectively in the context of sustainable development. The new priority areas are: regional economic integration; trade facilitation; quality infrastructure; and integrating into regional and international value chains (agricultural and non-agricultural sectors, including trade in services).

Where new strategies do not exist, instruments have nevertheless evolved that influence the focus of programming.

While France's aid-for-trade strategy has not changed since 2009, the financial instruments deployed have evolved. The French Trade Capacity Building Programme gives more importance to climate change and green growth than in the past. Furthermore, in 2010 and 2011 there was intensive implementation of a 2008 initiative in favour of private sector development in Africa. The Austrian Development Cooperation (ADC) will maintain its focus on improving the "business enabling environment" and access to infrastructure services, in particular with regard to energy. The Danish strategy for development co-operation is based on the "Right to a Better Life" and puts an emphasis on "fighting poverty and promoting human rights, economic growth and [the] trade part of green growth".

New Zealand has not changed its 2012 aid-for-trade strategy, but its aid programme has been implementing a new policy focused on sustainable economic development, especially in the Pacific: "In supporting sustainable economic development, there is increased focus on agriculture, fisheries, and tourism – productive sectors that are key to our partner's future growth prospects and infrastructure and energy as important enabling factors for growth.

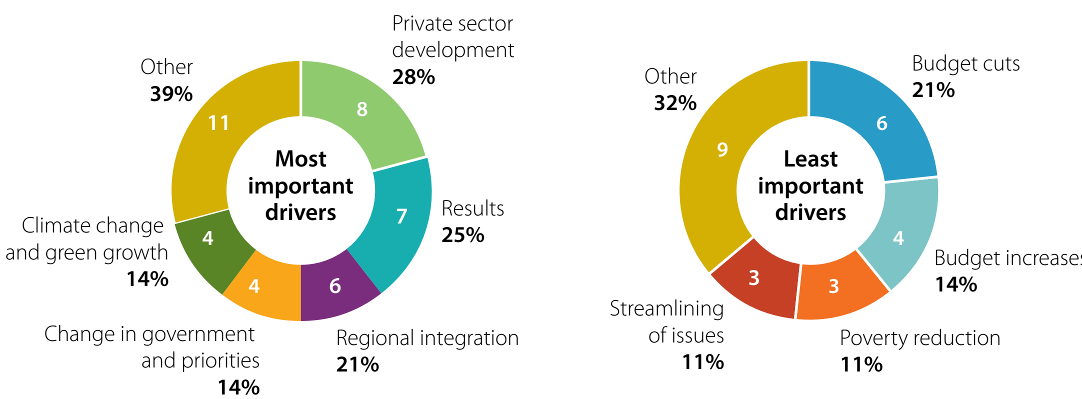
The broad direction of the United Kingdom's aid for trade has remained constant since 2010. Priorities were redefined in the 2011 White Paper *Trade and Investment for Growth* and the Department for International Development (DFID) Structural Reform Plan, as well in as the Bilateral Aid Review and Multilateral Aid Review. These priorities include: helping developing countries to integrate more fully into the global trading system; trade facilitation; supporting ethical and sustainable trade; boosting capacity for trade negotiations; and supporting regional integration initiatives. None of this has led to radical changes in the UK's aid-for-trade strategy, but it has influenced the focus and design of new programmes. The Bilateral Aid Review refocused UK aid on a smaller number of countries "where DFID could make the biggest difference and where the need was greatest". DFID is supporting trade and regional integration in Sub-Saharan Africa through the Africa Free Trade Initiative (AFTi), which is a priority for the UK. In South Asia the UK is working to improve intra-regional trade through improved trade facilitation and logistics. In the Caribbean it is helping to build a more resilient economic base by assisting with the implementation of trade agreements, improving the business environment, and lowering the costs and time associated with importing and exporting. The UK is also working to improve the environment for trade and investment in conflict-affected and fragile states around the world.

Bilateral donors are focusing more on private sector development and regional integration …

In general, bilateral donors are focusing more on private sector development (PSD) and regional integration (Figure 1.5). In the case of the Netherlands, the relative weight of programmes on PSD and, to a lesser extent, regional integration has increased. Figure 1.5 also illustrates, however, that budgetary pressures are not a major influence on strategies and that no bilateral donor has altered its approach in reaction to budget cuts. This suggests that embracing private sector development is not budget-driven, but rather a strategic choice due to a change of mind-set in overall official development assistance (ODA), not just aid for trade. Nevertheless, the current pressure on budgets may be hastening the trend in this direction. The 2011 Busan Partnership for Effective Development Co-operation confirms that shift of focus.

