CHAPTER 2:
AID-FOR-TRADE FLOWS AND FINANCING

This chapter provides a comprehensive overview of aid-for-trade flows, ODA commitments and disbursements, trade-related Other Official Flows (OOF) and South-South trade-related co-operation. It examines aid-for-trade flows using data from the OECD Creditor Reporting System (CRS), complemented by findings from the OECD/WTO monitoring survey. It examines recipients and providers of assistance, the financial terms of assistance, and the outlook for aid for trade. In the context of the economic crisis in many OECD member countries, aid for trade (scaled up since 2005) has for the most part been maintained. Aid-for-trade flows declined in 2011, with decreasing support for infrastructure, particularly in Africa. Least developed countries (LDCs) experienced a fall in funding, but they did not bear the brunt of the decline. The flows indicate a shift in funding towards private sector development and value chain promotion. Consequently, flows to meet trade objectives in sectors such as agriculture, industry, and business services are continuing to increase.

INTRODUCTION

In 2011, overall ODA (excluding debt relief) fell for the first time since 1997, followed by a further fall in 2012. After several years of increasing aid-for-trade flows, the financial crisis and subsequent economic challenges faced by OECD member countries have put pressure on aid budgets. Aid-for-trade commitments declined in 2011, with DAC donors[1], in particular the G7[2] countries, providing less support, especially to infrastructure in Africa. Multilateral institutions maintained support at its 2010 level. Support to build productive capacity in sectors such as agriculture, industry and banking increased slightly, suggesting that donors increasingly see private sector development as an important way to leverage aid and promote trade. Although the least developed countries (LDCs) suffered a decline in funding, they have not borne the brunt of the overall decline. They experienced the smallest drop of any income group. Support for regional programmes reached its highest ever level. While the outlook points to either stagnation or further modest declines in aid flows, the G20 has pledged to maintain aid-for-trade resources beyond 2011. The findings of the OECD/WTO monitoring survey suggest that most providers of South-South trade-related co-operation plan to increase their resources in the future. In addition, collaborative private sector ventures and value chain investments are growing in number and impact and are charting an innovative way forward for business involvement in trade-rel(a2(e)3(t)18v)19.57(d ca)72 i(ytradbu)7ndn g. i2145e-235ene .190.4ne(5)4.

Figure 2.6 Aid-for-trade commitments
(USD million, 2011 constant prices)

...but aid for building productive capacity continues to increase...

Re ecting the increasing priority that donors attach to private sector development (see Chapter 1), aid dedicated to building productive capacity increased in 2011 by USD 171 million to reach USD 18.2 billion (Figure 2.6). Figure 2.7 shows that agriculture, sheries and forestry received almost 60 percent (USD 10.6 billion) and that this amount has

Figure 2.7 Aid for building productive capacity

Some donors support the framework conditions for SMEs growth and employment, for example Germany with USD 24 million in grants to Nigeria. Similarly, Japan supports Bangladesh with a USD 63 million loan to the nancial sector project for the development of SMEs. Others provide aid to enhance the competitiveness of SMEs. Japan has a USD 376 million project to promote energy saving in SMEs in India. Other aid projects are targeted to speci c sectors. The EU, for example, is aiding Jordan in the enhancement of the services sector with value-adding and sustainable businesses so it can become more productive and globally connected. Canada is helping to rebuild the private sector in Haiti through increased export activity. The main goal is to develop and promote artisans• craftwork in order to increase Haitian exports in the home decor and gift sectors. It is clear from many of these projects that support is provided to strengthen the private sector so as to achieve a range of development objectives such as poverty reduction.

Other activities, such as mining and tourism, attract much less aid. Support for the mining sector has declined steadily, from USD 852.8 million in the baseline period to USD 416 million in 2011. This is probably a consequence of the

ƒ and for coal- red power stations...

