This chapter provides an overview of the evolution of Aid for Trade flows in a context marked by the COVID-19 pandemic. It reviews key trends affecting the trade and investment landscape and their repercussions on Aid for Trade flows. Finally, it analyses the role of Aid for Trade in supporting an equitable global economic recovery.
2.1. Emerging from the COVID-19 crisis, the world economy is on a path to a fragile and uneven recovery

The COVID-19 pandemic has had significant human and economic impacts, and profoundly changed the trade and investment landscape, with major fluctuations in cross-border flows and disruptions to international supply chains. Nonetheless, trade and investment have remained instrumental in enabling access to vaccines and supporting economic recovery. In early 2022, however, Russia’s war against Ukraine triggered a major humanitarian crisis and further disrupted supply chains, clouding economic prospects and raising serious food security risks in developing countries (OECD, 2022[1]). To sustain recovery and to mitigate and contain the effects of successive crises, trade and investment need to remain open. Not all countries, however, have the capacity to absorb such shocks and to rebound, and require assistance to seize the opportunities from trade and investment needed for economic recovery.

2.1.1. The impact of the COVID-19 crisis

The period covered by this report was marked by the COVID-19 pandemic that plunged the world into the most severe recession in nearly a century. Global gross domestic product (GDP) decreased by 3.3% in 2020, down from a growth of 2.6% in 2019 and 3.3% in 2018 (World Bank, 2022[2]). The impact was severe in developing countries (excluding China) with a 4.5% drop in GDP in countries eligible for Official Development Assistance (ODA)¹ (IMF, 2022[3]).

As a result of the crisis, progress towards the Sustainable Development Goals (SDGs) has stalled, and in some cases even reversed. In 2021, the OECD estimated that the SDG financing gap had increased by at least 50%, totalling USD 3.7 trillion in 2020 (OECD, 2020[4]). For the first time in 20 years, 2020 saw an increase in extreme poverty (World Bank, 2020[5]). Although projections had anticipated a decline in extreme poverty in 2021, the poverty level will remain higher than foreseen before the pandemic, leaving nearly an extra 100 million people living with less than USD 1.90 per day (Gerszon Mahler et al., 2021[6]). The crisis prompted by the war in Ukraine could add yet another 40 million persons to this toll (CGDEV, 2022[7]).

While 2021 showed signs of a swift recovery in many regions, in early 2022 the war in Ukraine generated a major humanitarian crisis and an economic shock of global magnitude. Global GDP growth more than halved in the first quarter of 2022 (OECD, 2022[11]), and is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than previously projected (IMF, 2022[3]). Increases in the price of energy and food and rapidly rising inflation, have caused further hardship and serious food security risks in low-income countries (OECD, 2022[11]).

The successive crises have increased inequalities within and among countries, and not all are set to recover at the same pace. In 2021, real GDP growth in least developed countries (LDCs) and other low-income countries (LICs) averaged 0.7%, far below the world average (6%). Prior to the war in Ukraine, the threat of new COVID-19 variants, combined with a rise in inflation, debt, and income inequality, were already increasing the risk of a “hard landing” in developing economies (World Bank, 2022[8]). The impact of the war is exacerbating these risks, and the incipient divergence in 2021 between developed and developing economies is expected to persist. Downward revisions in growth projections for the following years are more pronounced for developing countries, against a background of expected higher output losses and a likely slower recovery (Gourinchas, 2022[9]).

2.1.2. The role of international trade and investment in the recovery

The COVID-19 crisis profoundly affected the trade and investment landscape. Global trade decreased by 10% in value between 2019 and 2020. The decrease was higher for services trade (-18%) than merchandise trade (-7%), due to the severe impact of the crisis on sectors such as travel (-63%) and...
transport (-18%) in 2020\textsuperscript{2}. Countries were affected at varying degrees, depending on their exposure to the sectors impacted by the crisis, their reliance on intermediary inputs supplied by manufacturing hubs under lockdown, and the degree of concentration at different stages of the supply chain (OECD, 2021\textsuperscript{[10]}). While the fall in merchandise trade in ODA-eligible countries was relatively on a par with the world average, those countries experienced more significant drops in services trade, which can be partially explained by the prevalence of sectors such as tourism and hospitality in some of them (Figure 2.1).