Figure 1.5 Most and least important drivers of change for bilateral donors

Number of responses shown in white.



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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… and on results, which will continue to be important in the future …

Donors are placing greater emphasis on evaluation, results, and the impact of aid-for-trade interventions. For seven bilateral donors this is the most important change and, for four, an important change (Figure 1.5). Japan evaluated its aid for trade and noted the apparent improvements in economic performance (economic and export growth) in the main recipient countries.[3] One of the key findings of an evaluation of Finland's aid for trade is that trade is not mainstreamed across sectoral/thematic projects and programmes classified as aid for trade. A significant proportion of projects or programmes lack trade-related objectives or outcomes. One of the main reasons is that potential linkages between projects or programmes that could be defined as wider aid for trade with possible trade-related outcomes are either not well understood or not considered important. This finding confirms the results of the OECD meta-evaluation in *Strengthening Accountability in Aid for Trade* (OECD, 2011), which demonstrated that evaluations of aid-for-trade projects and programmes have usually not had much to say about trade and have had even less to say about the linkages that matter most to policy makers. The failure of evaluations to refer to specific trade results can be explained, at least in part, by the absence of trade-related objectives in the initial mandate of projects and programmes.

… along with green growth

Looking to the future, donors indicate that the focus on results will continue to be important in the next five years. In fact, this issue was identified as the most important expected change in future strategies by 20 donors. Other influential factors in the next five years are expected to include: climate change and green growth (14 donors); private sector development (12 donors); poverty reduction (12 donors); and regional integration (10 donors).

Donors see green growth as a future priority, but partners less so. Bilateral and multilateral donors expect there to be a greater focus on green growth and climate change in aid for trade in the next five years. For 14 donors, that is the most important change. This resonates with the call by WTO Director-General Pascal Lamy to explain how aid for trade can support broad policy objectives such as climate change adaptation, energy generation and sustainable development. OECD (2012) discusses climate change, policies taken to mitigate it, and how this will shift patterns of comparative advantage. These potential changes in trade patterns, including new opportunities arising from achieving low-carbon standards, need to be integrated in the aid-for-trade agenda. Donors are reporting that they are embracing these changes.

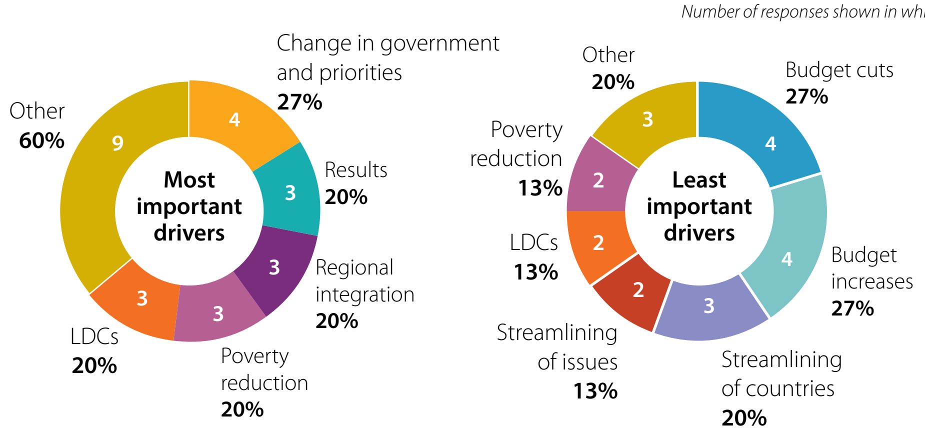
As stated above, partner countries do not identify green growth or climate change as major factors in their strategies. Resnick *et al.* (2012) argue that green growth is similar to most other types of policy reforms which advocate the acceptance of short-term adjustment costs in the expectation of long-term gains. For example, the Maldives, in responding to the 2011 aid-for-trade questionnaire, mentioned concerns that climate change and green growth would become donor priorities which were not necessarily widely shared by partner countries.

