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**Research Report**

## German aid for trade: past experience, lessons learnt, and the way forward

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## Studies

### German Aid for Trade

Past experience, lessons learnt, and the way forward

*Petra Voionmaa*  
*Michael Brüntrup*



# German Aid for Trade

The German Development Institute / *Deutsches Institut für Entwicklungspolitik* (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development co-operation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of co-operation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European University graduates for a career in the field of development policy.

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Study commissioned by BMZ



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## Abbreviations

ACP	African, Caribbean and Pacific
AfT	Aid for Trade
BGR	Bundesanstalt für Geowissenschaften und Rohstoffe (Federal Institute for Geosciences and Natural Resources)
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
BPC	Building Productive Capacities
CARICOM	Caribbean Community and Common Market
CIM	Centrum für internationale Migration und Entwicklung (Centre for International Migration and Development)
CEMAC	Communauté Economique et Monétaire de l’Afrique Centrale
COMESA	Common Market of Eastern and Southern Africa
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DDAGTF	Doha Development Agenda Global Trust Fund
DED	Deutscher Entwicklungsdienst (German Development Service)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFID	UK Department for International Development
DIE	Deutsches Institut für Entwicklungspolitik (German Development Institute)
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EC	European Commission
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
FZ	Finanzielle Zusammenarbeit (Financial Cooperation)
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IDA	International Development Association

IF	Integrated Framework
InWEnt	Internationale Weiterbildung und Entwicklung (Capacity Building International)
IMF	International Monetary Fund
ITC	International Trade Center
JITAP	Joint Integrated Technical Assistance Programme
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Country
MDG	Millennium Development Goal
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PBA	Programme-Based Approach
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
RTA	Regional Trade Agreement
PTB	Physikalisch-Technische Bundesanstalt
REC	Regional Economic Community
SADC	Southern African Development Community
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary Measures
SSA	Sub-Saharan Africa
SWAp	Sector Wide Approach
SWOT	Strength, Weaknesses, Opportunities, Threats
TBT	Technical Barriers to Trade
TCBDB	Trade Capacity Building Database
TD	Trade Development
TPR	Trade Policy and Regulation
TRA	Trade-Related Assistance
TRI	Trade-Related Infrastructure
TRIPS	Trade-Related Intellectual Property Rights

TZ	Technische Zusammenarbeit (Technical Cooperation)
UEMOA	Union Economique et Monétaire Ouest Africaine (West African Economic and Monetary Union)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization



## Summary

### *The role of trade and Aid for Trade in development policy*

Trade has the potential to spur sustainable, long-term economic development. An open trade regime contributes to the efficient allocation of national resources, leading to a more competitive performance on world markets and also to a better performance at the national level. It encourages economies of scale, technology spill-overs and, especially important for small countries, foreign investment. Sub-Saharan Africa (SSA) in particular is in need of more trade or, more precisely, of trade diversification and increased export revenues, away from a situation marked by high dependency on a few commodities and limited local value addition.

Even though the linkages between trade and overarching development targets, above all poverty reduction, are theoretically stringent and practically proven in a significant number of country cases, they do not materialise automatically. First, it is not easy for poor countries to profit from trade opportunities, since they often do not have the capacities to react, to produce the required quantities and qualities and to compete with producers from other countries, including other developing countries. Second, there is no rule governing how profits from trade are distributed across sectors and different population strata, while, particularly with higher competition from imports in the wake of trade liberalisation, some sectors and people are negatively affected by trade. Thus, the distribution effects of trade are far from being pro-poor *per se*.

This is where Aid for Trade (AfT) comes in, assisting developing countries with the means necessary to reap the profits available in an increasingly globalised world, with regard both to regional (i.e. South-South) and international trade. The truly innovative feature of AfT is its broad perspective. Unlike the older concept of “Trade-Related Assistance” (TRA), which can be subsumed under the AfT categories “trade policy and regulation” and “trade development”, the current notion of AfT also includes support for “building productive capacities”, “trade-related infrastructure”, “trade-related adjustment” and “other trade-related needs”.

The broader systematic perspective of AfT takes into account that the ability of a country and of its entrepreneurs to trade not only depends on



individual and isolated capacities, but that it is determined by a complex set of factors. For instance, the trade policy and trade agreements of a country seeking to boost a certain sector should be coherent with such a strategy. To achieve this, trade policy makers and negotiators have to be well equipped with information, skills and other capacities, and have to be integrated into strong political networks. In addition, efficient and high quality production of individual entrepreneurs is not sufficient to access regional or world markets if it is difficult or costly for them to obtain information on trading partners' import regulations, if quality or other trade requirements are impossible, difficult or costly to test and certify, if infrastructure is inadequate to permit cheap exports, or if trade regulations and authorities constitute important export hindrances. Overall, trade serves as the motor of systematic competitiveness and allows economies of scale, in contrast to a national perspective. The best way to promote these synergies and the role of trade is a deep and systematic integration of trade issues into overall national economic policy and sector concepts.

Taking a systematic view of factors affecting trade, AfT takes into account a wide range of obstacles that have prevented many countries from becoming globally competitive and reducing poverty by getting more engaged in trade. Moreover, AfT explicitly acknowledges the potentials of regional integration.

*The EU commitment to Aid for Trade in the light of the international AfT agenda*

Several pledges have been made to accompany the international AfT initiative, among them the EU commitment to increase its TRA to € 2 billion per year by 2010 - with € 1 billion provided by the European Commission and € 1 billion by EU member states - and to scale up AfT in proportion to overall ODA increases. Using current AfT figures as a starting point, and given its relative weight within the joint EU approach to AfT, Germany assumes that its basic contribution to the EU pledge on TRA should equal its share in the EU budget and the 9th European Development Fund (both approx. 22 %), resulting in a provisional target of € 220 million per year from 2010 on. In line with the EU Division of Labour, this objective is considered as open for modification, depending on whether Germany is considered to have comparative advantages (or not) compared to other EU

member states in providing TRA. In addition, qualitative commitments are included in the EU pledge, relating to and specifying the general principles of the aid effectiveness agenda, which have not yet materialised to the same degree in productive sectors as in other ones.

One key finding of the literature review is that donors have only relatively recently started to conceptually adjust their portfolios to the qualitative requirements of the AfT agenda, although the commitments already date back some years. A few donors have modified their internal structures to create units or country sectors focusing specifically on trade. It is concluded that the push for AfT is a strong and lasting one, backed by international politics (WTO and commitment to and preservation of international trade more generally), but that it is not easy to bring a crosscutting issue into settled donor structures. The coming months and years will show whether the political momentum of the AfT initiative remains strong enough to put these strategic approaches into practice.

It seems that EU donor responses are elaborated in a relatively isolated manner, without strong coordination and harmonisation at the EU level. This is unfortunate because the common AfT pledge offers itself for and almost makes necessary a more strongly joint approach.

Despite some reservations about the effectiveness of its predecessor, donors seem committed to supporting the Enhanced Integrated Framework, including on the country level, through their bilateral development cooperation. Thus, it is acknowledged that special coordination and harmonisation at national level is important. It can be further deduced that at least in some non-LDC countries where governments are not in a position to coordinate donors on their own, such a function is equally needed. And increased donor attention to regional AfT activities – which is both necessary and visible – would require strong coordination and harmonisation also at that level.

#### *Quantitative aspects of German Aid for Trade*

Data analysis shows that Germany has almost reached its provisional quantitative target. TRA averaged € 210 million from 2005-2007. Overall, AfT increased from € 779 million in 2005 to € 1220 million in 2007. However, the level of engagement in TRA and, to a lesser degree, in AfT

has fluctuated considerably, partly due to a change in the reporting practices used by one organisation (DEG).

If Germany wants to stabilise these aid volumes and improve its predictability, it must conceptualise, plan and implement its AfT activities more systematically. However, this gives rise to considerable challenges: With the wide range of issues involved, AfT usually does not coincide with any of the classic sectors of development cooperation but stretches over a number of thematic areas. The crosscutting nature of AfT is also clearly manifested in German's aid structure: Six out of the eleven priority areas (*Schwerpunkte*) defined by the German Federal Ministry for Economic Cooperation and Development (BMZ) currently deal with AfT: "Sustainable Economic Development", "Environment and Resource Protection", "Governance and Civil Society", "Food Security and Agriculture", "Energy" and "Transport and Communication". This crosscutting feature has particular implications with regard to monitoring AfT (and TRA as the basis of the EU commitment), donor coordination and the possibilities for applying programme-based approaches.

Until recently, BMZ lacked the tools for strategically planning its AfT activities that were implemented under this wide range of headings. However, this has changed: As a first response to the AfT initiative, Germany has earmarked some limited funds (from outside the budgets allocated to the eleven priority areas) for trade-related purposes in its yearly budget planning procedures. A more recent decision – which can be interpreted as a strong political signal for AfT – introduced an internal BMZ target for TRA (*Zielgröße*), pledging € 140 million for TRA within the eleven priority areas and directing German implementing agencies to scale up TRA within their respective fields of activity with a view to jointly fulfilling the basic target of € 220 million TRA from 2010 on. This operative management tool will greatly enhance the credibility of the German long-term commitment to AfT and will contribute to a stabilisation of TRA.

#### *Qualitative side and comparative advantages of German Aid for Trade*

As to the qualitative side of the AfT agenda, the main question is whether Germany has comparative advantages in providing AfT, what these advantages are and how they can best be brought into operation. Again, operationalisation of this question proves to be difficult, since the concept of

comparative advantages in development policy is not clear-cut. The “EU Code of Conduct on Complementarity and Division of Labour” defines “comparative advantage” of development assistance as being determined by, among other things, presence in the field, experience, trust and confidence of partner governments and other donors, volume of aid, capacity to enter into new policies or sectors, efficiency, or the need to build new experience as an emerging donor (Council of the EU 2007a, 12). This shows that comparative advantages in development assistance is a dynamic concept in which the focus of assistance is not only based on a static assumption of certain endowments of a donor, on past choices and activities of donors, but also on intangible and dynamic factors (trust and confidence, need for learning) which implies the possibility of building up (new) areas of strength, provided that there is sufficient will to do so. Hence, donor engagement in AfT (as in other areas of specialisation in providing development assistance) is as well a political as a technical question and is strongly influenced by the importance that a donor attaches to AfT and its various components compared to other topics of development cooperation.

Along the lines of the above-mentioned definition of comparative advantages, past experiences and structural facts should serve as the starting point for an informed decision on the future orientation of German AfT. Concerning the experience of German AfT, our review of statistics and analyses of international and German AfT revealed the following findings:

- The analysis of international AfT data found that Germany is a relatively large provider of bilateral AfT. In TRA, it ranks fifth by international comparison and third among EU countries (after France and the Netherlands), in total AfT it comes in third behind Japan and the US and first among EU member states. This suggests that any strong commitment to and increase of AfT, particularly at the European level, is hardly credible without, and must count on, strong engagement of Germany.
- German AfT was especially high in the AfT category “building productive capacities” and in its sub-area “banking and financial support”. Aid to “trade-related infrastructure” was less distinct relative to other donors but still considerable in absolute terms, particularly with regard to “energy”.

- Asia was the most important destination of both German AfT and TRA. Africa came in second, and SSA in particular had shares of AfT and TRA that were substantially lower than its share in overall German ODA (29.6 %). Within these broader lines, there are marked differences for individual categories of AfT.
- Between 2005 to 2007, GTZ was the most active German implementing agency in TRA, with more than half of the German contributions going to the AfT categories “trade policy and regulation” and “trade development”. InWent contributed a high percentage (40.5 %) to “trade policy and regulation”. Public Private Partnerships (PPPs), KfW and DEG provided approximately 15 % of TRA each. KfW implemented the majority of support for “trade-related infrastructure” and more than half of “building productive capacities”. DEG accounts for a quarter of the latter AfT category.

Further analysis was carried out in order to understand the implementation of German AfT under quality aspects. Two approaches were used: a) Desk studies were carried out to analyse the German AfT portfolio in 15 selected countries and regions. b) 3 country/regional case studies undertook closer comparison of different donor interventions with German activities (Condon / Stern s. a.; Hoppe s. a.; Zeba / Untied s. a.). These analyses revealed a very diverse picture, characterised by a wide set of tools employed in a broad range of intervention areas in very different country settings. However, interventions which systematically combined different instruments of German cooperation were rare. The findings were used to set up a SWOT (strengths, weaknesses, opportunities and threats) analysis of the AfT provided by Germany, which allows us to appraise the quality of German AfT without having to compare it with that of other donors (as the concept of comparative advantage would insinuate but which was considered unfeasible in the framework of this study).

- Most projects and programmes took the concept of an open economy, with all its resulting challenges and potentials, as the starting point for designing their support. They were broadly in line with existing national priorities. Yet, only a few activities explicitly chose trade issues as a constituent element.

- The major strength of German AfT could be linked to the diversity of German development policy tools, manifested through diverse implementing agencies – however, if implemented without coherence in planning and implementation, this is also its major weakness. It seems that, so far, the potential comparative advantages emanating from this diversity have not been fully exploited due to problems of fragmentation. The general tendency is towards increased interaction and cooperation among German actors and improved coordination with other donors. However, since most activities are linked to trade in only marginal ways, these harmonisation efforts have usually not targeted trade explicitly. Synergy effects are not systematically realised, especially with regard to trade-related private sector promotion (e. g. through public-private partnerships).
- Other attested strengths are the flexibility of its activities embedded in long-term programmes, the high professional standards of staff and the large number of staff members on the ground compared to other donors, a reputation for not pursuing vested interests, a good image in trade-related issues as export champion, a good track record in reaching out into rural areas and in supporting agricultural value chains and the multi-level approach linking the micro, meso and macro level.

Other weaknesses identified were an uneven, often weak coverage of trade-aspects in relevant policy papers, lack of clear trade-poverty linkages in activities, a small number of specific trade-related and telling indicators, political limitations when it comes to joining multilateral initiatives and programme-based approaches, and a certain concentration on relatively better-off economies to the detriment of sub-Saharan Africa.

Some of these issues are difficult to influence since they result from the general structure and size of German development cooperation (diversity of organisations, number and shape of sectors) or from partner countries (strategies, general capacities), while others are more directly linked to AfT and hence easier to change (trade in policy papers, integration of PPPs in trade-related activities, AfT-specific capacities). However, it became clear that in order to comply with the requirements of the new concept “Aid for Trade”, a (better) conceptual framework is needed to ensure that German trade-related development assistance is more systematic and that it can reliably fulfil the EU pledge.

A list of recommendations has been elaborated with a view to advancing Germany's AfT strategy:

*Positioning AfT vis-à-vis other topics within BMZ structures*

- AfT should be scaled up primarily through the comprehensive and deep integration of trade into existing priority areas, especially “Sustainable Economic Development” and “Food Security and Agriculture”. Furthermore, “Governance and Civil Society” and “Environment and Resource Protection” deserve attention.
- Trade-poverty linkages require more comprehensive analysis and conceptual underpinning. More care should also be devoted to formulating indicators for monitoring poverty effects of trade-related activities.
- Some relevant BMZ strategies (*Konzepte*) need both a more comprehensive coverage and a deeper integration of trade aspects in areas of clear relevance for AfT, i. e. an explicit account of trade as affecting the sector, the role of protection, the orientation of production and the combination of factors hindering trade (primarily “Agriculture”, “Financial System Development” but also “Biodiversity” and “Social and Ecological Market Economy”).
- An independent position or strategy paper mapping out the future German approach to AfT should be prepared to supplement the range of existing policy papers.
- Current sector foci in partner countries and regions should be evaluated with regard to possible needs for renegotiation or at least be opened in the longer term to re-orientation. Delegated cooperation agreements or multilateral channels are alternatives. AfT provides a particular window of opportunity to better align and harmonise donor support due to the joint EU pledge, which requires a joint approach, and the fact that the political negotiations, decision making and monitoring is done under the auspices of WTO.

### *Financial commitments*

- EU donors should continue to advance the AfT initiative, even though one of their formal targets – the provision of € 2 billion TRA – may soon be reached.
- Likewise, German efforts should not end with the fulfilment of the self-defined base line of € 220 million of TRA, since valid arguments speak in favour of a disproportionately large engagement of Germany compared to other EU donors.
- Germany should prove its commitment to development-friendly trade policy by scaling up overall AfT, especially in the context of support to Economic Partnership Agreements (EPAs). However, instead of setting another internal BMZ target for AfT, “softer” and qualitative approaches should be employed.
- To counter negative effects caused by a lack of absorptive capacity of both partner and donor structures, Germany should elaborate a relatively long-term schedule for scaling up AfT and TRA gradually, while beginning to build up the necessary capacities.

### *Geographic focus*

- Any increased effort in AfT should focus primarily on SSA, not due to historical continuity but due to the need of the region, its low degree of trade diversification and regional integration and the imperative need to assist the continent in digesting the EPAs. The latter are not only important for development but also key for future European-African political relations. Furthermore, East and Southeast Europe and Asia offer some potential for scaling up.

### *Bilateral modes of delivery: Implementing agencies and delivery mechanisms*

- German implementing agencies should trace the potentials (and risks) of trade more explicitly in their activities.
- To make full use of its wide range of agencies and their respective tools, Germany should strive to fine-tune their interactions, e.g. through more joint approaches.



*Intervention areas*

- The themes that should stay high on the German AfT agenda include developing partner countries' institutional capacities to shape and implement their trade policies within wider development strategies, quality infrastructure, reforms of tariffs and customs, social and ecological standards, private sector development and value chain development, also in non-agricultural sectors. Great diligence must be employed to prevent activities from acting in support of own (German and EU) interests as negotiation and trade partners of developing countries. Alternative multilateral channels must be seriously considered and should be preferred if they are efficient and if conflicts of interest are possible.
- The tools offered by KfW can be extended, particularly in the area of trade finance, but also with regard to wider AfT.

*Multilateral instruments*

- German development policy should have the leeway to scale up multilateral TRA and AfT in areas where this seems reasonable. This would require a more supportive stance on the part of the German Parliament.
- Germany should remain ready to contribute to regionally-owned AfT funds and help to make them operational and efficient.
- Germany should continue to support EIF processes at the international level and ensure that its AfT portfolios are in line with EIF instruments at country level. Additionally, consideration should be given to the possibility of acting as donor-facilitator in an EIF country and/or as AfT lead donor in an ACP region should. Once the EIF is up and running, discussions on similar mechanisms for non-LDCs and at the regional level should be advanced.

*Donor coordination and programme-based approaches*

- Germany should strive to use existing configurations as efficiently as possibly in advancing its AfT strategy, e. g. by creating inter-

link ages between relevant sector groups or by addressing AfT on a higher level of the coordination structure.

- The possibilities for stepping up the use of PBAs in German thematic areas relevant for AfT should be strengthened. This includes efforts to assist partners to better integrate trade into national and sector strategies, which will allow partners in turn to better assume their role as driver, planner, and coordinator of development assistance.

The EC should be encouraged to assume its role as coordinator for AfT, particularly at regional levels.



## 1 Introduction

Aid for Trade (AfT) has received considerable attention since it was launched within the WTO in 2005. As part of this process, EU donors promised to increase their collective expenditures for “Trade-Related Assistance” (TRA) to € 2 billion per year by 2010, with € 1 billion provided by the European Commission (EC) and € 1 billion by EU member states. Jointly with other EU donors, Germany is now confronted with the task of fulfilling this financial pledge as well as other, more qualitative commitments.

Against this background, the German Federal Ministry for Economic Cooperation and Development (BMZ) commissioned the German Development Institute (DIE) to analyse the current state of German trade-related development assistance and to make recommendations for incorporating the new “Aid for Trade” concept into it. This study presents the major findings of that work. Its aim is to provide input for an informed discussion on how Germany can best contribute to the international AfT initiative by optimising both the quantity and quality of its AfT. More precisely, the main questions are:

- How does AfT contribute to overall development objectives, in particular poverty reduction?
- How should German development policy and its various implementing agencies put the concept of AfT into practice given its crosscutting nature and wide scope?
- Against the background of past experience and future challenges, what are current areas of strengths in which Germany could engage disproportionately compared with other donors?
- How can AfT be factored into donor coordination, both among German actors and within the broader donor community?

The following chapter outlines the theoretical debate on trade and development and the role AfT can play in this respect. Chapter 3 illustrates the political process behind the AfT initiative and the challenges involved in putting the concept into practice. An analysis of AfT portfolios of selected donors (Chapter 4) and of Germany (Chapter 5) prepares the ground for a discussion of how Germany should shape its portfolio in accordance with its potential comparative advantages (Chapter 6). The paper ends with a summary of recommendations plus suggestions for possible next steps (Chapter 7).

## 2 The rationale behind Aid for Trade

Trade has the potential to spur economic growth and to assist low-income countries in reducing poverty, if certain preconditions are met. This could be regarded as the lowest common denominator of trade and development discussions. However, the exact mechanisms and causal relationships are much less clear and have been fiercely disputed by scholars from inside and outside the field of economics.

### *What trade theory can tell us*

The debate is as old as modern economics. After a period dominated by mercantilist trade policies aiming at restraining imports and encouraging exports, the idea of free trade found its way into mainstream economics around 1800 through the work of Adam Smith and – a few decades later – David Ricardo. Ricardo's concept of comparative advantages laid the foundation for the theory of international trade still widely held today: A country benefits from specialising in the production and exportation of goods in which it has a comparative advantage, even if its trading partner is more efficient in all these goods in absolute terms. Both countries would still be better off and gain from this exchange.

Building on this theoretical basis, the Heckscher-Ohlin model deals with the origins of comparative advantages and the resulting patterns of trade, explaining them with the countries' relative endowment of factors of production (basically land, labour and capital): A country exports products that utilise its abundant factors of production and imports products that utilise its scarce factors. For instance, labour-rich China would be well advised to produce labour-intensive products and exchange them for capital-intensive goods from a capital-rich trading partner such as the EU. The Stolper-Samuelson theorem further elaborates the Heckscher-Ohlin model by predicting how trade influences national prices. In a world with two goods and two factors of production, the scarce factor of production will become cheaper as a result of trade. Applied to our China-EU example, a rise in trade openness would lead to a fall in returns to capital and an increase in real labour incomes on the Chinese side. The inverse would be true for the EU. This model has, in principle, important implications for understanding trade-poverty linkages, predicting higher wages for low-skill, labour-abundant developing countries through international trade.

However, these theories were found to be deficient in their ability to explain phenomena like growing trade between industrial countries which have no obvious differences with regard to their comparative advantages. The highly restrictive assumptions of these models are generally considered as main obstacle for applying them to real world situations, since they are hardly ever fulfilled in practice, and even less so in the case of developing countries. Basically, these models are predicated on a world made up of perfectly competitive markets. This would require many small companies to produce homogenous goods bought by numerous consumers and barriers for entering and exiting markets to be low. Decisions would be taken by fully informed market participants with the aim of generating as much profit as possible. Furthermore, classic trade theory assumes, *inter alia*, that goods can be transported without expense between countries. By contrast, labour and capital can only be shifted without costs between industries within one country, but they are not mobile between countries.

In response to these unrealistic assumptions of classic trade theory and its failure to explain actual trade patterns, a body of “new trade theories” has emerged since the 1980s, addressing the complexities of real world trade and showing that deviations from free trade can enhance growth and welfare (for an appraisal of these models, see Deraniyagala / Fine 2006). By recognising that trade increases the market size that allows firms to exploit economies of scale, i.e. falling average costs per unit, they succeeded – in contrast to earlier models – in showing why countries with similar characteristics engage in trade and why trade increasingly takes place within one industry (i.e. within one product category). Given economies of scale, countries can develop a basis for trade by specialising in a good even though their trading partner has the same factor endowments and, therefore, no reason to trade on the basis of comparative advantages. In addition to demonstrating that economies of scale are as fundamental a cause of international trade as comparative advantages, Krugman (1980; 1985) introduced geography into trade theory. He showed how localisation patterns are influenced by transport costs. Accordingly, industries characterised by high economies of scale and low transport costs experience stronger spatial concentration and specialisation and thus more trade. Also, other geography-related factors of trade such as language are taken into account in such models.

New trade theories also draw on endogenous growth models: While in neoclassical theory the long-run growth rate is determined exogenously by the savings rate or technological progress, which remain unexplained, endogenous growth models try to bring to light the sources of growth by explaining them within the model. Applied to international trade, these models emphasise the role of technology spill-overs arising from improved access to new inputs, new technologies and new management techniques acquired through imported goods, services and capital.

Also, new trade theories generally speak in favour of trade but recognise the existence of risks, especially with regard to import competition. For example, endogenous growth models estimate that the gains from trade are largest for countries at similar levels of development. In contrast, developing countries could lose out from trade with more advanced countries, as their innovative sectors run the risk of being crowded out due to intense competition, or because their low levels of capability prevent them from realising the benefits of technology spill-overs (Deraniyagala / Fine 2006). New trade theories come to the conclusion that the success of trade liberalisation, i.e. of the opening up of markets for international (including regional) trade, is contingent on the application of a range of instruments such as the setting of industry standards for the benefit of home country companies. Thus, the new trade theories plead for strategic trade policies complemented by other types of policies.

The conceptual debates on further effects of trade and trade liberalisation are equally important as (and, of course, interlinked with) those on growth and factor remuneration outlined above. The following arguments are typically advanced to underline the positive effects of trade liberalisation (Bhagwati 1988): First, open trade strategies entail incentives for a domestic resource allocation closer to international opportunity costs and therefore closer to what will produce efficient outcomes. Second, they eliminate directly unproductive profit seeking and rent seeking activities.<sup>1</sup> Third, they encourage foreign investment and make efficient use of the new capital flows. Fourth, they stimulate dynamic effects such as savings and innovation.

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1 Directly unproductive profits may accrue when a producer is able to operate under distorted prices, resulting in a partial loss for society. One subset here are rent seeking activities where lobbies chase rents associated with trade restrictions.

These effects can be triggered not only by trade liberalisation at the international level but also by reducing barriers among neighbouring countries. Often, the regional markets are potentially profitable but underdeveloped and neglected. Thus, they can constitute interesting targets of trade liberalisation. Furthermore, they can serve as stepping stones to international markets. They give countries opportunities to acquire and test the skills necessary to satisfy international demand, and they provide them with the enlarged consumer base they need in order to realise economies of scale and hence to improve their international competitiveness. However, fostering regional integration is not uncontested, particularly if it is between poor and middle income countries and if it is to the detriment of multilateral liberalisation (Schiff / Winters 2003; Venables 2003). This is due to several problems such as increased compartmentalisation of markets, which particularly handicaps small producers and traders, the similarity of developing economies that do not exhibit the same degree of differences in factor endowments as poor and rich countries, and the unequal advantage of middle income over poor countries due to trade diversion effects from regional integration among developing countries. On the other hand, regional integration often is deeper, faster and covers more areas than international integration, it locks in reforms and thereby contributes to stability of economic policies, and it can also include compensation mechanisms for disadvantaged countries. All this potentially increases the gains from regional integration. In any case, in ways similar to the international level, an approach limited to trade policy only is not likely to yield the desired results but needs to be complemented by other policies with a view to achieving deep regional economic integration.

In order to realise these potential gains from international or regional trade liberalisation, the relevant institutions need to be capable of transforming arising opportunities into economic growth and development. According to the concept of “systemic competitiveness” (Esser et al. 1995, 6), the ability of central actors to set priorities and define sequences is one key ingredient in a successful transformation from an inward-looking economy to one oriented towards world markets. Gradually relaxing national control over the industrialisation process and correctly assessing the domestic industry’s potential for adjustment and restructuring is important in this respect.



*What evidence suggests*

Numerous publications have attempted to investigate the effects of trade empirically (an overview of the debate can be found in Winters 2004). For instance, the influential cross-country study by Dollar and Kraay (2001) found evidence supporting a positive relationship between trade, growth and poverty reduction. It identified a sample of developing countries that opened up to trade between 1980 and 2000 (“globalizers”) and compared their experience with that made by other developing countries that had remained more closed (“non-globalizers”). Not only did “globalizers” grow faster, but the increase in their growth rates also led to proportionate increases in incomes of the poor. Hence, Dollar and Kraay concluded that globalisation leads to faster growth and poverty reduction in poor countries.

By contrast, models elaborated under slightly different assumptions show diverging results. Rodriguez and Rodrik (1999) cast doubt on the adequacy of cross-country analyses of the kind used by Dollar and Kraay, arguing that methodological problems leave results open to various interpretations. They themselves found little evidence that open trade policies, in the sense of lower tariff and non-tariff barriers, lead to significant economic growth. However, their results do not suggest, either, that trade restrictions are associated with higher growth rates.

One of the points of criticism frequently raised with regard to cross-country analysis concerns the causal link between the variables in use. Particularly studies comparing openness to trade (usually defined as the ratio of exports and imports to GDP) with levels of growth are faced with the problem of identifying the direction of causality. Trade and growth are highly correlated because countries trade more as they grow richer. Deducing a positive causal relationship between trade and growth runs the risk of neglecting other essential influences, e.g. the role of institutions (Rodrik 2000).

Similar analytical problems arise in assessing the effects of regional integration and trade agreements, particularly when including not only trade in goods but a wider range of issues that are often included in regional policies (Schiff / Winters 2003). In fact, very often it is not tariffs but other factors such as high transport costs, red tape, an unreliable economic and political environment, lack of standards or information deficits that hamper regional trade among developing countries, particularly in SSA

(UNCTAD 2009), and regional integration agreements can and often do address such issues. South-South integration is nowadays seen by many as an important development path for poor countries, including SSA (WTO/OECD 2007; Council of the EU 2007b; BMZ 2008; UNCTAD 2009). It should, however, be noted that this should not exclude North-South integration – UNECA states for SSA that “the evidence points to North-South integration as the real growth-promoting factor, though South-South integration can still help” (UNECA 2004, 17).

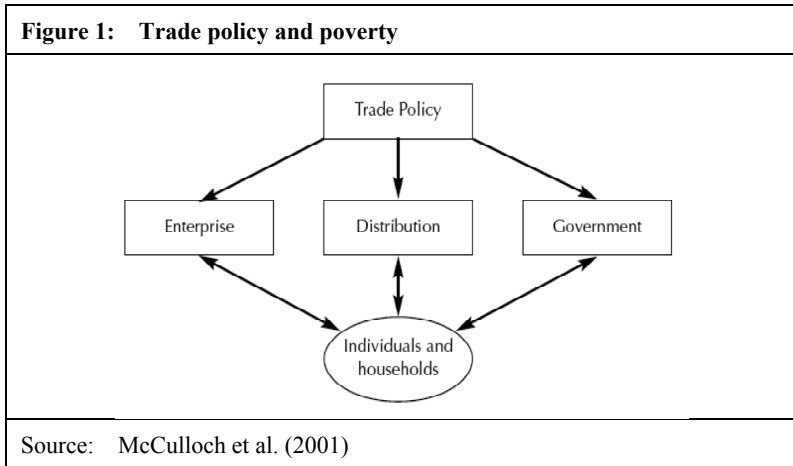
In view of structural weaknesses of cross-country studies, in-depth case study analyses of trade and trade policies are therefore an important complement or alternative to cross-country studies. Particularly the newly industrialising East Asian countries provide important lessons on how industrial and strategic trade policies can be instrumental for economic growth. Rodrik (2007, 18) showed how South Korea and Taiwan significantly departed from the Washington Consensus by deploying an extensive set of industrial policies such as directed credit, trade protection, export subsidisation and tax incentives. Although one should be cautious when applying insights from one part of the world to others, evidence – in particular the Asian experience – shows that countries can succeed in actively creating new areas of international competitiveness and spurring growth through (strategic) trade and related policies.

