Aid for Trade

Background note on the fourth Global Review
Geneva, 8-10 July 2013

The WTO will host the Fourth Global Review of Act for Trade in Geneva. The focus of this year's session will be on devising methods to assist developing and Least-developed countries to participate in Global Value Chains. One of the key areas of discussion will on the importance of trade facilitation, or the streamlining of customs procedures, in integrating developing countries more fully and effectively in global supply and production networks.

What is Aid for Trade?

Aid for Trade is about helping developing and least-developed countries to improve their capacity to export goods and services, to integrate more effectively into the multilateral trading system and to benefit from increased market access opportunities. The initiative aims to assist developing countries in overcoming their supply-side constraints, build economic infrastructure and increase competitiveness.

The Aid for Trade Initiative was launched at the Sixth WTO Ministerial Conference in Hong Kong in 2005. WTO members were acutely aware that open markets were, on their own, not sufficient to increase developing country trade flows. To make trade a truly effective tool for growth, development and poverty alleviation requires boosting the capacity of developing countries to produce and ship competitive goods at competitive prices. Since 2005, annual Aid for Trade commitments from donors -- governments, international and regional development institutions -- rose to $48 billion in 2010, up 82% from what it had been during the 2002-2005 period.

Although aid for building supply-side capacities remains an important priority, commitments dropped to $ 41.5 billion in 2011 due to the financial crisis that exerted downward pressure on OECD aid budgets. In 2011, aid for-trade commitments returned to 2008-09 levels. Despite the 14 per cent drop, commitments still remain 57 per cent above the 2002-05 baseline.

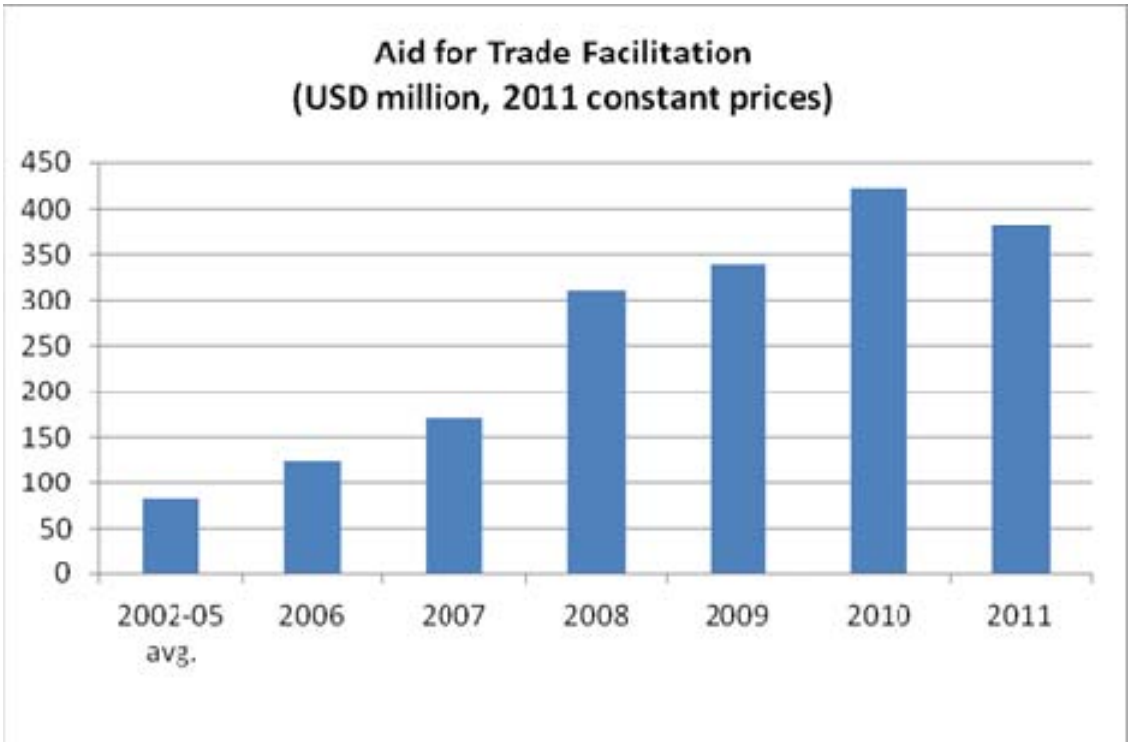
But Aid for Trade is about more than mobilizing funds. It is also about policy coherence, enhanced oversight and mainstreaming trade into the menu of economic growth and development policy options. In developing countries, this means getting regulatory, business and trade policies right so that they can make use of opportunities in regional and global markets. For donors, it means weaving a trade component into their development aid programmes – and responding effectively to developing country demands for more resources.