Multilaterals are also focusing more on results, as well as on poverty reduction …

A majority of multilateral donors, *i.e.* 9 out the 15 (60 percent), have altered their approach to aid for trade. Multilateral donors tend to be more specialised and already have extensive programmes promoting both private sector development and regional integration. No single factor of change affecting their aid-for-trade strategies emerges prominently. For some it is broader institutional changes, such as new leadership or new overall priorities (4 agencies) (Figure 1.6). Significantly, changes in budget, either increases or decreases, are not a factor for change and are identified as the least important factor by 8 agencies. Some multilaterals (3) are focusing more on LDCs and some (2) on private sector development, while for others it is regional integration (3) and sharper attention to results (3).

Figure 1.6 Most and least important drivers of change for multilateral donors

Number of responses shown in white.



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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… and on achieving objectives through new instruments and partnerships.

The largest multilateral donor, the World Bank Group (WBG), aims to "improve the inclusiveness of trade, and to promote its impacts on reducing poverty and inequality" (World Bank, 2011).[4] The World Bank's Trade Strategy aims to help the Bank achieve its objectives through new instruments, including better use of external partnerships with development agencies and the private sector, and new co-ordination and collaboration mechanisms that aim to exploit synergies more effectively between different parts of the WBG including the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

The Islamic Development Bank recently adopted a New Medium Term Business Strategy (MTBS) for the next three years, emphasising the "delivery of results, connectivity and regional integration". The African Development Bank recently completed formulation of the Programme for Infrastructure Development in Africa (PIDA), which will help address the infrastructure deficit that severely hampers Africa's competitiveness in the world market. Launched in the first part of 2013, the PIDA is a long-term strategic planning programme for Africa's regional infrastructure (2012-40). The WTO has "placed greater focus on results based management and a progressive learning strategy in their trade-related technical assistance".

HOW IS THE PRIVATE SECTOR INVOLVED?

The private sector's role in development is increasingly recognised …

The MDGs recognise the need for Partnerships for Development and the role the private sector could play in making available the benefits of new technologies, especially information and communications. The Busan Partnership for Effective Development Co-operation also recognises the central role of the private sector in "advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction." While recognition of the importance of the role of the private sector in development is increasing, these benefits are proving difficult to obtain in practice.

The International Trade Centre (ITC) considers the role of the private sector in aid for trade as: advocates for policy reform; beneficiaries of aid for trade, especially the small and medium-sized enterprises (SMEs) in developing countries and LDCs; and partners, contributing expertise, technology and markets for SME products and services. The Canadian International Development Agency (CIDA) emphasises the potential to leverage private sector knowledge, resources and innovation to meet development challenges and opportunities – a growing priority for many donors. This includes encouraging responsible investment, facilitating local businesses' connections to broader value chains, and stimulating public-private dialogue.

… and the private sector is involved in aid-for-trade dialogue and advocacy.

The private sector is involved in development programming in many different ways. At the policy level, the private sector perspective is required in policy dialogue and advocacy to identify trade-related bottlenecks, set national priorities and institute reforms to improve the trading and business environment. In partner countries, according to the responses to the OECD/WTO questionnaire, the private sector is involved in the elaboration of national strategies. Over 90 percent of respondents reported that they engage with the private sector in developing national development strategies, sectoral strategies and national trade development strategies.

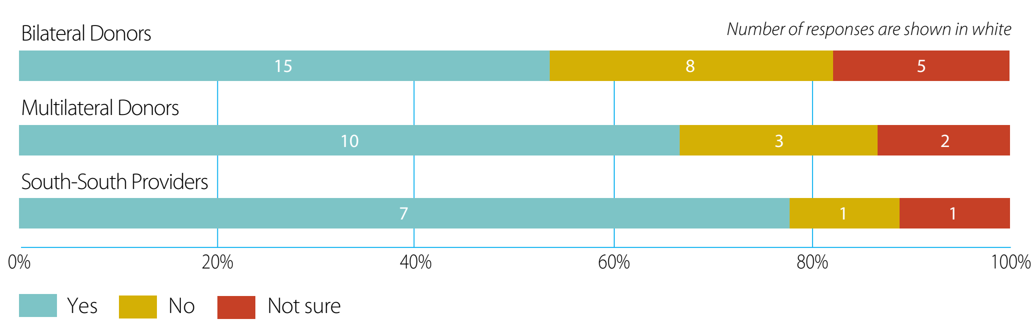
The questionnaire responses indicate that an array of structures are being established that aim to increase the involvement of the private sector in the conceptualisation, elaboration and implementation of these different strategies. Nevertheless, the quantity and quality of dialogue varies. Some respondents indicate that while the private sector has been involved, it "lacks capacity to effectively articulate issues". Others refer to difficulties in implementing recommendations from the private sector.