The largest project supporting trade policy and regulations in 2011 was a USD 125 million commitment by the Netherlands to nance the Sustainable Trade Initiative (IDH), which promotes sustainable international trade chains delivered through non-governmental organisations (NGOs). The Netherlands provides another USD 41 million for a global producer support initiative, a public-private partnership which aims to create and sustain agri-supply chains. The EU assisted Egypt with USD 28 million for the Ministry of Industry and Trade to implement and execute key policy reforms (from 2011 to 2013) to help that country further integrate into the regional and global economy. The EU also provided USD 21 million to help the African, Caribbean and Paci c Group of States (ACP) to cope with technical barriers to trade. Canada is funding researchers to undertake a set of country case studies aimed at better understanding the nature and extent of media piracy in Brazil, India and South Africa.[8]

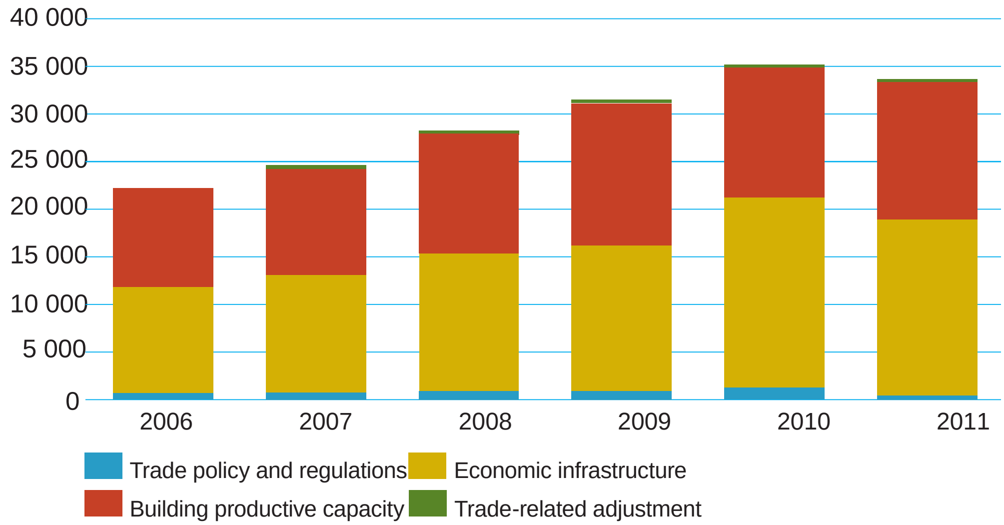
ƒand aid for trade facilitation has faltered after steady growth

Aid for trade facilitation covers support provided for the simpli cation and harmonisation of international import and export procedures (*e.g.* customs valuation, licensing procedures, payments and insurance), customs departments and tari reforms. Aid for trade facilitation commitments have increased substantially in recent years, and by 365 percent since the 2002-05 baseline, amounting to USD 381 million in 2011. While there was a 10 percent decline in 2010, this was less than the overall 14 percent decline in aid-for-trnmitments (Figure 2.10). Increased aid for trade facilitation commitments have largely bene tted Af rica. In 2011 commitments to Africa stood at USD 200 million, a 17-fold increase sinp8.3(n)e the baseline. Flows to the Americas increased in 2011 to USD 62 million because o support t the Caribbean. Flows t Asia00(h)6.3(a)15.1(v)9.4(e)0( )8.8(u)0(c)-23.5(t)2.1(u)6.3(a)12.3(t)17.1(e)-8(d o)8.9(v

Donors provided USD 168 million (44 percnt of the total) in regional trade facilitation programmes and another USD 40 million in multi-cnntry programmes in 2011.