### *How poverty is affected*

Growth and trade are not ends in themselves but means to achieve an end: poverty reduction. Even though trade may increase overall income and generate resources that could be used to tackle poverty, the benefits are usually not evenly distributed within a country. Resources are reallocated in line with a country’s – given or proactively developed – comparative advantage and are shifted from the least to the most productive sector. In the wake of this adjustment process, parts of the population experience – at least in the short term – an increase in poverty.

Especially for development policy makers and practitioners, it is essential to bear in mind these trade-poverty linkages and to analyse the potential impact of trade liberalisation on the poor (for an assessment of such available ex-ante tools, see Turner et al. 2008). For this purpose, McCulloch et

al. (2001) developed a conceptual framework for identifying and understanding the channels through which trade policy affects the poor (see Figure 1).<sup>2</sup>



According to this model, individuals and households are directly affected by trade policy through three transmission channels:

- **Distribution / prices:** The effects of liberalisation depend on the extent to which price changes are transmitted through markets to households. Prices are shaped throughout the distribution chain – through taxes, regulations, transport costs and competition among retailers. If the distribution structure is competitive, changes of border prices will result in price changes for final consumers. Moreover, price transmission depends on the way in which government institutions, such as marketing organisation, operate.
- **Enterprise / profits, wages and employment:** Trade liberalisation affects profits, which in turn trickle down to households through wages and employment. Whether this is reflected in changes in wages or employment opportunities depends on the relative flexibility of wages and employment. If wages are flexible and labour fully em-

2 It should be noted that this framework – deliberately – omits the indirect impacts that affect poverty through economic growth and through short-term adjustment costs.

ployed, then price changes will be reflected in wage changes, with employment remaining the same. The opposite is true for a situation with fixed wages and variable employment. In order to be able to generate profit at all, it is crucial for enterprises to have the ability to respond to the opportunities available. This includes mobilising the necessary resources to increase production or to reorganise a business plan. Funds for investment, including foreign direct investment, are usually required to take advantage of trading opportunities.

- **Government / taxes and spending:** Changes to tariffs may lead to falling government revenues, which can have negative implications for the poor in the form of cutbacks in social expenditure.

In addition, the ability of households to react to risks and uncertainties determines overall trade-poverty linkages. This ability depends, among other things, on access to assets and markets as well as on participation in market institutions and policy-making. Moreover, for a poverty-centred analysis it is crucial to bear in mind some other characteristics of households, including the intra-household distribution of welfare and the position of households in relation to the liberalised product (as net consumer or net producer).

On the basis of such arguments, the OECD (2008a) has identified three policy areas for reinforcing the positive impact of trade on poverty. They consist, among other things, in providing support for the productive capacities of the poor, in connecting the poor to markets through a set of marketing policies, institutions and investment in rural infrastructure, and in facilitating their adjustment by putting in place social protection policies and improving education and healthcare. When elaborating trade and trade-related policy measures, close attention needs to be paid to the differential impact of trade on different parts of the population from the angles of employment, gender and geography, the special characteristics of the poor, as well as country-specific circumstances. In that respect, the OECD report calls for localised solutions instead of one-size-fits-all approaches.

So far, many low-income countries have, for a number of reasons, failed to seize the development opportunities offered by trade and trade liberalisation (OECD 2008a): First, trade restrictions, tariff escalation and agricultural policies adopted by industrial countries act as constraints on the abil-

ity of low-income countries to participate more fully in trade. Second, South-South trade still faces relatively high trade barriers that prevent economic activities between neighbouring countries. Hence, important gains could be realised from regional trade. Finally and most importantly, structural weaknesses (in the form of supply-side constraints, low levels of human capital, poor institutions and policies), high costs of doing business, insufficient infrastructure, and – in some cases – unfavourable geography explain the main obstacles that low-income countries encounter.

To sum up, and following Rodrik (2007), trade and trade liberalisation can contribute to economic growth and poverty reduction. However, the appropriate strategy depends upon country-specific circumstances and cannot be generalised to produce a globally valid formula. Endowments, history and geography all matter for the trade potentials of any country at a given point in time and determine what needs to be done to develop it further. A country-tailored approach is particularly important in the developing world, with its wide range of specific needs. In this regard, the role of donors is to reinforce the potentially positive impact of trade and trade liberalisation by supporting their partners in making use of trade potentials. In other words, they can support them by providing Aid for Trade (AfT).

### *Where Aid for Trade comes in*

The concept of AfT is rooted in the conviction that trade – in both its international and regional dimension – can contribute to growth, while recognising that improved market access alone is of little use. It takes into account that many factors may impede a country and its economic agents in taking advantage of trade opportunities, particularly in a pro-poor manner (e. g. geography, institutions, infrastructure, technology skills). Accordingly, numerous entry points for AfT can be identified in the McCulloch et al. model described above: AfT plays a role in supporting the effective transmission of price signals, in helping businesses to seize new opportunities arising from trade, in cushioning the effects of negative shocks on national budgets, and in protecting households from adjustment processes or mitigating their effects.

With regard to these potential roles of AfT, Turner et al. (2008) distinguish two broad policy areas: complementary and mitigating measures. Complementary measures aim at increasing the ability to benefit from trade opportunities (e. g. through better access to markets and assets, reduced

administrative costs or improved competition in intermediate markets), whereas mitigating measures are intended to address potential costs from trade liberalisation by, for example, sequencing and phasing reforms or implementing safety nets.

The truly innovative feature of the new AfT agenda is its broad perspective, which takes into account a wide range of obstacles (e.g. insufficient economic infrastructure, weak productive capacities, inadequate financial services) that have prevented many countries from becoming globally competitive and reducing poverty by getting more engaged in trade.

The broader systematic perspective of AfT takes into account that the ability of a country and of its entrepreneurs to trade depends not only on individual and isolated capacities but that it is determined by a complex set of factors. For instance, the trade policy of a country and of its trading partners should not be biased against exports or, better, should support them. To achieve this, trade negotiators have to be well equipped with information, skills and other capacities, and have to be integrated into strong political networks. In addition, efficient and high quality production of individual entrepreneurs is not sufficient to access regional or world markets if it is difficult or costly for them to obtain information on trading partners' import regulations, if it is not possible to meet quality or other trade requirements, if it is difficult or costly to have them tested and certified, if infrastructure is inadequate to permit cheap exports, or if trade regulations and authorities constitute important export hindrances. Overall, trade serves as the motor of systematic competitiveness and allows economies of scale, in contrast to a national perspective. These synergies and the role of trade are best ensured by a deep and systematic integration of trade issues into overall national economic policy and sector concepts.

AfT brings these issues to the surface. Similarly, AfT recognises that trade aspects should not be confined to national export strategies but that they instead form an incremental part of every country's path towards economic development and should, therefore, be included when designing a national development strategy or relevant sector strategies (e.g. in the area of private sector development or agriculture). AfT also explicitly acknowledges the potentials of regional integration as a stepping stone for full international integration, but also as an opportunity to access untapped regional markets, especially in times of international turbulence (i. e. food crisis, financial and economic crisis).

In the political discourse, AfT has gained momentum since the launch of the WTO Doha Development Round, when LDCs started to ask explicitly for assistance to strengthen their supply-side capacity and to cushion preference erosion, because they doubted that major positive development effects could be achieved through another round of trade liberalisation (Page 2007).<sup>3</sup> Disappointment with the implementation and impact of the Uruguay Round agreement of 1994 had sensitised developing countries for such questions. These discussions led to the birth of the AfT initiative at the 2005 WTO ministerial meeting in Hong Kong (see Chapter 3.1). The inclusion of aid issues in a WTO declaration was noteworthy *per se*, since it signified unprecedented recognition that trade measures alone are not necessarily sufficient for developing countries to benefit from globalisation.

The new AfT agenda is consistent with the fundamentals of German development policy. The Development Policy White Paper (BMZ 2008) defines “Promoting Equitable Forms of Globalisation” as one of its four main goals, with a focus on introducing an “equitable trade system” e.g. through the use of fair trade marks and economic partnerships.

Similarly, AfT is strongly interlinked with the Millennium Development Goals (MDGs) and their main target, the eradication of extreme hunger and poverty. When asked to elaborate a possible plan of action to meet the MDGs, the UN Millennium Project Task Force (2005) acknowledged that trade can be a powerful weapon in the fight against poverty, though only in the presence of a balanced trading system as well as additional assistance for an effective participation of developing countries in global markets. The same concern is reflected in MDG 8, “Develop a Global Partnership for Development”, more precisely in its target to develop an open, rule-based, predictable and non-discriminatory trading system. Even though the term “AfT” had not yet been invented, its basic idea already appeared in Indicator 41, which identifies the “[p]roportion of ODA provided to help build trade capacity” as a measure to monitor the fulfilment of this goal.

Of course, AfT alone is no panacea for eradicating poverty. Other impediments, among others policy incoherence in industrial countries but also many national policies in developing countries, ought not to be forgotten. Yet, AfT can contribute to the eradication of poverty by enabling

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3 Preference erosion refers to the loss of preferential trade relations due to a general reduction of tariffs.

developing countries to negotiate and implement trade agreements which are in their own interest, to build the capacity needed to benefit from them and to compensate those who are negatively affected. While these measures do not – and should not be expected to – substitute for efforts to create a fair global trade system, they can provide concrete tools to support the position of developing countries on world markets. In other words, trade and development discussions need to be situated within the wider picture of the global trade system and its existing power relations, with AfT being a small, though important, part of it.

### 3 Putting into practice Aid for Trade

While the previous chapter sought to depict the scientific debate on trade and development, this chapter outlines the political process behind AfT, the commitments to which Germany is bound and the related challenges. It ends with remarks on ownership and alignment.

#### 3.1 International commitments

##### *Aid for Trade within the WTO*

The AfT initiative was launched at a time of dwindling support for the Doha Development Round a circumstance which can be explained, *inter alia*, by a growing consciousness that trade liberalisation is not automatically conducive to development (see Chapter 2). In response to the demand raised by developing countries for additional development assistance, the 2005 WTO Ministerial Conference declared that “Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade” (WTO 2005, par. 57). Several pledges<sup>4</sup> were made to underline the importance of the initiative, among them the EU commitment to increase its “Trade-Related Assistance” (TRA) to € 2 bil-

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4 Japan has announced development assistance spending on trade, production and distribution infrastructure of US\$ 10 billion over three years, the US has promised AfT grants of US\$ 2.7 billion a year by 2010, and the EU and its member states have pledged trade-related assistance of € 2 billion per year by 2010.



lion per year by 2010. Around the same time, the G7, and thus Germany as a member, promised to jointly increase its AfT to US\$ 4 billion.<sup>5</sup> In this context, infrastructure needs of African countries were referred to, but not included in the pledge (G7 2005).

A Task Force instructed to define the scope of activities covered by the term “Aid for Trade” elaborated a fairly broad definition based on six categories (see Box 1).<sup>6</sup> Unlike the older concept of “Trade-Related Assistance” (TRA), which can be subsumed under AfT categories 1 and 2, the current notion of AfT also includes support for productive capacities, trade-related infrastructure and trade-related adjustment, and it now acknowledges the importance of supply-side constraints and adjustment costs.

**Box 1: The six categories of the WTO definition of Aid for Trade**

*1. Trade policy and regulations, including:*

Training of trade officials, analysis of proposals and positions and their impacts, support for national stakeholders to articulate commercial interests and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.

*2. Trade development, including:*

Investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.

*3. Trade-related infrastructure, including:*

Physical infrastructure.

*4. Building productive capacity*

*5. Trade-related adjustment, including:*

Supporting developing countries in putting in place accompanying measures that assist them to benefit from liberalized trade.

*6. Other trade-related needs*

Source: WTO (2006b): Recommendations of the Task Force on Aid for Trade, WT/AFT/1

5 The commitment to AfT was re-affirmed at the St Petersburg G8 Summit in July 2006 (see G8 2006).

6 In this study, the term (overall or broad) “Aid for Trade” refers to categories 1–6, which can be divided into “Trade-Related Assistance” (categories 1–2) and “wider Aid for Trade” (categories 3–6).

As far as financial commitments are concerned, the Task Force announced that “additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate” (WTO 2006b, 1). In contrast to what was demanded by developing countries, “additionality” ended up as additional to what is currently provided as AfT and not as additional to overall ODA targets agreed upon earlier (Page 2007, 27). Therefore, the new AfT commitments are included in what donors had already pledged as overall ODA targets, which has led to concerns over competition between AfT and other purposes of ODA (see Chapter 3).

The importance of aid quality was underlined by declaring that the Paris Declaration on Aid Effectiveness constitutes the basis for AfT. Concretely, this means that recipient countries need to incorporate trade-related aspects into their development strategies and their specific policies linked to economic development (*Ownership*), if necessary supported by capacity building measures. Donors are expected to align their AfT activities to these national development strategies, preferably by using local systems for the provision of predictable and untied aid (*Alignment*). Total AfT activities provided by all donors should be delivered in a harmonised, transparent and collectively effective way (*Harmonisation*). When managing and implementing AfT, the desired results should be at the centre of attention (*Managing for results*).

In LDCs, the Integrated Framework (IF, see Chapter 4.1, Box 5) was supposed to serve as the main mechanism to ensure that AfT complies with the principles of the Paris Declaration. While the IF generally could not live up to its expectations (WTO 2006a), substantial hope rests now on its enhanced version (Enhanced Integrated Framework, EIF). Moreover, the idea of establishing a similar mechanism for non-LDCs (“IDA-only”) is repeatedly brought up in discussions. The WTO Task Force, for instance, announced its intention to explore the need for of such an instrument.

### *Operationalising the EU pledge*

In line with the WTO pledge, the EU reconfirmed in its 2007 AfT strategy that it will increase its expenditures on “Trade-Related Assistance” (TRA) to € 2 billion per year by 2010, including € 1 billion in Community aid and € 1 billion jointly provided by EU member states. It was noted concretely that this commitment only referred to categories 1 and 2 as defined by the WTO Task Force on Aid for Trade, hence to the “narrow” definition of

AfT. A weaker wording was adopted for “wider” AfT (i. e. categories 3 to 6), without stating any concrete target. The only quantitative commitment in this respect can be derived from the EU’s stated aspiration “to increase its total AfT in coherence with the gradual increases in overall development aid towards the established 2010 and 2015 targets” (Council of the EU 2007b, 4).

An ACP-specific angle was incorporated, with 50 % of the increase in TRA being earmarked for ACP countries. To avoid the accusation of buying these countries’ consent in negotiations on Economic Partnership Agreements (EPAs), it was reiterated that the delivery of AfT does not depend on the signing of such agreements.<sup>7</sup> Regionally-owned mechanisms – for example in the form of regional funds – were proposed with a view to fostering integration of ACP regions. This special regional dimension can be partly explained by the attempt to accommodate the needs arising from EPA implementation.

The EU AfT Strategy incorporates qualitative elements, too. In addition to a firm reference to the Paris Declaration on Aid Effectiveness (see above), it explicitly mentions a pro-poor focus, including economic empowerment of women, as well as environmental, social and economic sustainability, stakeholder participation, complementarity and cooperation between donors. As to the last point, EU donors had already earlier committed themselves to a number of – voluntary – rules for overall development cooperation in the EU Code of Conduct on Complementarity and Division of Labour (the so-called “EU Division of Labour”). Importantly for our discussion, EU donors therein aim at concentrating on a maximum of three sectors per country, according to country comparative advantage.<sup>8</sup> The presence of EU donors in a given sector is expected to be limited to 3–5 donors per country, with a lead donor in charge of coordination, while efforts will be made to avoid imbalances in the form of “aid orphans” or

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7 In practice, it seems that some ACP regions have still reported that the EC has attempted to exert undue pressure during EPA negotiations by hinting at the possibility of increasing AfT under the condition that an agreement was concluded (Lui 2008, 2).

8 The Council of the EU (2007a, 12) defines “comparative advantage” of development assistance as being determined by, among other things, the presence in the field, experience, trust and confidence of partner governments and other donors, volume of aid, capacity to enter into new policies or sectors, efficiency, or the need to build new experience as an emerging donor.

“aid darlings”. The primary responsibility for in-country donor coordination was assigned to partner countries (Council of the EU 2007a). Like the WTO AfT Task Force recommendation, the EU strategy highlights the role of the IF, promising active in-country participation within the EIF but also a continued engagement in international efforts with regard to a similar process for IDA-only countries.

To sum up, Germany entered into concrete quantitative commitments as member of the EU and the G7. It is, however, tricky to assess the effectiveness of these commitments due to definitional, accounting, practical monitoring and other issues, as described in the following chapters, particularly Chapter 4. In addition, strong qualitative elements can be derived from processes at both the WTO and EU level. An important impetus might come from these qualitative commitments, since, in the end, much will depend on whether donors succeed in improving the quality of their AfT in close cooperation with partner countries and regions, thus transforming the ideas on Aid Effectiveness into development practice, which has, so far, proved especially difficult in the area of trade and, more generally, economic development.

### 3.2 Challenges in fulfilling the commitments

First and foremost, it is worth noting that Aid for Trade activities *per se* are no novelty for development policy. They have long been part of every donor’s portfolio, albeit under different headings and often with little conceptual underpinning. The main challenge for Germany now consists in re-thinking – and, if necessary, re-shaping – these trade-related activities which have been scattered across its portfolio, with a view to fulfilling both the quantitative and the qualitative commitments described above. This process of implementing the AfT initiative entails considerable challenges, specifically the following:

#### *Counting Aid for Trade*

Like that of most other donors, Germany’s development policy deals with trade not as a specific sector but as a crosscutting issue extending over a wide range of thematic areas. Trade activities are – with the exception of those financed from small, explicitly dedicated trade budgets – not clearly separated from non-trade-related measures. Therefore, the exact size of

assistance directed towards trade-related activities is difficult to predict and to determine *ex-post*.

With regard to overall AfT, the WTO and OECD Working Group on Statistics took the pragmatic decision to consider all aid to productive sectors and economic infrastructure as AfT. Consequently, for monitoring purposes, AfT cannot be delineated from “Aid for Growth”. In the case of Germany, this means that 18.4 % of ODA can be labelled as AfT (see Chapter 4.2, Table 4). Such a broad interpretation is not exactly in line with the recommendations of the WTO AfT Task Force, which requires AfT to cater for trade-related needs as defined in national development strategies in order to be labelled as such (see Box 1), although it is easier to operationalise.

Yet, for EU donors, reporting TRA – for which the quantitative EU AfT pledge was made – is politically even more delicate. Since the pledge is expressed in terms of future aid levels, the calculation of the point of departure is essential in order to show that additional funds – as required within the WTO (see Chapter 2.1) – are in fact involved, and this brings in not only methodological but also political dimensions. Much effort has been put into quantifying past TRA, and with it the starting point for the EU pledge (compare Chapter 4.2).

Furthermore, it is not clear how the € 1 billion pledged jointly by EU member states will be distributed among them. Using current AfT figures as a starting point, and given its relative weight within the joint EU approach to AfT, Germany assumes that its basic contribution to the EU pledge on TRA should equal its share in the EU budget and the 9th EDF (both approx. 22 %). Against the pledge of € 1 billion made by EU member states, this amounts to a provisional target of € 220 million per year as of 2010. In line with the EU Division of Labour, this objective is considered as open for modification, if German (dis)advantages in providing TRA as compared to other EU member states are identified.

Given the necessary but time-consuming exercise of monitoring TRA, the Paris Declaration principle “Managing for results” appears particularly challenging. Complying with it would require a re-focusing of monitoring efforts from input-based measures (i.e. past AfT spending) to a results-centred methodology. A first step into this direction was taken at a WTO symposium in September 2008, where the process of identifying a toolbox

was initiated; it which incorporates, among other items, results-based indicators for AfT (WTO 2008a).

### *Country ownership*

The general level of developing countries' ownership – a key principle of the aid effectiveness debate – of major trade-related initiatives seems to be relatively low if measured in terms of country strategies and not declarations made in trade fora. Although a trend in the opposite direction can be noted, trade-related issues are usually not analysed comprehensively in national development strategies. Furthermore, partner countries tend to lack the capacity to steer trade-related activities. Such capacity is more difficult to develop and to prove than in non-productive areas, since it requires bringing together under common programmes not only different public entities but also – often very heterogeneous – private actors. Yet, strong partners are essential for a thematic initiative<sup>9</sup> like AfT, since it risks undermining the principles of ownership and alignment if it is implemented through earmarked funds and not mainstreamed into existing broader development strategies and sector policies derived from them. For a closer look at the importance of country ownership and capacity, see Chapter 3.3.

### *Donor commitment*

Similar issues arise on the donor side. Changes in aid orientation are frequent, as is demonstrated by the long history of new topics being incorporated into donor strategies for reasons of political topicality and donor preferences for either inward or outward economic orientation, which often seem to be not theoretically or empirically underpinned but determined by economic or political “fashions”. The research for this study showed that, on the basis of such experience, some interviewees from within German development organisations perceive AfT as yet another new topic, arguing that it climbed up the aid agenda in a donor-driven process. This perception is frequently linked to doubts as to whether trade effectively contributes to poverty reduction, as well as to a fear that aid

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9 Thematic initiatives focus on specific issues regarded as deserving particular attention across many sectors. Prominent examples are health (malaria) and environment (climate change).

may have negative consequences for social sectors. To strengthen donor commitment across donor hierarchies, a credible anchorage of AfT commitments in donors' overall long-term policy papers is needed to underpin international pledges (for German signals for commitment see Chapter 5, especially Section 5.1).

Limited donor capacities to implement AfT might reduce the impact from the supply side. German technical cooperation, for example, had dealt with trade promotion on the micro- and meso-levels in the 1990s through a programme called "Pro-Trade", before these activities were discontinued with a view to mainstreaming trade within all relevant priority areas. This led to a reduction of both the staff working on trade-only and trade expertise. Hence, it should not be taken for granted that donors themselves have sufficient expertise to significantly step up AfT in the short and medium run. For Germany, these topics are taken up again in later chapters.

### *Specific features of Aid for Trade*

Some specific features of AfT entail particular challenges for its implementation and for the role of donors. It is argued that AfT requires an especially high level of donor coordination because of the high interdependency of trade issues: One single bottleneck in a partner country's production and trade system can undo all efforts to strengthen its trade capacity. Yet, it is anything but evident what mechanism should be used to coordinate AfT. The IF (see above and Chapter 4.1, Box 5), established as a TRA-focused interagency coordinating mechanism for LDC countries, was not able to gather all (major) donors behind its country programmes, to say nothing of partner country ownership. At the same time, the cross-cutting nature of AfT implies that, in fact, all aid targeted to productive capacities and trade-related infrastructure need to be factored in when designing a comprehensive coordinating tool. But separate coordination arrangements for these areas already exist in many countries. How could these different processes be meaningfully brought together without increasing transaction costs excessively?

Similar issues arise with regard to Programme-Based Approaches (PBA), i. e. Sector Wide Approaches (SWAs), basket funding and budget support. Although these instruments are considered as preferred modes of delivery for meeting the principles of the Paris Declaration, they have in the past been employed more to support social sectors – where the public

sector, and most often one line ministry, controls and spends the bulk of the assistance – and less to stimulate the productive side (see Chapter 3.3). The crosscutting characteristics of AfT require much more complicated institutional arrangements, involving many ministries and in particular the private sector. This hampers the employment of these new instruments in productive sectors in general and in AfT in particular. There is little experience, apart from the noteworthy example of the Cambodian trade SWAp (see Chapter 5.4.4), on how to accommodate cross-sectoral AfT in the PBA design.

One usual argument with regard to possible channels for AfT goes in favour of multilateral instruments, since a topic as politically sensitive as trade is assumed to be better served by objective “brokers”. A similar line of argument would see EU member states in a better position to deliver AfT than the EC, with its exclusive competence in European trade policy and its outstanding role in current EPA negotiations. However, these arguments would probably do better to distinguish between the different categories of AfT: While there is a clear inherent conflict of interests on the donor side in capacity development for trade policy and trade negotiations (AfT category 1) – if donors are at the same time involved in trade negotiations – such conflicts are less evident in the other, less sensitive categories of AfT. Even in category 1, the conflict of interest need not necessarily materialise in AfT activities. In general, there are other valid criteria for identifying donor comparative advantages, such as expertise. We follow the line of argument that interest conflicts should be constantly kept in mind, but that a prudent design of AfT can mitigate them substantially (see Chapter 3.3. for a more general discussion of the topic).

### *Special German obligations*

In designing its AfT, Germany faces some special challenges resulting from its particular internal political procedures. With regard to multilateral channels, the German parliament has capped the share of multilateral aid at one third of all ODA provided by the German Federal Ministry for Economic Cooperation and Development (BMZ). Contributions to multi-donor trust funds such as the WTO Doha Development Agenda Global Trust Fund are counted as multilateral aid, and thus fall under this restriction. Therefore, BMZ is in practice restricted in its possibilities to scale up multilateral AfT (see Chapter 5.3.4).



With regard to PBAs, BMZ needs to adhere to some special rules imposed by the German Parliament: Its budget committee needs to approve every single budget support proposal. Although it has so far given the consent to all proposals, the procedure adds to the administrative burden and the level of uncertainty concerning the future of this instrument, particularly in providing development assistance to weak states.

### *Regional dimension*

European efforts to advance the regional dimension of AfT have been centred on coordinating a joint response to trade-related needs identified by EPA regions and Regional Economic Communities (RECs) with the aim of tying EU regional AfT packages for ACP groups of countries. In that sense, regional AfT is very much dealt with as EPA-related support. These packages consist of one matrix per region in which needs – including those at the national level – are matched with AfT activities carried out by EU donors. While the first Brussels-based phase of this exercise was driven by the EC, in a second step the matrices are intended to be passed on to regional stakeholders, in particular to RECs. To advance donor coordination, the idea of appointing one lead AfT donor per region (along with the EC) was brought up informally. Such tasks would probably be taken over by the bigger EU member states, those with substantial activities in the respective regions.

Apart from challenges linked to the crosscutting nature of AfT, already mentioned on several occasions, the existing institutional and organisational structures at the regional level – both on the partner and donor side – might impede effective coordination. Only in rare cases do all relevant donors have offices with regional competences in close geographic proximity to the secretariat of a given REC. Yet, effective donor coordination will most likely not be achieved in a purely headquarter-centred manner. Moreover, coordination as well as implementation of regional AfT need strong and capable REC secretariats and coordination among REC member states. RECs may still need some time to fulfil these expectations, in contrast to the significant role that European donors, and especially the EC, seem already to be attributing to RECs. The lack of mature RECs might also be one reason why the design of regional funds, which received substantial attention as potential mechanism for EPA-related support,

appears to have stagnated since the initiative was handed over from Brussels to the regions.

Especially from the point of view of a bilateral donor with strict rules watched over by the national parliament, RECs generally do not yet fulfil the political requirements for budget support. The same is true for loans since, for the time being, RECs usually cannot offer any guarantee, resulting in a situation where most donors are obliged to conclude lending agreements directly with REC member states. It is still unclear whether the establishment of regionally-owned funds will lead to substantial improvements in this regard.

As in the case of the European Union, the principle of subsidiarity ought to guide interventions at the regional level (see Box 2 for some typical examples of regional AfT). This means that activities should not be carried out regionally unless they are more effective than actions taken at the national level. Most regional AfT would in any case only be decided upon and planned and/or coordinated at the level of RECs but implemented nationally. The challenge is to identify an adequate role for donors in ensuring that this link between the national and regional level is sufficiently built up and sustained. Another question, more related to political economy, is how both costs and benefits of regional AfT can be distributed among REC member states in such a way that every country will have an interest in participating.

**Box 2: Examples of regional AfT**

- Regional trade policy-making in free trade areas
- Support for border authorities
- Support for developing common standards and certification authorities
- Intra- and interregional regional infrastructure projects (roads, energy, communication)
- Activities with substantial economies of scale (e. g. fundamental agricultural research)
- Regional investment funds

### 3.3 Partner country perspective: Issues of ownership and alignment

National development strategies – and PRSPs as their most prominent example – form the basis for demand-led and aligned development cooperation in that they indicate domestic priorities to donors. A comprehensive inclusion of trade aspects in them is regarded as a precondition for country ownership of AfT. In fact, the WTO Task Force on AfT made the inclusion of trade in national development strategies a constitutive element of AfT by stipulating that activities of AfT categories 3 to 6 should be reported as AfT only when they “have been explicitly identified as trade-related priorities in the recipient country’s national development strategies, such as the PRSP” (WTO 2006b, 2).

Yet, in the past national development strategies were often found to neglect trade issues. Hewitt and Gilson (2003) analysed first generation PRSPs<sup>10</sup> and other loan-related documents from seventeen countries with regard to trade and growth issues. They showed that emphasis was put more on social spending and redistributive mechanisms than on economic growth. Trade policy was mentioned at some point in every document, but was generally not treated as an autonomous section. In some cases, there was an identifiable section on trade, although it was only briefly subsumed within a broader discussion of the macroeconomic environment. The focus of trade policy was usually put on export promotion, with little coverage of policies regarding liberalisation of imports. Some other factors affecting trade were discussed: Half of the countries mentioned market access problems, commonly associated with strict standards or high transport costs. Supply-side constraints generally appeared to be well covered in all documents, although the link to trade was not always made explicit. The analysis of trade-poverty linkages remained weak: Even in countries with identifiable trade sections, trade issues were usually not underpinned with a poverty analysis. Attention was rather given to employment and wages, but without taking into consideration how they are linked to production and trade.

Another observation made at least in first generation PRSPs was that even where analysis and documents revealed economic and trade issues to be priority areas, these insights were weakly prioritised in action plans and funding decisions. A review of 32 countries with 37 approved or received

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10 The term “first generation” PRSPs refers to the first round of papers in contrast to the “second generation” PRSPs produced thereafter.

PRS credits states that “they spend more attention to social sector spending than to infrastructure, rural development, and other areas with poverty reduction potential” (World Bank 2004, 9). For agriculture in particular, it is noted that “the inclusion of actions in the agriculture sector, and specifically on agriculture productivity, was not as significant as the role of agriculture would deserve according to the analyses” (ibid.).