All providers of assistance tend to consult the private sector, but sometimes only in donor countries …

All providers of assistance tend to consult the private sector in developing aid-for-trade programmes and trade-related co-operation: 78 percent of providers of South-South trade-related co-operation, two-thirds of multilateral donors and more than half of bilateral donors (Figure 1.7). However, the private sector tends to be made up mostly of firms or business associations in the donor country. In addition, most incentive schemes that cover up-front investment costs and address information asymmetries tend to be provided to firms in donor countries. For example, DFID challenge funds offer grants to businesses on a competitive basis to help cover start-up costs. A scheme instituted by Finland, Finpartnership, offers financial seed money and advisory services for Finish companies to start and implement their business operations in developing countries. When the New Zealand Partnerships for International Development Fund was introduced, a challenge fund was established open to New Zealand organisations in the charitable, not-for-profit, private and state sectors. New Zealand is continually looking for opportunities to address gaps, including supply-side challenges, through a collaborative approach including with involvement from the private sector.

Donors are also tapping into the expertise and experience of the private sector. Seven multilateral donors, seven bilateral donors and seven providers of South-South trade-related co-operation consult the private sector in developing their programmes. Donors have consulted the private sector in designing their overall development strategies. Spain carried out an extensive consultation process which involved the private sector, employers and private companies, as well as co-operatives, in developing the Master Plan for Spanish Co-operation 2009-12. Consistent with the nature of their programmes, multilaterals also talk with the private sector in partner countries, with ten agencies consulting while only three bilateral donors and one South-South provider do so.

Figure 1.7 Consultation with the private sector in the development of aid-for-trade strategies
(percentage of responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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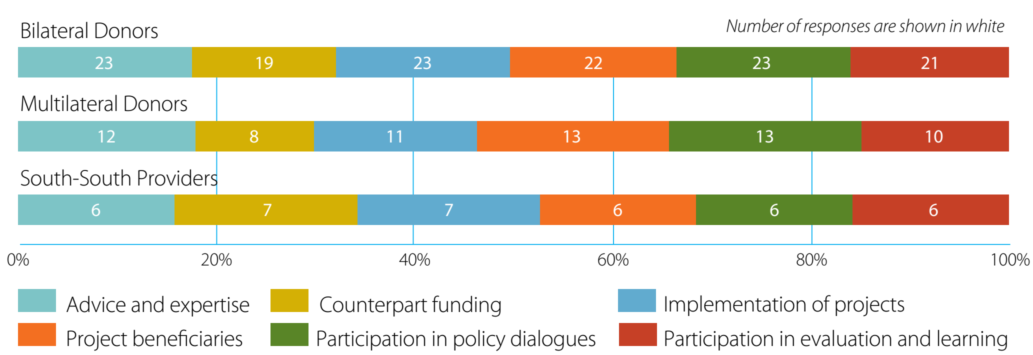
The private sector is involved in a multitude of ways. In general, donors engage to varying degrees with the private sector, sometimes involving them in policy dialogue, advisory functions, as recipients and providers of funding, and for implementation and information exchange. Overall, the private sector is equally involved in each of these functions (Figure 1.8). Again, multilateral donors tend to strongly engage the private sector. For many agencies the private sector is the beneficiary of their assistance (7 always, 6 sometimes). For others the private sector is involved in implementation (6 always, 5 sometimes). However, the multilaterals note that they tend to look for private sector advice and expertise or participation in evaluation or learning (2 always, 8 sometimes). The situation regarding bilateral donors is less clear, with most donors sometimes involving the private sector in policy dialogues (4 always, 19 sometimes), implementation (3 always, 20 sometimes) and seeking advice and expertise (3 always, 20 sometimes). Canada, for example, has private sector-focused activities which include the Programme for Building African Capacity to Trade as well as the Programme for Entrepreneurship Innovation in the Caribbean. Through such programmes it is linking entrepreneurs in the developing world with Canadian and international purchasers, and into regional and global value chains

