

# AID FOR TRADE

Why, what and how?



# Why Aid for Trade?



- Trade can be an engine for growth that lifts millions of people out of poverty
- But many developing countries face **barriers** that prevent them from benefiting from the world trading system



- Some of these barriers are in **export markets** which the Doha Round of multilateral trade negotiations aims to reduce or eliminate. These include non-tariff barriers – which are increasing in significance – as well as traditional tariff barriers.



- But **internal barriers** – lack of knowledge, excessive red tape, inadequate financing, poor infrastructure – can be just as difficult for exporters to overcome
- Targetting these “supply-side” constraints is what Aid for Trade is all about



- Aid for Trade is part of overall development aid, but with the specific objective of helping developing countries, in particular the least developed, to play an active role in the global trading system and to use trade as an instrument for growth and poverty alleviation.
- It is **not a substitute** for trade opening, but a necessary and increasingly important complement



# There are **four** main areas where Aid for Trade is needed

## ① Trade policy and regulation

Building capacity to formulate trade policy, participate in negotiations and implement agreements



# There are **four** main areas where Aid for Trade is needed

## ② Economic infrastructure

- Investing in the infrastructure – roads, ports, telecommunications, energy networks – needed to link products to global markets
- In Sub-Saharan Africa, alone, annual infrastructure needs are \$17-22 billion a year, while spending is about \$10 billion



# There are **four** main areas where Aid for Trade is needed

## ③ Productive capacity building

Strengthening economic sectors – from improved testing laboratories to better supply chains – to increase competitiveness in export markets



# There are **four** main areas where Aid for Trade is needed

## ④ Adjustment assistance

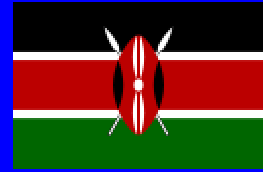
Helping with any transition costs from liberalization – preference erosion, loss of fiscal revenue, or declining terms of trade



# Some export stories and how Aid for Trade can make a difference



# Cut flowers from Kenya

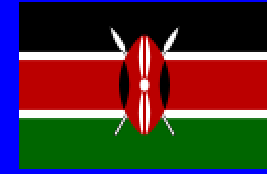


## ➤ Making progress, but problems remain:

- The cut flower sector has seen a growth rate of 35% annually over the last 15 years, partly because of investments in Aid for Trade, such as:
  - New cold storage and transportation facilities
  - Improved cargo facilities at Nairobi's airport
  - More efficient air transportation and increased frequency of flights
  - Technology transfers



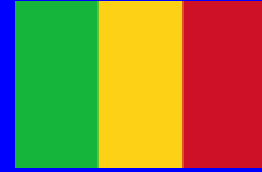
# Cut flowers from Kenya



- But flower exporters still face major obstacles, including
  - Inability to meet certain international standards (e.g., maximum pesticide residue)
  - Deteriorating road and rail networks
  - Backsliding on the competitiveness of air freight



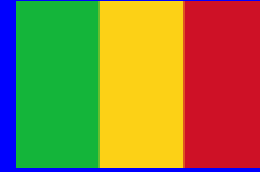
# Mangoes from Mali



- Transformation of mango export sector by making key investments in Aid for Trade:
  - Formed innovative business partnerships
  - Improved testing facilities and met international standards
  - Increased cold storage facilities (reducing post-harvest loss)
  - Built a new transport corridor (reducing shipping time from 25 to 12 days)