There are signs of change. The latest OECD/WTO “Aid for Trade at a Glance” report paints a positive picture: 52 % of partner countries indicate that they have “fully mainstreamed trade in their national development plans with well developed trade-related priorities and implementation plans” (OECD 2009, 49). However, the more recent national development strategies are still frequently criticised for not dealing with trade in a comprehensive manner. Driscoll et al. (2007) analysed second generation PRSPs and their national development strategy equivalents<sup>11</sup> and concluded that there is still room for improvement, particularly with regard to trade-poverty linkages. Even though poverty aspects are treated more extensively than before, the analysis of linkages to trade policy remains insufficient. Like in earlier PRSPs, supply-side constraints – in contrast to demand-side constraints, which feature less prominently – were found to be well covered, although their link to trade policy remained weak. Half of the documents mention regional issues, but more under the aspect of membership in regional trade agreements or the notion that regional integration leads to enhanced demand for national products. Awareness of the potential gains from cooperating regionally in removing supply-side constraints is missing. Not only the regional dimension suffers from neglect, other pressing issues also do not get the attention they need: Despite their topicality, discussions of the developmental impact of WTO agreements and EPAs appear to be absent.

These findings were confirmed by Kosack (2008) in his follow-up to the Hewitt and Gillson study. His results, too, indicate an increasing role of trade, with 50 out of 72 PRSPs including a section specifically devoted to trade. Yet, the author has some reservations on a fully optimistic assessment: Like to earlier studies, Kosack criticises the vague and shallow analysis of impacts of trade, especially with regard to its interaction with poverty reduction, and concludes that “there is a long way to go before PRSPs fully exploit the poverty-reducing possibilities of trade” (Kosack 2008, 17).

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11 Burkina Faso, Ghana, Kenya, Nicaragua, Tanzania and Uganda

Integrating AfT into partner country structures often proves difficult due to lack of institutional capacities, but also due to the division of competences in trade-related measures between many ministries. While the negotiation and implementation of trade policy is usually centralised in trade ministries, many trade-related issues, particularly those from the wider AfT agenda, affect economy and society more generally and come within the regulatory responsibility of other ministries (e. g. finance, economy, agriculture, fisheries, transport, communication). By the same token, trade ministries usually do not participate in the consultations in which partner countries negotiate development priorities with donors.

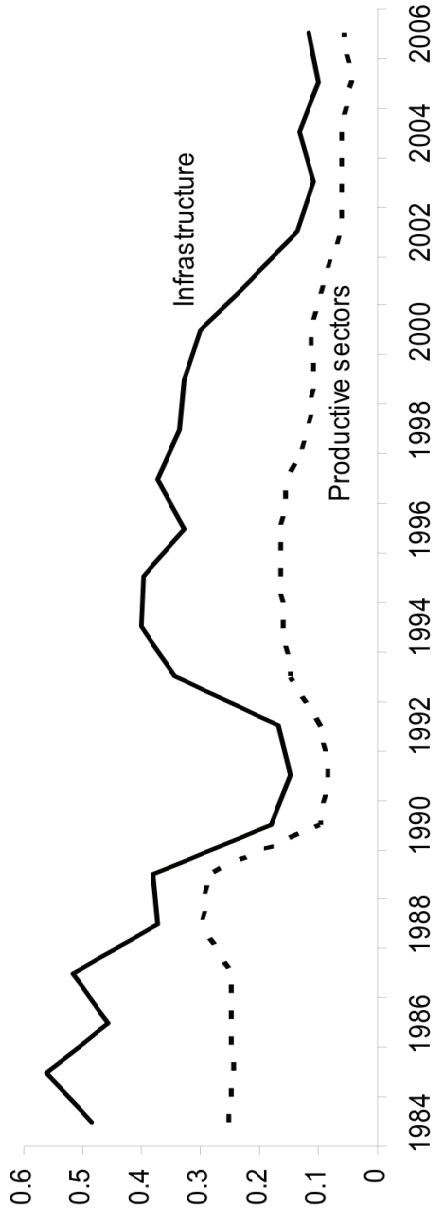
However, donors might have also contributed to the – at least – initial neglect of growth and trade in national development strategies. It is frequently argued (for example Turner 2008) that recipient countries have tended to adapt their PRSPs to preferences of donors who have usually favoured social over productive sectors. According to Turner (2008), the influence of donors has generally diminished since the elaboration of early PRSPs but is still evident in many documents. Therefore, donors aligning with national strategies may well be aligning with some of their own priorities.

Not surprisingly, some of the fundamental concerns about AfT reflect the debate about the right content in PRSPs – the fear that AfT is a potential source of competition for aid to social services. This concern is reinforced by the weak interpretation of “additionality” as promised within the WTO (see Section 2.1), leading to direct competition between (AfT-related) economic sectors and other areas – such as health, education and environment – for ODA increases.<sup>12</sup> In the end, favouring the one comes at the cost of the other in relative, but not necessarily in absolute terms. In fact, the AfT initiative is regarded by many as an occasion to again spotlight economic issues after the shares of economic infrastructure and productive sectors in total ODA declined during the 1990s (after a brief rise of economic infrastructure in the early 1990s) and have stayed at a low level since then (see Figure 2).

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12 However, the OECD/WTO Aid for Trade at a Glance report (2009) observes that the volume of AfT increased while the share of AfT as a fraction of ODA declined. This implies that “the increase in the volume does not occur to the detriment of support for social sector programmes, but rather in the context of a growing overall aid volume” (OECD / WTO 2009, 53).

Figure 2: Share of total aid to economic infrastructure and productive sectors



Source: Cali / te Velde 2008, 4, based on OECD CRS disbursements

From a developmental point of view, the impact on poverty reduction should be decisive for the balance between support to social versus productive sectors. While social sectors might have a more direct and immediate impact on poverty reduction, productive sectors tend to have a rather indirect but long term and sustainable effect by increasing incomes of the poor and the capabilities of the state to fund social services. However, the “right” balance between the two sectors is difficult if not impossible to determine in advance and always implies some trade-offs. In addition, there is not always a clear-cut distinction made between whether support for social services leads to improved human capacity and to growth. In such a situation, policy-makers must base their allocation decision on preferences derived from the specific country context, but also on values and ideologies, and hence they need to take a political stance. Such are the constraints under which both partner and donor countries need to decide what emphasis they want to place on AfT in aid allocation decisions.

While these arguments relate to asymmetries in donor-recipient relations in a more general sense, the special characteristics of trade may pose some additional challenges to effective ownership and alignment (see Chapter 3.2). With the exception of international organisations, donors are at the same time trading partners, sometimes even negotiators of trade agreements. The European Commission and, to a lesser extent, EU member states currently wear the “double-hat” of both providers of aid and negotiators of trade agreements. The inclination of some developing countries’ trade negotiators to link trade agreements or specific clauses to development aid further obscures the picture of AfT as completely “neutral” development assistance. Despite donors’ emphasis on delinking AfT from the outcomes of negotiations (for instance, the neutrality-seeking institutional setup of the TradeCom Programme through which the EC provides assistance to ACP countries for EPA negotiations), possible interdependencies and repeated charges from developing countries’ trade negotiators and civil society organisations that aid is used to “buy” trade agreements and concessions have sparked controversial debates. However, as a matter of fact, many developing countries use all kinds of development assistance, multilateral as well as bilateral, to help inform their trade policies and trade negotiations (AfT category 1) due to their serious capacity limitations, to say nothing of the other categories of AfT. A limitation to the dichotomy multi- versus bilateral certainly does not capture the complexity of the “right” choice of donors to channel, align and harmonise their AfT with national needs, interests and priorities.

The responses to many of the challenges described in this chapter would be relatively clear-cut if two conditions were met: First, if partner countries had sufficient state capacity, they would be in the position to steer the conceptualisation and implementation of AfT, including for the sensitive assistance for trade policies and negotiations. However, in most of the poorer developing countries, this is definitely not the case. Second, assuming that donors had clear comparative advantages in providing ODA, they could adapt their portfolios accordingly or might even be forced to do so by (strong) partner countries which would choose “their” donors with a view to picking the best suited ones. However, the concept of donor comparative advantage is defined so loosely and is – due to the absence of a free and competitive market for development assistance – conceptually so handicapped that its application appears rather random and not especially systematic. It is, for example, not clear to what extent such advantages are “given” or whether they can be built up on purpose, provided there is sufficient political support.<sup>13</sup>

Thus, due to the limitations of and imbalances between developing countries and donor’s development policies, second best measures must for the time being be undertaken with a view to assuring that development assistance, and in particular AfT, is provided in the best possible way. As the stronger partners, donors have a particular responsibility in this regard.

#### **4 Aid for Trade portfolios of selected donors and multilateral agencies**

AfT activities had been carried out in substantial quantities by most bi- and multilateral development agencies even before the WTO AfT initiative was launched. Even today, they are still only partly labelled as trade-related measures, while they mostly operate under other headings. This chapter outlines these broad AfT portfolios of several international actors with a view to providing a framework for comparing the German engagement and identifying its potential comparative advantages in providing AfT.

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13 This discussion shows remarkable parallels to the theory of international trade, where this term was initially coined. As we could see in Chapter 2, scholars of economics have debated extensively whether a comparative advantage in trade should be considered as static or dynamic. The discussion about the concept of comparative advantage in development policy is resumed in Chapter 6.1.



Statistical data on AfT committed by a set of donors and multilateral agencies<sup>14</sup> was drawn from two sources, the WTO/OECD Doha Development Agenda Trade Capacity Building Database (TCBDB) and the OECD DAC Creditor Reporting System (CRS). Telephone interviews with representatives of donors and agencies were used to complement this information.

The TCBDB (see Box 3) serves as basis for analysing past commitments with regard to the EU pledge, since its two categories “trade policy and regulation” and “trade development” currently come closest to what can be regarded as Trade-Related Assistance (TRA), and hence the basis of the EU pledge.

For the time being, the TCBDB is the sole database able to provide information on TRA commitments. However, it has significant shortcomings that should be kept in mind: Fluctuations between years can be significant since the database covers only commitments, without distributing them over the implementation period. Moreover, after the database had been introduced in 2002, it took some time for donors to adapt their reporting practices to required standards, leading to changes in reporting practices. Apart from variations over time, donors used different approaches for identifying whether an activity is trade-related or not. Once an activity was identified as trade-related, donors again applied their own methods for quantifying trade relevance: While some notified their activities with their total amounts (no matter whether 1 % or 99 % of an activity was trade-related), others, such as Germany, reported only the trade-related fraction. Therefore, the explanatory power of cross-donor comparisons is low.

This analysis uses the CRS database to quantify AfT in its wide definition. CRS codes were grouped to reflect the AfT categories “trade policy and regulations” (TPR), “building productive capacities” (BPC) and “trade-related infrastructure” (TRI).<sup>15</sup> The category “trade development” (TD)

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14 The sample was chosen by the BMZ. The selection criteria included level of AfT provided by donors and, more generally, their importance to Germany within the AfT initiative.

15 “Trade policy and regulations” (TPR) comprises CRS codes 331xx. “Trade-related infrastructure” (TRI) is captured by the codes for economic infrastructure “210xx”, “220xx” and “230xx”, assuming that economic infrastructure implicitly relates to trade. “Building productive capacities” (BPC) is made up of “240xx”, “250xx”, “31xxx”, “32xxx” and “332xx” (see OECD 2006, 79).

<b>Box 3: WTO/OECD Trade Capacity Building Database (TCBDB)</b>	
<p>The WTO/OECD TCBDB, established in 2002 against the background of the WTO Doha Development Round, provides information on trade-related technical assistance and capacity building projects. In contrast to the OECD CRS database, not only DAC donors but also other bilateral and multilateral donors reported to the TCBDB. The database groups activities into the two categories “trade policy and regulation” and “trade development”, which are in turn divided into 26 sub-categories.</p>	
<b>Trade policy and regulation</b>	<b>Trade development</b>
<ul style="list-style-type: none"> <li>• Trade mainstreaming in PRSPs/ development plans</li> <li>• Technical barriers to trade (TBT)</li> <li>• Sanitary and phytosanitary measures (SPS)</li> <li>• Trade facilitation procedures</li> <li>• Customs valuation</li> <li>• Tariff reforms</li> <li>• Regional Trade Agreements (RTAs)</li> <li>• Accession</li> <li>• Dispute settlement</li> <li>• Trade-related intellectual property rights (TRIPS)</li> <li>• Agriculture</li> <li>• Services</li> <li>• Tariff negotiations – non-agricultural market access</li> <li>• Rules</li> <li>• Training in trade negotiation techniques</li> <li>• Trade and environment</li> <li>• Trade and competition</li> <li>• Trade and investment</li> <li>• Transparency and government procurement</li> <li>• Trade education/training</li> </ul>	<ul style="list-style-type: none"> <li>• Business support services and institutions</li> <li>• Public-private sector networking</li> <li>• E-commerce</li> <li>• Trade finance</li> <li>• Trade promotion strategy and implementation</li> <li>• Market analysis and development</li> </ul>
<p>The period of coverage is 2001 to 2006 and in part 2007. In an attempt to consolidate and harmonise monitoring, donors have ceased to report to the TCBDB. Activities committed after 2007 will be tracked solely through a refined version of the OECD CRS (see Box 4).</p>	

cannot be identified in the current CRS system and therefore had to be omitted. For aid provided in 2008 and thereafter, the revamped CRS system for monitoring AfT will also allow for quantification of TD. Yet, TD will still not be made up of specific CRS codes and will share them with the category BPC. There will merely be the possibility to assign (fractions of) certain activities to the “trade development” category by flagging them with a “trade development marker” (see Box 4).

The CRS figures calculated in this analysis need to be treated with caution. On the one hand, numbers are underestimated because it is not possible to

**Box 4: Modifications to the CRS (as of 2008)**

**New “trade development marker”:** Donors approved the introduction of the trade development marker with a view to identifying the “trade development” elements within the “building productive capacity” category and assigning their volume to the “trade development” category. By doing so, it fulfils the same purpose as the proxies used by BMZ for calculating German AfT (see Chapter 5.3). The difference lies in the procedure: While the proxy system is based on a one-time statistical approximation of AfT shares based on past experiences, the marker is assigned by hand to all activities which are eligible for the marker.

The marker distinguishes three levels (OECD 2008b): *Score 0* is applied to activities without “trade development” relevance. *Score 1* indicates that trade development is a significant policy objective, while projects marked with *score 2* have trade development as their principal policy objective. It remains to be seen how the marker will be applied in practice and when the OECD will begin to make full use of this tool in its monitoring reports. There is a leeway for “over-reporting” since the marker contains only three levels of scoring. Experience from the TCBDDB showed that donors follow different approaches when reporting trade-relevant components of projects or programmes. This gives reasons to fear that the new marker too may not be interpreted and applied uniformly.

Projects carrying code 25010 “business support services and institutions” will not be flagged with the marker since this code automatically counts as “trade development” in its full amount.

**Additional code for “trade-related adjustment”:** “Trade-related adjustment” will no longer be recorded as part of CRS code 51010 “general budget support” but be given a separate code (code 33150). It will capture “contributions to the government budget to assist the implementation of recipients’ own trade reforms and adjustment to trade policy measures by other countries; assistance to manage shortfalls in the balance of payments due to changes in the world trading environment” (OECD 2008b).

identify automatically trade-related projects outside the OECD codes and eligible for AfT. For example, the trade policy elements of governance programmes are left aside, since governance codes are not regarded as automatically trade-relevant.<sup>16</sup> Moreover, since multilateral organisations often do not notify to the CRS, the database does not capture all trade-related activities financed from multilateral organisations' core budgets or other non-earmarked multilateral contributions. Only earmarked multilateral contributions reported by bilateral donors are fully covered.

On the other hand, the scope of AfT categories is interpreted very broadly by the CRS, leading to an overestimation of figures. All CRS codes for economic infrastructure and productive sectors are counted as AfT, although in many cases a direct bearing on trade is difficult to identify.

#### 4.1 Trade-Related Assistance<sup>17</sup>

The EC is clearly the largest provider of TRA, accounting for 38 % of the total TRA included in the whole of the database (see Table 1). The US has the lead among bilateral donors, with commitments equalling one quarter of total TRA. A ranking of EU member states would be headed by France, the Netherlands, Germany and the UK. When it comes to the share of TRA in a country's total ODA, again the EC and the US show the highest percentage (11.8 % and 3.8 %), followed by Canada and Finland (both 3.3 %) and Belgium (2.8 %).

##### *Thematic distribution of Trade-Related Assistance*

Within TRA, most donors and agencies spend most on the "trade development" (TD) category (see Figure 3). Exceptions are UNCTAD, Australia and Sweden, with shares of "trade policy and regulation" (TPR) above

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16 In the new OECD AfT monitoring system, donors will have the possibility to report these activities through self-assessment reports (questionnaires) outside the CRS code system.

17 The data covers both bi- and multilateral commitments with the exception of contributions to multilateral trade-related trust funds (e.g. JITAP, Integrated Framework, ITC, WTO Trust Fund), which the TCBD registers separately to avoid double counting.

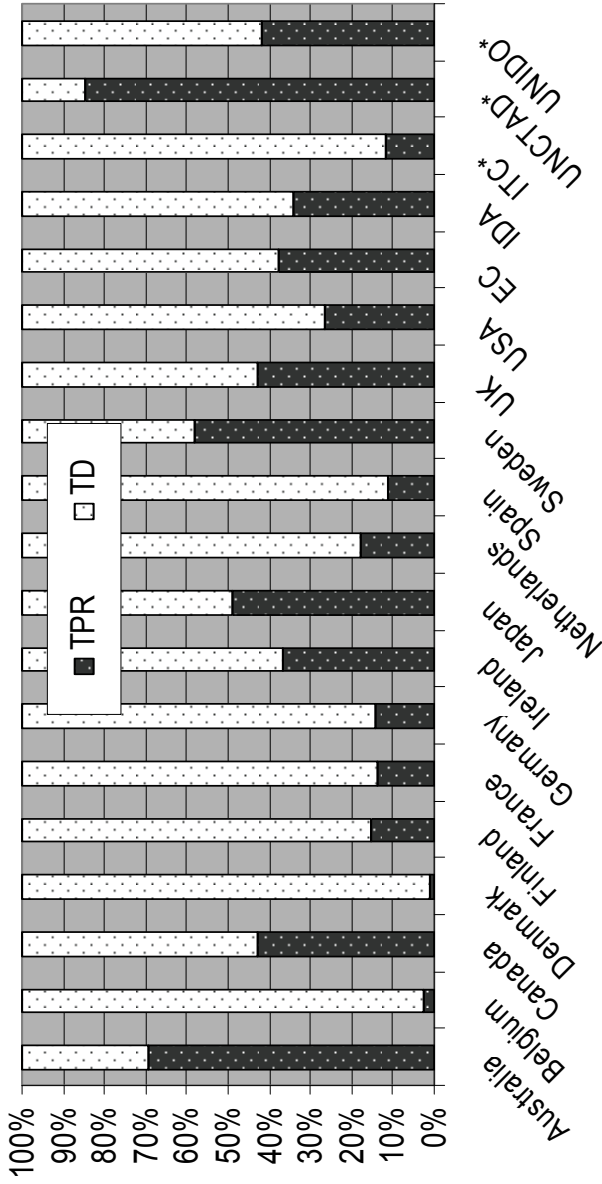
<b>Table 1: Commitments of TRA, in constant 2005 US\$ millions</b>										
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Average 2001–2006</b>	<b>In % of total TRA</b>	<b>In % of total donor ODA</b>	
<b>All donors</b>	<b>2771.1</b>	<b>2567.6</b>	<b>3327.5</b>	<b>3057.3</b>	<b>3184.5</b>	<b>3519.3</b>	<b>3071.2</b>	<b>100.0%</b>	<b>3.1%</b>	
Australia	23.5	17.9	18.4	14.1	13.4	31.8	20.9	0.7%	1.5%	
Belgium	13.3	10.6	66.4	49.0	33.3	63.7	39.4	1.3%	2.8%	
Canada	117.5	59.0	99.6	45.7	23.2	55.9	66.8	2.2%	3.3%	
Denmark	14.2	6.4	45.4	4.7	35.2	58.9	27.5	0.9%	2.1%	
Finland	5.2	7.0	11.6	0.0	19.9	37.7	16.3	0.5%	3.3%	
France	41.3	168.1	135.5	96.1	107.9	180.4	121.5	4.0%	1.8%	
<b>Germany</b>	<b>117.3</b>	<b>97.5</b>	<b>114.7</b>	<b>85.9</b>	<b>112.9</b>	<b>34.4</b>	<b>93.8</b>	<b>3.1%</b>	<b>1.4%</b>	
Ireland	0.6	0.5	0.8	0.4	0.5	6.8	1.6	0.1%	0.4%	
Japan	59.4	55.6	79.6	62.8	72.0	83.5	68.8	2.2%	0.6%	
NL	60.3	71.0	159.5	82.4	94.6	239.5	117.9	3.8%	2.4%	

<b>Table 1 (cont.): Commitments of TRA, in constant 2005 US\$ millions</b>									
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Average 2001–2006</b>	<b>In % of total TRA</b>	<b>In % of total donor ODA</b>
Spain	1.6	3.4	7.0	2.0	7.6	56.2	13.0	0.4%	0.7%
Sweden	13.4	5.9	21.6	10.6	38.2	27.0	19.4	0.6%	0.9%
UK	101.9	60.6	100.4	49.2	79.4	93.4	80.8	2.6%	1.4%
US	611.6	665.8	739.8	805.1	980.7	838.2	773.5	25.2%	3.8%
EC	1232.3	991.6	1183.9	1212.9	1216.4	1156.1	1165.5	38.0%	11.8%
IDA	151.7	42.8	276.2	307.1	47.5	125.9	158.6	5.2%	1.6%
ITC*	23.0	27.3	25.3	23.3	25.7	28.6	25.5	0.8%	
UNCTAD*	9.4	11.4	28.0	5.2	9.4	17.0	13.4	0.4%	
UNIDO*	32.6	24.0	10.4	36.9	11.4	25.2	23.4	0.8%	

\* TRA implemented by the agency

Source: Based on data from WTO/OECD TCDBB

**Figure 3: Thematic distribution of TRA, 2001–2006**



\* TRA implemented by the agency

Source: Based on data from WTO/OECD TCDBD

50 %.<sup>18</sup> With ratios between 40 % and 49 %, Japan, Canada, Sweden and UNIDO show also a relatively strong commitment to TPR.

A precise analysis of the thematic focus within the 26 sub-categories would go beyond the scope of this report.<sup>19</sup> However, we can examine the thematic “competitors” to Germany by looking at TPR and TD sub-categories to which Germany contributes a high percentage of all funds (see Table 2). Compared to other TPR sub-categories, the German engagement is – relative to other donors – most visible in the category “*trade mainstreaming in PRSPs / development plans*”, where 5.8 % of all funds included in the database are provided by Germany. In this sub-category, the EC, US, UK and the Netherlands are the only instances among the donors selected which outperformed Germany. In “*public-private sector networking*” Germany has a strong position, with 12.4 % of total funding in this sub-category. Here, especially the Netherlands appears highly engaged (40.4 %). Finally, in “*trade finance*” the EC and US outdo other donors by far. In addition, IDA also provides significant funding. France can be regarded as the only other EU member state with a contribution to trade finance as high as Germany’s.

#### *Geographic distribution of Trade-Related Assistance<sup>20</sup>*

IDA (73.2 % of its TRA commitments), the UK, France (both 55.5 %), Denmark (48.0 %) and Finland (46.0 %) are particularly strongly orientated towards Africa (see Figure 4 and Annex Tables A1 and A2). Spain appears to have the most significant focus on the Americas (51.2 %). Japan (71.7 %) and Australia (52.5 %) attribute the majority of their TRA to Asia. UNIDO implements almost half (45.6 %) of its TRA in Asia. The EC (28.9 %), Germany (23.5 %) and Denmark (22.5 %) show a relatively strong engagement in Europe. Australia (16.3 %) is the only donor that

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18 Both UNCTAD and Australia put their focus within TPR on “trade mainstreaming in PRSPs/development plans” (26.3 % and 29.2 % of TRA) as well as on “trade facilitation” (25.7 % and 22.2 % of TRA). Sweden spends a significant share on the TPR sub-categories “trade education” (19.0 % of TRA), “TRIPS” (9.1 % of TRA) and “technical barriers to trade” (8.3 % of TRA).

19 The 26 sub-categories are listed in Box 3. Annex Table A6 shows the biggest sub-category per donor, i.e. the sub-category in which each donor has spent the highest amount compared to all other sub-categories.

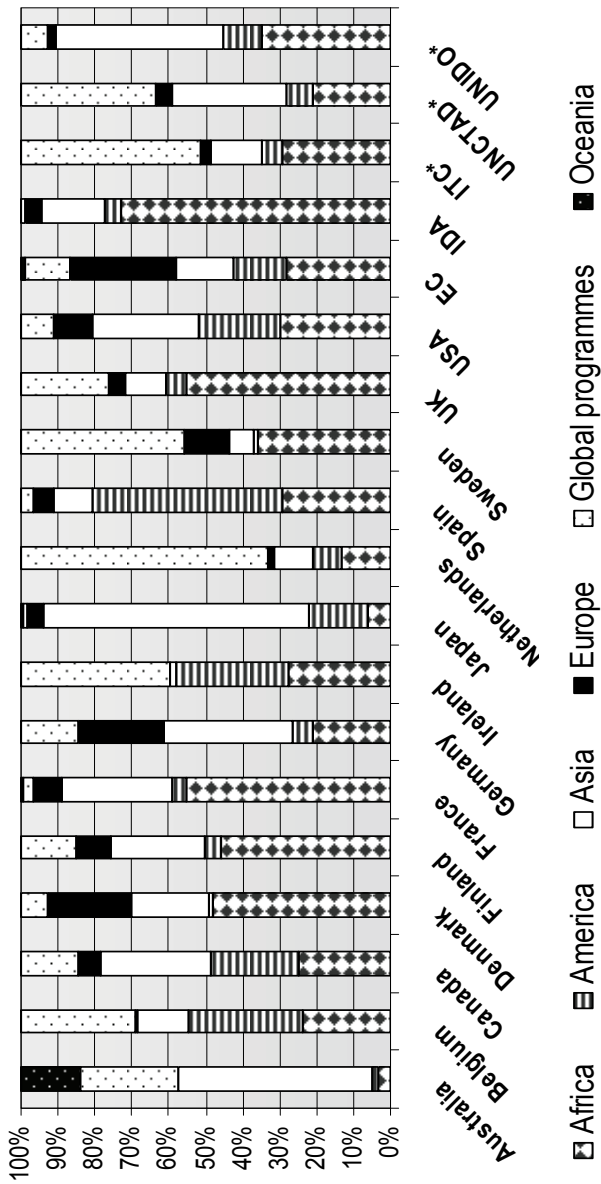
20 It needs to be kept in mind that several donors and agencies channel a considerable amount through global programmes (such as the Netherlands: 66.9 %, ITC: 48.3 %, Sweden: 44.4 % and Ireland: 40.6 %) which cannot be attributed to any region and therefore detract from this analysis.



contributes a significant share of its TRA to Oceania, followed by the EC (1.3 %) and Japan (0.7 %).

	<b>Trade main-streaming in PRSPs/ development plans (TPR)</b>	<b>Public-private sector networking (TD)</b>	<b>Trade Finance (TD)</b>
<b>All donors</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>All bilaterals</b>	<b>70.7%</b>	<b>87.0%</b>	<b>58.5%</b>
Australia	4.5%	0.6%	0.0%
Belgium	0.3%	0.0%	4.6%
Canada	5.5%	2.5%	0.8%
Denmark	0.0%	0.1%	0.4%
Finland	0.7%	0.5%	0.1%
France	2.5%	0.7%	6.9%
<b>Germany</b>	<b>5.8%</b>	<b>12.4%</b>	<b>6.6%</b>
Ireland	0.1%	0.0%	0.0%
Japan	0.1%	0.0%	1.3%
Netherlands	7.6%	40.4%	3.1%
Spain	0.2%	0.0%	0.2%
Sweden	0.1%	0.1%	0.0%
United Kingdom	14.8%	2.9%	1.3%
United States	25.6%	22.5%	22.5%
<b>All multilaterals</b>	<b>29.3%</b>	<b>13.0%</b>	<b>41.5%</b>
EC	26.3%	4.5%	34.3%
IDA	1.4%	0.9%	7.1%
Source: Based on data from WTO/OECD TCDBD			

Figure 4: Geographic distribution of TRA, 2001–2006



\* TRA implemented by the agency  
 Source: Based on data from WTO/OECD TCBDDB

The donors' geographic orientation does not necessarily mirror their strategic importance within the regions. Therefore, in a second step donors' TRA activities per region were expressed as the percentage of total TRA to the respective region (see Annex Table A2). The results indicate that the EC and the US represent the two biggest donors in Africa, the Americas, Asia and Europe. The EC (52.3 %) is also the largest donor in Oceania, followed by Australia (10.9 %). Germany's share is – compared to its share of 3.0 % in total TRA – relatively high in Asia (4.7 %) and Europe (4.3 %).

*Trade-Related Assistance channelled through multilateral funds and initiatives*

Table 3 provides information on average contributions to multilateral trade-related trust funds. Sweden outperforms other donors, channelling on average US\$ 5.18 million per year through these funds, followed by Denmark, the Netherlands and Germany.

Contributions to the IF deserve special attention, as the enhanced IF (EIF, see Box 5) is regarded as a promising coordination mechanism for AFT. In descending order of importance, the highest amounts for the IF were provided by Sweden, Denmark and the UK. The other donors appear more reluctant. Germany, for example, funded the IF with on average only US\$ 0.11 million per year.

<b>Table 3: Average 2001–2006 contribution to multilateral funds, in constant 2005 US\$ millions</b>					
	<b>ITC</b>	<b>JITAP</b>	<b>IF</b>	<b>WTO Trust Funds</b>	<b>Total</b>
Australia	0.00	0.00	0.00	0.30	0.30
Belgium	0.00	0.00	0.12	0.22	0.34
Canada	1.17	0.43	0.35	0.60	2.56
Denmark	1.48	0.25	1.27	0.94	3.94
Finland	0.24	0.11	0.29	0.53	1.17
France	0.61	0.04	0.25	0.63	1.53
<b>Germany</b>	<b>1.71</b>	<b>0.14</b>	<b>0.11</b>	<b>1.24</b>	<b>3.20</b>
Ireland	0.15	0.05	0.35	0.28	0.82

<b>Table 3 (cont.): Average 2001–2006 contribution to multilateral funds, in constant 2005 US\$ millions</b>					
	<b>ITC</b>	<b>JITAP</b>	<b>IF</b>	<b>WTO Trust Funds</b>	<b>Total</b>
Japan	0.03	0.01	0.08	0.69	0.81
Netherlands	1.85	0.08	0.17	1.69	3.78
Spain	0.05	0.00	0.00	0.26	0.30
Sweden	1.22	0.11	1.92	1.93	5.18
UK	0.31	0.28	0.92	1.15	2.65
US	0.29	0.00	0.13	1.56	1.98
EC	1.08	0.00	0.03	0.37	1.48

Source: Based on data from WTO/OECD TCDBD

#### **Box 5: The (Enhanced) Integrated Framework**

The Integrated Framework (IF) was established in 1997 by six multilateral agencies (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) to support LDCs in integrating trade into their national development plans and to assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified in so-called “Diagnostic Trade Integration Studies” (DTIS).