Providers of South-South trade-related co-operation engage the private sector through dialogue (4 always, 2 sometimes) and, similarly to other providers of assistance, see the private sector as an important implementing partner (3 always, 4 sometimes). Some donors have limited interaction with the private sector because of the type of services they provide in recipient countries. Some do not use financing modalities that involve the private sector and counterpart funding. Furthermore, experience with involving the private sector in the evaluation of projects and programmes appears limited.

Figure 1.8 Private sector involvement with donors and South-South providers (percentage of responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

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… while private sector development programmes have a mixed record.

Schulpen and Gibbon (2002) critically reviewed private sector development policies, arguing that they were shaped mostly by the nature and interests of the private sector in donor countries themselves, incorporated a high proportion of tied aid, and failed basic tests of coherence. More recent reviews are more positive. For example, an EU evaluation of private sector development (PSD) programmes found that while there is broad consensus on the importance of PSD for job creation, linkages between EU support for PSD and employment generation have remained very distant (EC, 2013). The evaluation also found that the EU has made valuable contributions to the development of the private sector in middle income countries, notably through policy dialogue, alignment, and the clarity of the EU's role in PSD.

The Danish development co-operation (Danida) meta-evaluation of private sector development (Denmark, 2009) showed that interventions supporting supplier and producer enterprises organised in value chains have gained increasing importance among donors. Furthermore, intervention approaches have been improved on the basis of experience and best practices. There are only a few evaluations of long-term impact and sustainability, but the indications are positive. With this kind of intervention it is possible to achieve a systemic positive impact on the stakeholders and actors operating in value chains.

Many donors are involved in public-private partnerships (PPPs) …

In building trade capacities, donors have clear incentives to involve the private sector and many donors are engaged in private-public co-operation programmes. For instance, the *German Gesellschaft für Internationale Zusammenarbeit* (GIZ/DEG) PPP Programme co-funds private projects with high development impact. It also supports the integration of private partners in GIZ technical co-operation projects with partner countries. The EU is exploring new ways to use grants to mobilise private sector resources for development through extending the scope and scale of blending facilities and establishing risk-sharing mechanisms and guarantee schemes for private investors in partnership with European development financing institutions. The Standards and Trade Development Facility (STDF) encourages projects that seek to enhance public-private sector co-ordination. Research work by the STDF in 2010, in collaboration with the Inter-American Development Bank, analysed the emergence, operation and performance of selected sanitary and phytosanitary (SPS)-related partnerships between government agencies responsible for food safety, animal and plant health, and/or trade and the private sector.

OECD (2008) argued that successful PPPs require governments to define clear legal and policy frameworks, and to ensure that the appropriate capacity exists within governments to initiate and manage them. Providing such an enabling environment has implications for public governance, as the public sector needs to establish itself as a credible partner with appropriate regulatory and oversight mechanisms. Competition in the bidding process improves the government's bargaining position and prevents opportunistic (monopolistic) behaviour on the part of private bidders. To diminish the risks, a report from the United States Public Interest Research Group (2011) suggested ten principles for protecting the public interest including: pursuing PPPs for the "right" reasons with "identifiable added value"; aligning "private sector incentives with public sector goals"; only pursuing PPPs "where ample competition exists"; ensuring "clear public accountability"; retaining public control over system decisions; limiting the lengths of contracts; and guaranteeing transparency in the contracting process.