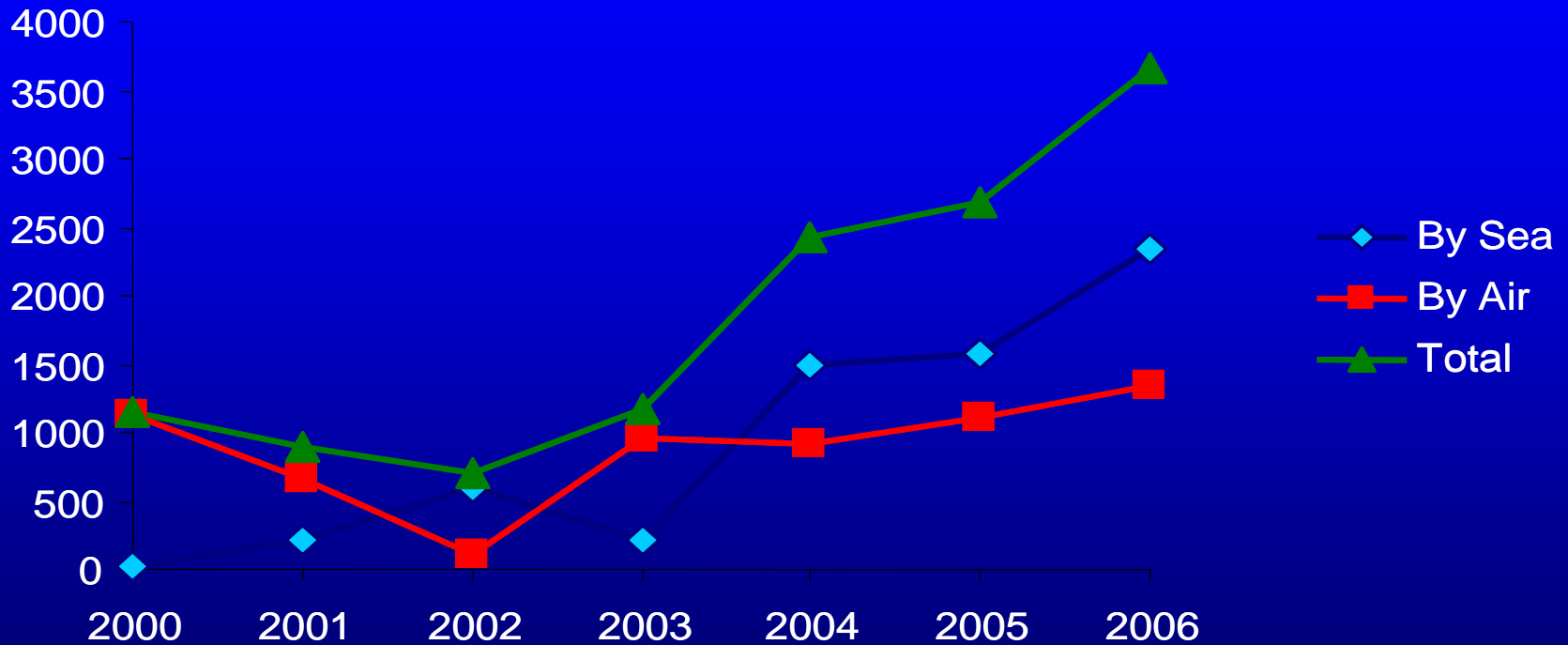


# Mangoes from Mali



➤ Total exports of mangoes from Mali are steadily increasing

Metric Tons



➤ Average annual growth rate of almost 30% from 2000-2006



# Similar challenges exist across many developing countries and regions

- In the Andean Community, trucks spend more than half of the total journey time at border crossings
- Transport costs for trade within Africa are more than twice as high as those within South East Asia



# Similar challenges exist across many developing countries and regions

- Power generation costs in Burkina Faso are more than four times the costs in neighbouring Côte d'Ivoire – and ten times the cost in France
- Power outages in Malawi average 30 days per year – causing product damage and delays in production and packaging that add 25% to costs



# Similar challenges exist across many developing countries and regions

- 116 days to move a container from the factory in Bangui in the Central African Republic to the nearest port
- Same transaction takes five days from Copenhagen



# Similar challenges exist across many developing countries and regions

- Most direct flight between Chad and Niger is via France – over 4,000 km
- Only one flight a week from Bangui in the Central African Republic to Europe



# The result? A huge missed opportunity

- For example, if Africa enjoyed the same share of world exports today as it did in 1980, exports would be \$119 billion higher – equivalent to about five times current aid flows