[9] Denmark provided USD 24 million for a programme in the East African Cmmunity (Burundi, Kena, Rwanda, Tanzania00(a)6.5(nd Ug)6.3(a)6.5(n)0(d)6.3(a)25.7() t)18.n foster e the establishment of a Cmmon Market with the aim of promoting economic growth. Five donors (Denmark, Japan, Switzerland, the EU and the World Bank Group) provided 86 percent of total aid for trade facilitation. The EU provided almost USD 95 million in the largest programme, to •support the construction of a competitive regional market in the context of the Economic Partnership AgreementsŽ in Africa.[10] The World Bank provided the bulk of its USD 52 million in aid for trade facilitation to Cameroon (USD 11.2 million), Ghana (USD 20 million) and Rwanda

Figure 2.11 Aid-for-trade disbursements
(USD million, 2011 constant prices)



Source: OECD Creditor Reporting System Database, *https://stats.oecd.org/index.aspx?DataSetCode=CRS1#.*

Annual disbursements increased by 53 percent between 2006 and 2011. In total, USD 174 billion in aid for trade was disbursed between 2006 and 2011. Ten countries received 35 percent of these disbursements, dominated by

Increase in ows to Africa has been arrestedƒ

Africa received much of the increases in aid for trade in recent years, with a 64 percent increase in commitments compared to the 2002-05 baseline but this strong growth has now been arrested. Aid for trade committed to Africa in 2011 declined by USD 5.4 billion to USD 13.1 billion, a 29 percent drop compared to 2010 (Figure 2.12). This decrease equally a ected countries north (notably Egypt and Morocco) and south (among others, Ethiopia, Kenya and Tanzania) of the Sahara. The fall is caused by lower commitments to energy and transport projects. Other regions were much less a ected. Asia, the largest regional recipient with USD 17.5 billion, received 5 percent less than in 2010.

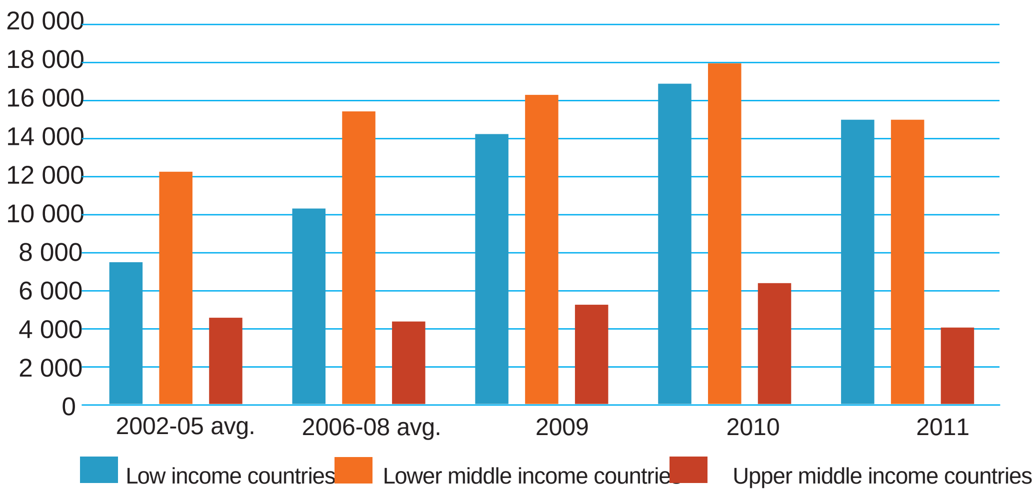
Latin America and the Caribbean, the third largest regional recipient with USD 3.5 billion, was barely a ected and ows remain at their 2010 level. Moreover, ows largely bene t Central America and the Caribbean, to which total ows have almost doubled (a 93 percent increase) compared to the 2002-05 baseline. The share of Central America and the Caribbean has increased to 57 percent of all aid for trade committed to the Americas, the highest share since tracking began. This includes USD 779 million provided to Haiti, the only LDC in the Western Hemisphere. Emerging economies in Europe received USD 2.1 billion in 2011, 28 percent higher than the baseline, but there was a decrease of 29 percent compared to 2010. Serbia (USD 673 million) and Turkey (USD 422 million) accounted for half of all commitments to Europe in 2011. Oceania is the only region where aid for trade increased from 2010 to 2011. Commitments reached USD 644.5 million, up 12 percent compared to 2010 and 121 percent compared to the 2002-05 baseline. Kiribati (USD 110.4 million), Papua New Guinea (USD 183 million) and Tonga (USD 79 million) received 58 percent of total ows to Oceania in 2011.