**Figure 2.1. Growth in the merchandise and services trades by country category, 2016-20**

Over the course of 2020, international trade was subject to compound pressures as demand and supply patterns for goods and services changed sharply. Government lockdowns, border closures, restrictions to travel and a surge for demand for certain products has dramatically affected the supply chain, leading to temporary shortages and export restrictions. The policy debate on whether the gains from international specialisation in global value chains (GVCs) outweigh the associated risks stemming from the transmission of shocks has intensified in the aftermath of the COVID-19 outbreak and the resulting disruption to supply chains. This has confirmed the need for international co-operation and for governments to combine efforts with businesses to improve risk preparedness and enhance resilience of supply chains and economies (see Box 2.1) (OECD, 2020\textsuperscript{[11]}) (OECD, 2021\textsuperscript{[10]}).
Box 2.1. Four keys to resilient supply chains: Policy tools for preparedness and responsiveness

Through its “Four keys to resilient supply chains”, the OECD has provided a tool to deepen the common evidence base, identify policy options, and improve communication on the importance of open markets during a pandemic. The four keys explore policy options allowing governments to:

- **Anticipate risks:** Anticipating and understanding the nature of stresses is key to obtaining an accurate diagnosis of the problem. It can allow policy makers to identify the appropriate policy responses and provide insights on how to prepare for future shocks.

- **Minimise exposure:** Investing in infrastructure, enabling digital trade, sound procurement management and regulatory flexibility can promote the resilience of supply chains while also contributing to productivity and competitiveness.

- **Build trust:** Public-private co-operation boosts confidence that global supply chains can provide needed goods and services at the right time and in the right quantities. This approach includes firm-level risk management strategies, public-private action plans, the stress testing of supply chains, and strategic governance at the national level.

- **Open markets:** While governments can often act at a national level, ensuring resilient global supply chains requires international co-operation which can include multilateral, plurilateral and bilateral agreements, as well as softer forms of policy co-ordination and peer reviews. Transparency is critical in helping governments manage fast-evolving crises. This involves sharing lessons learned, building confidence in supply and trust in global markets, and helping to avoid harmful policy choices such as panic buying or hoarding. Lowering barriers to trade and investment for essential products, as well as their main inputs, can maximise sourcing opportunities and access for all countries. Governments also play a pivotal role through trade facilitation measures, as these ensure the swift movement of goods across borders.


Nonetheless, global supply chains proved agile and resilient overall, and played a key role in the fight against the pandemic and in supporting the economic recovery. International markets and global supply chains helped countries avail themselves of the goods needed to address the pandemic, such as face masks, COVID-19 vaccines or test kits; provided a means to ease temporary supply constraints; and enabled access to key components needed to ramp up production and meet the surging demand (OECD, 2022[13]). In early 2021, the rebound in merchandise trade played an important role in the economic recovery, benefitting countries heavily involved in supply chains, notably in sectors such as pharmaceuticals, medical supplies and IT equipment (OECD, 2021[14]). In 2021, goods exports increased by 26%, exceeding pre-pandemic levels. Services exports increased by 17% but remained below their 2018 level.

Important disparities exist however in the recovery. In 2021, growth in services trade in developing countries generally remained below the world average. Hard-won gains in the integration of developing countries in international trade have stalled or been lost. The share of LDCs in global exports, which had been rising every year from 2015 to 2018 (from 0.88% to 0.98%), decreased for the first time in five years to 0.96% in 2020 and further down to 0.94% in 2021.

Foreign Direct Investment (FDI) was also heavily impacted by the pandemic, reaching USD 848 billion in 2020 – a 38% decrease compared to the previous year (OECD, 2021[15]). However, FDI grew by 64% in 2021, reaching nearly USD 1.6 trillion, which is above pre-pandemic levels. This growth was driven by advanced economies, where FDI inflows more than doubled in 2021, while developing countries...
experienced a strong but lower growth (+30%) (UNCTAD, 2022[16]). Furthermore, greenfield investment remained fragile, especially in developing economies (OECD, 2022[17]).