The public and social acceptability of such partnerships is often a key factor. Political commitment at a high level is crucial for assuring that actors in the private sector honour commitments over the long run and that political risk is minimised. Political commitment may also help convince the public of the value of PPPs as a mode of service delivery. IFC (2012: 48-51) demonstrates how an economic cost-benefit analysis (CBA) allows governments to assess the net benefits to society of projects, and then to select the one that generates the most benefits. An economic CBA also minimises public opposition by showing that benefits to society are the deciding factor in implementing a project. Such an assessment must include: How much easier will it become for farmers to get their production to markets, and therefore move from subsistence farming to commercial exploitation? And how many new job opportunities will become accessible for people living away from economic centres? Another element involves how people will be able to benefit from the project. For example, what kind of transport services will actually become available to them, and under what conditions? (IFC, 2012: 8)

… especially in agriculture and transport and logistics …

The questionnaire responses provide a vibrant picture and numerous examples of public-private co-operation, particularly in agribusiness and food processing and in transport and logistics. In agriculture, the Food and Agriculture Organization (FAO) assists farms and agribusinesses in developing managerial and technical skills that support production, post-harvest, infrastructural, marketing and financial operations related to developing and improving the efficiency, effectiveness, competitiveness, and profitability of agricultural and food enterprises. In transport and logistics, the Global Facilitation Partnership for Transportation and Trade (GFP) aims at pulling together all interested parties, public and private, national and international, which want to help achieve significant improvements in transport and trade facilitation in World Bank member countries. The Partners have together agreed to design and undertake specific programmes towards meeting this objective, making use of their respective comparative advantages in this area in a co-ordinated fashion.

Nine multilateral donors have activities in agribusiness, and eight in transport and logistics. Some multilateral banks have partnerships in all sectors, including information and communication technologies (six), textiles and apparel (five) and tourism (five). Evidence of STDF's research work points to the benefits of partnerships in strengthening SPS measures, improving SPS outcomes and enhancing market access. Only three multilateral donors report that they are not involved in public-private partnerships.

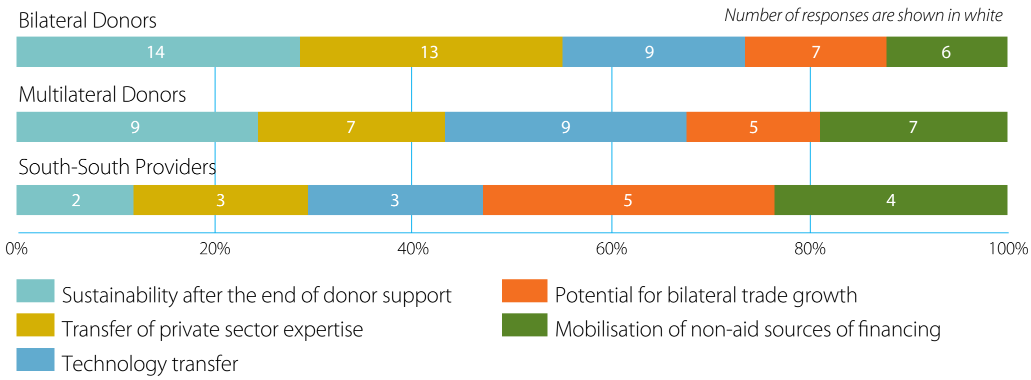
Similarly, six bilateral donors indicate that they are not involved in public-private partnerships. Of the nine that are, seven operate programmes in transport and logistics and six in agribusiness. For example, the Lach Huyen Port Infrastructure Construction Project in Viet Nam is part-financed by Japan, along with public funds for the civil works necessary for construction of port and port-related basic infrastructure (including access roads and bridges), procurement of equipment/supplies, and consulting services. The objective of the deep sea port is to respond to growth in demand for cargo volume, as well as the increase in the number of larger vessels in maritime transportation, in order to improve Viet Nam's competitiveness.

In agriculture, a multi-stakeholder African Cashew Initiative (ACi) case study documented the progress to be achieved by 2013: a 50 percent increase in productivity; additional annual income of at least USD 100 for 150 000 cashew farmers; tripling of current processing volumes; and the creation of 5 500 jobs in the processing industry. The lead implementing agency, GIZ, in collaboration with the Bill & Melinda Gates Foundation (BMGF) as the single main funder of the programme, acknowledges that a critical success factor is the programme's innovative co-funding and implementation approach, which has included multiple large private contributors and value chain actors. In addition to business incentives, private sector participants consider support by donor agencies and implementing partners to be a critical factor for their investment (Heinrich, 2012).

… while South-South providers are using such partnerships to exploit bilateral trade opportunities.