Monitoring aid flows is a key part of the Aid for Trade Initiative. Through effective surveillance developing countries and donors can more accurately assess progress in improving trade performance in the developing world. Among the areas tracked is trade

facilitation is one of the categories of assistance tracked. OECD-WTO monitoring work highlights this a particularly pressing constraint for many developing countries.

Since 2006, $ 1.7 billion in real terms has been committed by the donor community to support trade facilitation - and over $1.2 billion disbursed.[1] Commitments have increased substantially as compared with average 2002-2005 expenditure ($82 million) - which is used by OECD as the baseline against which flows are compared. In 2011, assistance reported to the OECD for trade facilitation stood at $381 million. This figure represents a 366% increase from the 2002-05 base-line average. (Figure 1). However, in 2011, support to trade facilitation declined by 9.7% from 2010 levels. Research by OECD and WTO shows that demand for trade facilitation assistance from partner countries is likely to grow in future.

Figure 1: Aid for Trade Facilitation



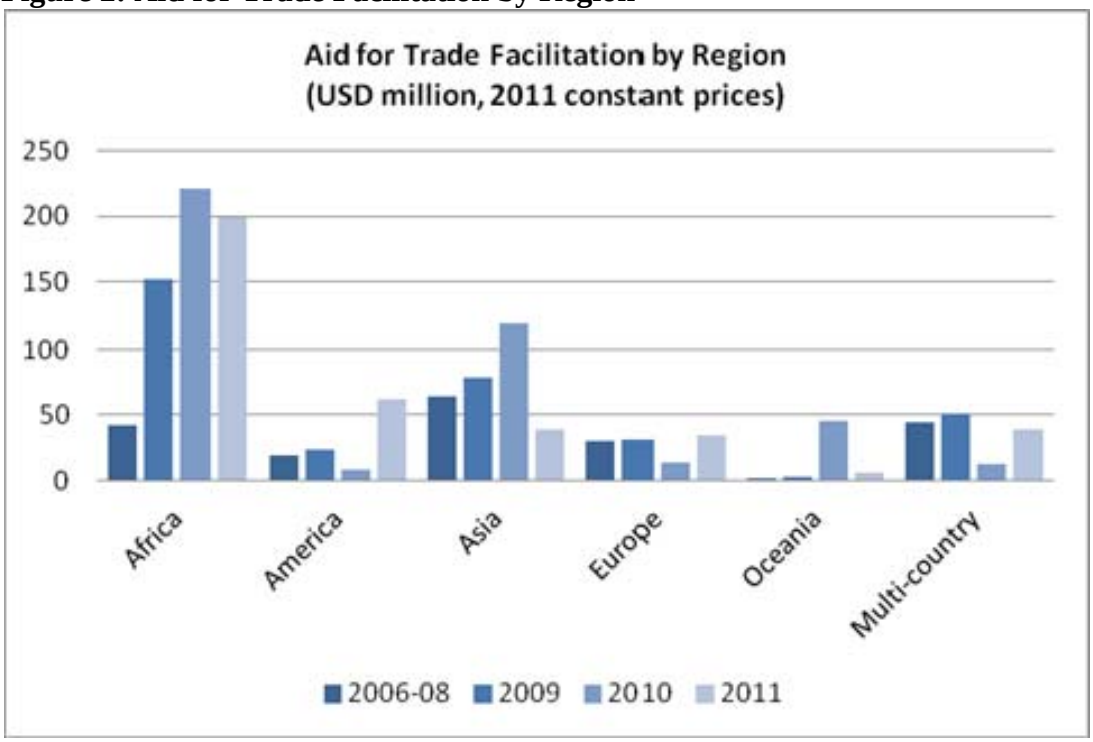
Source: OECD Creditor Reporting System

[1] There is a time lag between commitments and disbursement. Projects agreed in one year may be implemented over the course of succeeding years. This note focuses on commitment data. A commitment is defined as "a firm written obligation by a government or official agency to provide resources of a specified amount under specified conditions and for specified purposes for the benefit of a recipient country or a multilateral agency."