Figure 2.12 Aid-for-trade by region
(USD billion, 2011 constant prices)

...but LDCs have not borne the bruntƒ

There are only six other low income countries (OLICs), to which USD 1.45 billion was committed in 2011. The OLICs received 169 percent more aid for trade compared to the baseline. Kenya received 57 percent of these ows, the Kyrgyz Republic 13 percent, South Sudan (for which data are available for the rst time) 8.6 percent, Tajikistan 16 percent and Zimbabwe 5.3 percent. The Democratic People•s Republic of Korea received a negligible amount (USD 0.24 million, of which France, Italy and the UN Development Programme, UNDP, provided USD 0.23 million). The fall in aid for trade destined to the OLICS is due to the halving of funding to Kenya (down from USD 1.75 billion in 2010 to USD 0.85 billion in 2011). Aid for trade committed to lower middle income countries (LMICs) remains high (USD 14.9 billion), but has grown much more slowly than aid to low income countries at just 22 percent since the 2002-05 baseline. Aid for trade provided to the upper middle income countries (UMICs) fell from USD 6.3 billion in 2010 to USD 4 billion in 2011 and has actually dropped below the baseline level. Consistent with their upper income level status, these countries are receiving less ODA and more OOF and FDI. In fact, while UMICs received just USD 4 billion in aid for trade in 2011, they received USD 18.5 billion in trade-related OOF.

Figure 2.13 Aid-for-trade by income group
(USD million, 2011 constant prices)



Source: OECD Creditor Reporting System Database, *https://stats.oecd.org/index.aspx?DataSetCode=CRS1#.*

ƒand multi-country programmes reached their highest level ever

A key gap identi ed by the WTO Task Force Recommendations was •limited support for regional, sub-regional and cross-border trade-related programmes and projectsŽ (WTO, 2006:3). Over time this gap has been addressed and aid for trade committed to multi-country programmes has expanded to reach USD 7.7 billion, its highest level ever (Figure 2.14). Africa received the highest share of regional aid for trade with USD 782 million in 2011, quadruple what it was during the 2002-05 baseline period and only 1.5 percent below the 2010 gure. The African Development Fund provided support for regional infrastructure and a number of bilateral donors delivered aid for trade through the African Development Bank (AfDB). For example, thr60.8B6(e)-8.4(d Awh)5.fitlad(sel)9.6(15.3(9-1.7(e)6.8(r)12.6(e)-6.5((

Regional programmes in Asia (USD 336 million) and the Americas (USD 125.7 million) were more modest, but

A steep reduction in aid for trade from the United States saw commitments fall from USD 5.9 billion in 2010 to USD 3.6 billion in 2011, a 40 percent decline. The 2011 level of support from the United States was 8.5 percent below the baseline. This underscores the move by the United States away from aid for trade towards social programmes. Moreover, only 19 percent of total sector allocable ODA was provided for aid for trade. The EU provided USD 3.2 billion, with only a 2 percent decline compared to 2010. This was an 8 percent increase on the 2002-05 baseline. France provided USD 1.3 billion, a 29 percent decline on 2010 but still almost 60 percent higher than the baseline. Bilateral commitments by the United Kingdom fell by 22 percent compared to 2010, although the UK continues to deliver signi cant support through multilateral institutions (see section below).