Providers of South-South trade-related co-operation report a sectoral focus similar to that of other donors. Two providers do not indicate that there is public-private co-operation, five operate in transport and logistics, and four operate in agribusiness and information and communication technologies. For South-South providers, the most important benefit of public-private partnerships is the potential for growth in bilateral trade, followed by mobilisation of non-aid sources of finance. For multilateral donors, technology transfer (nine most important, five important) and sustainability after the end of donor support are the most important benefits. Bilateral donors also attach great importance to sustainability, as well as to the transfer of private sector expertise. The two benefits of public-private partnerships perceived by South-South providers to be decisive are considered the least important by both bilateral and multilateral donors (Figure 1.9).

Figure 1.9 Benefits donors and South-South providers see in public-private partnerships
(percentage of responses ranked "Most important")



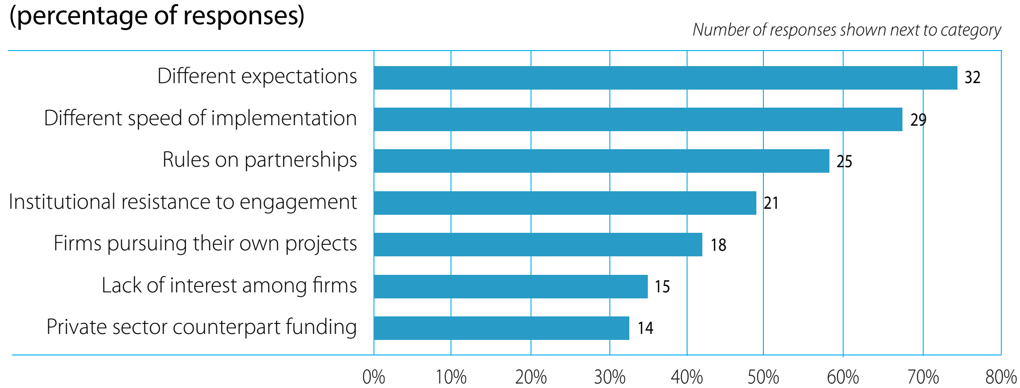
Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

StatLink http://dx.doi.org/10.1787/888932854043

The expertise and skills to develop and manage PPPs are frequently in short supply …

While donors see the benefits of public-private partnerships in improved outcomes (Figure 1.9), they also point to key challenges inherent in developing and effectively implementing and managing PPPs (*e.g.* different organisational structure, inadequate trust, communication problems, differing expectations, and staff turnover). The expertise and skills to develop and manage PPPs are frequently in short supply. Germany lists a number of other difficulties associated with PPPs: scepticism on the public side regarding the benefits of PPPs (they must not only be profitable, but above all must be politically feasible); lack of awareness of PPPs as an alternative procurement method; and difficult framework conditions for operating them.

Figure 1.10 Difficulties faced by donors in establishing public-private partnerships
(percentage of responses)



Source: OECD/WTO Questionnaire 2013, *www.aid4trade.org.*

StatLink http://dx.doi.org/10.1787/888932854062

The greatest difficulties in establishing public-private partnerships, according to both multilateral and bilateral donors, are the different expectations of the public and private sectors, the different speeds of public and private sector implementation, and lack of consensus on appropriate rules (Figure 1.10). This suggests that much more needs to be done to ensure that public-private partnerships lead to mutually beneficial outcomes.

Management of PPPs has evolved and advanced in Colombia, according to the IFC (2012: 43). In 2011, the *Agencia Nacional de Infraestructura* (ANI) was created to develop the institutional strength necessary to accelerate transport infrastructure development in that country. One significant change it has introduced is the incentive for the private sector to present unsolicited proposals. Colombia has received 13 such unsolicited proposals on roads and four on railways, for a total investment of USD 8 billion.[5] Clearly such an approach helps address some of the difficulties cited above.

… but enhanced public-private co-operation should not lead to tying of aid.

Involvement of the private sector in donor programmes should not reintroduce the practice of tied aid. Whether aid is disbursed on condition that partners use it to procure goods, works and services from suppliers based in a donor country has consistently been identified as a key test of donors' commitment to effective aid delivery. It has been clearly documented that tying aid raises the cost of many goods, works and services by 15 to 30 percent on average.[6] This is a conservative estimate of the overall costs, as it does not incorporate indirect costs. Tied aid often results in higher transaction costs for partner countries and is at least partially guided by commercial considerations, which do not necessarily meet local needs and priorities.