The FDI growth momentum is at risk as the war in Ukraine clouds prospects for 2022. The war is also amplifying debates around the vulnerability of economies in the face of major shocks and approaches to fostering resilience, especially in lower income economies, when key supply chains are disrupted. FDI is expected to drop by 23% in developing countries (Institute of International Finance, 2022[18]). Disruptions in agricultural exports from Russia and Ukraine, which jointly accounted for 24% of global wheat exports, 57% of sunflower seed oil exports and 14% of maize exports in 2016-20, is putting global food supply chains under strain, driving up food prices and creating a risk of global food crisis (Bankova, Dutta and Ovaska, 2022[19]). Similar pressures are observed for energy prices, also impacting the costs of living, production and trade.

2.2. Aid for Trade's contribution to fighting the crisis and building economic resilience

Development co-operation proved essential to contain and mitigate the impact of the COVID-19 crisis, including in supporting the supply of vaccines to countries in need. The central place of international trade throughout the crisis, particularly as a driver of economic recovery, gave Aid for Trade a renewed importance. Delivering development assistance, however, implied making difficult choices and ensuring project continuity in a context affected by uncertainty, resource scarcity, as well as lockdowns and physical distancing measures. While Aid for Trade provided a stable and predictable source of external assistance and finance to developing countries, the crisis also required several adjustments in project implementation.

2.2.1. The countercyclical role of Aid for Trade

Official Development Assistance (ODA) is an important source of external finance for developing countries. ODA financial flows have proved stable, playing an important countercyclical role and complementing larger but more volatile external resources, such as FDI. Historically, ODA has been the most stable and predictable source of external financing for developing countries (OECD, 2021[20]). In the context of the COVID-19 pandemic, donors widely acknowledged the importance of development co-operation to address the crisis. In April 2020, members of the OECD Development Assistance Committee (DAC) released a statement which reaffirmed the importance of ODA as a means of supporting national responses to the COVID-19 pandemic within the framework of sustainable development and its five components – people, peace, planet, prosperity and partnership (OECD, 2020[21]).

The latest ODA data shows that this commitment was reflected in actual spending. In 2020, COVID-19 spending helped lift ODA by Development Assistance Committee (DAC) members to USD 161.2 billion, its highest level recorded up to that date\(^3\). About 10% of this amount was allocated to COVID-19 related activities\(^4\) Figure 2.2 (OECD, 2021[22]). Preliminary data for 2021 shows that this trend has continued, with ODA by DAC members reaching an all-time high of USD 178.9 billion, a 4.4% increase from 2020. The increase was mainly due to DAC members’ support for COVID-19-related activities, particularly in the form of vaccine donations in response to global vaccine inequities (OECD, 2021[23]).
Figure 2.2. The effect of COVID-19 assistance on foreign aid in 2021

The allocation of ODA support to respond to the most urgent needs linked to the COVID-19 crisis, such as vaccine delivery, did not overshadow the importance of Aid for Trade. This is consistent with the central place of international trade over the period. In the 2022 monitoring and evaluation exercise, responses to the joint OECD/WTO survey showed that Aid for Trade was generally considered by partners and donors to be more important, or at least as important, than before the pandemic (Figure 2.3).

Some of the reasons highlighted by partners for the prioritisation of Aid for Trade during the period included the need to address the negative economic impacts of the COVID-19 pandemic, sustain economic growth, adjust to the changing global trading environment and withstand future shocks such as climate change. Donors highlighted the need to support the “build forward better” objectives, develop industries and ensure that developing countries can participate and benefit from the multilateral trading system (WTO, 2022[25]).
Figure 2.3. Has Aid for Trade become a more or less important part of your development policy?

Note: Based on the OECD/WTO joint M&E survey, including 53 responses for partner survey; 36 for donors; 2 for South-South partners; 4 for Regional Economic Corridors.

The emphasis given to Aid for Trade during the COVID-19 crisis is reflected in the evolution of Aid for Trade flows. The analysis of commitments can provide an indication of donors’ intentions and how political commitments translate into action (Box 2.2). In 2020, Aid for Trade commitments grew by 18%, elevating Aid for Trade commitments to an all-time high of USD 64.6 billion (Figure 2.4). This represents about 26% of total ODA commitments in 2020.