Beyond the G7, Spain•s aid-for-trade commitments fell by almost half (to 54 percent) compared to 2010 while Denmark, Italy and Portugal committed less aid for trade in 2011 than during the baseline period. Some donors, however, did increase resources. The Netherlands doubled its 2010 level of aid for trade to USD 1.2 billion. Norway provided just over USD 1 billion, a similar level to 2010. It remains one of the top ten donors. New Zealand•s USD 187 million represents an increase of 165 percent on.9(o).1(r)-31.139S87 mil8290.1()60.9(.7(c)18.2(e)5.4(n)15.7(t

The United States was the largest provider of grants in 2011 at USD 3.6 billion. It does not provide any loans. The EU provided USD 3.2 billion in grants and does not currently include any ODA loans in its reporting. Other major

India is providing trade-related technical assistance and lines of credit.

No o cial sources are available that provide a breakdown of Indian development co-operation, but according to Agrawal (2007: 7) 60 percent is used to train civil servants, engineers and public-sector managers in other developing countries; 30 percent is provided as concessional export credits (lines of credit) to enable foreign governments to purchase Indian equipment and services; and 10 percent funds project-related activities such as feasibility studies and the deployment of technical experts from India. India often delivers aid as part of a larger package of investments and trade deals. Hence, commercial considerations can be an integral component of its development co-operation programme. India is also engaged in infrastructure development through concessional lending and technical assistance. In 2010 its export nance institution, the Exim Bank, extended a USD 3 billion new line of credit, of which USD 1 billion was for Bangladesh alone, the highest one-o amount to any country from India. In 2011 the Exim Bank approved 12 new lines of credit worth USD 473.30 million to ten countries to nance various projects, ranging from agriculture and agro-industry (sugar industry, cassava plantation, milk processing), mining (limestone) and energy (rural electri cation, solar energy, bio-diesel, power generation) to construction of broadcasting facilities and a multi-specialty hospital (GOI, 2012).

The 2013 Confederation of Indian Industry (CII) India-Africa Project Partnership Conclave discussed emerging opportunities to boost bilateral investment co-operation. The essence of the Conclave was to encourage Indian .6(I 201ndian (c)17.8qdisitonli temll9-.2(u8.1(e)17.5(,).1(mn)5.5(a)-.8(d (u)6.6p,).1(one)-2038(-.2(h)7.7(i)7.3(r)13.3(d of t)18.7(o-10.3t a

…but the outlook appears less positive to bilateral donors…

Bilateral donors are less optimistic about the future than multilateral donors and South-South providers, with no bilateral donor foreseeing a significant increase in aid for trade in the next five years (Figure 2.21). For the most part, these donors are unable to assess future budgetary outlays for aid for trade accurately. Ten donors (37 percent) are not sure how aid budgets will evolve. Eleven (41 percent) do not envisage any change in the current level of funding, while five (18.5 percent) predict some moderate increases. Only one bilateral donor foresees declining flows. All in all, bilateral donors indicate that their aid-for-trade budgets will hold up in spite of budget pressures. But they expect pressure on budgets and the need to show value for money in regard to public expenditure to continue to drive a focus on results, with 32 donors indicating that this will be important in the next five years (20 indicated that results are the most important factor in aid for trade moving forward).

One year of data does not represent a trend, but the outlook for aid for trade as of 2013 is not reassuring. Based on aggregate 2012 ODA figures, a further decline in aid for trade is likely, with overall ODA declining by 4 percent in real terms following a 2 percent fall in 2011. Furthermore, the latest aid figures show that aid is shifting away from the world's poorest countries, including in Sub-Saharan Africa, and towards middle income countries such as China, India, Indonesia and Viet Nam, traditionally large recipients of aid for trade. Bilateral aid to the African continent declined by almost 10 percent and aid to Sub-Saharan Africa fell by 7.9 percent in real terms compared to 2011. This indicates that the decline in aid for trade to Africa in 2011 is likely to continue into 2012. While the least developed countries did not bear the brunt of the decline in aid for trade in 2011, bilateral net ODA to the LDCs fell by 12.8 percent in real terms in 2012.

REFERENCES

Agrawal, S. (2007), *Emerging Donors in International Development Assistance: The India Case,* International Development Research Center, Ottawa,