In 2005, it was decided to “enhance” the IF, since its implementation had suffered from significant shortcomings. A Task Force established to make recommendations in this regard highlighted four critical issues (WTO 2006a): First, it emphasised the need for stronger ownership of the IF by LDCs and donors. Second, it identified a gap between the diagnosis of needs and the submission of “bankable projects”. Third, it pointed out that the responsibility for management and implementation should be more focused. Fourth, it noted that adequate funding would need to be provided in a predictable manner to meet the objectives of the IF.

The process of establishing the Enhanced Integrated Framework (EIF) is close to its conclusion. The Executive Secretariat is operational, and around US\$ 70 million have been provided by donors to the EIF Trust Fund. The EIF is now tasked with remedying the above-mentioned deficiencies by providing adequate financial resources, by strengthening in-country capacities to manage, implement and monitor the IF process, and by enhancing the IF governance structure (Integrated Framework 2008). Like its predecessor, the EIF will be limited to LDCs. Discussions concerning a similar mechanism for non-LDCs (“IDA-only”) are ongoing but have not yielded tangible results yet.

## 4.2 Overall Aid for Trade

On the basis of the OECD DAC Creditor Reporting System (CRS), a similar exercise was carried out with regard to overall AfT (Table 4).

The angle is indeed wide, with AfT amounting to 21.2 % of total ODA between 2001 and 2006. A ranking of the biggest providers of AfT produces a slightly different picture compared to TRA. Japan (23.1 % of total AfT) provides the highest amount of AfT, followed by the US (15.3 %), IDA (14.9 %), the EC (12.1 %) and Germany (6 %). The next EU member states – France and the UK – already show significantly lower levels of funding than Germany (3.5 % and 3.4 % respectively). As to the share of AfT in total ODA provided by each country, Japan again leads the field, with almost 40 %. IDA (32.5 %) and EC (25.9 %) rank second and third. Denmark (23.0 %) and Spain (22.0 %) are the only two European donors with higher shares than Germany (18.4 %).

Germany (54.9 %) provides a slightly higher share of its AfT in the form of loans compared to the average of reporting donors. Among the EU member states selected, only Spain (72.5 %) and France (60.9 %) score higher. Internationally, IDA (90.7 %) and Japan (81.9 %) appear as heavy users of the loan instrument.

### *Thematic distribution of Aid for Trade*

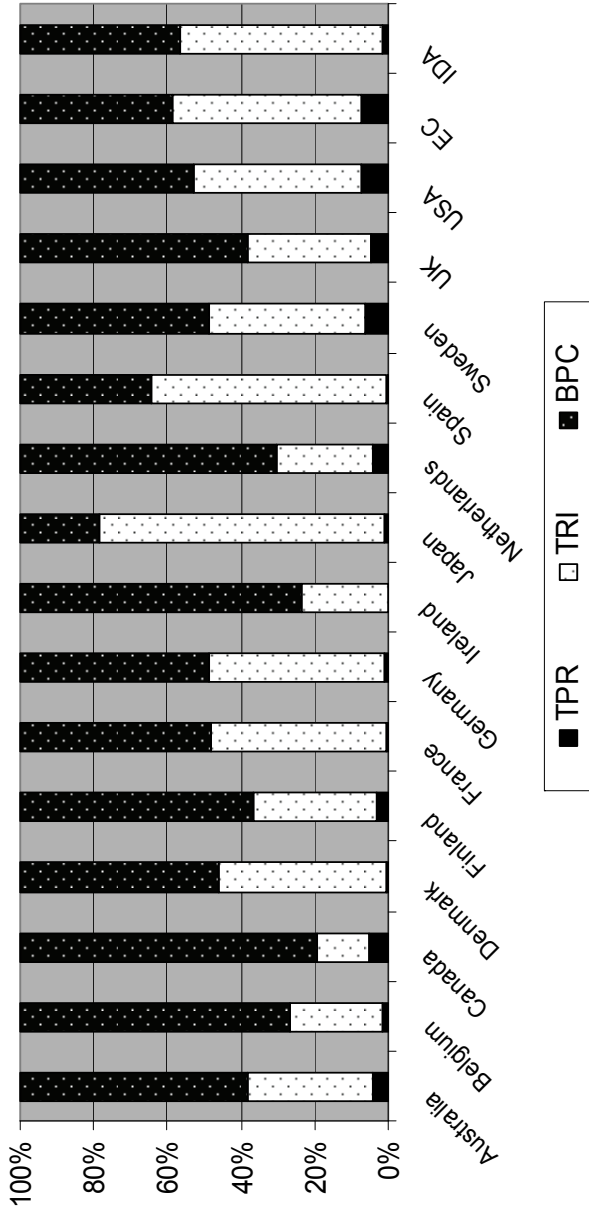
The Figure 5 below gives a rough idea of the donors' thematic orientation. Figures on the distribution within AfT sub-categories can be found in Table 3, included in the Annex. BPC receives more support than TRI and, unsurprisingly, the narrowly defined TPR category. Canada (80.7 %), Ireland (76.3 %), Belgium (73.5 %) and the Netherlands (69.4 %) all spend more than two thirds of their AfT on BPC. "Agriculture, forestry and fishing" ranks particularly high within the AfT portfolios of Ireland, Australia, Canada and Finland (in all cases above 40 % of total AfT). The focus on "banking and financial services" is of smaller scale, with only Belgium, the Netherlands, Germany and the UK dedicating more than a quarter of their AfT to this topic. The most explicit orientation towards "industry, mining and construction" can be identified in the cases of Canada, the US and the EC, with a share of 15 to 20 % in total AfT spending

Table 4: AFT commitments, in constant 2005 US\$ millions										
	2001	2002	2003	2004	2005	2006	Average 2001–2006	In % of all do- nors	In % of country ODA	% of AFT provided as loans
<b>All donors</b>	<b>19773</b>	<b>17826</b>	<b>19738</b>	<b>24092</b>	<b>22012</b>	<b>23026</b>	<b>21078</b>	<b>100.0%</b>	<b>21.2%</b>	<b>51.4%</b>
Australia	259	121	152	189	158	141	170	0.8%	12.3%	0.0%
Belgium	154	246	176	226	192	190	197	0.9%	13.9%	10.6%
Canada	202	192	336	353	239	218	256	1.2%	12.5%	1.4%
Denmark	118	274	245	468	510	229	307	1.5%	23.0%	4.5%
Finland	39	51	48	54	124	79	66	0.3%	13.5%	12.4%
France	852	431	601	668	938	909	733	3.5%	10.6%	60.9%
<b>Germany</b>	<b>1247</b>	<b>1045</b>	<b>985</b>	<b>1112</b>	<b>1416</b>	<b>1845</b>	<b>1275</b>	<b>6.0%</b>	<b>18.4%</b>	<b>54.9%</b>
Ireland	27	26	29	33	25	36	29	0.1%	6.8%	0.0%
Japan	5229	4431	4420	4823	5383	4883	4862	23.1%	39.8%	81.9%
NL	468	603	385	582	479	842	560	2.7%	11.4%	0.0%

<b>Table 4 (cont.): Aft commitments, in constant 2005 US\$ millions</b>										
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Average 2001–2006</b>	<b>In % of all do- nors</b>	<b>In % of country ODA</b>	<b>% of Aft provided as loans</b>
Spain	369	430	492	324	276	674	427	2.0%	22.0%	72.5%
Sweden	252	181	218	187	255	317	235	1.1%	11.0%	2.2%
UK	805	585	922	569	841	612	723	3.4%	12.4%	22.2%
US	1056	1610	1738	6456	4113	4391	3227	15.3%	15.9%	0.0%
EC	2564	2675	2460	1828	2649	3133	2551	12.1%	25.9%	24.8%
IDA	3716	2707	3644	4157	1857	2775	3143	14.9%	32.5%	90.7%

Source: Based on data from OECD CRS

**Figure 5: Thematic distribution of AFT, 2001–2006**



Source: Based on data from OECD CRS



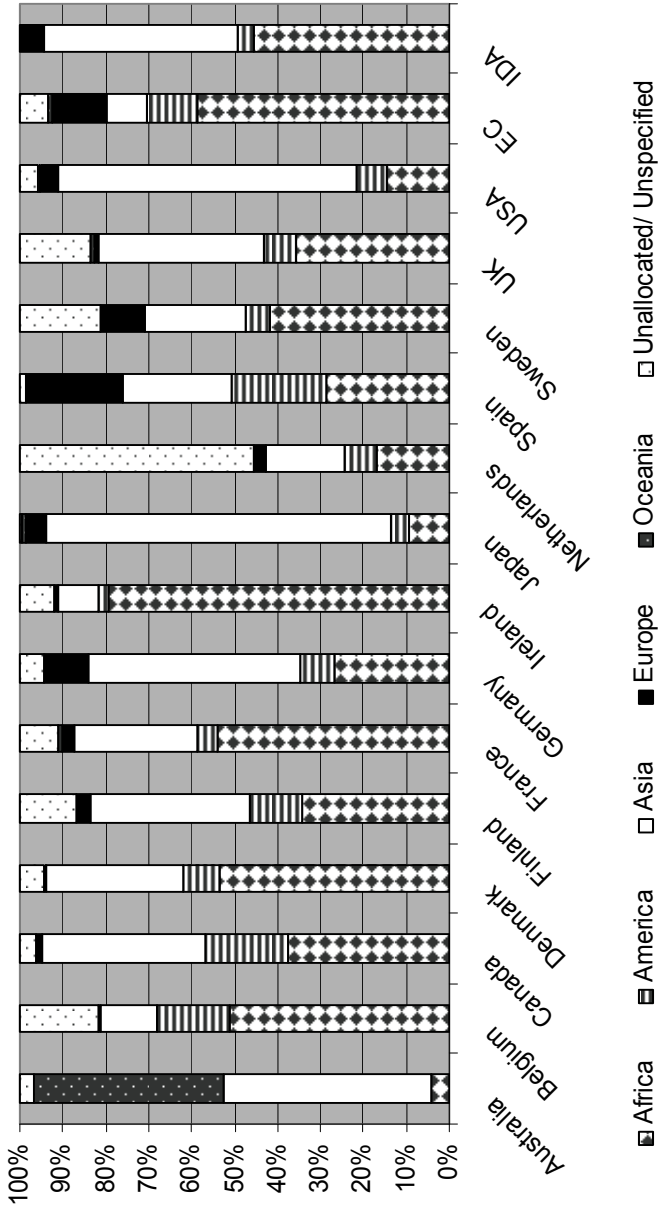
Japan (77.5 % of its AfT), Spain (63.9 %), IDA (55.3 %) and EC (51.2 %) show a particular emphasis on TRI. Within TRI, “transport and storage” is generally the strongest sub-category, especially in the portfolios of Spain, Japan, the EC and France (over one third of AfT). “Energy” receives more than a quarter of AfT the funding provided by Japan, the US, Germany and Finland. “Communications”, the third sub-category of TRI, attracts much less attention and accounts for more than 5 % of AfT only in the cases of Canada and Finland.

### *Geographic distribution of Aid for Trade*

Apart from a few exceptions, AfT activities are generally focused on Africa and Asia. Figure 6 and Annex Table A4 show that Australia is the only donor with a clear orientation towards Oceania (44.0 % of its AfT). Spain (22.5 %), the EC (12.7 %), Germany (10.6 %) and Sweden (10.3 %) spend more than a tenth of AfT within Europe. The portfolios of Spain (22.2 %), Canada (18.8 %) and Belgium (17.1 %) seem to have a relatively strong focus on America. Japan (80.5 %) and the US (69.7 %, including aid to Afghanistan and Iraq) channel more than half of their AfT to Asia, followed by Germany (49 %), Australia (48.2 %) and the IDA (45.4 %). By contrast, the EC’s engagement in Asia is of limited scope (9.4 %). Ireland has the most exclusive focus on Africa (79.3 %). Other donors spending the majority of their AfT in Africa include the EC (58.6 %), France (43.1 %), Denmark (53.7 %) and Belgium (51.1 %). If the regional focus is narrowed down to SSA (see also Annex Table A4), the numbers decrease strikingly in a few cases: France seems to be highly involved in North Africa since its share of AfT to sub-Saharan Africa is merely 30.0 % compared to the above mentioned 42.1 % to Africa as a whole. Similarly, German AfT to Africa (26.8 %) drops significantly when confined to SSA (15.5%). The same can be said of Spain (28.5 % for Africa compared to 10.7 % for SSA).

In terms of AfT within a region (see Annex Table A5), the top two donors in Africa and SSA are the EC and IDA (around 20 % of total AfT to Africa and 25 % of total AfT to SSA). The US, Japan, Germany and France each account for 5 to 10 % of total AfT to Africa but have a significantly lower share in SSA (between 4 and 5 % each). The EC (19.2 %), the US (15.1 %) and Japan (11.5 %) rank as significant donors in the Americas.

Figure 6: Geographic distribution of AFT, 2001–2006



Source: Based on data from the OECD CRS

The most active European donors in this region are, by far, Germany (6.6 %) and Spain (6.2 %). Japan (35.3 %) is clearly the most important bilateral donor in Asia, followed by the US (22.4 %, including funding to Afghanistan and Iraq). Germany ranks first in Asia among European donors (6.1 %). In Oceania, donor involvement is highly concentrated, with almost 70 % of AfT accounted for by Australia, Japan and the EC.

### 4.3 Donors' conceptual approaches

Unless otherwise indicated, the following section draws on telephone interviews conducted with representatives of donors and international agencies (see Annex 2 for a list of interviewees).

#### *Implementation of the EU AfT initiative*

A few EU countries have already prepared (BE, FIN, GB) or are in the process of preparing (FR) a strategy paper to conceptualise AfT. The Netherlands produced the working document "Aid for Trade" in 2008, while Sida elaborated a "Plan for Sida's trade-related development cooperation". Denmark works on the basis of its 2005 "Trade, Growth and Development" strategy.

Donors are making efforts to implement the AfT initiative by, for example, setting quantitative targets to be achieved by 2010. However, these commitments vary considerably in nature. While some EU member states have formulated specific targets for either AfT or TRA spending (DK: € 20 million to TRA; NL: € 100 million to TRA; GB: £ 100 million to TRA and £ 409 million to AfT; French targets are not yet official), others commit to an increase in funds without specifying the amounts involved (BE, IR, SW). Finland uses a different approach, focusing its target only on spending for multilateral AfT (€ 10 million).

The Table 5 below compares past EU donor TRA spending as recorded in the TCBDDB with a hypothetical benchmark and, if existing, nationally approved TRA targets. The hypothetical benchmark was calculated under the assumption that each member state aims at contributing to the EU pledge the same percentage as to the 10th European Development Fund (EDF). Of course, in practice other criteria, such as donors' comparative (dis)advantages, should also be taken into consideration when setting

national targets. For the purpose of comparison, the table includes the most recent TRA figures, i. e. those on 2007 commitments published by the EC in its AfT monitoring report (European Commission 2009, 16).

	Contribution key for 10th EDF	TRA average 2001–2006 <sup>a</sup>	Benchmark for pledge if EDF contribution key is applied	Hypothetical gap (=Benchmark minus TRA average)	Existing national TRA targets	TRA committed in 2007 <sup>b</sup>
Belgium	3.53 %	31.7	35.3	-3.6		33.6
Denmark	2.00 %	22.1	20.0	2.1	20.0	112.5
Finland	1.47 %	13.1	14.7	-1.6	(10.0 to multinationals)	1.6
France	19.55 %	97.8	195.5	-97.7		214.9
<b>Germany</b>	<b>20.50 %</b>	<b>75.5</b>	<b>205.0</b>	<b>-129.5</b>	<b>220.0 (provisional target)</b>	<b>223.7</b>
Ireland	0.91 %	1.3	9.1	-7.8		10.4
Netherlands	4.85 %	94.8	48.5	46.3	100.0	126.1
Spain	7.85 %	10.4	78.5	-68.1		81.8
Sweden	2.74 %	15.6	27.4	-11.8		55.1
United Kingdom	14.82 %	65.0	148.2	-83.2	126.8 <sup>c</sup>	63.4
<sup>a</sup> As recorded in the WTO/OECD TCDBD; 2005 exchange rate applied: US\$ 1 = € 0.8046 <sup>b</sup> European Commission 2009, 16 <sup>c</sup> October 2008 exchange rate applied: £ 1 = € 1.2682 Source: Based on data from WTO/OECD TCDBD; the EDF contribution key can be found in Council of the EU 2006.						

Under these assumptions and on the basis of TCBDB data, Germany would need to scale up its TRA by almost € 130 million or more than 70 %. However, the case of Germany (see Chapter 5.3) shows that donors who used to report to the TCBDB in a precise manner (that is, by reporting only the strictly trade-related fraction of an overall project/programme), might see their TRA numbers skyrocketing when the new monitoring rules are applied. Consequently, the “hypothetical gap” (see Table 5) might narrow thanks merely to procedural changes, reducing the obligation for real allocation increases.

#### *AfT within bilateral development cooperation*

Like Germany, other donors (CAN, BE, DK, FIN, FR, NL) generally seem not to deal with trade as specific sector. Instead, trade-related activities form part of other thematic areas like private sector development or agriculture. An exception, DFID defines “trade and growth” as one of its priority areas. It even brought together staff from DFID and the UK trade department to form one unit, equipped with its own budget resources. Also, other donors are attempting to strengthen their trade focus: The new Belgian AfT strategy seeks to give AfT a more prominent position by including special AfT sections in the updated versions of relevant strategy papers. Finland took a more radical decision by introducing “trade and private sector development” as separate area of activity in Zambia after Finish development cooperation had withdrawn from the overcrowded education sector.

The cross-sectoral nature of trade makes it difficult for donors to identify large-scale bilateral activities covering exclusively trade aspects. However, trade can be one component of such activity packages, for example in the field of private sector development. Some interview partners mentioned that substantial amounts of TRA are channelled through multilateral organisations and specialised funds or intermediary organisations (IE, NL, SE). The interviewee from Denmark highlighted a large-scale and highly successful fishery project in Vietnam which looked at all aspects, ranging from fish farming techniques to compliance with international standards. Canada has large-scale trade-related projects on the regional level, such as a trade and competitiveness programme to develop and implement trade policies in the CARICOM.

### *Enhanced Integrated Framework (EIF)*

Generally, donor interviewees (CAN, DK, IE, FIN, GB, FR, SE) expressed their commitment to the EIF (see Box 5), despite the problems encountered with its predecessor. It is generally regarded as an instrument which has the potential to substantially contribute to fulfilling the qualitative requirements stipulated in the Paris Declaration. Apart from supporting the EIF through core funding, donors explicitly mentioned their commitment to work with the EIF on the country level, for example by building on the EIF's Diagnostic Trade Integration Studies (DTIS) when programming their bilateral support or by acting as donor coordinator (e. g. Finland in Zambia). The Netherlands intends to work with the EIF only on the individual country level without engaging directly within the multilateral initiative.

### *Trade-related budget support*

Several donor interviewees (CAN, FR, GB, NL, SE) indicated that they use (general) budget support, but without earmarking it for trade purposes. Some also pointed to the trade-related elements included therein which are, however, difficult to quantify. The EC assured that some of its general budget support – e.g. in Tunisia, Morocco or Mauritius – is clearly trade-related, since trade reforms are supported therein. Moreover, the EC's Regional Integration Support Programme with COMESA provides compensation for tax revenue losses and hence can be labelled “trade-related adjustment”. As another illustration of a concrete activity in the field of “trade-related adjustment”, the respondent from the Netherlands pointed to import support provided to Ghana as compensation for high oil prices.

## 4.4 Partial conclusion

The analysis of AfT data found that Germany is a relatively large provider of bilateral AfT. In TRA, it ranks fifth by international comparison and third among EU countries (after France and the Netherlands), in total AfT it comes third behind Japan and the US and first among EU member states. This suggests that any strong commitment to and increase of AfT particularly at the European level is hardly credible without and must count on strong engagement of Germany.

Another key finding of this chapter is that donors have only relatively recently started to conceptually adjust their portfolios to the qualitative re-

quirements of the AfT agenda, although the commitments already date back some years. A few donors modified their internal structures to create units or country sectors focusing specifically on trade. It is concluded that the push for AfT is a strong and lasting one, backed by international politics (WTO and commitment to and preservation of international trade more generally), but that it is not easy to bring a crosscutting issue into settled donor structures. The next months and years will show whether the political momentum of the AfT initiative remains strong enough to put these strategic approaches into practice.

It seems that EU donor reactions are elaborated in a relatively isolated manner, without a strong coordination and harmonisation at the EU level. This is unfortunate because the common AfT pledge offers itself for and almost necessitates a more markedly joint approach.

Despite some reservations about the effectiveness of its predecessor, donors seem committed to supporting the Enhanced Integrated Framework, including on the country level, through their bilateral development cooperation. Thus, it is acknowledged that special coordination and harmonisation at national level is important. It can be further deduced that at least in some non-LDC countries where governments are not in a position to coordinate donors on their own, such a function is equally needed. And increased donor attention to regional AfT activities – which is both necessary and visible – would require strong coordination and harmonisation also at that level.

## 5 German Aid for Trade: The current state of affairs

### 5.1 Locating Aid for Trade within German development cooperation

Trade is not defined as one of the eleven priority areas of German development cooperation<sup>21</sup> but dealt with as a crosscutting issue in six priority areas, including “Sustainable Economic Development”, “Environment and Resource Protection”, “Governance and Civil Society”, “Food Security and Agriculture”, “Energy” and “Transport and Communication”. Hence, a systematic analysis of German AfT needs to take those areas into account.

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21 BMZ defined ten priority areas (*Schwerpunkte*) for its development cooperation on the country-level plus one on the regional (here: sub-national) level.

Apart from AfT carried out under these various headings, limited budgets are made available exclusively for trade-related purposes: First, the Monterrey Fund, established in 2002 to follow-up on the Monterrey Conference, serves as a mainstreaming tool for incorporating trade components into existing bilateral activities. After having initially committed some € 9.5 million, the fund was replenished with another € 8 million in 2007. Despite its small scale, the Monterrey Fund is of considerable importance for AfT discussions, since it aims, *inter alia*, at identifying best practices with regard to adequate methods and tools for mainstreaming trade in bilateral cooperation. Second, funding can be earmarked for trade purposes through the annual BMZ budget planning procedure (*Rahmenplanung*). In 2009, trade-related activities are supported, with € 30 million of funds allocated to regional or more-country projects. Third, reserve funds (*TZ/FZ-Reserve*) catering for short-term needs can be tapped for AfT projects. Two regional activities were financed from this source, with a total of € 10 million in 2008. Moreover, specialised sector divisions within GTZ work conceptually on trade issues (i.e. trade in general, agricultural trade as well as social and environmental standards), facilitating the integration of trade issues into development cooperation and its implementation.

These specific AfT budgets were introduced over the last years as a response to the AfT initiative. However, they have been allocated on a yearly basis, without any stable strategic orientation or possibility for longer-term planning, leading to significant fluctuations in funding. Trade activities outside these budgets could not be predicted but only quantified ex-post. Yet, change is in sight: A recently introduced internal BMZ target (*Zielgröße*) will contribute to the stabilisation of TRA, pledging € 140 million within the eleven priority areas to TRA – to be implemented by KfW, GTZ, BGR and PTB – and encouraging other German implementing agencies to scale up TRA within their respective fields of activity with a view to jointly fulfilling the basic target of € 220 million TRA from 2010 on. BMZ has specified that these increased efforts should disproportionately benefit SSA. The priority area “Sustainable Economic Development” – and especially its sub-area “Private Sector Development” – has been designated as the primary point of entry for additional TRA, other relevant priority areas in this context being “Food Security and Agriculture” and “Governance and Civil Society”.

However, all these aid allocation procedures cover merely those ODA flows on which the ministry is able to exert influence (see Box 6). This means that part of aid reported as AfT cannot directly be steered by BMZ.



Although this is not a specific feature of AfT but true for any other topic as well, it becomes relevant in discussing how BMZ can shape the future German contribution to the EU pledge.

**Box 6: German Implementing Agencies**

German implementing agencies can be classified according to their contractual relation to BMZ. Financial Cooperation implemented by KfW (*Kreditanstalt für Wiederaufbau*) and what is known as “Technical Cooperation in the strict sense” – as provided by GTZ (*Deutsche Gesellschaft für Technische Zusammenarbeit*), BGR (*Federal Institute for Geosciences and Natural Resources*) and PTB<sup>22</sup> (*Physikalisch-Technische Bundesanstalt*) – are closely bound to BMZ policy decisions, since the organisations concerned are contracted to implement the development assistance negotiated between Germany and the partner country. In addition, a number of other agencies (“Technical Cooperation in the broad sense”) provide technical assistance not agreed upon directly in government negotiations. InWEnt<sup>23</sup> (*Capacity Building International*), DED<sup>24</sup> (*German Development Service*) and CIM<sup>25</sup> (*Centrum für internationale Migration und Entwicklung*) are most relevant for AfT discussions in this group of implementing agencies. However, also these agencies align their activities largely to BMZ country and sector foci. DEG<sup>26</sup> (*Deutsche Investitions- und Entwicklungsgesellschaft*, now part of KfW) is a market oriented investment and development company providing equity capital and loans. It contributes to German ODA (and AfT), but receives BMZ funding only occasionally and is, hence, not obliged to conform with official development policies as closely as other implementing agencies.

22 PTB, the German national metrology institute, offers advisory and training services in “quality infrastructure”.

23 InWEnt offers services in human resources development, advanced training and dialogue.

24 DED works in personnel cooperation, placing its development workers in a wide range of partner country institutions.

25 CIM, a joint operation of GTZ and the German Federal Employment Agency, is a human resources placement organisation for specialised experts.

26 DEG, a member of KfW banking group, provides private companies with loans and equity finance. Its equity and equity-like financing activities are considered as ODA-eligible and hence as AfT, provided that specific criteria are fulfilled. However, its lending activities are of fundamental interest for AfT, too: Since DEG loans are usually denominated in euros or US dollars, they target export-oriented enterprises, which are further encouraged to trade in order to generate foreign exchange and hence to reduce exchange rate risks.

## 5.2 Trade in BMZ policy papers

Anchoring AfT in German development policy also requires an integration of trade aspects into relevant BMZ policy papers. These papers define geographic and thematic priorities and thus determine how allocated budgets are spent. Hence, they serve as “steering wheels” for German development cooperation. Their degree of bindingness differs, depending on the nature of the paper and the status of the implementing agency.

Policy papers are, in theory, produced in a remarkable variety. In addition to BMZ Strategies (*Konzepte*) on the eleven priority areas (and partly sub-areas thereof), there are strategies determining the parameters for cooperation with countries and regions (*Länder- und Regionalstrategien*). The priority areas of individual countries are dealt with in Priority Area Strategy Papers (*Schwerpunktstrategiepapiere*). To sharpen the focus of its activities in SSA and Asia, BMZ has defined a limited number of themes as profiles for its engagement with these regions (*Profile*).

In practice, only Regional Strategies, Country Strategies and, to a lesser degree, Priority Area Strategy Papers are comprehensive in nature, whereas a significant number of priority areas and their sub-areas remain conceptually uncovered (or unfinished). For example, there is no strategy on the priority area “Food Security and Agriculture”, only one on its sub-sector “Fishery and Aquaculture” dating from 1997. By contrast, three of the four sub-sectors<sup>27</sup> of “Sustainable Economic Development” are being rewritten or have recently undergone such an exercise. This priority area is, hence, widely covered and up-to-date.

Therefore, the range of available policy papers does not allow for a comprehensive analysis of the strategic orientation of German development policy. Also, this research can only draw on existing papers. It covers the latest versions of strategies on trade-relevant priority areas and sub-areas, as well as Regional Strategies and “BMZ profiles” (*Profile*).<sup>28</sup> These documents were analysed with regard to the integration of trade aspects and the existence of possible entry points for AfT. In addition, a simple

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27 “Sustainable Economic Development” consists of the four sub-sectors “Economic Policy”, “Private Sector Development”, “Financial System Development” and “Vocational Training and Labour Market”.

28 The papers analysed are listed in Annex 3.

method was applied to quantify the trade content of various policy papers: The occurrence of the word “trade” (in both the German and English language) was counted in each paper as separate word or part of another word (see Annex Table A7).

Out of all currently available BMZ strategies, the one on “Quality Infrastructure” shows the most distinct trade focus. This does not come as surprise, considering the narrow focus of this paper on improving the infrastructure for metrology, standardisation, testing and quality assurance – topics which are tightly related to trade by nature. Similarly, the newly revised document on “Economic Policy” deals with trade aspects comprehensively. Less expected is the sparse mentioning of trade in the paper on “Financial System Development”, which covers trade mainly in the context of retail trade (*Kleinhandel*) financed with microcredits, leaving aside trade finance issues.

The most obvious entry points for AfT can be found in countries in which German development cooperation has defined “Sustainable Economic Development” as a priority area. Programming of AfT is more problematic in countries where there is no such economic orientation: In Latin America, BMZ focuses on “Sustainable Economic Development” in only two countries (El Salvador and Honduras). As a consequence, AfT has so far operated in these countries mainly under the priority areas “Environment and Resource Protection” and “Governance and Civil Society”. The concept papers for these areas, however, generally reveal a weak commitment to trade, leaving little space for AfT. However, a new regional Priority Area Strategy Paper on Sustainable Economic Development for Central America is under development.

The Africa strategy deals with trade in a relatively comprehensive manner. However, the focus lies on the international trade regime and its impact on African countries, not on possible German activities with regard to supporting the capacity to trade. The strategy for Latin America and the Caribbean also mentions trade on several occasions, but addresses various issues, including fair trade rules, diverging interests between trade and environmental policy, and the value of countries as commercial partner. Similarly, the Asia strategy includes a reference to the region’s significance for German exporters. Here, the role of trade as stabilising factor in the region is pointed out. Also the strategies for the Caucasus and for South East Europe – where trade facilitation appears as key sector – consider trade as integrative tool. All in

all, BMZ Regional Strategies seem to deal with trade (policy) issues, but without discussing concrete obstacles to trade.

With regard to “BMZ profiles” (*Profile*), it is remarkable that the themes chosen for regional cooperation in SSA are limited to “Governance Reforms”, “Water Resource Management” and “Peace and Security”. Here, the only explicit entry point for AfT is offered by one profile component (*Profilbaustein*) of “Governance Reform” dealing with competencies of regional organisations in economic policy. Consequently, it is currently not evident whether Germany wants to position itself in such a way as to deal comprehensively with AfT at the regional level in SSA.