…largely benefiting Africa…

Africa has been the biggest beneficiary of the increase in aid for trade facilitation. In 2011 commitments to Africa stood at $200 million, an 18-fold increase since 2002-05. Flows to the Americas increased in 2011 to $62 million due largely to EU support to the Caribbean. Asia, where flows have fluctuated over the years, dropped back to $39 million. Flows to Europe increased compared to previous years with$35 million. Finally, aid for trade facilitation to Oceania declined by almost $40 million to$6 million in 2011 after the 2010$ 40 million EU commitment for a project to "strengthen Pacific economic integration through trade" (Figure 2).

Figure 2: Aid for Trade Facilitation by Region



Source: OECD Creditor Reporting System

…using regional approaches

In 2011, donors provided $168 million (44% of the total) in regional programmes and nearly $40 million in multi-country programmes. Denmark provided $24 million in 2011 for a programme designed to assist efforts in the East African Community (Burundi, Kenya, Rwanda, Tanzania and Uganda) to promote economic integration and accelerate growth in the region, through implementation of a Common Market.

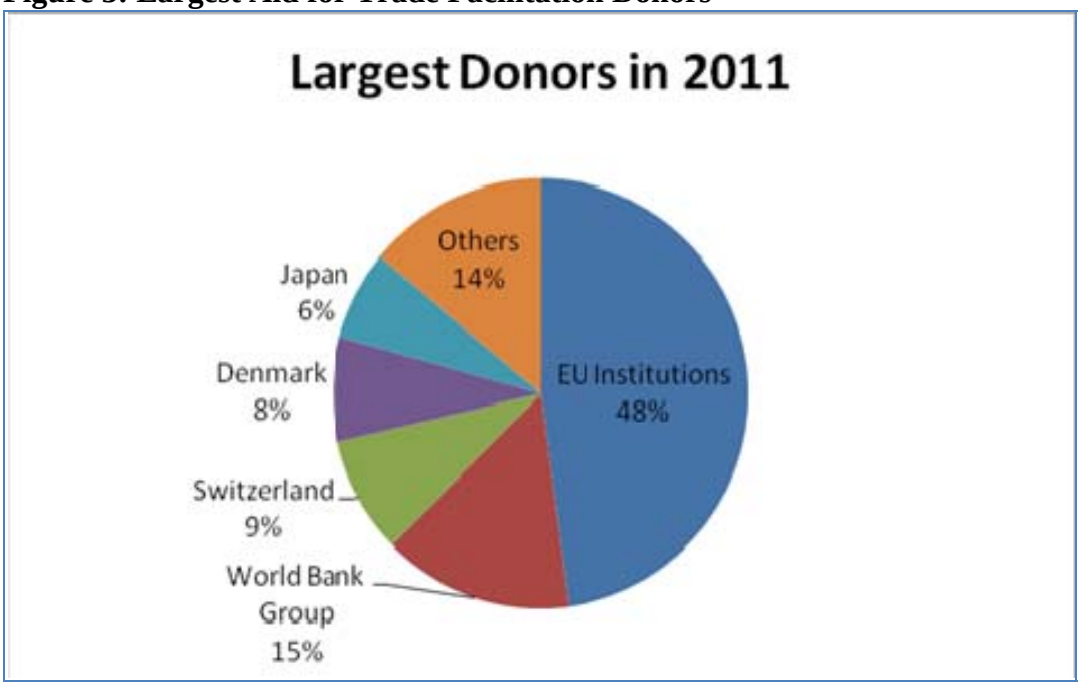
Five donors provide 86% of aid for trade facilitation…

Five donors (European Union, World Bank Group, Switzerland, Denmark and Japan) provide 86% of total aid for trade facilitation in 2011. The European Union provided almost $95 million in the largest programme to "support the construction of a

competitive regional market in the context of the EPAs" in Africa. While the Caribbean had not previously been a major aid for trade recipient the European Union provided $32 million in 2011 to the Dominican Republic and$ 26 million to Haiti to expand the facilities at the market city of Dajabon on the border between the two countries by building additional infrastructure for Dominican and Haitian customs.