In addition to regular projects aimed at supporting trade and economic development, a number of new Aid for Trade projects were launched specifically to address COVID-19 related challenges. In 2020, 7% of Aid for Trade commitments was allocated to COVID-19 related activities, close to the share of ODA targeting COVID-19-related activities. This support was largely allocated to the banking and financial services sector (USD 2 billion), followed by energy generation and supply (USD 757 million) and agriculture (USD 730 million) (Infographic 2.1).
Infographic 2.1. Aid for Trade and total Official Development Assistance Commitments

AID FOR TRADE COMMITMENTS, INCLUDING COVID-19-RELATED, 2016-2020

Aid for Trade disbursements, which measure actual Aid for Trade spending each year, have steadily increased since 2016, to reach USD 48.7 billion in 2020 -- the highest level ever reached. Since the beginning of the Aid for Trade initiative in 2006, a total of USD 556.4 billion was disbursed by donors (Figure 2.4). This corresponds to an average growth of approximately 6% per year between 2006 and 2020.

**Box 2.2. What is the difference between commitments and disbursements?**

Commitments measure donors’ intentions and permit monitoring of the targeting of resources to specific purposes and recipient countries. They fluctuate as aid policies change, and reflect how donors’ political commitments translate into action. They thus give an indication about future flows.

Disbursements show actual payments in each year. They show the realisation of donors’ intentions and the implementation of their policies. They are required to examine the contribution of donors’ actions in development achievements. They better describe aid flows from a recipient’s point of view.

Analysing the relation between commitments and disbursements can provide useful insights on aid delivery. Commitments are often multi-year and subsequent disbursements spread over several years. In DAC statistical reporting systems, commitments, even if multi-year, are recorded in whole in the year they are signed (the use of moving averages in statistical presentations smooths the resulting fluctuations).

Subsequent disbursements of an earlier commitment are recorded annually, in the years they are transferred from donors to recipients. An increase in aid allocations over time is thus visible in disbursements data only with a few years’ time lag. Consequently, disbursements in one year cannot be directly compared to commitments in the same year, as disbursements may relate to commitments originally recorded in different years.

In 2020, Aid for Trade played a countercyclical role, providing a much-needed source of finance to developing countries and supporting trade in a period of turbulence. Figure 2.5 illustrates this countercyclical role by comparing global export growth with Aid for Trade growth since 2011. The data shows that even prior to the pandemic, periods of lower export growth tended to coincide with Aid for Trade increases.
As in previous years, in 2020 a few large donors contributed to a large part of total Aid for Trade disbursements. The top ten donors jointly represented 84% of total Aid for Trade flows. The list of key contributors has remained relatively stable in recent years, despite the notable increase in Aid for Trade disbursements from the Central American Bank for Economic Integration (CABEI) (Table 2.1). The top ten individual country recipients represent 32% of total disbursements in 2020 (Table 2.2).

**Table 2.1. Top 10 Aid for Trade donors and related disbursements, 2018-20**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>8,513</td>
<td>9,180</td>
<td>7,721</td>
</tr>
<tr>
<td>World Bank</td>
<td>7,449</td>
<td>7,898</td>
<td>7,097</td>
</tr>
<tr>
<td>EU Institutions</td>
<td>7,187</td>
<td>5,872</td>
<td>7,534</td>
</tr>
<tr>
<td>Germany</td>
<td>5,738</td>
<td>5,080</td>
<td>4,669</td>
</tr>
<tr>
<td>France</td>
<td>3,407</td>
<td>2,855</td>
<td>2,510</td>
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<tr>
<td>United Kingdom</td>
<td>2,073</td>
<td>2,858</td>
<td>2,599</td>
</tr>
<tr>
<td>Asian Development Bank</td>
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<td>2,163</td>
<td>1,195</td>
</tr>
<tr>
<td>United States</td>
<td>2,041</td>
<td>2,076</td>
<td>2,244</td>
</tr>
<tr>
<td>Central American Bank for Economic Integration</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>African Development Bank</td>
<td>840</td>
<td>1,227</td>
<td>1,061</td>
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</tbody>
</table>

Note: The Central American Bank for Economic Integration (CABEI) reported for the first time to the CRS database in 2020. Aid for Trade data for CABEI is unavailable for previous years.