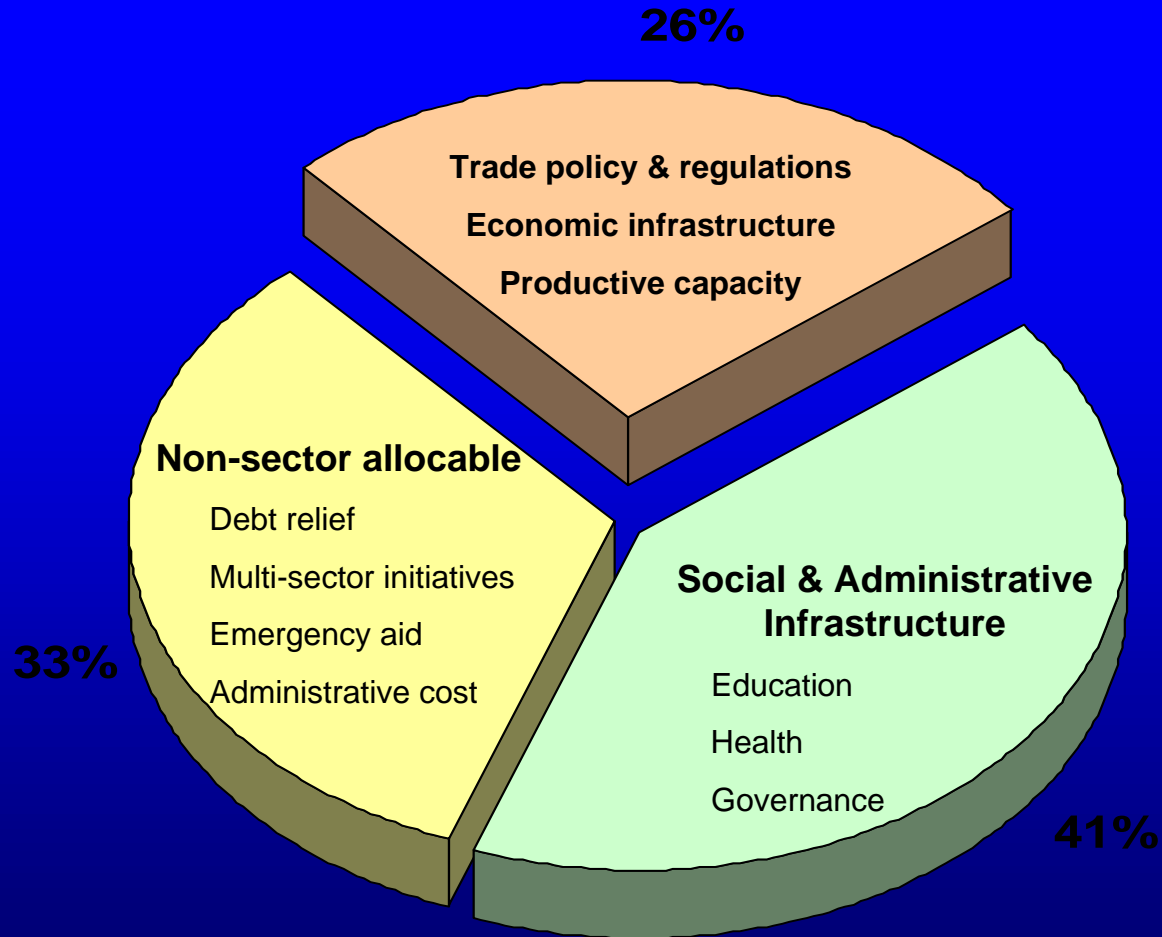


# What is happening?

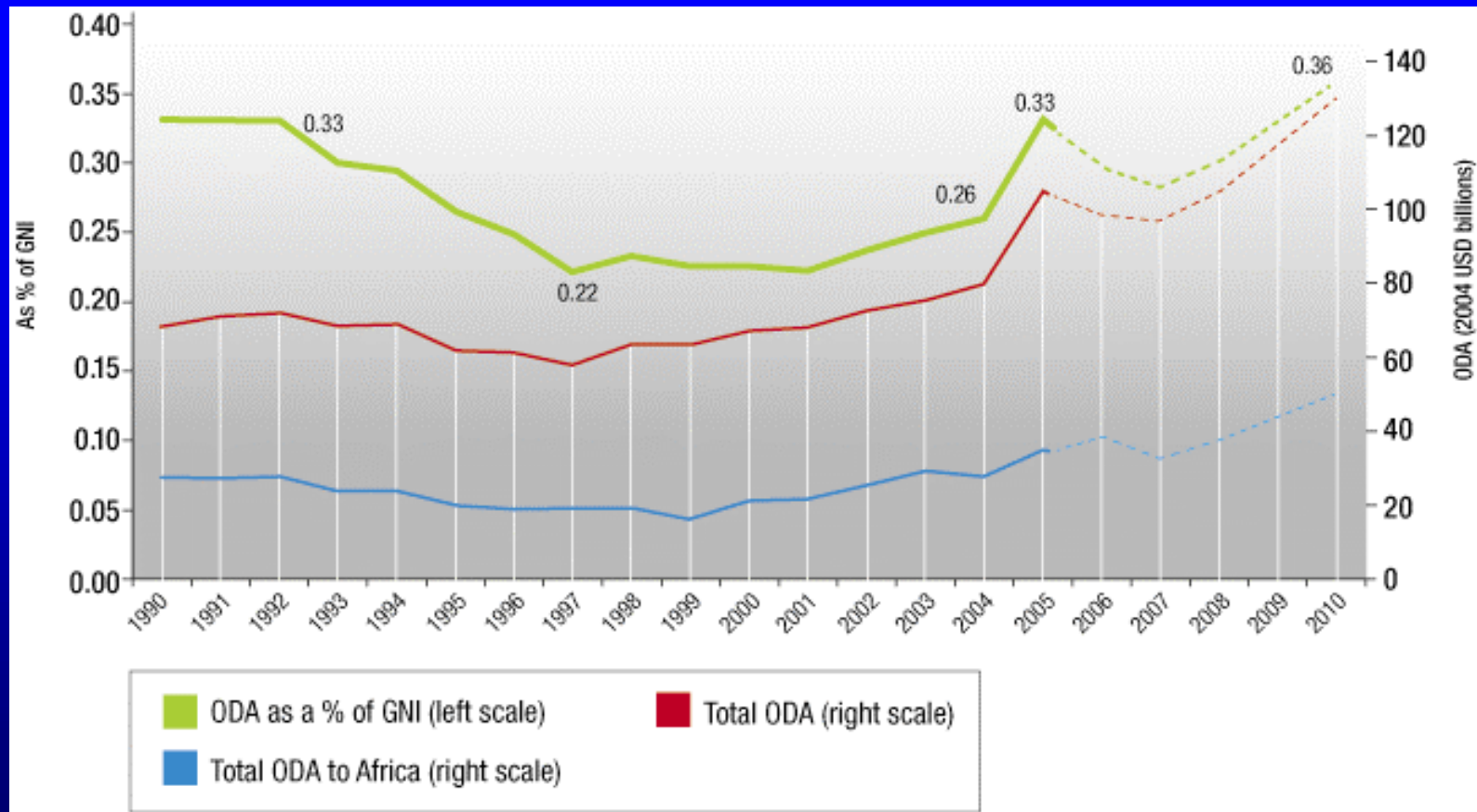


# Share of Trade Related ODA in Overall Development Aid

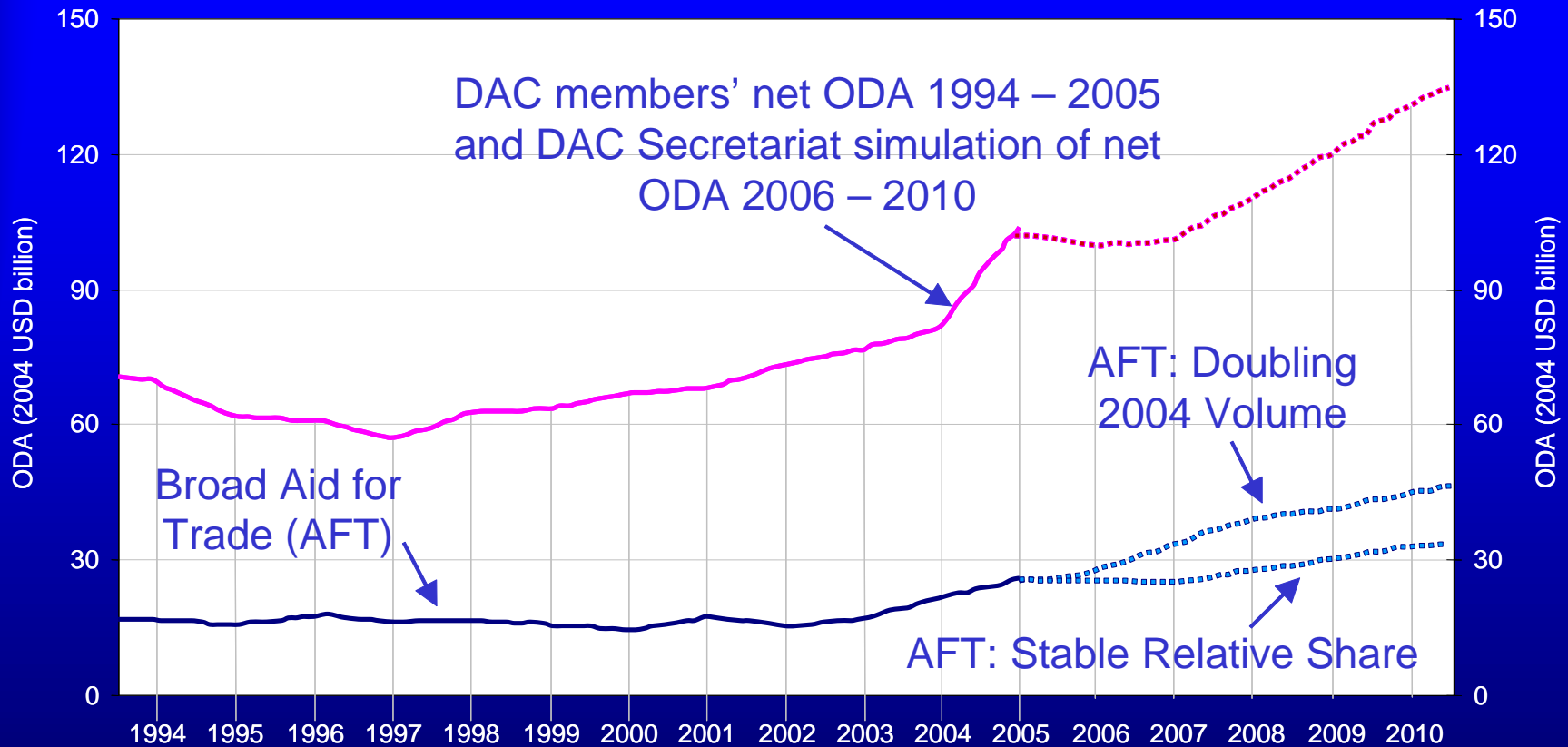
Baseline 2002-2005 average



# ODA is forecast to increase substantially after 2008 – if donors follow through on Gleneagles and Hong Kong commitments



# This should be reflected in a scaling up of the broad Aid for Trade Agenda



Source: OECD



# How should Aid for Trade work?



# On the “supply side”, donors need to:

- ✓ Provide additional funding
  - Aid for Trade should not divert resources away from other development priorities, such as health and education
- ✓ Scale up trade expertise and capacity
  - Trade and growth issues need to be better integrated in donors' aid programming
  - Trade expertise needs to be strengthened - both in capitals and in-country



# On the “demand side”, recipient countries need to:

- ✓ Make trade a priority
  - Trade needs to be a bigger part of national development strategies. Aid for Trade will only work if countries decide that trade is a priority
- ✓ Take ownership
  - Countries need to determine their own Aid for Trade plans, involving all stakeholders
- ✓ Focus on results-oriented “business plans”