To eliminate the distortion of trade flows with concessional financing, the 1992 OECD Tied Aid Disciplines limit the use of tied concessional financing for projects that should be able to repay commercial financing. These rules also redirect tied aid away from richer developing countries (*i.e.* those whose per capita GNP makes them ineligible for 17- and 20-year World Bank loans), which should be able to attract commercial credits, towards developing countries that are less well off. In 2002 the OECD recommended untying all aid (with the exception of technical co-operation and food aid) to the least developed countries and expanding coverage to the heavily indebted poor countries (HIPCs) in 2006.

As a result of these initiatives, the proportion of aid from OECD Development Assistance Committee (DAC) members recorded as untied increased appreciably, from around 40 percent in 2000 to 76 percent in 2009, after which it declined to 73 percent in 2011. Although two years do not represent a trend, the considerable progress achieved in eliminating the distortion of trade flows with aid money should be safeguarded. Failure to do so risks eroding the value of an already declining volume of aid.

CONCLUSIONS

As the 2013 OECD/WTO questionnaire responses reveal, aid for trade is evolving. Partner countries, including the least developed countries (LDCs), are focusing on how they can reduce the thickness of their borders, improve the business environment, and create conditions to assist their firms to connect to regional and global value chains. Donors are responding to these priorities. They are putting more emphasis on public-private co-operation and adapting their programmes to target specific sectors and supply chains. Providers of South-South trade-related co-operation continue to scale up their support and enhance South-South trade.

All stakeholders remain strongly engaged in monitoring the Aid-for-Trade Initiative, and the growing attention being given to value chains has reinvigorated the aid-for-trade debate. However, challenges remain. More widespread use of instruments such as public-private partnerships poses problems for both partner countries and donor agencies. Furthermore, increased co-operation with the private sector should not lead to the retying of aid. Value chains pose challenges for designing aid-for-trade programmes. Some partners and donors still have difficulties with the concept. Nevertheless, aid-for-trade resources are no longer expected to increase. While the provision of aid for trade does not seem to be important in directly shaping the strategies and policies of partner countries, donors, or providers of South-South trade-related co-operation, budget pressures are increasing the urgency of showing results. Aid-for-trade resources have been scaled up in the last five years, but the outlook is less positive, particularly with regard to bilateral donors. While foreign and domestic investment is crucial for building trade capacities, ODA remains an essential instrument, especially for the least developed countries. The next chapter examines in detail the evolving development finance landscape and discusses the outlook for aid-for-trade resources.■

NOTES

1. Statement by Japan to the WTO Committee on Trade and Development (27th Session on Aid for Trade), March 2013.
2. *www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier308_07_2011.pdf.*
3. Aid for trade was effectively implemented in Viet Nam and the Lao Democratic People's Republic (Lao PDR), the countries visited during the field survey of the evaluation.
4. The World Bank Group's first Trade Strategy, set out in 2011, focuses on four pillars: trade competitiveness and diversification to support countries in developing policy environments conducive to nurturing private sector development, job creation and sustainable poverty reduction; trade facilitation, transport logistics and trade finance to reduce the costs of moving goods internationally in terms of time, money and reliability; support for market access and international trade co-operation to create larger integrated markets for goods and services; and managing external shocks and promoting greater inclusion to make globalisation more beneficial to poor households and lagging regions (World Bank, 2011).
5. Colombia's Ruta del Sol, a USD 2.6 billion highway connecting Bogota and the interior of the country to the ports of Santa Marta and Cartagena on the Caribbean Sea, has become a model for international best practice for future road concessions. The project was designated Private Finance International's Transportation Deal of the Year in 2010 in recognition of its pioneering approach. When completed, the Ruta del Sol will reduce accidents, travel time and transportation costs. It will also boost manufacturing, tourism, agribusiness and real estate development (IFC, 2012: 39).
6. See C. J. Jepma (1991).

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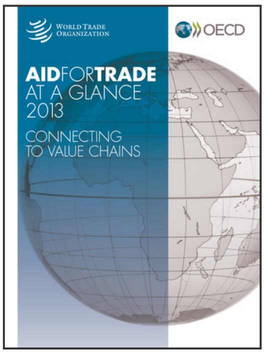

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