### Table 2.2. Top 10 Aid for Trade recipients and related disbursements, 2018-20

USD million, 2020 constant prices

<table>
<thead>
<tr>
<th>Recipient</th>
<th>2020 Rank</th>
<th>Disbursements</th>
<th>2019 Rank</th>
<th>Disbursements</th>
<th>2018 Rank</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
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<td>2,748</td>
<td>2</td>
<td>3,868</td>
<td>1</td>
<td>3,569</td>
</tr>
<tr>
<td>Bangladesh</td>
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<td>2,492</td>
<td>2</td>
<td>1,993</td>
<td>2</td>
<td>2,166</td>
</tr>
<tr>
<td>Egypt</td>
<td>3</td>
<td>1,795</td>
<td>3</td>
<td>1,752</td>
<td>3</td>
<td>1,949</td>
</tr>
<tr>
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<td>1,597</td>
<td>6</td>
<td>1,361</td>
<td>4</td>
<td>1,711</td>
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<tr>
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<td>1,308</td>
<td>5</td>
<td>1,488</td>
<td>8</td>
<td>942</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>6</td>
<td>1,249</td>
<td>7</td>
<td>1,094</td>
<td>7</td>
<td>1,368</td>
</tr>
<tr>
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<td>4</td>
<td>1,513</td>
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<td>704</td>
<td>10</td>
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<tr>
<td>Myanmar</td>
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<td>859</td>
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<td>695</td>
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<tr>
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<td>10</td>
<td>850</td>
<td>13</td>
<td>727</td>
<td>5</td>
<td>1,465</td>
</tr>
</tbody>
</table>


### Aid for Trade support to COVID-19 crisis-related activities and sectors

Aid for Trade flows consist of official development support to sectors and activities that are of particular importance to enable participation in international trade. In 2005, the Aid for Trade task force identified five Aid for Trade categories: (i) technical assistance for trade policy and regulations (e.g. helping countries to develop trade strategies, negotiate trade agreements, and implement their outcomes); (ii) trade-related infrastructure (e.g. building roads, ports, and telecommunications networks to connect domestic markets to the global economy); (iii) productive capacity building, including trade development (e.g. supporting the private sector to exploit their comparative advantages and diversify their exports); (iv) trade-related adjustment (e.g. helping developing countries with the costs associated with trade liberalisation, such as tariff reductions, preference erosion, or declining terms of trade) and (v) other trade-related needs, if identified as trade-related development priorities in partner countries’ national development strategies.

Aid for Trade statistics for each of these categories are measured through proxies in the OECD Creditor Reporting System database and broken down by sector. Figure 2.6 provides an overview of the breakdown of Aid for Trade disbursements by categories and sub-categories in 2020 (OECD, 2022[28]). Aid for Trade flows to different categories and sectors have been affected by the COVID-19 crisis, leading to changes in the repartition of support across categories.
Building productive capacity and economic infrastructure remain by far the two predominant categories, jointly accounting for 98% of Aid for Trade disbursements in 2020. While these shares have remained relatively stable over the years, in 2020, for the first time since 2009, support allocated to building productive capacity (USD 23.9 billion) slightly exceeded support to economic infrastructure (USD 23.7 billion). The evolution of broad Aid for Trade categories in terms of number of projects follows a similar trend, with a moderate positive increase in the number of projects going to building productive capacity, compared to a moderate decrease in the number of projects targeting economic infrastructure. When comparing the number of projects, however, building productive capacity largely exceeds support to economic infrastructure, due to the generally high capital intensive requirements of infrastructure projects (Figure 2.7).
This evolution can largely be explained by the following changes in sub-categories: a 39% increase in Aid for Trade disbursements going to banking and financial services; a 13% increase in disbursements to agriculture, and a 15% decline in disbursements to transport and storage. These changes have also modified the ranking of sectors receiving the largest share of Aid for Trade disbursements. In 2020, disbursements for energy generation and supply surpassed support to transportation and storage, which was the sector receiving the largest share of disbursements until then (Figure 2.8). Sectors that experienced large increases in Aid for Trade disbursements coincide to some extent with sectors that received COVID-19 commitments (Figure 2.9).
Figure 2.8. Disbursements by sector, 2018-20

Several factors can explain the changes in sectoral allocations of Aid for Trade, including practical challenges in the implementation of projects. Activities that required in-person presence and international travel, for example, were often discontinued or postponed, with potential impacts on the ability to disburse funds committed. The pandemic has also affected donors’ and development partners’ short-term and long-term priorities, due to the need to respond swiftly to the crisis while anticipating the challenges of the recovery. Sector-specific factors, including the nature and timeframes of projects financed, can also shed light on the evolution of Aid for Trade flows during the crisis. For example, sectors that require heavy investments over a long period of time tend to have longer timeframes for the disbursement of Aid for Trade flows. Surges or drops in disbursements at a certain time could therefore be the result of commitments made several years earlier, independently of the pandemic.