The World Bank provided the bulk of its $56 million aid for trade facilitation in 2011 to Ghana ($ 20 million), Rwanda (over $17.5 million) and Cameroon ($11.2 million). Switzerland provided $33.2 million and Denmark $30 million (details below). While Japan provided $26 million of which $20 million was used to fund technical co-operation in Asia. In 2011, $241 million in aid for trade facilitation, almost two-thirds of the total, was delivered through multilateral institutions.

Figure 3: Largest Aid for Trade Facilitation Donors



Source: OECD Creditor Reporting System

… mostly in grant form…

In 2011, $341 million in aid for trade facilitation commitments was provided as grants and $40 million as concessional loans; increasing the share of grants to 90% compared to 75% during the 2002 -05 base-line average.

….and trade facilitation programmes are showing results

Responding to the 2011 OECD/WTO call for aid for trade case stories, 48 of these stories were related to trade facilitation programmes.[2] According to these reports the

[2] These case stories can be consulted on the joint OECD-WTO website: http://www.aid4trade.org.

greatest impact of these funds could be seen through increased regional trade, export growth, the mobilisation of foreign and domestic investment, job creation, poverty reduction and economic growth (Figure 3).

Figure 3. Results reported in the trade facilitation case stories

Source: OECD/WTO Case Story Database

<u>Selection of results reported</u>

- In Ethiopia, customs reforms increased imports and exports by around 200% and revenues by more than 51%. For more information see: http://www.oecd.org/aidfortrade/47799254.pdf

- In Burundi, custom reforms increased tax revenues by one-quarter between 2009 and 2010. For more information see http://www.oecd.org/aidfortrade/47819076.pdf

- In Mongolia, import clearance time was reduced from 3 hours and 6 minutes to 23 minutes, and export clearance time was reduced from 2 hours and 20 minutes to 13 minutes. For more information see: http://www.oecd.org/countries/mongolia/46981650.pdf

- In Cameroon, the time between broker registration and officer assessment was cut on average by 75%, and revenues per container increased by 11.7% in 2010 compared with 2009. Fore more information see: http://www.oecd.org/aidfortrade/47798880.pdf

- In Haiti, the clearance time fell from 4 days to 2 hours for certain products that met the "green channel" conditions. For more information see: http://www.oecd.org/countries/haiti/48181311.pdf

- In Kyrgyzstan and Tajikistan, the number of export forms was reduced by 60% compared with 2007, translating into a reduction of one day for taking a 20-foot container to the nearest port. Fore more information see: http://www.oecd.org/aidfortrade/47405883.pdf

- At the **Chirundu border crossing between Zambia and Zimbawbe, Africa's first one-stop border post (OSBP) along the North-South Corridor**, trade facilitation improvements are evident in transit cost reductions for the private sector and increases in government trade collection: between June 2010 and June 2012 border crossing time (total for time spend at the customs control zone and queuing time) reduced by 36% to an average 25 hours, while during the same period, the border post became much busier, with the number of vehicles increasing by 65% to more than 8500 commercial vehicles crossing the border post per month. The transit time reduction compares well with average border crossing times of between 72 and 120 hours recorded prior to the OSBP establishment at the end of 2009. As a result, the private sector is averaging savings due to faster transit times of about $20 million per month by mid-2012. Without increasing tax levels, more efficient customs operations lead to a doubling in the Government of Zambia's trade tax collection to an average $33.8 million per month in 2012 (from an average of $16 million per month in 2009) in 2012. For more information contact: Lolette van Niekerk lkvniekerk@trademarksa.org

Video materials.

- World Customs Organization: http://www.adb.org/news/events/eminent-speakers-forum-customs-and-trade-facilitation-21st-century

- World Bnak: Trade facilitation in Nepal http://www.youtube.com/watch?v=tMEtNb8Gqgs&cid=ISG_E_WBWeeklyUpdate_NL

- Inter-American Development Bank: Trade facilitation in Central America http://www.iadb.org/intal/intalcdi/PE/2013/11612.pdf

- Trade Mark East Africa http://www.youtube.com/watch?v=wCUHIVvjzXM

Follow the day-to-day problems of a trucker in East Africa: https://twitter.com/TruckerRigha