By contrast, the SSA “profile” on the national level is composed of “Good Governance”, “Water” as well as “Sustainable Economic Development”. Two of these papers are highly relevant for AfT – “Sustainable Economic Development” and “Good Governance” – and cover trade in one of their three components (*Profilbausteine*), namely in “Development of the Agricultural Economy” and “Governance Reform”, respectively. Asian “profiles” appear less aware of trade issues: “Democratisation, Good Governance and Conflict Transformation” does not mention trade at all, while there is only one marginal link in the document on “Environment”. While the Asian “profile” “Socially Balanced Economic Development” lists trade promotion as one of its seven strategic approaches, there are doubts whether this multitude of topics allows for any real prioritisation. Generally speaking, it could be observed that although Asia has received more German AfT and TRA than Africa according to statistics (see Chapter 5.3.2), trade topics are less apparent in the formal policy papers.

To sum up, trade appears to be integrated in BMZ policy papers, albeit to varying extents. While the reasoning of the AfT initiative is, currently, not (directly) reflected in most of them, many still offer some potential links for AfT.<sup>29</sup> Moreover, the latest papers show a tendency towards a deeper

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29 A study carried out by Gerhardus (2005) drew similar conclusions. In analysing the role of trade in BMZ Regional Strategies and Priority Area Strategy Papers, the author found that the documents generally provided a framework for addressing trade in development cooperation. The depth of integration of trade aspects in BMZ Regional Strategies varied significantly, though. For instance, issues bearing on risks and opportunities of globalisation were addressed only in the Africa strategy. However, since most policy papers used by Gerhardus have been revised in the meanwhile, her results should not be compared directly with those of this report.

integration of trade. However, BMZ strategies (*Konzepte*) in particular exhibit some weaknesses: Certain priority areas are not covered (e.g. “Food Security and Agriculture”), while some of the existing, mainly older strategies do not integrate trade aspects sufficiently despite their high relevance for AfT (especially “Financial System Development”, but also “Biodiversity” and “Social and Ecological Market Economy”).

### 5.3 Quantifying German Aid for Trade

A study commissioned by BMZ calculated the scale of German AfT – including TRA – and hence the increase necessary to meet the German contribution to the EU pledge (BMZ 2009). It was an attempt to create an enhanced source for quantifying AfT and in particular TRA<sup>30</sup> in line with the new reporting rules defined by the WTO and OECD Working Party on Statistics (see Box 4), but it also tried to simplify the monitoring exercise by elaborating proxies that can easily be applied to compute TRA, without the need to identify the trade content project by project.

The refined and broadened methodology for calculating TRA (see Box 7) led to remarkably high numbers in comparison to previous estimates (see Table 6): With a yearly average of € 209.8 million for TRA, Germany

#### **Box 7: Methodology applied for calculating data on German Aid for Trade**

A number of implementing agencies<sup>31</sup> were asked to identify the trade development fraction of each project committed between 2004 and 2006 carrying an AfT-relevant CRS code.<sup>32</sup> The agencies selected for this exercise include those which reported to the TCBDDB plus those regarded as other important providers of AfT. On the basis of this information, and in accordance with WTO/OECD definitions of AfT categories, proxies were calculated indicating the average percentage of “trade development” in each CRS code (see Table 7). With the

30 Before this data had been calculated, information on TRA could only be derived from the WTO/OECD Doha Development Agenda Trade Capacity Building Database (TCBDDB, see Box 3), which suffered from a significant degree of inaccuracy.

31 CIM, DED, DEG, GTZ, InWEnt, KfW and PTB.

32 All activities reported to the OECD DAC creditor reporting system (CRS) carry one (single) code, the CRS code. AfT-relevant CRS codes were defined by the OECD. Some codes (e.g. “governance”) can include trade-related activities, although they may not be considered (automatically) as AfT. Such activities are not captured by the German AfT data at hand.

help of these proxies, the “trade development” (TD) category can be separated from the “building productive capacity” (BPC) category. For example, 20 % of CRS code 313 “fishing” was identified as the average trade-related fraction. Therefore, this share was attributed to TD, while the residual was included in BPC. Distinguishing TD from BPC is especially crucial, because, while both are made up of the same CRS codes, only TD is included in TRA, and hence in the EU pledge.

In a second step, these proxies were applied to total ODA disbursed by BMZ as reported to the CRS for the years 2005–2007. In this way, the scope of analysis was extended to both a broader time period and to the remaining (few) implementing agencies that had not been included in the first phase of the exercise. This approach based on proxies will be applied as an interim solution for monitoring German TRA until the new “trade development marker” covers the whole of the current portfolio adequately.

		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Average 2005–2007</b>
Category 1	Trade Policy and Regulation (TPR)	12.6	15.1	16.5	14.7
Category 2	Trade Development (TD)	150.0	228.1	207.2	195.1
Category 3	Trade-Related Infrastructure (TRI)	297.1	340.2	464.8	367.4
Category 4	Building Productive Capacities (BPC)	319.7	559.2	531.9	470.3
Category 5	Trade-Related Adjustment	0.0	0.0	0.0	0.0
<b>Categories 1–2</b>	<b>Trade-Related Assistance (TRA)</b>	<b>162.6</b>	<b>243.2</b>	<b>223.7</b>	<b>209.8</b>
<b>Categories 1–5</b>	<b>Aid for Trade (Aft)</b>	<b>779.4</b>	<b>1142.6</b>	<b>1220.3</b>	<b>1047.5</b>
Source: Based on data from BMZ					

almost reaches the self-defined target of € 220 million envisaged for fulfilling its contribution to the EU pledge (see Chapter 3.2). However, the level of engagement fluctuates considerably, ranging from € 162.6 million in 2005 to almost € 243.2 million in 2006 and back to € 223.7 million in 2007. The steep rise between 2005 and 2006 can be explained to a large degree by pure reporting decisions: One organisation (DEG) is not included in 2005 figures because it started to break down its ODA to the sectoral level of CRS codes only in 2006 (for more information on the DEG, which is of high relevance for German AfT, see Chapter 5.3.3).

Total AfT experienced a steady rise, due to a steep increase in TRI between 2005 and 2007 and showed skyrocketing BPC numbers between 2005 and 2006. According to this set of data, Germany has not provided any support for “trade-related adjustment”. Therefore, this category will not be included in the following data description.

### 5.3.1 Thematic distribution and related German priority areas

Table 7 breaks down AfT categories to the level of CRS codes. That way, it provides information on the thematic distribution of German AfT.

One single code – 25010 “business support services and institutions” – accounts for € 101.6 million, amounting to approximately half of TD or 9.8 % of total AfT. The high contribution partially results from the

	<b>CRS code</b>	<b>Proxy</b>	<b>In € millions</b>	<b>in % of total AfT</b>
<b>TPR</b>			<b>14.7</b>	<b>1.4%</b>
	33110 Trade policy and administrative management	100%	9.8	0.9%
	33120 Trade facilitation	100%	1.5	0.1%
	33130 Regional trade agreements	100%	1.7	0.2%
	33140 Multilateral trade negotiations	100%	0.5	0.0%
	33181 Trade education/training	100%	1.1	0.1%

<b>Table 7 (cont.): German Aid for Trade by category according to CRS codes, average 2005–2007</b>				
<b>CRS code</b>	<b>CRS code</b>	<b>CRS code</b>	<b>CRS code</b>	<b>CRS code</b>
<b>TD</b>			<b>195.1</b>	<b>18.7%</b>
	240 Banking and financial services	8%	25.1	2.3%
	25010 Business support services and institutions	100%	101.6	9.8%
	311 Agriculture	28%	33.3	3.3%
	312 Forestry	18%	6.7	0.7%
	313 Fishery	20%	0.9	0.1%
	321 Industry	35%	25.8	2.4%
	322 Mining	0%	0.0	0.0%
	33210 Tourism	100%	1.8	0.2%
<b>TRI</b>			<b>367.4</b>	<b>35.3%</b>
	210 Transport and storage	100%	137.7	13.7%
	220 Communication	100%	15.1	1.5%
	230 Energy	100%	214.5	20.1%
<b>BPC</b>			<b>470.3</b>	<b>44.5%</b>
	240 Banking and financial services	92%	288.2	26.7%
	311 Agriculture	72%	95.5	9.5%
	312 Forestry	82%	30.5	3.1%
	313 Fishery	80%	3.4	0.3%
	321 Industry	65%	47.9	4.4%
	322 Mining	100%	1.3	0.1%
	33210 Tourism	0%	0.0	0.0%
<b>Total Aft</b>			<b>1047.5</b>	<b>100.0%</b>
Source: Based on data from BMZ				



OECD/WTO decision to allocate 100 % of code 25010 to TD, and hence to the EU pledge. The majority of German ODA labelled with this code was delivered as technical assistance, but a substantial amount (approximately € 30 million each year) consisted of Public Private Partnership (PPP) projects. Moreover, € 30 million provided by DEG as equity holdings in private companies was assigned to code 25010 in 2006 (though not in other years), leading to a peak in TD in 2006.

Other codes featuring prominently in TD comprise 240 “banking and financial services”, 311 “agriculture” (mainly in the form of “agricultural development”, “agricultural land resources” and “agricultural water resources”) and 321 “industry” (“industrial development”, “SME development”), amounting altogether to € 85 million.

The bulk of TRI is made up of 230 “energy”, whereas BPC is clearly dominated by 240 “banking and financial services”. This code accounts for an impressive 26.7 % of overall AfT.

From these figures it can be deduced that 19 % of German TRA is attributable to the German priority area “Food Security and Agriculture”<sup>33</sup> and the remaining 81 % to “Sustainable Economic Development”.<sup>34</sup> The latter features highest in total AfT, too (47 %), followed by “Energy” (20 %), “Food Security and Agriculture” (17 %) and “Transport and Communication” (15 %). The priority areas “Governance and Civil Society” and “Environment and Resource Protection” are not covered by the AfT data at hand since these issues are not considered as automatically AfT-relevant according to international monitoring rules.<sup>35</sup> However, activities in both areas may very well include important trade-related components, espe-

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33 I.e. CRS codes “agriculture”, “forestry” and “fishery”. Despite their small absolute contribution, these codes are still relevant due to their substantial trade elements, reflected in relatively high proxies (agriculture 28 %, fishery 20 %, forestry 18 %). This means that, for example, 28 % of agricultural activities are attributed to TRA, and hence considered as trade-related. By contrast, the proxy for “banking and financial services” is merely 8 %.

34 Almost half of TRA (48%) attributable to “Sustainable Economic Development” was contributed by the CRS code “business support services and institutions”. Other important themes within “Sustainable Economic Development” are “banking and financial services”, “industry” (12 % each) and “trade policy and regulation” (7 %).

35 According to the rules defined within the OECD and the WTO, donors can report such activities as trade-related through self-assessment reports (i. e. questionnaires) outside the CRS code system.

cially with regard to German “Governance and Civil Society” activities at the regional level in SSA.

### 5.3.2 Geographic distribution

Despite the explicit designation of SSA as the primary target area of overall BMZ engagement, Asia is the most important destination for both German AfT (44.1 %) and TRA (32.0 %) (see Table 8). German support to Asia is especially high in the AfT category “trade-related infrastructure” but relatively low in “trade policy and regulation” (52.6 % and 12.3 % of total German aid in these categories).

Africa, the second largest recipient region, receives clearly less support than Asia, especially with regard to TRI (36.2 %) and BPC (24.1 %). By contrast, Africa shows notably high numbers in TPR (32.6 % of total TPR). Both German AfT (15.5 %) and TRA (19.0 %) for SSA appear low, particularly compared with its share in overall German ODA (29.6 %).

German AfT to ACP countries shows a similar pattern as that to SSA (15 % of overall AfT, 17.5 % of TRA). If the ACP countries are grouped according to EPA configurations, ECOWAS countries appear as the joint top recipients of both overall AfT and TRA, followed by SADC and ESA members (for exact numbers see Annex Table A8).

Europe receives approximately the same level of AfT as the Americas, and even slightly outdoes the Americas in TRA.

### 5.3.3 Implementing Agencies

GTZ is the most active German implementing agency in TRA: Together with PTB<sup>36</sup> and BGR, it accounts for 58.8 % of German aid in the category TPR and 16.5 % of TD (see Table 9). InWent contributes a high percentage (40.5 %) to TPR through trainings and development of negotiation

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36 PTB contributed a yearly average of approx. € 4 million to TPR.

<b>Table 8: Geographic distribution of German AFT, average 2005–2007 in € millions and as percentage</b>														
	<b>Cat. 1: TPR</b>	<b>Cat. 2: TD</b>	<b>Cat. 3: TRI</b>	<b>Cat. 4: BPC</b>	<b>Cat. 1–2: TRA</b>	<b>Cat. 1–4: AFT</b>	<b>Total ODA</b>							
<b>Europe</b>	<b>0.9</b>	<b>6.5%</b>	<b>26.0</b>	<b>12.7%</b>	<b>17.9</b>	<b>4.7%</b>	<b>61.8</b>	<b>12.7%</b>	<b>27.0</b>	<b>12.3%</b>	<b>106.7</b>	<b>10.0%</b>	<b>474.0</b>	<b>6.5%</b>
Africa North	0.0	0.0%	10.7	5.7%	82.0	21.0%	36.6	8.1%	10.7	5.2%	129.4	11.9%	300.1	4.1%
Africa SSA	4.8	32.7%	34.8	17.9%	53.1	15.1%	67.5	14.3%	39.6	19.0%	160.2	15.5%	2169.6	29.6%
Africa unall.	0.0	-0.2%	1.8	0.9%	0.5	0.1%	8.3	1.6%	1.7	0.8%	10.6	0.9%	65.2	0.9%
<b>Africa total</b>	<b>4.8</b>	<b>32.6%</b>	<b>47.3</b>	<b>24.5%</b>	<b>135.6</b>	<b>36.2%</b>	<b>112.4</b>	<b>24.1%</b>	<b>52.1</b>	<b>25.0%</b>	<b>300.1</b>	<b>28.4%</b>	<b>2534.9</b>	<b>34.6%</b>
America North-, Central	0.0	0.3%	5.1	2.7%	8.3	2.3%	11.3	2.7%	5.1	2.5%	24.6	2.5%	184.1	2.5%
America South	0.0	0.0%	12.9	6.8%	5.0	1.3%	50.1	10.8%	12.9	6.3%	68.0	6.5%	315.6	4.3%
America unall.	0.0	0.0%	5.2	2.4%	2.9	0.7%	5.4	1.1%	5.2	2.2%	13.5	1.2%	49.9	0.7%
<b>America total</b>	<b>0.0</b>	<b>0.3%</b>	<b>23.1</b>	<b>11.8%</b>	<b>16.2</b>	<b>4.4%</b>	<b>66.7</b>	<b>14.6%</b>	<b>23.2</b>	<b>11.0%</b>	<b>106.1</b>	<b>10.2%</b>	<b>549.6</b>	<b>7.5%</b>
Asia Middle East	0.0	0.3%	2.8	1.5%	1.7	0.4%	8.8	1.7%	2.8	1.4%	13.4	1.2%	1428.1	19.5%

<b>Table 8 (cont.): Geographic distribution of German AFT, average 2005–2007 in € millions and as percentage</b>									
	<b>Cat. 1: TPR</b>	<b>Cat. 2: TD</b>	<b>Cat. 3: TRI</b>	<b>Cat. 4: BPC</b>	<b>Cat. 1–2: TRA</b>	<b>Cat. 1–4: AFT</b>	<b>Total ODA</b>		
Asia East	1.2	32.4	92.3	92.0	33.5	217.8	768.6	21.2%	10.5%
Asia South-, Central	0.5	27.5	86.3	95.5	28.0	209.8	833.6	20.1%	11.4%
Asia unall.	0.0	2.8	9.7	5.5	2.8	18.0	61.2	1.6%	0.8%
<b>Asia total</b>	<b>1.8</b>	<b>65.4</b>	<b>190.0</b>	<b>201.8</b>	<b>67.2</b>	<b>459.0</b>	<b>3091.4</b>	<b>44.1%</b>	<b>42.2%</b>
<b>Oceania</b>	<b>0.0</b>	<b>0.1</b>	<b>0.6</b>	<b>0.2</b>	<b>0.1</b>	<b>0.8</b>	<b>2.0</b>	<b>0.1%</b>	<b>0.0%</b>
Developing countries, unall.	7.2	33.2	7.1	27.3	40.4	74.8	675.4	7.2%	9.2%
<b>Total</b>	<b>14.7</b>	<b>195.1</b>	<b>367.4</b>	<b>470.3</b>	<b>209.8</b>	<b>1047.5</b>	<b>7327.3</b>	<b>100.0%</b>	<b>100.0%</b>

2006 exchange rate applied: US\$ 1 = € 0.7967

Source: Based on AFT data from BMZ and ODA data from OECD CRS

skills. Public Private Partnerships (PPPs)<sup>37</sup>, KfW and DEG provide approximately 15 % of TRA each.

Since KfW concentrates on providing financial cooperation, its involvement is logically more pronounced in wider AfT (57.7 %) than in TRA (15.4 %). Similarly, it implements the majority of support for TRI (85.6 %) and BPC (53.0 %). By contrast, GTZ, BGR and PTB feature less strongly in overall AfT (jointly 16.2 %) compared to TRA only (see above). DEG provides a quarter of German aid to “building productive capacities” through equity and equity-like financing to banks and export-oriented businesses.<sup>38</sup>

### 5.3.4 Multilateral TRA

German multilateral TRA<sup>39</sup> shows a steep upward trend. It almost quadrupled between 2001 and 2006, albeit from a low starting point (see Table 10). The International Trade Center (ITC) – established jointly by UNCTAD and WTO – and the WTO Doha Development Agenda Global Trust Fund (DDAGTF) are the main multilateral beneficiaries of German support.<sup>40</sup> By contrast, contributions to the Integrated Framework (IF) are limited in scale. The relatively hesitant use of multilateral channels can be explained partly by the stance of the German Parliament, which capped the share of multilateral aid at one third of all ODA provided by BMZ (see Chapter 3.2).

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37 The instrument “PPP” appears here separately, since it represents a rather distinct form of assistance implemented by several agencies with a similar approach.

38 DEG activities can only be counted as Aid for Trade if certain criteria for ODA eligibility are fulfilled. Therefore, as well for reasons bound up with portfolio shifts, the DEG contributions to AfT are unpredictable and should not be relied upon when strategically planning AfT.

39 Earmarked multilateral contributions are included in the new German AfT data (BMZ 2009) but cannot be identified in CRS codes, since they form one part of a bigger category. Therefore, this section draws on the WTO/OECD TCDBD, which provides information on earmarked funding to multilateral organisations, including multilateral funds. However, it does not capture contributions to core budgets of multilateral organisations that might be used for trade-related activities.

40 German contributions are broken down to the level of individual multilateral funds in Table 3.

**Table 9: German implementing agencies, average 2005–2007, in € millions and as percentage**

	<b>Cat. 1: TPR</b>	<b>Cat. 2: TD</b>	<b>Cat. 3: TRI</b>	<b>Cat. 4: BPC</b>	<b>Cat. 1–2: TRA</b>	<b>Cat. 1–4: AFT</b>
KfW	0.0 0.0%	28.6 16.4%	311.3 85.6%	214.3 53.0%	28.6 15.4%	554.2 57.7%
DEG	0.0 0.0%	34.0 16.5%	18.7 5.1%	126.6 25.3%	34.0 15.6%	179.2 16.2%
GTZ / PTB/ BGR	6.7 58.8%	60.8 34.7%	25.3 7.1%	61.0 15.1%	67.5 36.1%	153.7 16.0%
CIM	0.1 0.5%	7.4 4.3%	2.8 0.8%	4.6 1.2%	7.4 4.0%	14.7 1.6%
DED	0.0 0.1%	8.0 4.6%	0.8 0.2%	8.1 2.3%	8.0 4.4%	17.0 1.9%
InWEnt	4.6 40.5%	6.5 3.8%	4.3 1.2%	9.1 2.3%	11.0 6.0%	24.4 2.6%
PPP	0.0 0.0%	34.0 19.8%	0.0 0.0%	3.4 0.9%	34.0 18.5%	37.4 4.0%
<b>Total</b>	<b>11.3 100.0%</b>	<b>179.2 100.0%</b>	<b>363.1 100.0%</b>	<b>427.0 100.0%</b>	<b>190.4 100.0%</b>	<b>980.5 100.0%</b>

Source: Based on data from BMZ

**Table 10: German multilateral TRA, in US\$ millions and as percentage**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Average 2001–2006</b>
TPR - implemented multilaterally	0.12	0.00	0.04	0.83	0.19	0.25	0.24
TD - implemented multilaterally	0.36	1.42	0.17	0.61	1.96	0.42	0.82
Contributions to multilateral funds	1.30	1.80	2.49	3.41	4.24	5.95	3.20
<b>Total</b>	<b>1.78</b>	<b>3.22</b>	<b>2.70</b>	<b>4.84</b>	<b>6.38</b>	<b>6.63</b>	<b>4.26</b>

Source: Based on data from WTO/OECD TCDBB

### 5.3.5 What can these figures (not) tell us?

EU member states collectively committed to provide € 1 billion of TRA by 2010 and to scale up AfT proportionally to overall ODA increases. Building on our detailed analysis of AfT monitoring data, we can conclude that Germany is, indeed, well on the way to fulfilling its commitments: German AfT has experienced a steady increase over the last years and German TRA levels have almost reached the € 220 million envisaged as a contribution to the EU pledge. In fact, recent figures indicate that the EU as a whole almost met its TRA pledge in 2007: The EC announced having reached its target, while EU member states missed their benchmark only slightly with their TRA commitments amounting to € 0.96 billion (European Commission 2009). Thus, if only this one quantitative goal were regarded as a benchmark, EU donors could comfortably sit back and relax on their past AfT and TRA spending. However, conclusions concerning future engagement should bear in mind the following:

First, quantifying TRA is a delicate and in part arbitrary task: “Trade development” forms an indistinct subset of the larger “building productive capacities” category whose non-trade-related elements lie outside the TRA definition. This problem stems from the inconsistency between the AfT categories as elaborated by the WTO Task Force on Aid for Trade and the logic of CRS codes used within the OECD for reporting aid.<sup>41</sup> In order to make the WTO definition of AfT compatible with donors’ reporting practices, a set of basic rules for delineating the AfT categories was framed within the OECD. It was, for example, agreed to include the whole of code 25010 “business support services and institutions” in “trade development” and, therefore, in TRA. However, projects labelled with this code do not necessarily have an obvious focus on trade, even though they may account for a significant share of TRA. In general, TRA often includes (almost unavoidably) substantial amounts of funding not related to trade.<sup>42</sup> Hence, although part of the rise in German (and EU) TRA can certainly be attributed to “real” increases in TRA, a considerable share resulted from this

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41 See Boxes 3, 4 and 7 for the methodological changes which have led to inconsistencies of international AfT data over time. In the future, the now stabilised AfT accounting methodology should allow for better monitoring.

42 Likewise, CRS codes not eligible for AfT might very well include substantial trade-related elements.

(necessary) adaptation and refinement of OECD reporting practices. More generally, Germany and other EU donors should not restrict their efforts to TRA, which suffers from such unclear definitions and contested monitoring rules, but instead continue to advance the AfT initiative, even though one of their main targets, the EU pledge on TRA, may soon be fulfilled.

Second, instead of aiming at a TRA target equal to the average German contribution to the European Development Fund and the EU budget (€ 220 million), there are good reasons for Germany to take over a disproportionately high share of the pledge (see Chapter 6.3.2).

Third, ACP countries will be particularly in need of additional support for implementing EPAs, in the form of TRA, but also through “money-intense” wider AfT. If the EU pledge turns out to be already fulfilled, the 50 % increase of TRA devoted to ACP countries will become irrelevant. However, it would be politically difficult to step back from the commitment to support the ACP countries in their reform and adjustment efforts. Moreover, the EU commitment to overall AfT is in itself rather “soft”, promising merely a rise in line with ODA increases, and does not include any special provision for ACP countries. Yet, without additional funding, EPAs either risk not being implemented in many respects or having no or only negative effects on ACP economies and societies. Given the very prominent and contested role of EPAs in ACP-EU relations, a failure to deliver development results will lead to a considerable loss of political credibility and reputation for the EU, including for Germany, which has repeatedly and actively supported EPAs.

Finally, without anchoring trade more thoroughly within German development cooperation, there is no guarantee that the German engagement in AfT will maintain its high current level. BMZ has, in fact, recently put real efforts into reorganising its AfT, for example by introducing an internal BMZ target line (*Zielgröße*) for TRA (see Chapter 5.1). Moreover, the latest BMZ policy papers show a tendency towards a deeper integration of trade issues (see Chapter 5.2). However, additional measures should be taken to guarantee a more strategic and less random approach in programming AfT. These concerns already relate to the qualitative aspects of AfT, which will be examined more thoroughly in the next section. They are at least equally important for the AfT initiative and arguably decisive for the success of scaled-up AfT.



## 5.4 Fulfilling international benchmarks on aid effectiveness

This section assesses existing German AfT in terms of fulfilment of aid effectiveness criteria. The analysis is narrowed down to the project and programme<sup>43</sup> level for a number of countries/regions selected according to the criteria *geographic balance* (regional and national level; Africa, Asia and Latin America; land-locked and coastal), *level of development* (LDCs and non-LDCs) as well as *existence of a German priority area relevant for AfT activities* (see Chapter 5.1):

1. ECOWAS (regional level)
2. SADC (regional level)
3. Burkina Faso
4. Ghana
5. Kenya
6. Mozambique
7. Cambodia
8. Vietnam
9. Bolivia

After a review of the project and programme documentation of AfT-related German priority areas in these countries and regions, we identified eleven national and four regional activities as particularly relevant and analysed them in more detail according to criteria derived from the Paris Declaration and available information.<sup>44</sup> We limited our sample to Finan-

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43 In this context, the term “programme” refers to a comprehensive set of coherent activities resulting from the bundling of one donor’s projects into broader donor programmes. By contrast, the concept of Programme-Based Approaches refers to a partner country-owned programme, usually implemented by several donors. German “programmes” are still defined at the level of each implementing organisation, although – in the cases of Financial Cooperation and Technical Cooperation in the strict sense – coordinated by a priority area strategy and government negotiations. By contrast, German implementing agencies increasingly report and evaluate jointly.

44 The following criteria were applied: overall objective; trade-related elements; CRS code/AfT category; poverty linkages described in the project or programme proposal; implementing partner; cooperation among German implementing agencies; cooperation

cial Cooperation (KfW) and Technical Cooperation in the strict sense (GTZ, PTB, BGR), with the exception of one regional InWEnt activity – for reasons of the availability of data and their importance with regard to putting into practice BMZ policies.

National development strategies (plus DTIS, if available) as well as BMZ Country Strategies were reviewed to assess the framework conditions for development cooperation and the extent to which German activities are adapted to them. Project and programme managers contributed valuable insights and experience in telephone interviews based on structured interview guidelines derived from the document analysis.

Finally, in-depth field studies on Ghana (Hoppe s. a.), Mozambique (Condon / Stern s. a.) and ECOWAS (Zeba / Untied s. a.) helped to complete this picture and to understand how German activities are linked to and integrated into national policy frameworks and coordinated with the wider donor community.

Identifying relevant AfT activities in part proved challenging since only a few of the German programmes analysed have components which are clearly focused on stimulating trade, while the majority only touch on trade indirectly through effects concerning the competitiveness of businesses and farmers or dealing with institutional framework conditions. However, the latter are also essential for our discussions and are in fact counted as (wider) AfT. Before looking at the criteria which are expected to allow an assessment of the effectiveness of Germany's AfT interventions, we give a brief overview of interventions found to have an AfT component.

#### 5.4.1 Overview of case studies

German bilateral AfT is encountered in a wide variety of interventions by different implementation organisations which are specialised around core interventions tools. Without an understanding of this diversity characteristic for German development cooperation, it is difficult to understand the following assessment of its effectiveness.

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with other donors; instruments and approaches; lessons learnt and potential comparative advantages.

In our sample of activities, we found one KfW water resource project in which grants, soft-loans and close-to-market loans are allocated to, among others, exporters. Two other KfW activities aim to improve the provision of credits to (M)SMEs. Although these financial sector activities mainly target small entrepreneurs that are not likely to engage in (cross-border) trade, one can reasonably argue that better access to finance improves the general competitiveness of a country, and hence its ability to trade.

GTZ implements trade-related activities in the area of agriculture (2 activities), private sector development (3 activities) as well as at the intersection of these two areas (2 activities). In addition, GTZ covers trade in its governance programmes (3 activities), both at the national and regional level.

The GTZ activities selected in agricultural development usually support some international value chains and also take up issues such as export standards. In ways similar to the KfW activities, (M)SMEs promoted in private sector programmes tend not to sell their products internationally. As an exception, the Vietnamese SME programme explicitly supports some exporting businesses. The topics “agriculture” and “private sector development” were merged conceptually in two cases: First, the trade component of the Cambodian “economic reform” programme supports trade-related services for three agricultural value chains (organic rice, cashew nuts and silk). Second, the Kenyan private sector development programme targets specifically the agricultural sector.

In all these activities, GTZ uses long- and short-term advisory services, training, elaboration of studies, provision of material goods and (limited) financial contributions, sometimes combined with Public Private Partnerships (PPPs).

With regard to technical standards, PTB is another important, though small, implementing agency. It offers short-term advisory and training services in the area of “quality infrastructure”,<sup>45</sup> both at the national and regional level in all major regional integration initiatives. As the German national metrology institute, PTB can rely on its own expertise in the area of metrology, while it turns to experts from other (German) organisations in the remaining elements of quality infrastructure (standardisation, testing

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45 Despite officially using the term “quality infrastructure“, PTB activities target more capacity development than infrastructure according to international ODA concepts.

and quality assurance). Germany is the only donor with a specialised implementation unit dealing with technical standards and “quality infrastructure”. PTB, as part of the international “quality infrastructure” system, is furthermore acknowledged as one of the leading metrology institutes worldwide.

A number of SADC member states have jointly received training by InWent on export potentials, commercial logistics and quality standards. This InWent programme is partly attributable to “trade policy and regulation” while its second CRS code (25010) is fully counted as “trade development”. InWent applies the same tools used in other thematic areas: workshops, trainings, network building, study trips and longer-term (12 months) trainings in Germany.

In many of the activities reviewed, there is cooperation among German actors. Our sample included some cases where KfW combined its financial cooperation with GTZ’s technical assistance. In another frequent format of intra-German cooperation, long-term advisers delegated by DED and CIM act as advisors at the micro-level, thereby complementing GTZ programmes. They are embedded within local organisations, such as SME promotion institutions, private sector associations and exporting businesses, thus allowing German development cooperation to keep in close contact with the reality on the ground. Cooperation among other German organisations occurs less frequently. In the case of DEG, it is almost non-existent. As DEG does not regularly receive BMZ funding,<sup>46</sup> it enjoys a certain degree of freedom and does not easily fit into the emerging programme approach of BMZ. However, DEG tools could serve to complement the more conventional aid modalities, especially when it comes to private sector development.