These factors have played out differently for different sectors throughout the crisis. For example, disbursements targeting pharmaceutical production went up 22 times, from less than USD 1 million in 2018 to more than USD 21 million in 2020 (Figure 2.10). During that period, global exports of pharmaceutical products also grew, by 5% in 2019 and 10% in 2020. This pro-cyclical support could reflect a prioritisation of this sector, which was essential for the COVID-19 response.
Support to transport followed a different evolution through the crisis. Unlike pharmaceuticals, transport is one of the sectors that was heavily affected by the pandemic, with an 18% decrease in global exports in 2019-20\(^5\). Disbursements for this sector during that period also decreased by 15% (Figure 2.11). Commitments, however, surged by 44% between 2019 and 2020. A more granular analysis of evolutions within the transport and storage category indicates that the fall in disbursements was largely driven by a decrease in support to road and rail transport, while assistance to air transport – one of the most severely hit industries – more than doubled between 2019 and 2020. Commitments to air transport were multiplied by a factor of 2.6.

An analysis at project level shows that many road and rail projects that experienced drops in disbursements had been initiated prior to COVID-19. The fall could be due to implementation challenges (i.e. during lockdowns and physical distancing measures) or reflect the normal course of implementation of these multi-year projects. The significant increase in commitments between 2019 and 2020 for transport and storage could provide a better indication of donors’ priorities. Initial data analysis at project level suggests that the increase in commitments in Aid for Trade allocated to road, rail and air transport (and by extension, the broader transport and storage category), is largely due to new commitments for a limited number of large infrastructure projects.
Agriculture provides another interesting example of how Aid for Trade projects were affected and required adjustment during the pandemic. The COVID-19 pandemic placed unprecedented stresses on food supply chains, with bottlenecks in farm labour, processing, transport and logistics, as well as momentous shifts in demand. Most of these disruptions have been a result of policies adopted to contain the spread of the virus. Notwithstanding, food supply chains demonstrated a remarkable resilience in the face of these stresses, including in many developing economies (OECD, 2020[29]). However, while export growth in 2020 was positive, it was a small increase of 1%. In addition to its importance in developing economies, agriculture is key to food security, as the war in Ukraine has highlighted. Aid for Trade support to agriculture, both in terms of commitments and disbursements, has continued to increase since 2018 and throughout the pandemic, allaying some of the effects of the crisis. A comparison of annual growth rates of Aid for Trade disbursements to agriculture and annual growth rates of agricultural exports since 2007 shows that Aid for Trade remains responsive to sectoral challenges (Figure 2.12).
2.2.2. Aid for Trade’s role in building resilience

In the wake of the COVID-19 pandemic, various analyses have identified diversification as an important source of supply chain and economic resilience. OECD research has shown that the degree of concentration of suppliers and products can amplify or dampen international shocks (OECD, 2021[10]). In 2022, the International Monetary Fund’s (IMF) *World Economic Outlook* found that, while trade and global value chains proved resilient overall during the crisis, increasing diversification and enhancing substitutability in input sourcing could enhance resilience (IMF, 2022[3]).

These findings show that Aid for Trade can play a key role in enhancing resilience to future shocks. The previous edition of *Aid for Trade at a Glance* focused on economic diversification and empowerment, and highlighted economic diversification as a key Aid for Trade priority (OECD/WTO, 2019[30]). A recent empirical study on the impact of Aid for Trade on export diversification, focusing on Sub-Saharan exports, concluded that Aid for Trade was conducive to export diversification along both the intensive and extensive margins[6]. The findings suggest that Aid for Trade contributed to export diversification in Sub-Saharan Africa and imply that increasing Aid for Trade resources could be effective to promote further export diversification, and to advance economic growth through lower trade costs and higher diversification (Nathoo et al., 2021[31]).