  - Aid for Trade is an investment, not just a transfer. The question is not only how much Aid for Trade is available, but whether it is effective and actually benefits developing countries



# To bridge “supply” and “demand”, both donors and recipients need to:

## ✓ Improve cooperation

- The challenge of Aid for Trade is to marshal the efforts of many – and to create the right incentives so that recipients and donors work together more effectively

## ✓ Involve the private sector

- It is businesses, not governments, that trade
- Financial resources flowing from increased private investment and trade easily dwarf government aid



To bridge “supply” and “demand”, both donors and recipients need to:

- ✓ Improve transparency and accountability
  - Best way to ensure that pledges are honoured, needs are met, and financial assistance is used effectively, is to shine a brighter spotlight on Aid for Trade



# A role for the WTO: monitoring and evaluation

- WTO is not a development agency – and should not become one. Its core function is trade opening, rule making, and dispute settlement
- But the WTO does have a role – and a responsibility – to ensure that relevant agencies and organizations understand the trade needs of WTO Members and work together more effectively to address them



# A role for the WTO: mobilizing, monitoring and evaluating aid for trade

- The WTO is well placed to play this role
  - ✓ Direct interest in ensuring that all its members benefit from trade and WTO agreements
  - ✓ Multilateral, consensus-based organization where developing and developed countries have equal weight
  - ✓ Institutional experience in reviewing complex policy areas through Trade Policy Review Mechanism



# Monitoring and evaluation in the WTO on three levels:

- ① **Global level** – using data compiled by the OECD-DAC  
To assess whether additional resources are being delivered, to identify where gaps lie, to highlight where improvements should be made, to increase transparency on pledges and disbursements
- ② **Donor level** – based on self evaluations  
To share best practices across countries, to identify areas for improvement and to increase transparency on pledges and commitments
- ③ **Country and regional level** – based on self assessments  
To provide a focused, on-the-ground perspective on whether needs are being met, resources are being provided, and Aid for Trade is effective



# Aid for Trade Regional Reviews

- LA/Caribbean – IADB/WTO/WB

Lima, Peru -13 to 14 September 2007

- Asia – ADB/WTO/WB

Manila, Philippines -19 to 20 September 2007.