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46 DEG is not a typical German implementation agency since it is not obliged to adhere to the country and sector focuses of German development cooperation. Its independent source of financing (i.e. it mainly works with profits generated through earlier investments) and its need to spread risks require DEG to work in a wide range of countries instead of concentrating its activities country-wise.

## 5.4.2 Trade-poverty linkages

Within the scope of this study, it was not possible to evaluate how the selected activities affected poverty.<sup>47</sup> By contrast, we analysed – as far as the available documentation allowed – whether and how project/programme proposals conceptually encompass trade-poverty linkages.

The following general tendency could be observed: The closer the activity is linked to trade, the less (direct) the impact identified on poverty reduction is. For example, a project aiming at developing trade-oriented services states that it has no direct poverty focus. Similarly, a regional intervention targeting infrastructure quality carries the BMZ poverty marker “EPA” (*Allgemeine entwicklungspolitische Ausrichtung*), meaning that it has a general development policy orientation without affecting poverty directly or indirectly through the macro-level. However, the descriptive part of the programme documentation highlights a contribution to poverty reduction, though through a longer impact chain.

Poverty effects are more comprehensively conceptualised in other, less trade-focused activities of the project/programmes analysed, but without making special reference to the (more or less apparent) trade elements. The common line of argumentation emphasises the contribution of the activity to diversification and intensification of production, resulting in the creation of jobs and income to the benefit of poor (and rural) parts of the population, and hence in poverty reduction. Activities in the area of agriculture tend to carry the BMZ poverty marker “SHA” (*selbsthilfeorientierte Armutsbekämpfung*), implying a direct poverty impact with a self-help orientation, while those promoting the private sector or targeting policy reform at the macro-level are generally labelled “MSA” (*übergreifende Armutsbekämpfung auf Makro- und Sektorebene*) and are therefore seen as affecting poverty through a relatively long impact chain (see Box 8 for two typical examples).

Trade-poverty linkages do not appear to feature too prominently in the project/programme documentation studied, partly due to complex causalities

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47 Tracing poverty impacts is a complicated task, not only for trade-supporting interventions, and task has not yet been satisfactorily solved in many cases, particularly those in which interventions target the macro level.

**Box 8: Examples of poverty impacts**

**SME promotion, Vietnam:** Improving framework conditions contributes to new foundations for and expansion of enterprises, which, together with the integration of suppliers (in agriculture), creates jobs and income, also in rural areas and in disadvantaged regions. In this way, the activity contributes structurally to poverty reduction (BMZ poverty marker “MSA”).

**Market-oriented agriculture programme, Ghana:** Through intensification and diversification of production and improvements in processing and marketing, the target groups are expected to experience a significant rise in incomes as well as job effects. Inclusion of and support for the private sector is expected to provide for sustainable increases in the competitiveness of Ghanaian agribusiness on national, regional and international markets. By focusing on small farm producers and SMEs and strengthening their capacities in implementation, organisation, articulation and negotiation, the activity contributes to self-help oriented poverty reduction (BMZ poverty marker SHA).

implying a multitude of external influences from the macroeconomic sphere, partly because AfT-related elements are rarely constitutive features of activities and are thus normally not explicitly mentioned in the impact chain. However, without clear causal linkages between interventions fostering trade and poverty impacts, it will remain difficult to claim an important role for trade in PRSP and in justifying and planning AfT. Export volumes, employment and income intensities of export sectors, price effects or government revenues could be used to guide the conceptualisation of trade-poverty effects (compare Chapter 2 and particularly Figure 1 for principal trade impact channels).

### 5.4.3 Managing for results

The aid effectiveness criterion “managing for results” stipulates that the management and implementation of aid should focus on results and not on inputs. This requires, among other things, a definition of results-based indicators during the programming phase as well as their monitoring and evaluation.

Our sample of activities includes a number of trade-focused indicators. They most often refer to the formulation and implementation of quality standards for export products. A programme in the field of agricultural

development measures whether (female and male) “actors sell their products on national, regional and international markets”. One of the most clearly trade-related activities includes the following three indicators:

- Surveys show that participating businesses have adapted their processes of adding value, with the result of an increased volume of traded products.
- Services of participating public and private providers are in demand from sub-sectors other than those promoted.
- Surveys conducted in enterprises show that members of business associations in promoted sub-sectors feel well represented in questions related to trade law and trade policy.

Attributing the achievement of such indicators to the results of the respective activities may sometimes prove problematic. This happened in one German SME programme where one indicator was defined on the basis of the World Bank’s Doing Business index, dealing with the time necessary to obtain import and export licences. It turned out that this indicator was achieved without much involvement of the programme. The lesson is that attaching an indicator at a highly aggregated macroeconomic level may impede meaningful management results.

We conclude that where clear trade elements exist in German activities, they are generally reflected in indicators. However, what we observed in the case of trade-poverty linkages generally also holds true for “managing for results”: Long and indirect impact chains with many additional external (macro-economic) influences hamper the formulation of appropriate indicators.

#### 5.4.4 Alignment to partner strategies

All of the partner countries’ national development strategies we selected deal with trade-related needs and opportunities offered on international markets, with the exception of the Bolivian “*Plan Nacional de Desarrollo*”, which instead opts for expansion of the domestic market. Countries with LDC status also carried out Diagnostic Trade Integration Studies (DTIS, see Box 5, Chapter 4.1), whereas most non-LDCs (Ghana, Vietnam) work on the basis of sector policies (agriculture, private sector de-

velopment / socio-economic development) plus export strategies. Despite its status as non-LDC, Kenya elaborated a DTIS in addition to its export and sectoral development strategies.

Cambodia has pursued an innovative approach in the sense that it modified the World Bank-led methodology used for the first Cambodian DTIS in the 2nd analytical round to specifically take on board human development considerations when identifying products and services with export potential and the respective development needs. The 2nd DTIS, in turn, forms the basis for a Trade Sector Wide Approach (Trade SWAp) aimed at coordinating donors' responses to trade-related needs.

In Ghana, the Ministry for Trade and Industry set up a Trade Sector Support Programme as part of its larger Private Sector Development Strategy, financed, among other sources, with funding from a multi-donor pool fund (see Hoppe s. a.).

If these national efforts are contrasted with German's policy papers and its AfT portfolios for the respective countries, a diverse picture emerges. In some cases, the German engagement seems to mirror the country's level of commitment: In Bolivia key national and German documents as well as Germany's aid portfolio do not deal with trade, while in Ghana both local actors and Germany appear rather committed to international (trade) aspects. Alignment of the German engagement in Mozambique appears as particularly positive example: The GTZ SME programme was concretely designed, shortly after the completion of the DTIS, as an answer to the trade-related needs elaborated therein.

In contrast, some discrepancies can be observed in the Asian countries where trade is put high on the national agenda, while Germany has phased out (Cambodia) or will phase out (Vietnam) its most clearly trade-focused activities. In Cambodia, Germany retreated from its "sustainable economic development" priority area in an attempt to streamline development cooperation. In Vietnam, the SME programme, a clearly trade-focused activity, will soon be phased out, while the remaining German engagement has only limited relevance for AfT. However, the suitability of the German approach in these Asian countries cannot be assessed, since it is not possible, within the scope of this study, to analyse whether trade-related needs are not in any case covered jointly by the donor community on the basis of each donor's comparative advantage or whether other reasons, such as an



explicit wish from the partner government for non-trade-related German activities, has led to these reactions. Yet, overall findings suggest that BMZ is making substantial efforts to align its aid – both in AfT and in other thematic areas – to strategies developed by partner countries.

#### 5.4.5 Donor coordination and Programme-Based Approaches (PBAs)

Three of the 15 activities analysed mention a mechanism to pool donor funds, albeit not always in directly trade-related areas: In Kenya, GTZ entered into an arrangement with DFID and Danida to co-finance a fund for political advisory work (“Agricultural Policy Support Facility”). Moreover, the Ghanaian Private Sector Development Strategy as well as its Trade Sector Support Programme are partly financed through a pool fund with contributions from, among others, GTZ. A third example was found at the ECOWAS regional level, where a multi-donor trust fund was established to support the development of the ECOWAS Secretariat.

While we came across some German budget support in two countries (Ghana, Mozambique), it is of a general nature, targeted to macroeconomic support, and without direct trade-relevance.

In some of the case study countries and regions, coordination of explicitly trade-related activities (i. e. TRA) takes place in specially labelled trade sub-groups of donor coordination mechanisms that are otherwise sector-based (SADC, Cambodia, Mozambique, Ghana<sup>48</sup>). In LDCs, donor coordination takes place (also) in IF/EIF structures, although – as could be observed in the case of Mozambique<sup>49</sup> – the outcomes are generally suboptimal. However, the bulk of activities analysed target productive capacities where donors usually practice sector-based coordination. There-

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48 In Ghana, the activities of the trade sub-group – part of the private sector coordination group – have been suspended. It is not clear when/whether they will be resumed.

49 Our field study showed that the IF had not worked well in Mozambique. Poor management of the IF focal point caused confusion as to the roles and responsibilities of the different IF actors. Moreover, disagreements delayed the release of funds and, subsequently, the implementation of some projects. However, improvements are under way: A new National Implementation Arrangement laying out the responsibility of each actor was put in place, and the ministry in charge is supported through technical assistance to manage the process (Condon / Stern s. a.).

fore, it seems that the broad perspective of AfT has not (yet) been incorporated into coordination structures, either on the donor or the partner country side. Instead, structures are still dominated by purely sector-based aspects and have not yet adapted to the requirements of AfT as a comprehensive and crosscutting initiative.

#### 5.4.6 Regional dimension

The German regional AfT portfolios in the two regions more closely analysed (ECOWAS, in the case study of Zeba / Untied (s. a.), and SADC in the portfolio analysis) consist of a comprehensive GTZ technical assistance programme in support of the REC secretariat, including some elements related to trade policy, plus an activity in the area of metrology and testing implemented by PTB. A number of SADC member states have, in addition, jointly received training by InWent on export potentials, commercial logistics and quality standards. Since GTZ is obliged to conform with BMZ country and sector foci, it deals with trade under the heading “governance” (i. e. support for REC secretariats) in its regional activities in SSA, since the corresponding BMZ profile does not include a priority area with a more economic focus (see Chapter 5.2).

Compared to other ACP regions, ECOWAS and SADC have been the main beneficiaries of German regional AfT so far. In the future, Germany will extend its engagement in the ACP regions by, for instance, launching new activities for CEMAC and CARICOM.

#### 5.5 Partial conclusion

To sum up, Germany makes use of a broad range of different instruments through its diverse implementing agencies engaged in AfT. The analysis confirmed a widely held impression that organisations and instruments are not yet combined in such a way as to fully exploit the potential emanating from this diversity. Definitely, the general tendency is towards increased interaction and cooperation among German actors and improved coordination with other donors. But as most activities are linked to trade only marginally, harmonisation efforts have usually not targeted trade explicitly.

The situations and activities analysed appear too diverse to identify clear best practice examples. The appropriate approach is dependent on the (sectoral) topic as well as the AfT category concerned, on the mode of delivery employed as well as on partner country characteristics. Still, most cases can be interpreted as “examples of good practice” in the sense that they took an open economy with all its resulting challenges and potentials as the starting point for designing their support. However, only a few activities explicitly chose trade issues as a constitutive element. Of course, since only countries with an AfT-relevant German priority area were selected for this study and, in a next step, only the seemingly relevant activities were more thoroughly examined, our sample cannot be regarded as representative for German development cooperation as a whole. Yet, we could observe that implementing agencies would generally be willing to include trade issues, provided that doing so appeared meaningful in the specific country circumstances and corresponded to the requests expressed by partners. It has also become clear that there is potential to widen and scale up German AfT efforts.

## **6 Shaping German Aid for Trade according to its comparative advantages**

### **6.1 Revealed comparative advantages**

The principles of aid effectiveness require donors to provide assistance according to their comparative advantages. In the context of development cooperation, the concept of comparative advantage cannot be understood exclusively as the “revealed comparative advantage” of economic theory, in the sense that strong past engagement automatically demonstrates strengths in delivering aid (compare Chapter 3.3). What is missing is a free market where demand and supply compete independently for market shares and where specialisation is driven by relative productive advantages and leads to better outcomes for both partners. Aid is unfamiliar with this market-led optimisation process, and it is, at least at present, driven strongly by donor supply. Usually, the offer of development assistance comes with a set of conditions shaped by the supplier, who is only marginally under pressure to adapt to preferences from the demand side. Moreover, the acceptance of assistance by the recipient is usually not limited by

a budget constraint for the funds accepted, at least not in the case of grants.<sup>50</sup>

A perfect fulfilment of the Paris Declaration with a shift to budget support, where countries would receive budgets depending on their felt needs and capacities and could unconditionally select the best provider of assistance, could relax these restrictions considerably. However, real world considerations – with many developing countries too weak to qualify for unrestricted budget support and others not willing to give up autonomy in exchange for such aid, and with political interests inseparable from development assistance – will most likely prevent far-reaching unconditionality and the establishment of a free market for development assistance.

Along with the EU approach (see Footnote 8), we consider comparative advantages in development cooperation to be a dynamic concept where the focus of assistance is based not only on a static assumption of certain endowments of a donor that (should) push him to concentrate on that focus but on past choices and activities of donors, on intangible factors (trust and confidence, need for learning), and this implies the possibility of building up areas of strength, provided that there is sufficient will to do so. Hence, donor engagement in AfT is more a political than a technical question and depends on the importance that a donor attaches to AfT and its various components compared to other topics of development cooperation.

Yet, past experiences and structural facts should serve as starting point for an informed decision on the future orientation of German AfT. To the extent to which this is possible on the basis of our research design, we can draw the following conclusions concerning Germany's revealed comparative advantages:

## **Intervention areas**

### *Aid for Trade*

Compared to other donors, Germany is a strong provider of total AfT, ranking third behind Japan and the US and first among EU member states between 2001 and 2006 (see Chapter 4.2). Compared to other donors,

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50 The concept of budget constraints can be applied for loans as long as repayment conditions are taken seriously.

German AfT is especially high in the category “building productive capacities”. Within this AfT category, Germany channelled a relatively high share of its AfT (19.0 %, Annex Table A3) to banking and financial services, as did Belgium, the Netherlands and the UK. While Germany has put a relatively low focus on agriculture (18.1 %) compared to other donors (Annex Table A3), it has gained considerable experience in agricultural value chains over the last 10 to 15 years. However, it cannot be determined in the context of this study whether Germany is better positioned than the various other donors in value chain development.

German AfT does not have a distinct focus on “trade-related infrastructure” compared to other donors. Yet, the level of support is still considerable in absolute terms, particularly with regards to “energy”, where only Japan and the US show a comparable level of engagement.

The latest German AfT data (BMZ 2009) shows that Germany has not yet been active in “trade-related adjustment”. Our case studies revealed some budget support, but without apparent links to trade.

### *Trade-Related Assistance*

Compared to other donors, Germany appears very active in CRS Code 25010 “business support services and institutions” according to the CRS database (see Chapter 4.2).<sup>51</sup> This code also features very prominently in German TRA data due to its 100 % eligibility for “trade development” (see Chapter 5.3.1). Two of the 15 activities analysed in our portfolio study carry this code. They consist of SME programmes combining business development services with improvements to the enabling environment (i.e. the legal, economic and institutional framework) – an area in which especially GTZ has gained extensive experience.

The WTO/OECD TCBDDB shows a strong German engagement in public-private sector networking (12.4 % of all donors), mostly through PPP facilities. According to these statistics, the Netherlands would be Germany’s “direct competitor” in this thematic field. “Trade finance” could be another German strength *vis-à-vis* other EU donors: Here, Germany and France lead the ranking of EU donors. However, according to our portfolio

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51 In the CRS database, Germany appears as the donor with the second highest ODA (after the US) reported as code 25010 between 2001 and 2006.

and case studies, German financial sector support touches upon trade only indirectly through a general boost of competitiveness, and, as trade finance, not very specifically, and it should therefore in most cases be considered as wider AFT (and not as TRA, as would be the case with targeted support to trade finance).

Germany and most other donors spend the bulk of TRA on (more money-intensive) “trade development”, while “trade policy and regulation” clearly receives less funding, particularly from bilateral donors. Yet, it can be argued that this latter category contains topics in which Germany has gained considerable experience, hinting at the existence of a potential comparative advantage (e. g. in quality infrastructure, reforms of customs and tariffs reform embedded in good governance programmes, trade in services). Moreover, German implementing agencies may be in a good position to deliver the stable and long-term commitment required to ensure the success of such activities and build the trust necessary for politically sensitive areas such as trade negotiations.

GTZ has extensive experience in supporting macro-level institutions in policy-making and reform processes. While activities at the national level tend to target general framework conditions, trade appears, as a distinct focus, more at the regional level, where GTZ implements comprehensive technical assistance programmes in support of REC secretariats, including elements related to trade policy. The long-term nature of and close cooperation with partner organisations was highlighted in many interviews and the case studies as an important issue for building trust and demand-based aid. This strength can be very useful in longer-term policy processes such as sector dialogue or when supporting the mainstreaming of trade in PRSPs and in other national development strategies. Moreover, specialised groups within GTZ work conceptually on trade issues (i. e. trade in general, agricultural trade as well as on environmental and social standards), among other things by facilitating the policy debate in Europe and in partner countries.

InWent has a long track record of providing human capacity training for trade, though this is generally not (yet) clearly rooted in comprehensive German country programmes. It has contributed a considerable share (40.5 %) to German aid in the category “trade policy and regulation”.

In the area of technical barriers to trade, Germany has been substantially engaged through PTB, both at the national and regional level. Germany is also the only donor with such an implementation unit specialised in technical standards.

### **Geographic focus**

According to the WTO/OECD TCDBD, Germany accounted for a significant amount of total TRA to Europe and Asia between 2001 and 2006 (4.3 % and 4.7 % of all donors' TRA, see Annex Table A2). In Africa and SSA, it funded a considerably smaller fraction of total TRA (2.0 % and 2.2 %), but it still ranks high among bilateral donors. However, the German share in TRA to Asia might decrease in the future, if the tendency observed in Cambodia and Vietnam continues (see Chapter 5.4) where trade elements in German activities are being downsized.

Numbers on overall AfT indicate a similar geographical pattern, although on a higher level relative to other donors: Germany provides 10.6 % of all donors' AfT to Europe (see Annex Table A5). Similarly, Germany is the EU donor with the highest share of AfT to Asia (6.1 %) <sup>52</sup> and ranks fourth among bilateral donors after the US, Japan and France on AfT to Africa (5.2 % of all donors' AfT) and SSA (4.0 %).

To sum up, Germany is especially strongly engaged in Europe. Moreover, it ranks high among bilateral donors in Asia and, to a lesser but still remarkable degree, in Africa. In all these regions, the German share in all donors' TRA is of smaller scale than that in AfT. This can be partly explained by German practices for reporting TRA to the TBDBD, which tended to be more rigorous than those applied by other donors (and hence resulted in relatively conservative German TRA figures). The relatively low share of German AfT explicitly dealing with trade *per se* is another explanation for the notably stronger German position in AfT compared with TRA only.

### **Implementing agencies and their tools**

German development cooperation has a diverse set of instruments at its disposal in the form of various implementing agencies, with their different

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52 Japan and the US are the only bilateral donors with a (clearly) higher share in Asia.

(and sometimes overlapping) tools and approaches (see Chapter 5, particularly Chapter 5.3.3 and Box 6). This can serve as real asset when working with AfT, where a wide range of trade-related needs ought to be tackled at multiple levels of intervention and with a substantial number of stakeholders involved. On the other hand, this diversity turns into a disadvantage if it is not sufficiently managed and coordinated. Generally speaking, German implementing agencies have been moving towards more concerted action. However, as trade has not been an area of attention in German development cooperation, trade-focused cooperation among implementing agencies has been rare thus far.

Technical Cooperation in the strict sense (GTZ, BGR and PTB) enjoys a high degree of flexibility with regards to the selection of tools and sub-topics. Indicators agreed upon with the BMZ are defined on the impact level, while the path for reaching them can be adapted relatively flexibly in the phase of implementation. In this respect, it is probably able to act more flexibly than those donors who mainly operate through consultants on the basis of detailed contracts specifying the indicators plus the method used to fulfil them, leaving little possibility to react responsively to changing circumstances. The long-term presence of German experts in the framework of continuing activities (see below) may be another reason for high flexibility. Whatever the reasons (our knowledge of other donors' aid approaches is limited), in our case studies the flexibility of German technical cooperation was often highlighted as a strength. It can be argued that this flexibility is particularly essential for AfT, since the ability to trade is also shaped by externalities outside the sphere of influence of development cooperation, which, hence, needs to respond quickly to changing conditions and threats as well as opportunities.

Financial Cooperation (KfW) and Technical Cooperation in the strict sense have direct access to German public administration, and this makes available substantial expertise in the area of trade policy or trade promotion. Moreover, several German implementing agencies have the capacity to enter into long-term relations with partner countries due to their contractual relationship with BMZ, and this provides for a high level of stability and stable orientation of their activities. Especially in trade, where processes are complex and interventions require time and patience, such a long-term orientation could be decisive. While these strengths constitute comparative advantages *vis-à-vis* donors who work mostly through short-



and medium-term consultants, the long-term perspective could also be established through other forms of cooperation (i.e. private suppliers financed through long-term budget support). Thus, whether the advantages mentioned outweigh the disadvantages arising from the tying of BMZ funds to these implementing agencies remains an open question.

The multilevel approach focusing simultaneously on the micro-, meso- and macro-level allows implementing agencies in principle (i. e. if working, which is not necessarily the case, compare Altenburg 2007) to keep close contact to the reality on the ground as well as to the national policy level, e.g. through the “Local Economic Development” approach applied by GTZ in Ghana (see Hoppe s. a.). Such a combination of (local) business development with national policy measures is clearly in line with the holistic approach of AfT. This appears to be a distinctive and positive feature of German AfT, despite the difficulties involved in putting such a comprehensive and resource-intensive approach into practice. Partly due to these challenges, German development agencies (especially GTZ, DED and CIM) have frequently cooperated in implementing the multilevel approach.

On a more general level, the local presence of German implementing agencies, with their relatively well-staffed field offices, was repeatedly cited by interviewees as comparative advantage of German development cooperation.

Germany is considered as an interesting location for trade fairs due to the possibility given there to establish contacts to German enterprises. Overall, its reputation as an export champion with an extensive experience in trade matters as well as its huge potential market for exporters from developing countries makes Germany an interesting partner in AfT.

## 6.2 Analysis of potential strengths, weaknesses, opportunities of and threats to AfT provided by Germany

What, based on our study, could be Germany’s comparative advantages for AfT has been listed in the previous chapter, but the weaknesses of this concept in the context of aid have also been discussed. Probably a less contested concept to guide Germany’s involvement in AfT is to concentrate on those instruments and intervention areas that correspond to its

acquired and/or realistically achievable strengths as compared to its weaknesses, but without comparing these to other donors. In this respect, BMZ could be guided by the following analysis of strengths, weaknesses, opportunities and threats (SWOT) provided by Germany. There, strengths and weaknesses are derived from our meta-analysis of existing German AfT, while the assessment of possible opportunities and threats associated with advancing the topic within development cooperation is often not confined to Germany in particular (see Box 9).

<b>Box 9: Potential SWOT analysis of AfT provided by Germany</b>	
<p><b>Strengths</b></p> <p>Diversity of AfT-related sectors served by German development cooperation</p> <p>Diversity of German agencies implementing AfT</p> <p>The only existing specialised agency for “quality infrastructure” (PTB)</p> <p>Relatively well-staffed field structure of German implementing agencies</p> <p>Comprehensive set of tools for trade-related needs at the micro-, meso- and macro-levels (“multilevel approach”)</p> <p>Substantial experience in value chain development</p> <p>Experience in capacity development for formulating, coordinating and implementing trade policy, also at the regional level</p> <p>Flexibility and responsiveness of financial and technical cooperation in the strict sense</p> <p>Ability to enter into long-term relations with partners</p> <p>Reputation as a donor with relatively few vested interests in supporting trade in specific developing countries</p> <p>Strong and interested German businesses engaged in trade (“export champion”)</p>	<p><b>Weaknesses</b></p> <p>Inefficiencies due to the multitude of German implementing agencies</p> <p>Weak conceptual coverage of trade-poverty links in activities analysed</p> <p>Rather weak conceptual coverage of trade-aspects in relevant BMZ policy papers</p> <p>Shallow integration of the PPP instrument into broader programmes</p> <p>Lack of systematic targeting of Financial Cooperation on trade</p> <p>German AfT has focused rather on more vibrant (i. e. easy to deliver) countries than on SSA or the ACP countries</p> <p>Political limitations when it comes to joining multilateral initiatives and PBAs</p>

**Box 9 (cont.): Potential SWOT analysis of AfT provided by Germany****Opportunities**

Highly diverse and crosscutting needs of different developing countries for AfT correspond to the diverse structure of German development cooperation

Realisation of synergy effects if German development cooperation succeeds in harmonising AfT in a coherent manner across implementing agencies, sectors and tools

EPAs will provide a comprehensive framework for many trade-related issues

As an important EU donor, Germany has both the resources and the obligation to regain the trust of ACP countries, which has suffered during WTO and EPA negotiations

The financial and economic crisis has raised the awareness of both developing and developed countries, including Germany, for trade as an important, but not automatic, motor of development

As new actors in development cooperation with their own agenda and clear trade interests, emerging economies clearly call for an appropriate EU response

**Threats**

The spirit of the EU AfT strategy as a holistic approach could be eroded if trade is not better integrated and more deeply underpinned in conceptual terms

National development strategies, such as PRSPs, risk losing their focus on poverty reduction if trade-based development gathers momentum without properly considering trade-poverty linkages

A lack of comprehensive national strategies through which partner countries express their real wishes and needs might reduce the impact of the AfT initiative

Lack of absorptive capacity might in some cases impede sustainable scaling up of AfT, particularly in SSA. On the regional level, increased collective engagement might result in a search for the few available RECs with adequate institutional capacities and supranational mandates.

Overlap of new AfT in donor "darling countries" if scaling up is not pursued in a coordinated manner

Possible neglect of non-ACP countries if EPA-support serves as the main rationale for scaling up (which is, however, denied in official declarations)

AfT as (an automatic) compensation for losses resulting from trade liberalisation can be contradictory to the aid effectiveness agenda and its stipulation to provide aid in a results-based manner

<b>Box 9 (cont.): Potential SWOT analysis of AfT provided by Germany</b>	
	<p><b>Threats (cont.)</b></p> <p>Shifting aid towards productive sectors without providing additional funding could risk undermining support for social sectors</p> <p>There is a risk that segmentation of development assistance into predefined agendas may be further advanced, reducing ownership and alignment at the national level*</p>
<p>* This threat is not confined to AfT but part of the general trend to earmark aid for certain purposes in health, the environment and other areas. This reduces the free availability of aid according to the goals of each partner country and contradicts the spirit of the Paris Declaration on Aid Effectiveness. The fact that many actors embrace the AfT agenda can be interpreted in part as a reaction to this trend, in the sense that previously neglected economic sectors regain attention (see Chapter 3.3). However, instead of breaking with the logic of segmentation, this further reinforces it. In principle, unconditional and non-segmented assistance according to the needs of each partner country should have priority.</p>	

Some of these issues are difficult to influence since they result from the general structure and size of German development cooperation (diversity of organisations, number and shape of sectors) or from partner countries (strategies, general capacities), while others are more directly linked to AfT and hence more readily accessible to change (trade in policy papers, integration of PPPs in trade-related activities, AfT-specific capacities).

### 6.3 Conclusions and recommendations for a future German Aid for Trade strategy

Going into more detail, the following considerations could guide BMZ in re-thinking and re-shaping its AfT portfolio.

#### 6.3.1 Positioning AfT *vis-à-vis* other topics within BMZ structures

BMZ can choose either to create specific instruments for AfT or to integrate it into existing structures. The former could consist of an earmarked

fund for trade-related activities similar to the existing Monterrey Fund (albeit with higher allocations) or, more radically, the creation of a priority area with a special emphasis on trade. Such a move would encourage all actors involved to advance their tools with a view to adjusting them to the special challenges of AfT. On the other hand, there are massive disadvantages involved in separating AfT from other sectors: It would risk further fragmenting the German aid system by fostering stand-alone projects and undermining the general tendency towards more comprehensive programmes.

Given the crosscutting nature of AfT, which touches upon a wide range of diverse issues, an approach focusing on integrating trade more comprehensively within existing priority areas would appear to be more promising than the creation of a priority area or sub-area targeting trade exclusively. Strategic considerations on shaping TRA should focus primarily on “Sustainable Economic Development” and also – due to its thematic importance for SSA – on “Food Security and Agriculture”. Furthermore, “Governance and Civil Society” and “Environment and Resource Protection” deserve attention.

More explicit integration of trade aspects would add a more international slant to relevant thematic sectors: It would need to be acknowledged that developing countries cannot isolate themselves from the rest of the globalising world but that economic policies increasingly have to take into account external influences affecting a country’s opportunities. Such an orientation towards international competitiveness could help to avoid a sub-optimal use of resources and the establishment of economic structures in need of continuous support or protection and vulnerable to internal and external crises.

If trade-related aspects become more prominent in the German aid portfolio, trade-poverty linkages will require a more comprehensive analysis and conceptual underpinning during all phases of project management. So far, these interdependencies have not featured prominently in project or programme documentation, partly due to complex causalities, partly because AfT-related elements have rarely been constitutive elements and have therefore not been mentioned explicitly in the impact chain. More care should also be devoted to formulating appropriate indicators for monitoring poverty effects of trade-related activities, particularly if Germany decides to increase its AfT.

Some extensions and revisions of BMZ policy papers are needed: First, BMZ strategies (*Konzepte*) need to offer both more comprehensive coverage (especially with regard to the priority area “Food Security and Agriculture”) and deeper integration of trade aspects in areas of clear relevance for AfT (primarily “Financial System Development” but also “Biodiversity” and “Social and Ecological Market Economy”). Second, an independent position or strategy paper mapping out the future German approach to AfT should serve to supplement the existing range of policy papers.

There should be a possibility to renegotiate the agreed priority areas for countries and regions in cases where the needs of the respective partner have changed or donors have modified their in-country (or in-region) division of labour. In the context of changes sparked by EPA implementation, such a modification could also be considered for the thematic orientation of Germany (*Profilbildung*) at the regional level in SSA. Currently, Financial Cooperation and Technical Cooperation in the strict sense attach their regional AfT in SSA to “Governance Reforms” (see Chapter 5.2). While the AfT category “trade policy and regulation” can easily fit into “Governance Reform”, the situation is less clear with regard to the remaining AfT categories. One can argue that the role of RECs in any case lies predominantly in coordinating trade policies and in monitoring their implementation, and less in adopting industrial policies or actively promoting the private sector. Yet, the German thematic orientation would better reflect the importance attached to regional economic integration through EPAs if trade and economic development were more prominently profiled at the regional level in SSA.