Progress achieved by individual countries in economic diversification since the start of the Aid for Trade initiative is evidenced in the country profiles available in this report. For example, the data shows that in Cambodia, which cited diversification as a top priority in the 2022 M&E questionnaires, the number of exported products has increased from 237 in 2005-2006 to 453 in 2019-2020. The number of imported products has increased from 758 to 999 over the same period. Improvements have also been made in market diversification, with export markets increasing from 101 to 132 and import markets from 86 to 116 between 2005-2006 and 2019-2020.

The link between Aid for Trade and diversification also has implications for investment. Various empirical studies reported a positive impact of Aid for Trade on FDI inflows. For example, a 2018 study based on a panel of 128 developing countries for the period 2002 to 2015 found that, whereas ODA showed no significant correlation with increased FDI, the impact of Aid for Trade on FDI was positive and statistically significant. The impact tended to be greater after six years, demonstrating the importance of sustained support (Lee, 2018[32]). Another recent study found that Aid for Trade flows exerted a greater positive effect on FDI inflows in countries that had a high degree of export product concentration. This suggests that Aid...
for Trade could contribute to increasing both levels and diversification of FDI inflows – two key priorities of enhanced resilience and economic growth in developing countries (Gnangnon, 2021[33]).

2.3. Aid for Trade is essential to a more inclusive recovery

Addressing the consequences of a crisis that has affected countries and people unevenly requires adequate support to those who need it the most. The COVID-19 pandemic has increased global income inequality both between and within countries, setting back convergence progress by a decade or more. Vulnerable groups, including women, low-income workers and the youth, have faced particularly severe consequences. Great divergences in income from employment and labour, as reflected in hours worked, persist and are more marked in developing countries Figure 2.13 (ILO, 2022[34]). The pandemic has also reversed progress in the integration of developing countries, especially LDCs, into the global trading system, depriving them of potential growth and economic development opportunities. The war in Ukraine has further exacerbated those challenges and is raising new threats to food security as key supply chains are disrupted and prices of food and energy are rising.

The Doha Programme of Action for the Least Developed Countries for the period 2022-31 (DPoA), adopted in March 2022, emphasises the importance of providing adequate support to LDCs through Aid for Trade. The DPoA notably includes a commitment and target to significantly increase Aid for Trade support for LDCs, which is expected to double by 2031 from 2018 levels (UN, 2022[35]). Ensuring the objective to leave no one behind in the recovery will also imply addressing specific areas of vulnerability and providing adequate support to locations and populations facing the greatest challenges and needs.

Figure 2.13. Changes in hours worked relative to 2019 Q4, by country income group (%)

2.3.1. The geographical distribution of Aid for Trade

In 2020, Asia and Africa jointly accounted for 73% of Aid for Trade disbursements – a share that has remained relatively stable since 2013. A total of 38% of disbursements went to Africa, followed by Asia...
(35%), America (10%), Europe (6%) and Oceania (1%). These shares are almost identical to the Aid for Trade commitments for those regions (38% to Africa, followed by 36% for Asia, 10% for America, 6% for Europe and 1% for Oceania). Since 2018, Aid for Trade disbursements allocated to Africa have exceeded disbursements to Asia. America saw the highest growth, from USD 3.1 billion to USD 5 billion (+61%). Important differences exist in the type of Aid for Trade projects implemented across different regions. For example, a majority (54%) of Aid for Trade disbursements to Africa focus on building productive capacity, while in Asia, support to economic infrastructure is predominant (63% of disbursements).

Figure 2.14. Aid for Trade disbursements by region, 2006-20

This evolution reaffirms the focus on integrating African countries into international trade. In 2020, African countries experienced, on average, the most severe fall both in merchandise trade (-17% of export value) and services trade (-33%). Overall, Africa accounted for only 2% of global exports in 2020. The establishment of the African Continental Free Trade Area (AfCFTA) in 2019, and its entry into force in 2021, have been significant steps forward in that respect. Bringing together 54 countries of the African Union (AU) and 8 Regional Economic Communities, the AfCFTA is the largest free trade agreement (FTA) in the world today. By eliminating barriers to trade, the AfCFTA aims to boost value-added production across the service sector, contribute to the establishment of regional value chains and enable investment and job creation (AfCFTA, 2022[36]). Aid for Trade could play an important role in supporting its implementation and helping African countries participate in and benefit from trade.