- Africa – AFDB /ECA/WTO/WB

Tanzania – 11 to 12 September 2007.



# Aid for Trade Global Review Session:

Geneva – 19 to 20 November 2007

WTO members

WB

IMF

IGOs

RDBs

Bilaterals

Private sector

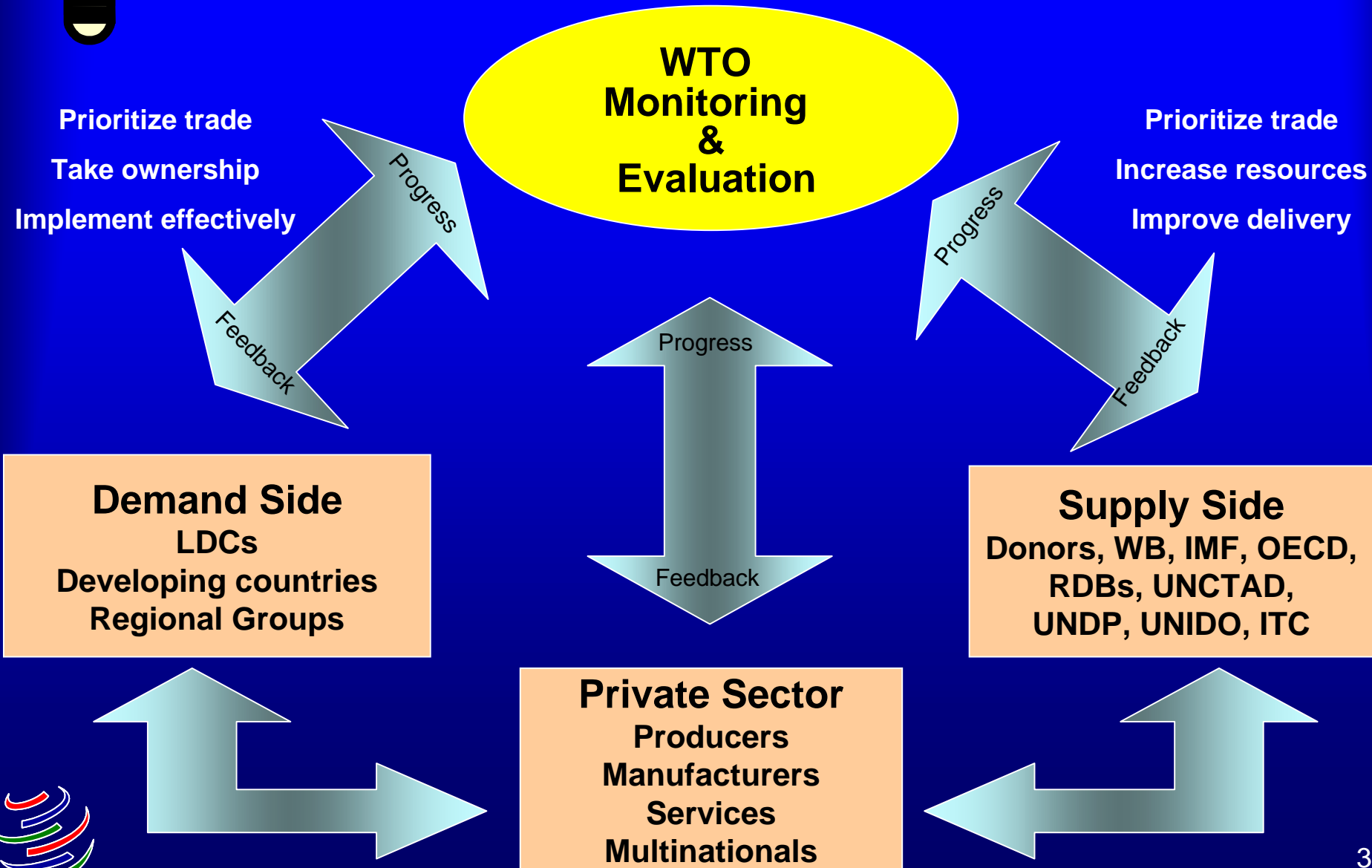
Civil Society





# Spotlight Effect

Awareness - Information - Incentives



# With one objective....

- Ensuring that developing countries can harness trade to raise living standard, improve health and education, protect the environment, alleviate poverty, and secure their development



**Thank you**

Joshua Setipa  
Counsellor, office of the Director General