In countries (and regions) where such a re-orientation and re-negotiation of German priority areas does not appear appropriate, but AfT is in high demand, German AfT can still be delivered via delegated cooperation agreements or through multilateral channels, provided the necessary mechanisms for such arrangements are in place in the respective country (or region).

### 6.3.2 Financial commitments

Germany has almost reached its provisional target of € 220 million as its contribution to the EU pledge on TRA. Moreover, TRA levels have fluc-

tuated significantly and not yet been the outcome of stringent political steering (Chapter 5.3). It is, therefore, necessary to stabilise these aid volumes with a view to maintaining this high level of engagement and improving predictability.

Recent efforts undertaken by BMZ will have a positive effect in terms of such stabilisation and will even mean some further increases in TRA. The internal BMZ target (*Zielgröße*) for TRA is here of special relevance, as it obliges KfW, GTZ, BGR and PTB to implement jointly € 140 million from 2010, implying an increase of € 45 million over average 2005 to 2007 numbers.<sup>53</sup> Hence, assuming that TRA implemented by other German agencies reaches the earlier level of € 94 million (see Table 9), German TRA could be expected to amount to € 234 million in 2010. However, given the current conditions on international markets overshadowed by the financial and economic crisis, there are doubts whether DEG will find enough attractive trade-related investment objects to maintain its high level of TRA (€ 34 million TRA annually between 2005 and 2007), especially since its ODA-relevant business stems from more risk-intense equity holdings and equity-like arrangements.<sup>54</sup> Therefore, it cannot be taken for granted that the € 220 million level will be reached in future.

Moreover, although the rise in TRA over recent years can also be attributed to “real” increases, a substantial portion results from the (necessary) calibration and adjustment of reporting procedures, both in the case of Germany and other EU donors (see Chapters 4 and 5).<sup>55</sup> Since the outcomes of the changing TRA monitoring exercises are formally correct, political problems will not arise unless developing countries refuse to accept them. This might indeed happen, in particular if WTO and EPA negotiations bring AfT (again) to the forefront of critical attention. Moreover, if regional and national development strategies are adjusted to incor-

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53 Between 2005 and 2007, these agencies jointly reported € 96.1 million TRA annually (see Table 9, Chapter 5.3.3).

54 On the other hand, demand for DEG investments might rise due to the drying up of conventional sources of financing.

55 This is not to say that this process aimed at achieving such results in the sense that it engaged in creative book-keeping. The basic difficulties can be traced back further in time, i.e. to the unfortunate definition of the pledge made in absolute terms, without knowledge of the initial starting point. Since then, monitoring has been marked by effects of learning and successive adaptation to the extremely complex task of counting funding as a crosscutting issue.

porate more trade-related issues, donors will face a serious increase in demand for AfT, including TRA. The EU pledge on TRA should, therefore, be regarded as a general commitment to the topic and not as an immobile benchmark. EU donors should continue to work on advancing the AfT initiative, even though one of their targets – the provision of € 2 billion TRA – may soon be reached. Likewise, German efforts should not end with the fulfilment of the self-defined base line of € 220 million. Such an approach seems even more reasonable, since valid arguments (strong past involvement, Germany’s experience as an exporting nation, ties to many developing countries based more on trade relations than on history and geopolitics, extensive experience in some core areas of AfT, broad range of instruments well suited to tackle a crosscutting issue like AfT, see Chapters 5, 6.1 and 6.2) support the idea that Germany should engage disproportionately strongly in TRA compared to other EU member states.

Given the TRA pledge’s lack of “bite”, the EU commitment to increase total AfT in proportion to overall ODA will gain in importance. By focusing more strongly on upgrading productive sectors and economic infrastructure as well as on strengthening adjustment capacities, the somewhat artificial and often counterproductive divide between TRA and other AfT categories could be reduced, leading to more comprehensive packages of support to trade within support for economic development in general.

ACP countries especially will need additional support for wider AfT in order to be able to reap the benefits offered by EPAs. Therefore, even if Germany nominally contributes its “fair share” to the EU pledge on TRA, the scaling up of its total AfT will be a highly important endeavour to show commitment to making trade policy work for development. However, bearing in mind the broad scope of AfT, which covers almost one fifth of overall German ODA (see Chapter 4.2, Table 4), it makes little sense to set an internal BMZ target for overall AfT similar to that for TRA. Such a tool would risk undermining the principle of demand-led aid allocation. Instead, softer and more quality-centred approaches should be employed, such as ensuring that the German in-country sector concentration offers entry points for AfT, and, more generally, contributing to an appropriate and harmonised (German and international) response to requests from partner countries for AfT. Partners should also be encouraged to take a broad view when analysing their trade-related needs.



However, efforts to scale up AfT could be constrained by lack of absorptive capacity, particularly in SSA and at the regional level (in SSA and beyond). Other donors are also expected to put increased emphasis on trade, adding to the risk that existing structures may be overburdened. Coordination of these increased efforts will play a decisive role. Moreover, Germany should elaborate a relatively long-term schedule for scaling up AfT and TRA gradually (and therefore sustainably), while continuing to build up the necessary capacities of both partner and donor structures.

Like the EU pledge, fulfilment of the internal BMZ target line needs to be monitored. For the time being, monitoring of German TRA is based on proxies (see Chapter 5.3). However, once the internationally agreed “trade development” marker becomes fully operational (i. e. once it is assigned to all ongoing activities), it will serve as new basis for monitoring TRA, probably leading again to a jump in German TRA numbers (in either direction). This disruption and its implications for the fulfilment of the EU pledge will call for further attention. In this context, monitoring partner countries’ demand for AfT and of capacity constraints on their ability to voice this demand remains a big challenge. These would be important indications to judge whether low AfT numbers are due to (legitimate) lack of interest of developing countries in this kind of aid as compared to others areas, or whether the expressed demand could not be satisfied due to lack of absorption capacities (legitimate to a certain extent, but remediable), or whether donors have not complied with their commitments (not legitimate). This kind of monitoring thus would reduce the risk that the AfT agenda might become a stereotype exercise in fulfilling international obligations without bearing other criteria in mind. It would also comply with the recommendation of the WTO AfT Task Force to consider AfT only if it is embedded in national development programmes, i. e. if there is demand for it (WTO 2006b, 2, see Chapter 3.3).

### 6.3.3 Geographic focus

To date, SSA has not been the main beneficiary of German AfT or TRA. In this respect, the EU commitment to devote 50 % of its TRA increase to ACP countries is a chance for Germany to change course by re-focusing its trade-related activities on SSA. Putting SSA higher on the AfT agenda seems equally necessary from a purely German perspective, since the

primary BMZ objective is to reduce poverty, making SSA a natural target region.<sup>56</sup>

It may be assumed that East and Southeast Europe and Asia offer some potential for scaling up AfT, since Germany has a substantial record of trade-related activities as well as the necessary policy orientation (in terms of priority areas) in these regions. It would be more challenging to pursue a similar approach in Latin America, where Germany lacks the relevant priority areas.

#### 6.3.4 Bilateral modes of delivery: Organisations and tools

In principle, Germany is well positioned to respond to a wide range of trade-related needs in a relatively flexible manner thanks to its diverse set of instruments. If well-managed and fine-tuned (i. e. aligned with needs and coordinated with one another and with the instruments of other donors), this diversity can become an outstanding feature of German AfT. The general tendency is definitely towards increased interaction and cooperation among German implementing agencies. But as most activities are linked to trade only marginally, so far harmonisation efforts have usually not targeted trade explicitly.

The future approach could be, first, to guide implementing agencies in dealing with the potentials (and risks) of trade more explicitly in their activities. This would best be supported by an AfT strategy paper. Second, BMZ should strive to better harmonise its multitude of AfT instruments, with each implementing agency contributing its specific AfT talents (see Chapter 5.4): GTZ's main asset is its multidimensional approach to agricultural and private sector development and its process orientation in support of institution building at the policy level. The technical expertise of CIM, whose seconded staff work in line with partner country structures and are very well integrated into them, and the contacts with the micro-level established by DED should remain embedded in larger German programmes. InWent should be encouraged to contribute its extensive experience and gear it more systematically towards "trade policy and regulation" as well as "trade development". The Public Private Partnership (PPP)

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56 This is a clear example of a recommendation for AfT based not necessarily on revealed comparative advantage but on development targets and political will.

instrument should be better integrated into relevant programmes, especially with regard to linking up German and European enterprises with potential business partners in developing countries while leveraging related developmental effects. While PTB has a relatively clear-cut intervention area (“quality infrastructure”), steps must be taken to make sure that its activities are properly coordinated with other German (and international) activities in support of technical standards – especially those implemented by GTZ.

German tools for bilateral cooperation are still split up across implementing agencies, although attempts are under way to reshape the organisational landscape and merge (at least some of) these organisations. However, an appropriate response to extensive trade-related needs is often achieved best through a combination of these instruments, i. e. through some form of financial cooperation and technical assistance. There is considerable room for improvement in this respect. For example, KfW could seek more opportunities to provide its financial services to exporting businesses otherwise supported by GTZ. Another area with high potential for combining financial with technical cooperation is trade facilitation (see also below). Wherever possible, DEG investment activities should be taken on board to comprehensively promote the private sector. Since the logic of DEG engagements prevents it from being comprehensively integrated into German sector and country strategies (see Chapter 5.4.1, particularly Footnote 46), it will often appear more promising to attach programme-oriented packages of “more traditional” development cooperation to DEG investments, for instance through capacity building of MSMEs, their associations or independent service providers. Such approaches would live up to the spirit of the AfT initiative targeting all aspect of trade in a holistic manner, and DEG investments are large enough to justify the support of some “AfT islands” if they are well integrated into the national agenda. If it does not stem from DEG’s own funds, this support can be counted as ODA/AfT.

In the longer run, “joining up the individual structures of German development cooperation into a more cohesive force for development change” (OECD/DAC 2005) could resolve some of the inherent problems of cooperation among German implementing agencies. However, many other challenges are due rather to the complexity of the matter and of the different tools used, which, even if unified within one organisation, remain

difficult to join into one programme, especially since interventions always start from a given local context embedded in a complex framework of institutions, policies and geographical conditions.

### 6.3.5 Intervention areas

To increase absorptive and absorption capacity and prepare the ground for successful AfT, Germany should develop partner countries' institutional capacity (including at the regional level), starting out by clarifying what donors can offer under the heading "AfT" and how additional funding can be tapped. Other important areas for capacity development include the elaboration of needs assessments, skills for monitoring and evaluation (especially with regard to poverty effects) and improvement of general steering capacity to ensure ownership of the AfT agenda. Furthermore, Germany should intensify its support in the area of PRSP formulation with a view to ensuring the explicit integration of trade, also in its regional perspective. Possible tools include broad-based capacity development or, more specifically, support for elaborating and implementing project proposals and facilitating decision-making through the provision of financing, management techniques or logistics.

Germany has also gained considerable experience in other areas of "trade policy and regulation" (e. g. "quality infrastructure", reform of customs and tariffs, trade in services, social and ecological standards) and may be well positioned to adequately deliver the stable and long-term commitment required to ensure the success of such activities and build the trust necessary for politically sensitive areas such as trade negotiations. Moreover, Germany is the only donor with a specialised implementation unit dealing with "quality infrastructure" (PTB). These issues should, therefore, remain high on the German agenda, both at the national and regional level. As a rule of thumb, some of these policy areas might be more relevant for non-LDCs (e. g. trade related intellectual property rights), whereas topics such as support for PRSP processes are more urgent in LDCs. However, the final choice needs to be based on needs articulated by partner countries and the collective engagement of the donor community.

Against the background of the qualitative elements of the EU AfT strategy (see Chapter 3.1), and in line with the German model of the social and

ecological market economy, gender, environment and participation of civil society should be taken into account when programming German AfT.

Since the ability to cover rural areas is frequently cited as a German comparative advantage, such cooperation should be intensified to promote exporting businesses outside urban centres. International and regional value chains in agricultural products will continue to be very important, especially in SSA. In addition, the value chain approach should be strengthened to include other, non-agricultural sectors particularly in rural areas.

Germany is strongly engaged in developing the private sector, even though such activities are rarely explicitly geared towards export-oriented businesses. This intervention area should remain high on the German agenda but with a more pronounced orientation towards regional and international export potentials in countries where this seems appropriate. Moreover, cooperation between the various German instruments available for private sector development requires some optimisation, as described above.

Since KfW involvement in TRA has been of limited scale, new lines of action should be opened up here. This seems particularly promising in the area of financial services, where KfW has been very active, but without focusing specifically on trade finance. The current economic crisis, with its negative consequences for the availability of trade finance (see, for example, WTO 2008b), provides an excellent opportunity for Germany to develop its engagement in this area. Scaling up of financial cooperation should ideally be accompanied by technical assistance, at least in poorer countries.

KfW would have the tools necessary to step up wider AfT, too, e. g. in the area of financial products for businesses active in trade (in addition to trade finance), but also in economic infrastructure and budget support for cushioning shocks from trade liberalisation. Although infrastructure projects should still be mainly carried out in multi-donor initiatives – albeit in an internationally more harmonised manner based on better coordination or even some consolidation of the various existing instruments – KfW should be flexible enough to complement comprehensive German programmes with (smaller-scale) infrastructure elements, e. g. in the area of trade facilitation or storage facilities for agricultural development.

### 6.3.6 Multilateral instruments

Germany has been less inclined to use multilateral instruments. Therefore, there is potential exists to scale up its multilateral TRA and AfT, especially in areas which are highly sensitive politically or where multilaterals clearly enjoy a comparative advantage based on, for example, lack of required expertise among bilateral donors (see Chapter 3.3). Relevant multilateral channels include the EIF (see also below), ITC, UNCTAD and UNIDO. German development policy should have the leeway to increase support in these areas. This would require a more supportive stance on the part of the German Parliament, which has, so far, capped the share of multilateral aid at one third of the ODA provided by BMZ (see Chapter 3.2). However, there is ample evidence that multinational organisations such as the IF sometimes also suffer from grave inefficiencies rooted in issues such as lack of proper structures, personal, unclear governance, lack of alignment and harmonisation etc. Thus, though they are in principle often better positioned to carry out AfT, in practise it has to be decided on a case-by case basis whether multilateral channels are to be preferred. In some cases, close cooperation with and capacity development of such organisations could probably be a task for German implementing agencies.

Multi-donor instruments like regional AfT funds would, in theory, offer the possibility to provide ACP countries relatively quickly with additional AfT (including TRA). However, a recent study (Braun-Munzinger 2009) concluded that most regions (except possibly COMESA) appear to have a long way to go until regional funds are fully established there. Sufficient time still needs to be devoted to reflection on the desired purpose and appropriate design of such funds, while ACP regions and countries are already experiencing AfT needs.

*“Accordingly, it may help to consider regional funds as one delivery mechanism among several others and to make use of existing mechanisms to address immediate needs instead of waiting for regionally owned mechanisms to be in place. In parallel to starting the implementation of AfT agendas (once these will have been better defined) with existing instruments, policy-makers may wish to continue discussions on how to complement these with new regional funds – while avoiding excessive multiplicity of instruments – with a view to improving delivery and availability of resources in a sustainable way in the longer term.”*  
(Braun-Munzinger 2009, 22)

These recommendations are in line with our findings on multilateral tools - Germany should make use of the instruments already available to it, while being ready to contribute to regionally-owned AfT funds once they exist and fulfil core criteria, among others, accountability and transparency.

### 6.3.7 Donor coordination and Programme-Based Approaches (PBAs)

The AfT agenda contains a particular commitment to aid effectiveness, to be achieved by, among other things, implementing the EU Division of Labour. If this streamlining process is not appropriately managed, it risks creating orphan countries and sectors. In the context of AfT and, in particular, of EPA-related support, the EU is faced with the political imperative to prevent the formation of such orphans, since all EPA signatory countries count and depend on AfT to realise the full benefits and reduce adaptation losses. Apart from creating individual aid orphans, inappropriate concentration could trigger off spill-over problems in the respective region with larger political, social and economic costs. Thus, a carefully designed division of labour at the level of Europe and beyond is crucial. RECs should have a prominent place in assuring and monitoring this coordination and harmonisation.

The EC needs to proactively support the coordination of AfT from EU member states (and from other donors, if possible), particularly in the context of EPA-related support. EPAs concern a large number of countries which expect comprehensive support for EPA implementation, also in the context of regional integration. No one individual EU member state covers all these countries, and this places particular responsibility on the EC. The EC acknowledges this special task, but also concedes that it cannot solve this puzzle alone, among other things because its own EPA-related support is capped by the amount of funding available through the EDF. Therefore, the idea of appointing one AfT lead donor per ACP region seems worth considering for larger EU donors like Germany. This would certainly require strong political will from all EU member states, some decentralisation of decision making and also fresh funds, for instance to fill gaps in regional representation and develop the capacity of regional structures on both the donor and partner side.

In LDCs, the Enhanced Integrated Framework (EIF) should remain the main point of reference for coordinating AfT at the national level, provided that it can overcome the weaknesses of its predecessor, the Integrated Framework (IF). In participating partner countries, Germany should ensure that its AfT portfolio is in line with EIF instruments. As in Afghanistan, where Germany has already acted as an (E)IF donor facilitator, such a role is worth considering in other countries in which Germany has a track record, including in AfT-relevant sectors, if requested by the respective country.

Once the EIF is up and running, discussions on similar mechanisms for non-LDCs and at the regional level should be advanced. It would be worthwhile to evaluate whether the EIF or another institution such as the UN Economic Commission for Africa (UNECA) is in a position to take up such a role at the regional level, while ensuring that any new processes are closely linked to existing ones, such as the EU regional AfT packages for the ACP countries. If such an additional structure is not likely to deliver added value in the respective national or regional circumstances, donors should, instead, strive to use existing configurations as efficiently as possible by creating interlinkages between thematic sector groups relevant for AfT (e. g. agriculture, private sector development, transport and electricity) or by addressing AfT on a higher level of the coordination structure at which heads of sectoral coordination groups meet.

Germany has only recently started to channel larger volumes of ODA through programme-based approaches (PBAs). The special restrictions imposed by the German Parliament (see Chapter 3.2) and the existence of strong implementation structures may partly explain this reluctance. Moreover, PBAs employed by Germany have tended to come as general budget support or to be targeted specifically to social sectors. The particular problem involved in employing such modes of delivery in complex economic sectors dominated by private actors might explain this fact. However, where the relevant criteria, such as accountability and transparency of fund use, are met, Germany is increasingly prepared to provide assistance, including AfT, through budget support or sector wide approaches. Sector budget support for productive sectors or infrastructure could become more important in the context of EPA implementation and could serve as forward-looking adjustment support for restructuring (segments of) national economies. There is a certain tension between classic



budget support as a means to increase aid effectiveness and adjustment support as a means to deal with negative effects of trade agreements on individual sectors or as compensation for tax revenue losses – the second area is not as related to effectiveness-supporting measures, as is mostly the case in the first area. In any case, effectiveness must be the priority, but German engagement in budget support as support of adjustment processes should not be excluded as a matter of principle. If ACP countries or regions show clear commitment, combined with the necessary accountability procedures, Germany should examine – on a case-by-case basis, as required in any case by the German Parliament – its possibilities to provide them with trade-related budget support.

## **7 Summary of recommendations and next steps**

Trade has the potential to spur sustainable, long-term economic development. An open trade regime contributes to an efficient allocation of national resources, leading to more competitive performance on world markets. It encourages economies of scale, technology spill-overs and – especially important for small countries – foreign investment. SSA in particular is in need of more trade or, more precisely, of trade diversification and increases in export revenues, away from a situation marked by high dependency on a small number of commodities and limited local value addition. Even though the linkages between trade and overarching development targets, above all poverty reduction, are theoretically stringent and practically proven in a significant number of country cases, they do not materialise automatically. This is where AfT comes in by assisting developing countries with the means they need to reap the benefits available in an increasingly globalised world, both on a regional (i. e. South-South) and international scale.

The assessment of the German AfT portfolio made clear that a (better) conceptual underpinning is needed to comply with the requirements of the new concept “Aid for Trade”. Above all, it has to be ensured that trade-related activities do not occur as by-product of other activities but are designed and implemented out of a genuine commitment to trade as a tool for development. The most important task for German development cooperation will be to develop sufficient political will to foster further integra-

tion of trade issues into its ongoing bilateral activities while remaining sensitive enough not to push its partners into trade against their will and interests, as well as to better link with and contribute comprehensively designed German assistance to existing international initiatives. The aim must be to make the most out of Germany's diverse structure and tools while matching the priorities and needs of partner countries and complementing their efforts.

Towards this end, Germany needs to carve out a strategy to position itself within international discussions and to determine how it will respond to AfT requests from its partners. The following summary of principal recommendations (as elaborated in Chapter 6.3) is intended to inform such discussions on the German strategic approach to AfT.

#### *Positioning AfT vis-à-vis other topics within BMZ structures*

- AfT should be scaled up primarily on the basis of comprehensive and deep integration of trade in existing priority areas, especially “Sustainable Economic Development” and “Food Security and Agriculture”. Furthermore, “Governance and Civil Society” and “Environment and Resource Protection” deserve attention.
- Trade-poverty linkages require more comprehensive analysis and conceptual underpinning. More care should also be devoted to formulating indicators for monitoring poverty effects of trade-related activities.
- Some relevant BMZ strategies (*Konzepte*) need both more comprehensive coverage and a deeper integration of trade aspects in areas of clear relevance for AfT, i. e. an explicit account of trade as affecting the sector, the role of protection, the orientation of production and the combination of factors hindering trade (primarily “Agriculture”, “Financial System Development”, but also “Biodiversity” and “Social and Ecological Market Economy”).
- An independent position or strategy paper mapping out the future German approach to AfT should be prepared to supplement the range of existing policy papers.
- Current sector foci in partner countries and regions should be evaluated with regard to possible needs for renegotiation or at least be opened in the longer term to re-orientation. Delegated cooperation

agreements or multilateral channels are alternatives. AfT provides a particular window of opportunity to better align and harmonise donor support, due to the joint EU pledge which requires a joint approach, and the fact that the political negotiation processes, decision making and monitoring take place under the auspices of WTO.

### *Financial commitments*

- EU donors should continue to advance the AfT initiative, even though one of their formal targets – the provision of € 2 billion TRA – may soon be reached.
- Likewise, German efforts should not end with the fulfilment of the self-defined base line of € 220 million of TRA, since valid arguments speak in favour of a disproportionately large engagement of Germany compared to other EU donors.
- Germany should prove its commitment to development-friendly trade policy by scaling up overall AfT, especially in the context of support to Economic Partnership Agreements (EPAs). However, instead of setting another internal BMZ target for AfT, “softer” and qualitative approaches should be employed.
- To counter negative effects due to lack of absorptive capacity on the part of both partner and donor structures, Germany should elaborate a relatively long-term schedule for scaling up AfT and TRA gradually, while beginning to build up the necessary capacities.

### *Geographic focus*

- Any increased effort in AfT should focus primarily on SSA, not for reasons of historical continuity, but because of the region’s needs, its low degree of trade diversification and regional integration and the imperative to assist the continent to digest the EPAs. The latter are not only important for development but also key for future European-African political relations. Furthermore, East and Southeast Europe and Asia offer some potential for scaling up.

### *Bilateral modes of delivery: Implementing agencies and delivery mechanisms*

- German implementing agencies should be guided to target the potentials (and risks) of trade more explicitly in their activities.

- To make full use of its wide range of agencies and their respective tools, Germany should strive to fine-tune their interactions, e. g. through more joint approaches.

#### *Intervention areas*

- Themes that should stay high on the German AfT agenda include developing partner countries' institutional capacities to shape and implement their trade policies within wider development strategies, quality infrastructure, reforms of tariffs and customs, social and ecological standards, private sector development and value chain development, also in non-agricultural sectors. Great diligence must be employed to prevent activities from acting in support of own (German and EU) interests as negotiation and trade partners of developing countries. Alternative multilateral channels must be seriously considered and should be preferred if they are efficient and if conflicts of interests are possible.
- The tools offered by KfW can be expanded, particularly in the area of trade finance, but also with regard to wider AfT.

#### *Multilateral instruments*

- German development policy should have the leeway to scale up multilateral TRA and AfT in areas where this seems reasonable. This would require a more supportive stance on the part of the German Parliament.
- Germany should remain ready to contribute to regionally-owned AfT funds and help to make them operational and efficient.
- Germany should continue to support EIF processes at the international level and ensure that its AfT portfolios are in line with EIF instruments at country level. Additionally, consideration should be given to acting as donor-facilitator in an EIF country and/or as AfT lead donor in an ACP region. Once the EIF is up and running, discussions should be advanced on similar mechanisms for non-LDCs and at the regional level.

*Donor coordination and Programme-Based Approaches*

- Germany should strive to use existing configurations as efficiently as possible in advancing its AfT strategy, e. g. by creating interlinkages between relevant sector groups or by addressing AfT on a higher level of the coordination structure.
- The possibilities for stepping up the use of PBAs in German thematic areas relevant for AfT should be strengthened. This would include efforts to assist partners to better integrate trade into national and sector strategies, which would allow partners, in turn, to better assume their role as drivers, planners, and coordinators of development assistance.
- The EC should be encouraged to assume its role as coordinator for AfT, particularly at regional levels.

As possible next steps for implementing these recommendations, BMZ could take the following actions:

- Carve out a strategic approach to AfT – for example in the form of an independent position or strategy paper – in an inclusive manner involving the whole BMZ structure, including its field staff, and all relevant German implementing agencies.
- Continue to integrate trade into relevant BMZ policy papers.
- Develop the capacity to programme and implement AfT both within the BMZ structure and German implementing agencies, for example by elaborating toolboxes on how to design a trade-related activity, with special emphasis on trade-poverty linkages.
- Promote cooperation among German implementing agencies with special reference to AfT.
- Pursue a content-level coordination among EU donors with a view to engaging in joint actions, with a particular eye to the coordinating role of the EC.
- Assess where Germany could act as EIF donor facilitator and, with regard to ACP regions, as AfT lead donor.
- Keep an eye on the special needs of ACP countries that sign an EPA.

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## **ANNEXES**



**Table A1: Geographic distribution of TRA commitments 2001–2006, as percentage of total TRA committed by the donor**

	All regions	Africa		America	Asia	Europe	Global pro-grammes	Oceania
		Total	Sub-Saharan Africa					
Australia	100	3.1	0.4	2.0	52.5	0.0	26.1	16.3
Belgium	100	23.5	14.8	31.0	14.1	0.4	31.0	0.0
Canada	100	24.9	20.0	23.9	29.5	6.5	15.2	0.0
Denmark	100	48.0	47.2	1.1	21.1	22.5	7.4	0.0
Finland	100	46.0	39.6	4.3	25.4	9.5	14.7	0.1
France	100	55.5	35.3	3.9	29.4	7.8	3.2	0.3
<b>Germany</b>	<b>100</b>	<b>21.0</b>	<b>14.3</b>	<b>5.4</b>	<b>34.7</b>	<b>23.5</b>	<b>15.3</b>	<b>0.0</b>
Ireland	100	27.7	27.7	30.1	1.6	0.0	40.6	0.0
Japan	100	6.1	3.6	16.1	71.7	4.3	1.1	0.7
Netherlands	100	13.2	5.9	7.9	10.2	1.9	66.9	0.0

<b>Table A1 (cont.): Geographic distribution of TRA commitments 2001–2006, as percentage of total TRA committed by the donor</b>									
	All regions	Africa		America	Asia	Europe	Global pro-grammes	Oceania	
		Total	Sub-Saharan Africa						
Spain	100	29.5	4.9	51.2	10.3	5.7	3.3	0.0	
Sweden	100	36.0	15.3	0.8	6.7	12.1	44.4	0.0	
UK	100	55.5	47.2	5.4	10.7	4.5	23.9	0.0	
USA	100	29.7	17.8	22.2	28.7	10.6	8.9	0.0	
EC	100	28.3	15.0	14.5	15.2	28.9	11.9	1.3	
IDA	100	73.2	56.4	4.3	17.2	4.4	0.9	0.0	
ITC*	100	29.0	17.2	6.0	13.5	3.1	48.3	0.0	
UNCTAD*	100	21.2	13.1	7.0	31.0	4.5	36.2	0.0	
UNIDO*	100	34.9	23.0	10.3	45.6	2.0	7.1	0.0	

\* TRA implemented by the agency

Source: Based on data from WTO/OECD TCDBD

Table A2: Geographic distribution of TRA commitments 2001–2006, as percentage of total TRA to the region									
	All regions	Africa		America	Asia	Europe	Global pro-grammes	Oceania	
		Total	Sub-Saharan Africa						
<b>All donors</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	
Australia	0.6	0.1	0.0	0.1	1.5	0.0	1.2	10.9	
Belgium	1.3	1.0	1.0	2.6	0.8	0.0	2.9	0.0	
Canada	2.0	1.6	2.1	3.2	2.7	0.8	2.3	0.0	
Denmark	0.9	1.3	2.1	0.1	0.8	1.2	0.5	0.0	
Finland	0.4	0.6	0.9	0.1	0.5	0.3	0.5	0.0	
France	3.9	6.9	7.0	1.0	5.1	1.8	0.9	1.1	
<b>Germany</b>	<b>3.0</b>	<b>2.0</b>	<b>2.2</b>	<b>1.1</b>	<b>4.7</b>	<b>4.3</b>	<b>3.4</b>	<b>0.0</b>	
Ireland	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	
Japan	2.2	0.4	0.4	2.3	7.0	0.6	0.2	1.6	
Netherlands	3.7	1.5	1.1	1.9	1.7	0.4	17.8	0.0	

<b>Table A2 (cont.): Geographic distribution of TRA commitments 2001–2006, as percentage of total TRA committed by the donor</b>									
	All regions	Africa		America	Asia	Europe	Global programmes	Oceania	
		Total	Sub-Saharan Africa						
Spain	0.3	0.3	0.1	1.1	0.2	0.1	0.1	0.0	
Sweden	0.6	0.6	0.5	0.0	0.2	0.4	1.8	0.0	
UK	2.5	4.4	5.9	0.9	1.2	0.7	4.3	0.0	
USA	25.2	23.9	22.5	36.9	32.3	16.1	16.3	0.0	
EC	38.0	34.3	28.6	36.2	25.7	66.2	32.9	52.3	
IDA	5.2	12.1	14.7	1.5	4.0	1.4	0.3	0.2	
ITC*	0.8	0.8	0.7	0.3	0.5	0.2	2.9	0.0	
UNCTAD*	0.4	0.3	0.3	0.2	0.6	0.1	1.2	0.0	
UNIDO*	0.8	0.9	0.9	0.5	1.6	0.1	0.4	0.0	