Aid for Trade disbursements to regional and global projects have been rising steadily since 2006, reaching USD 9.6 billion in 2020, or nearly 20% of total Aid for Trade disbursements. This represents a 12% increase from 2019 levels. About 50% of those projects are non-region specific, and the vast majority of the rest goes to Africa (34% in 2020), followed by Asia (6%), Europe (3%) and Oceania (1%). Nearly 74% of global and regional projects focus on building productive capacity, compared to 22% for economic infrastructure and 5% for trade policy and regulation.

2.3.2. The distribution of Aid for Trade by country levels of income and concessionality

Aid for Trade is an important source of finance for low- and middle-income countries. In 2020, 66% of Aid for Trade flows went to least developed countries (LDCs), other low-income countries (LICs) and lower
middle-income countries (LMICs). LDCs and other LICs alone accounted for 29% of total Aid for Trade disbursements (USD 14 billion). This is however slightly less than in 2019 (30%). LMICs also lost four percentage points during that year, when the share of disbursements increased by three percentage points for upper middle-income countries (UMICs) (Figure 2.15).

**Figure 2.15. Share of Aid for Trade disbursements by income group**

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LDCs and other LICs</td>
<td>25%</td>
<td>28%</td>
<td>30%</td>
<td>30%</td>
<td>29%</td>
</tr>
<tr>
<td>LMICs</td>
<td>17%</td>
<td>16%</td>
<td>19%</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>UMICs</td>
<td>40%</td>
<td>41%</td>
<td>38%</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>Unallocated</td>
<td>10%</td>
<td>15%</td>
<td>13%</td>
<td>11%</td>
<td>14%</td>
</tr>
</tbody>
</table>


Furthermore, Aid for Trade tends to become less and less concessional – a trend that has intensified since the early days of the initiative (Figure 2.16). Since 2011, the share of Aid for Trade disbursements in concessional loans has exceeded the share of disbursements in grants. This trend continued and was amplified in 2020, which saw a decline in both the volume of grants and their share in total Aid for Trade disbursements. Loans that year followed an opposite trend. In 2020, grants represented 37% of total disbursements, compared to 63% for loans. This trend has, to a certain extent, concerned all ODA, which became less concessional in 2020 (with a decrease in the share of ODA grants of seven percentage points). However, this reduction has been significantly more pronounced and sustained over the years for Aid for Trade than for other ODA flows. In 2020, grants still represented 68% of total ODA disbursements.

The level and evolution of concessionality varies across income groups. Grants still represent 45% of disbursements to LDCs and LICs, compared to 19% for LMICs and 24% for UMICs. In the past five years, however, the decrease has been the highest for LDCs (-12 percentage points), followed by LMICs (-7 percentage points), while it remained stable for UMICs. The loss of Aid for Trade concessionality is a worrying trend that creates a particularly important challenge for providing adequate support to the countries in greatest need. The COVID-19 crisis has amplified debt sustainability issues, leading to the largest one-year increase in debt since World War II. As of 2022, 58% of the world’s poorest countries are in debt distress or at high-risk of debt distress, with the risk also spreading to middle-income countries (Estevao and Essl, 2022[37]).
Figure 2.16. Evolution of Aid for Trade disbursements by type (% in total), 2006-20

References


World Bank (2022), World Development Indicators, [https://databank.worldbank.org/source/world-development-indicators].


Notes

1 Based on the International Monetary Fund’s World Economic Outlook database, April 2022 update.

2 Based on World Trade Organization data retrieved from WTO Stats (24.05.2022 update).

3 Data on a grant equivalent basis. Except for headline figures provided for 2020 and 2021, throughout the report Aid for Trade and ODA data are provided on a flow basis.

4 COVID-19 related activities comprise activities that were reported by donors as ODA, related to COVID-19.

5 Based on World Trade Organization data retrieved from WTO Stats data

6 The extensive margin refers to the variety of products exported. The intensive margin refers to the average value of exports by product type.