\* TRA implemented by the agency

Source: Based on data from WTO/OECD TCDBD

**Table A3: Thematic distribution of AFT commitments 2001–2006, as percentage of total AFT committed by the donor**

	Total	TPR	TRI			BPC				
			Transport & Storage	Communication	Energy	Banking & Financial Services	Business & Other Services	Agriculture / Forestry / Fishing	Industry / Mining / Construction	Tourism
Australia	100	4.0	30.9	1.5	2.1	3.5	2.9	51.8	3.2	0.2
Belgium	100	1.6	17.3	4.2	3.4	27.4	0.6	39.4	5.9	0.2
Canada	100	5.4	1.6	7.6	4.7	6.5	6.8	46.3	20.9	0.0
Denmark	100	0.3	28.9	2.0	15.0	0.1	8.4	31.3	14.1	0.1
Finland	100	3.4	0.3	7.5	25.6	3.7	5.9	42.9	8.5	2.3
France	100	0.4	35.3	1.9	10.4	6.6	5.1	32.1	6.4	1.8
<b>Germany</b>	<b>100</b>	<b>0.9</b>	<b>18.7</b>	<b>1.2</b>	<b>27.8</b>	<b>19.0</b>	<b>8.8</b>	<b>18.1</b>	<b>5.3</b>	<b>0.1</b>
Ireland	100	0.2	21.2	2.1	0.2	4.4	1.2	65.6	4.3	0.8
Japan	100	0.9	44.9	2.7	29.9	0.4	0.3	16.6	2.8	1.6
Netherlands	100	4.4	11.6	4.0	10.6	20.9	16.8	29.0	2.6	0.1



**Table A3 (cont.): Thematic distribution of AfT commitments 2001–2006, as percentage of total AfT committed by the donor**

	Total	TPR	TRI			BPC				
			Transport & Storage	Communication	Energy	Banking & Financial Services	Business & Other Services	Agriculture / Forestry / Fishing	Industry / Mining / Construction	Tourism
Spain	100	0.3	46.3	4.4	13.2	3.9	0.9	20.3	9.5	1.2
Sweden	100	6.4	21.4	3.7	17.3	8.7	9.4	30.5	2.6	0.0
UK	100	4.7	13.1	4.4	16.1	16.9	13.0	20.1	11.3	0.3
USA	100	7.2	13.2	2.9	29.4	3.2	13.2	14.9	15.9	0.0
EC	100	7.3	35.3	2.1	13.7	3.5	8.3	12.2	16.6	0.9
IDA	100	1.3	30.9	1.7	22.6	10.7	5.5	22.9	4.2	0.0

Source: Based on data from OECD CRS

**Table A4: Geographic distribution of AfT commitments 2001–2006, as percentage of total AfT committed by the donor**

		Africa		America	Asia	Europe	Oceania	Unallocated/ Unspecified
		Total	Sub-Saharan Africa					
<b>Australia</b>	<b>AfT total</b>	<b>100</b>	<b>4.0</b>	<b>0.3</b>	<b>48.2</b>	<b>0.1</b>	<b>44.0</b>	<b>3.4</b>
	TPR	100	0.0	6.3	63.5	0.0	22.5	7.7
	TRI	100	0.1	0.0	4.5	0.0	91.7	3.8
	BPC	100	6.4	0.1	71.7	0.1	18.7	3.0
<b>Belgium</b>	<b>AfT total</b>	<b>100</b>	<b>51.1</b>	<b>17.1</b>	<b>13.1</b>	<b>0.6</b>	<b>0.0</b>	<b>18.1</b>
	TPR	100	39.7	39.6	3.1	0.0	0.0	17.7
	TRI	100	68.2	12.0	17.6	0.1	0.0	2.1
	BPC	100	45.5	18.3	11.8	0.8	0.0	23.5
<b>Canada</b>	<b>AfT total</b>	<b>100</b>	<b>37.8</b>	<b>18.8</b>	<b>38.1</b>	<b>1.5</b>	<b>0.0</b>	<b>3.8</b>
	TPR	100	27.9	31.4	30.9	0.0	0.0	9.6
	TRI	100	42.4	25.8	26.0	0.3	0.1	5.4
	BPC	100	37.6	16.9	40.5	1.7	0.0	3.2

**Table A4 (cont.): Geographic distribution of AfT commitments 2001–2006, as percentage of total AfT committed by the donor**

		Africa		America	Asia	Europe	Oceania	Unallocated/ Unspecified
		Total	Sub-Saharan Africa					
<b>Denmark</b>	<b>AfT total</b>	<b>100</b>	<b>53.7</b>	<b>8.2</b>	<b>32.2</b>	<b>0.1</b>	<b>0.0</b>	<b>5.8</b>
	TPR	100	10.1	0.0	12.8	0.0	0.0	77.1
	TRI	100	61.4	9.1	29.4	0.0	0.0	0.1
	BPC	100	47.4	7.4	34.8	0.2	0.0	10.2
<b>Finland</b>	<b>AfT total</b>	<b>100</b>	<b>34.3</b>	<b>12.3</b>	<b>37.1</b>	<b>3.1</b>	<b>0.0</b>	<b>13.2</b>
	TPR	100	11.4	0.0	8.7	0.0	0.0	79.9
	TRI	100	25.1	17.7	56.2	0.1	0.1	0.9
	BPC	100	40.4	10.1	28.6	4.9	0.0	16.1
<b>France</b>	<b>AfT total</b>	<b>100</b>	<b>54.1</b>	<b>4.6</b>	<b>28.7</b>	<b>2.6</b>	<b>1.2</b>	<b>8.9</b>
	TPR	100	23.4	0.0	18.7	0.0	0.0	57.9
	TRI	100	60.8	2.4	32.8	1.0	1.4	1.6
	BPC	100	48.1	6.7	24.9	4.0	1.0	15.2

**Table A4 (cont.): Geographic distribution of Aft commitments 2001–2006, as percentage of total Aft committed by the donor**

		Africa		America	Asia	Europe	Oceania	Unallocated/ Unspecified
		Total	Sub-Saharan Africa					
<b>Germany</b>	<b>Aft total</b>	<b>100</b>	<b>15.5</b>	<b>8.1</b>	<b>49.0</b>	<b>10.6</b>	<b>0.1</b>	<b>5.5</b>
	TPR	100	29.4	0.4	23.3	5.3	0.0	41.6
	TRI	100	22.0	4.0	63.2	9.0	0.1	1.7
	BPC	100	31.1	12.0	36.3	12.1	0.1	8.3
<b>Ireland</b>	<b>Aft total</b>	<b>100</b>	<b>79.3</b>	<b>2.5</b>	<b>9.3</b>	<b>1.1</b>	<b>0.0</b>	<b>7.8</b>
	TPR	100	34.1	1.3	33.3	0.0	0.0	31.3
	TRI	100	86.6	0.4	1.0	0.0	0.0	11.9
	BPC	100	77.2	3.1	11.8	1.4	0.0	6.4
<b>Japan</b>	<b>Aft total</b>	<b>100</b>	<b>9.5</b>	<b>4.1</b>	<b>80.5</b>	<b>4.4</b>	<b>0.9</b>	<b>0.6</b>
	TPR	100	3.7	12.5	44.8	0.4	0.5	38.1
	TRI	100	7.5	2.7	83.5	5.5	0.7	0.1
	BPC	100	17.1	8.7	71.1	0.7	1.5	0.9

**Table A4 (cont.): Geographic distribution of Aft commitments 2001–2006, as percentage of total Aft committed by the donor**

			Africa		America	Asia	Europe	Oceania	Unallocated/ Unspecified
			Total	Sub-Saharan Africa					
<b>NL</b>	<b>Aft total</b>	<b>100</b>	<b>16.8</b>	<b>14.0</b>	<b>7.7</b>	<b>18.1</b>	<b>2.9</b>	<b>0.0</b>	<b>54.5</b>
	TPR	100	8.6	6.6	6.0	6.8	0.0	0.0	78.6
	TRI	100	14.4	13.6	3.2	25.5	0.2	0.0	56.7
	BPC	100	18.2	14.6	9.5	15.9	4.1	0.0	52.2
<b>Spain</b>	<b>Aft total</b>	<b>100</b>	<b>28.5</b>	<b>10.7</b>	<b>22.2</b>	<b>25.3</b>	<b>22.5</b>	<b>0.0</b>	<b>1.5</b>
	TPR	100	35.3	5.2	46.7	15.2	0.0	0.0	2.8
	TRI	100	30.2	6.9	10.2	26.4	31.8	0.0	1.4
	BPC	100	25.5	17.4	43.5	23.4	6.1	0.0	1.6
<b>Sweden</b>	<b>Aft total</b>	<b>100</b>	<b>41.9</b>	<b>32.2</b>	<b>5.3</b>	<b>23.6</b>	<b>10.3</b>	<b>0.0</b>	<b>18.8</b>
	TPR	100	33.8	15.8	0.2	5.7	1.0	0.0	59.3
	TRI	100	52.5	43.2	0.6	32.2	6.0	0.0	8.8
	BPC	100	34.1	25.1	9.9	18.8	15.1	0.0	22.1

**Table A4 (cont.): Geographic distribution of Aft commitments 2001–2006, as percentage of total Aft committed by the donor**

			Africa		America	Asia	Europe	Oceania	Unallocated/ Unspecified
			Total	Sub-Saharan Africa					
<b>UK</b>	<b>Aft total</b>	<b>100</b>	<b>35.5</b>	<b>26.0</b>	<b>7.8</b>	<b>38.4</b>	<b>0.9</b>	<b>0.9</b>	<b>16.6</b>
	TPR	100	43.9	27.4	19.7	26.6	1.0	0.1	8.7
	TRI	100	30.6	29.3	12.8	47.1	0.1	0.4	9.0
	BPC	100	37.4	24.2	4.1	34.6	1.3	1.2	21.4
<b>USA</b>	<b>Aft total</b>	<b>100</b>	<b>14.3</b>	<b>7.4</b>	<b>7.2</b>	<b>69.7</b>	<b>4.1</b>	<b>0.5</b>	<b>4.1</b>
	TPR	100	70.4	19.0	6.5	11.4	2.0	0.0	9.7
	TRI	100	3.4	1.9	3.0	90.4	1.4	0.8	1.0
	BPC	100	16.2	10.9	11.4	58.7	7.1	0.3	6.3
<b>EC</b>	<b>Aft total</b>	<b>100</b>	<b>58.6</b>	<b>50.2</b>	<b>11.7</b>	<b>9.4</b>	<b>12.7</b>	<b>1.3</b>	<b>6.4</b>
	TPR	100	37.8	24.8	17.4	23.6	9.1	0.0	12.1
	TRI	100	72.2	64.1	8.5	4.6	13.0	0.6	1.1
	BPC	100	45.4	37.6	14.5	12.7	13.0	2.4	11.9

**Table A4 (cont.): Geographic distribution of Aft commitments 2001–2006, as percentage of total Aft committed by the donor**

	Aft total	Africa		America	Asia	Europe	Oceania	Unallocated/ Unspecified
		Total	Sub-Saharan Africa					
<b>IDA</b>	<b>100</b>	<b>45.4</b>	<b>40.0</b>	<b>3.7</b>	<b>45.4</b>	<b>5.3</b>	<b>0.1</b>	<b>0.1</b>
TPR	100	66.4	63.8	2.6	18.4	12.5	0.0	0.0
TRI	100	51.0	44.0	4.6	39.6	4.5	0.2	0.1
BPC	100	37.6	34.2	2.6	53.7	6.0	0.0	0.0

Source: Based on data from OECD CRS

Table A5: Geographic distribution of Aft commitments 2001–2006, as percentage of total Aft to the region									
		Africa		America	Asia	Europe	Oceania	Unallocated / Unspecified	
		Total	Sub-Saharan Africa						
<b>All donors</b>	<b>Aft total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	
	TPR	100	100	100	100	100	100	100	
	TRI	100	100	100	100	100	100	100	
	BPC	100	100	100	100	100	100	100	
<b>Australia</b>	<b>Aft total</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.8</b>	<b>0.0</b>	<b>34.5</b>	<b>0.5</b>	
	TPR	0.0	0.0	0.6	3.3	0.0	65.9	0.4	
	TRI	0.0	0.0	0.0	0.0	0.0	43.1	1.2	
	BPC	0.2	0.3	0.0	2.0	0.0	21.7	0.4	
<b>Belgium</b>	<b>Aft total</b>	<b>1.6</b>	<b>1.7</b>	<b>2.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.0</b>	<b>3.3</b>	
	TPR	0.4	0.7	1.7	0.1	0.0	0.0	0.5	
	TRI	1.0	0.9	1.1	0.1	0.0	0.0	0.6	
	BPC	2.3	2.6	2.9	0.5	0.2	0.0	4.3	



<b>Table A5 (cont.): Geographic distribution of AFT commitments 2001–2006, as percentage of total AFT to the region</b>									
		<b>Africa</b>		<b>America</b>	<b>Asia</b>	<b>Europe</b>	<b>Oceania</b>	<b>Unallocated / Unspecified</b>	
		Total	Sub-Saharan Africa						
<b>Canada</b>	<b>AfT total</b>	<b>1.6</b>	<b>1.3</b>	<b>3.4</b>	<b>1.1</b>	<b>0.3</b>	<b>0.1</b>	<b>1.0</b>	
	TPR	1.3	1.0	6.4	3.4	0.0	0.0	1.2	
	TRI	0.5	0.3	1.8	0.2	0.0	0.0	1.1	
	BPC	3.0	2.4	4.2	2.4	0.7	0.1	0.9	
<b>Denmark</b>	<b>AfT total</b>	<b>2.5</b>	<b>3.2</b>	<b>1.6</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.6</b>	
	TPR	0.0	0.1	0.0	0.1	0.0	0.0	0.6	
	TRI	2.6	3.4	2.3	0.7	0.0	0.0	0.1	
	BPC	2.7	3.2	1.3	1.5	0.1	0.0	2.2	
<b>Finland</b>	<b>AfT total</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>	<b>0.8</b>	
	TPR	0.1	0.2	0.0	0.1	0.0	0.0	1.5	
	TRI	0.2	0.2	0.7	0.2	0.0	0.0	0.1	
	BPC	0.6	0.6	0.5	0.3	0.4	0.0	0.8	

Table A5 (cont.): Geographic distribution of AFT commitments 2001–2006, as percentage of total AFT to the region									
		Africa		America	Asia	Europe	Oceania	Unallocated / Unspecified	
		Total	Sub-Saharan Africa						
<b>France</b>	<b>AfT total</b>	<b>6.1</b>	<b>4.4</b>	<b>2.2</b>	<b>2.1</b>	<b>1.5</b>	<b>3.9</b>	<b>6.0</b>	
	TPR	0.2	0.1	0.0	0.4	0.0	0.0	1.4	
	TRI	6.5	3.8	1.5	1.9	0.5	3.9	3.0	
	BPC	6.3	5.5	2.8	2.5	2.8	4.1	7.4	
<b>Germany</b>	<b>AfT total</b>	<b>5.2</b>	<b>4.0</b>	<b>6.6</b>	<b>6.1</b>	<b>10.6</b>	<b>0.5</b>	<b>6.3</b>	
	TPR	1.1	2.2	0.1	2.1	2.0	0.0	4.1	
	TRI	4.0	2.5	4.3	6.2	8.0	0.5	5.6	
	BPC	6.9	5.8	8.4	6.2	14.3	0.4	6.8	
<b>Ireland</b>	<b>AfT total</b>	<b>0.4</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	
	TPR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	TRI	0.2	0.2	0.0	0.0	0.0	0.0	0.5	
	BPC	0.6	0.8	0.1	0.1	0.1	0.0	0.2	

Table A5 (cont.): Geographic distribution of AFT commitments 2001–2006, as percentage of total AFT to the region									
		Africa		America	Asia	Europe	Oceania	Unallocated / Unspecified	
		Total	Sub-Saharan Africa						
<b>Japan</b>	<b>AfT total</b>	<b>6.4</b>	<b>4.2</b>	<b>11.5</b>	<b>35.3</b>	<b>15.5</b>	<b>18.1</b>	<b>2.5</b>	
	TPR	0.5	0.5	6.9	13.4	0.6	8.1	12.7	
	TRI	7.8	4.6	16.8	46.9	27.8	19.9	1.9	
	BPC	5.5	4.1	8.8	17.4	1.2	16.0	1.1	
<b>NL</b>	<b>AfT total</b>	<b>1.4</b>	<b>1.6</b>	<b>2.8</b>	<b>1.0</b>	<b>1.3</b>	<b>0.0</b>	<b>28.0</b>	
	TPR	0.7	1.0	2.0	1.3	0.0	0.0	16.1	
	TRI	0.6	0.8	0.9	0.6	0.0	0.0	45.8	
	BPC	2.4	2.5	4.0	1.6	2.9	0.1	25.7	
<b>Spain</b>	<b>AfT total</b>	<b>1.9</b>	<b>0.9</b>	<b>6.2</b>	<b>1.1</b>	<b>7.8</b>	<b>0.0</b>	<b>0.6</b>	
	TPR	0.1	0.0	0.8	0.1	0.0	0.0	0.0	
	TRI	2.6	0.7	5.1	1.2	13.1	0.0	2.2	
	BPC	1.4	1.2	7.3	1.0	1.7	0.0	0.3	

Table A5 (cont.): Geographic distribution of AFT commitments 2001–2006, as percentage of total AFT to the region									
		Africa		America	Asia	Europe	Oceania	Unallocated / Unspecified	
		Total	Sub-Saharan Africa						
<b>Sweden</b>	<b>AFT total</b>	<b>1.5</b>	<b>1.5</b>	<b>0.8</b>	<b>0.6</b>	<b>1.9</b>	<b>0.0</b>	<b>4.0</b>	
	TPR	1.6	1.5	0.0	0.6	0.5	0.0	7.4	
	TRI	1.6	1.7	0.1	0.5	0.9	0.0	4.8	
	BPC	1.4	1.3	1.3	0.6	3.3	0.0	3.4	
<b>UK</b>	<b>AFT total</b>	<b>4.0</b>	<b>3.8</b>	<b>3.6</b>	<b>2.8</b>	<b>0.5</b>	<b>2.9</b>	<b>11.1</b>	
	TPR	4.7	6.0	9.4	6.9	1.1	2.0	2.5	
	TRI	2.3	2.8	5.7	1.9	0.0	0.8	12.1	
	BPC	5.8	4.7	2.0	4.1	1.1	5.8	12.2	
<b>USA</b>	<b>AFT total</b>	<b>7.1</b>	<b>4.8</b>	<b>15.1</b>	<b>22.4</b>	<b>10.7</b>	<b>7.7</b>	<b>12.1</b>	
	TPR	51.7	28.4	21.0	20.1	15.3	0.0	19.0	
	TRI	1.5	1.1	8.0	21.8	3.0	9.7	7.7	
	BPC	8.5	7.3	18.8	23.5	19.9	5.3	12.1	

Table A5 (cont.): Geographic distribution of AFT commitments 2001–2006, as percentage of total AFT to the region									
		Africa		America	Asia	Europe	Oceania	Unallocated / Unspecified	
		Total	Sub-Saharan Africa						
<b>EC</b>	<b>AFT total</b>	<b>23.0</b>	<b>25.8</b>	<b>19.2</b>	<b>2.4</b>	<b>25.9</b>	<b>15.1</b>	<b>14.9</b>	
	TPR	22.1	29.6	44.8	33.1	55.8	0.0	19.0	
	TRI	28.7	33.1	20.2	1.0	25.1	5.9	7.8	
	BPC	16.6	17.5	16.7	3.5	25.1	28.2	15.9	
<b>IDA</b>	<b>AFT total</b>	<b>21.8</b>	<b>25.3</b>	<b>7.5</b>	<b>14.1</b>	<b>13.2</b>	<b>1.5</b>	<b>0.2</b>	
	TPR	8.6	17.0	1.5	5.7	17.0	0.0	0.0	
	TRI	26.7	30.2	14.5	11.2	11.6	2.6	0.6	
	BPC	17.6	20.5	3.8	19.1	14.9	0.1	0.1	

Source: Based on data from OECD CRS

**Table A6: Thematic and geographic focus of TRA/AFT commitments 2001–2006**

	<b>Biggest sub-category TRA</b>	<b>Biggest sub-category AFT</b>	<b>Biggest region TRA</b>	<b>Biggest region AFT</b>
Australia	Trade mainstreaming in PRSPs/development plans	Agriculture / Forestry / Fishing	Asia	Asia
Belgium	Trade finance	Agriculture / Forestry / Fishing	America/ Global Programmes	Africa
Canada	Market analysis	Agriculture / Forestry / Fishing	Asia	Asia
Denmark	Business support services and institutions	Agriculture / Forestry / Fishing	Africa	Africa
Finland	Trade promotion strategy and implementation	Agriculture / Forestry / Fishing	Africa	Asia
France	Trade promotion strategy and implementation	Transport & Communication	Africa	Africa
<b>Germany</b>	<b>Trade finance</b>	<b>Energy</b>	<b>Asia</b>	<b>Asia</b>
Ireland	Business support services and institutions	Agriculture / Forestry / Fishing	Global Programmes	Africa
Japan	Trade education/training	Transport & Communication	Asia	Asia
Netherlands	Trade promotion strategy and implementation	Agriculture / Forestry / Fishing	Global Programmes	Unallocated

<b>Table A6 (cont.): Thematic and geographic focus of TRA/AfT commitments 2001–2006</b>				
	<b>Biggest sub-category TRA</b>	<b>Biggest sub-category AfT</b>	<b>Biggest region TRA</b>	<b>Biggest region AfT</b>
Spain	Trade promotion strategy and implementation	Transport & Communication	America	Africa
Sweden	Business support services and institutions	Agriculture / Forestry / Fishing	Global Programmes	Africa
UK	Business support services and institutions	Agriculture / Forestry / Fishing	Africa	Asia
USA	Trade promotion strategy and implementation	Energy	Africa	Asia
EC	Market analysis	Transport & Communication	Europe	Africa
IDA	Trade facilitation procedures	Transport & Communication	Africa	Africa/ Asia
ITC*	Business support services and institutions		Global Programmes	
UNCTAD*	Trade mainstreaming in PRSPs/development plans		Global Programmes	
UNIDO*	Trade promotion strategy and implementation		Asia	

\*implemented by the agency

Source: Based on data from WTO/OECD TCDBB and OECD CRS

<b>Table A7: Mainstreaming of trade aspects in BMZ policy papers</b>					
	<b>Year of publication</b>	<b>Mentions of "trade" or "Handel"</b>	<b>Pages (with-out cover)</b>	<b>Mentions per page</b>	
Sectoral concept: Quality Infrastructure	2004	46	20	2.30	
Sectoral concept: Economic policy	2008	17	14	1.21	
Concept for cooperation with the East African Community	2007	11	13	0.85	
Regional concept: Africa	2004	13	22	0.59	
Regional concept: Latin America and the Caribbean	2008	9	22	0.41	
Sectoral concept: Rural development	2001	8	20	0.40	
Regional concept: Central Asia	2005	4	11	0.36	
Profile Asia: Socially balanced economic development	2008	4	13	0.31	
Profile sub-Saharan Africa: Sustainable economic development		4	14	0.29	
Regional concept: Asia	2008	6	30	0.20	
Profile sub-Saharan Africa: Good governance		3	17	0.18	



<b>Table A7 (cont.): Mainstreaming of trade aspects in BMZ policy papers</b>					
	<b>Year of publication</b>	<b>Mentions of "trade" or "Handel"</b>	<b>Pages (with-out cover)</b>	<b>Mentions per page</b>	
Regional concept: Caucasus	2004	2	12	0.17	
Regional concept: South East Europe	2005	5	36	0.14	
Sectoral concept: Geology and mining	1997	2	17	0.12	
Sectoral concept: Biodiversity	2008	2	20	0.10	
Sectoral concept: Financial system development	2004	5	51	0.10	
Profile Asia: Environment	2008	1	12	0.08	
Sectoral concept: Fishery and aquaculture	1997	1	16	0.06	
Sectoral concept: Promotion of good governance	2009	1	25	0.04	
Profile Asia: Democratization, good governance and conflict transformation	2008	0	12	0.00	
Sectoral concept: Social and ecological market economy	2007	0	4	0.00	
Source: Own calculations					

**Table A8: German AFT to EPA regions, average 2005–2007 in € millions and as percentage**

	<b>Cat. 1: TPR</b>	<b>Cat. 2: TD</b>	<b>Cat. 3: TRI</b>	<b>Cat. 4: BPC</b>
CARIFORUM	0.0	0.2	5.3	0.9
CEMAC	0.0	2.5	5.2	4.6
EAC	0.9	3.1	4.8	5.7
ECOWAS	0.7	13.4	17.5	22.1
ESA	1.9	6.2	12.5	11.0
PACP	0.0	0.0	0.5	0.2
SADC	1.0	6.5	11.2	19.2
<b>Total</b>	<b>4.6</b>	<b>32.0</b>	<b>56.9</b>	<b>63.7</b>
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Based on data from BMZ

## **Annex 2: List of phone or face-to-face interviews**

### **1. Donors**

**Karl Backeus**, Aid-for-trade focal point at the Department for Development Policy, Ministry for Foreign Affairs, Sweden, 05.09.2008

**Hugo Cameron**, Economic Policy Advisor Division, Economic Analysis Division, Strategic Policy and Performance, Canadian International Development Agency, 12.09.2008

**Gerard Considine**, Senior Development Specialist, Irish Aid, Ireland, 18.08.2008

**Rajan Dhanjee**, Legal Officer, Division on International Trade in Goods and Services, and Commodities, UNCTAD, 23.09.2008

**Liselotte Isaksson**, Economic Development: Infrastructure Networks, Trade and Regional Integration, DG DEV, European Commission, 24.11.2008

**Steffen Kaeser**, Industrial development officer, Trade Capacity Building Branch, UNIDO, 16.09.2008

**Anke van Lancker**, Federal Public Service Foreign Affairs, Foreign Trade and Development Cooperation, Belgium, 27.08.2008

**Ben Nupnau**, Quality Management Officer, DG AIDCO, European Commission, 24.11.2008

**Camilla Otto**, Deputy Head, Head of Aid for Trade Team, Trade Policy Unit, DFID, Great Britain, 18.02.2009

**Johannes Smeets**, Policy Advisor – Trade and Development, Sustainable Economic Development Department, Ministry of Foreign Affairs of the Kingdom of the Netherlands, 15.09.2008

**Marie-Cecile Thirion**, Ministry of Foreign and European Affairs, Development and Technical Co-operation Department, France, 08.10.2008

**Dr. Kent Wilska**, Commercial Counsellor, Department for External Economic Relations, Ministry for Foreign Affairs, Finland, 22.08.2008.

**Albert Wright**, Chief Advisor, Ministry of Foreign Affairs, Denmark, 19.09.2008

<b>Annex 2 (cont.): List of phone or face-to-face interviews</b>
<b>2. German implementing agencies</b>
<p><b>Doris Becker</b>, GTZ, SME promotion programme, Vietnam, 21.01.2009</p> <p><b>Florian Bernhardt</b>, GTZ, Strengthening the ECOWAS secretariat through strategic management and technical expertise, ECOWAS, 24.02.2009</p> <p><b>Carola Heider</b>, PTB, Promotion of metrology and testing in West African countries, ECOWAS, 24.02.2009</p> <p><b>Reimund Hoffmann</b>, GTZ, Private sector development programme in agriculture, Kenya, 16.01.2009</p> <p><b>Gerd Juntermanns</b>, KfW, Finance sector programme, Mozambique, 22.01.2009</p> <p><b>Dr. Friedrich Kaufmann</b>, GTZ, SME Programme: Improving the legal, political and institutional framework conditions, Mozambique, 20.01.2009</p> <p><b>Dr. Ulrike Maenner</b>, GTZ, Programme macroeconomic reforms, Vietnam, 23.01.2009</p> <p><b>Karen Möhring</b>, KfW, Agricultural water resource project in the South West of Burkina Faso, Burkina Faso, 14.01.2009</p> <p><b>Helmut Müller- Glodde</b>, GTZ, Governance and reform programme: Strengthening of the SADC secretariat, SADC, 17.02.2009</p> <p><b>Thao Nguyen</b>, KfW, Promotion of SMEs II, Cambodia, 22.01.2009</p> <p><b>Dr. Florent-Dirk Thies</b>, GTZ, Agricultural development programme, Burkina Faso, 17.02.2009</p>

### **Annex 3: BMZ policy papers analysed**

- BMZ (2008): Profil der deutschen Entwicklungspolitik in Asien in den Themenfeldern "Demokratisierung, Good Governance und Konflikttransformation"
- BMZ (2008): Profilbildung „Sozial ausgewogene Wirtschaftsentwicklung“
- BMZ (2008): Sektorkonzept „Wirtschaftspolitik“
- BMZ (2008): Umweltprofil Asien
- BMZ (2008): Deutsche Entwicklungspolitik in Asien – Ein strategischer Rahmen
- BMZ (2008): Konzepte für die entwicklungspolitische Zusammenarbeit mit den Ländern Lateinamerikas und der Karibik, Bonn/Berlin
- BMZ (2008): Biologische Vielfalt, Bonn/Berlin
- BMZ (2007) Konzept für die Entwicklungszusammenarbeit mit der Ostafrikanischen Gemeinschaft (East African Community – EAC), Bonn
- BMZ (2007): Grundsätze der sozialen und ökologischen Marktwirtschaft in der deutschen Entwicklungspolitik, Bonn/Berlin
- BMZ (2005): Stabilität durch Integration- die bilaterale staatliche Entwicklungspolitische Zusammenarbeit mit Südosteuropa, Bonn
- BMZ (2005): Zentralasienkonzept
- BMZ (2004): Regionalkonzept Afrika, Bonn
- BMZ (2004): Kaukasusinitiative des BMZ, Bonn
- BMZ (2004): Sektorkonzept Finanzsystementwicklung, Bonn
- BMZ (2004): Sektorkonzept Qualitätsinfrastruktur, Konformitätsbewertung – Messen, Normen, Prüfen (MNPQ)
- BMZ (2001): Ländliche Entwicklung – Ein Referenzrahmen, Bonn
- BMZ (1997): Sektorkonzept - Fischerei und Aquakultur, Bonn
- BMZ (1997): Sektorkonzept - Geologie und Bergbau
- BMZ: Profilbildung der bilateralen EZ mit Sub-Sahara-Afrika: Good Governance
- BMZ: Profilbildung der bilateralen EZ mit Sub-Sahara-Afrika: Nachhaltige Wirtschaftsentwicklung

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*Messner, Dirk / Imme Scholz* (eds.): Zukunftsfragen der Entwicklungspolitik, 410 p., Nomos, Baden-Baden 2004, ISBN 3-8329-1005-0

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*Qualmann, Regine*: South Africa's Reintegration into World and Regional Markets: Trade Liberalization and Emerging Patterns of Specialization in the Post-Apartheid Era, 206 p., Nomos, Baden-Baden 2008, ISBN 978-3-8329-2995-4 (Entwicklungstheorie und Entwicklungspolitik 3)

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