CHAPTER 11

FINANCING CONNECTIVITY: AID FOR TRADE PRIORITIES, POLICIES AND PROGRAMMES

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**Abstract:** This chapter looks at aid-for-trade priorities, policies and programmes, particularly in the areas of physical and digital connectivity. It provides an overview of the financing for development agenda, highlighting the critical role of official development assistance (ODA) for the least developed countries, as well as its catalytic role in higher-income developing countries. The chapter analyses 2002-15 aggregate aid-for-trade disbursements (around USD 300 billion) and takes a detailed look at aid-for-trade programmes that are building physical and digital connectivity. It offers a brief overview of academic findings on the results of aid-for-trade investments, as well as recent evaluations of donor aid-for-trade strategies and programmes. Case stories show how aid for trade is helping countries improve their physical and digital connectivity, turning trade opportunities into trade flows. Finally, the chapter provides an analysis of aid-for-trade commitments in 2015, closing with a series of conclusion.
INTRODUCTION

Digital connectivity and infrastructure development are critical enablers of the Sustainable Development Goals, and are rising on the agendas of development partners. The digital revolution is intensifying interactions among businesses, consumers and governments. It is also cutting transaction costs, which are among the most binding constraints for firms in developing economies. The digital era, therefore, offers developing country firms an opportunity to expand their access to international markets. Infrastructure development is critical for sustainable economic growth and poverty reduction. It underpins private sector and human development by enabling the movement of people, goods and services. It provides access to local, regional and global markets, as well as health, education, water, energy and communications services.

This chapter looks aid-for-trade priorities, policies and programmes, particularly in the areas of physical and digital connectivity. It provides an overview of the financing for development agenda, highlighting the critical role of official development assistance (ODA) in the least developed countries (LDCs), as well as its catalytic role in higher-income developing countries. An analysis of total 2002-15 aggregate aid-for-trade disbursements of around USD 300 billion follows. The chapter then takes a detailed look at specific aid-for-trade programmes that are building trade-related infrastructure and digital connectivity, making use of the case stories submitted in the context of the 2015 and 2017 OECD-WTO monitoring exercises. This is followed by a brief overview of academic findings on the results of aid-for-trade investments, as well as recent evaluations of donor aid-for-trade strategies and programmes. Finally, the chapter provides an analysis of 2015 aid-for-trade commitments and of the prospects for 2016, closing with a series of conclusions.

AID FOR TRADE IS A CRUCIAL COMPONENT OF THE DEVELOPMENT FINANCING CHALLENGE

The vision underpinning the 2030 Sustainable Development Agenda is broad and ambitious. It calls for an equally broad and ambitious financing strategy. The resources required are immense—as much as USD 4.5 trillion per annum according to some estimates (Sachs et al., 2014). The first International Conference on Financing for Development (2002) highlighted that in many cases trade is the single most important external source of development finance (UN, 2002). The Third International Conference on Financing for Development and the Addis Ababa Action Agenda (AAAA) no longer list trade as a source of development finance. Instead, they emphasise the role of international trade as an engine for inclusive economic growth and poverty reduction. Aid for trade is referenced for its potential contribution to achieving these goals.

There is a need for additional development finance beyond ODA

In 2015, bilateral ODA—at nearly USD 162 billion—represented only 19.2% of all official and private flows from the 29 member countries of the OECD Development Assistance Committee (DAC) and the international financial institutions. In addition, developing countries received USD 80.6 billion in other official flows provided by public bodies at close to market terms. Private finance at market terms amounted to USD 137 billion and private grants reached USD 35.6 billion. Remittances stood at USD 427.7 billion (Figure 11.1).

Aggregate flows, however, should be examined with care. The extraordinary period of expanding private flows since the start of the new millennium may not be an indication of future trends; there are a number of reasons to believe that such flows were the result of temporary circumstances. Developing countries will face a much tougher global environment moving forward. The commodity super-cycle of the 2000s, which saw huge inward investment and windfalls for resource-exporting countries, is coming to an end as demand from the People’s Republic of China (hereafter “China”) slows. The post-crisis response and the exceptional measures taken by OECD countries—including prolonged low interest rates and unconventional monetary policy—distorted the development finance landscape.
The search for yield in emerging and developing countries lead to over-investment in these countries (as well as asset-price bubbles) and under-investment in OECD countries (OECD, 2015). As international interest rates normalise and conditions in developing countries improve, capital that flowed to developing countries is returning back to developed countries. For instance, in 2015 private flows to developing countries at market prices dropped almost 60% compared to 2014.

![Figure 11.1. Financial flows provided to developing countries by DAC members and international financial institutions, USD billion, 2015 prices](image)


### ODA still plays a critical role

ODA and other forms of official assistance continue to play a significant role in bolstering domestic development efforts in many countries. Used well, aid can generate large payoffs in terms of reducing poverty, meeting basic needs, and helping nations build human and institutional capacity. While aid has eradicated diseases, prevented famines, and done many other good things, its effects on growth are often difficult to establish given the limited data that is available. Arndt et al (2010) found that it was reasonable to assume that aid equivalent to 1% of a country’s gross domestic product raised that country’s economic growth by an average of 0.1% per year during the period 1970-2000. That is a small, but helpful impact. Clemens et al (2012) found that aid results in some degree of growth in recipient countries, although the magnitude of growth in relation to the amount of aid is in general modest, it varies greatly across recipients, and the results diminish at high levels of aid.

Nonetheless, the distribution and objectives of ODA are very different from other financial flows. Given its unique mandate to directly target development, improve welfare and reduce poverty, ODA remains an essential resource in many countries, especially the poorest—those with limited access to private finance and low levels of domestic resources. ODA remains the largest international resource for countries with a per capita income of less than USD 2 000 (Figure 11.2). The switching point where foreign direct investment (FDI) takes on greater relative importance compared to aid for trade and is found around the cut off of GNI that separates the least developed countries from those with a higher GNI, i.e. USD 1.045.
Mobilising private finance for development calls for adapting aid practices

Despite the diminishing relative importance of ODA compared to private investments in the lower middle income and upper middle income countries (LMICs and UMICs), it can still contribute to their development by mobilising private flows, leveraging private investment and facilitating trade. Gavas et al. (2011) argue that if developing countries want to attract significant resources for aid for trade, e.g. to cover their infrastructure needs, they need to think outside the box and consider how grants can leverage other resources, such as loans or private finance, to provide blended aid-for-trade finance. According to a recent OECD Survey, in 2012-15 USD 81.1 billion was mobilised through a series of development finance interventions (Figures 11.3 and 11.4). The ultimate development merits of such blended finance, however, will depend on the specific transactions and projects being developed. Also, blended finance carries some inherent risks, for instance by fostering the practice, proven to be ineffective, of tying aid-funded procurement to companies in the donor country.

The challenge is how to adapt current aid practices to make them work with new actors and operators (e.g. the private sector). Their motivations are different from those of traditional donors and their operating mechanisms and modalities may be largely unfamiliar to most development practitioners. The emergence of an increasingly innovative finance agenda will oblige donors to deepen their understanding of private sector involvement in development. It may be important, for example, to explore the distinctions between activities designed to ultimately promote and benefit the local private sector, on the one hand, and those that seek to harness private sector resources for projects (or businesses) that have development-oriented goals, on the other.
Figure 11.3. Distribution of finance mobilised for development purposes from the private sector in 2012-15, by sector

Source: 2016 OECD-DAC survey on amounts mobilised from the private sector by official development finance interventions. For more information, see www.oecd.org/dac/stats/mobilisation.htm

Figure 11.4. Distribution of finance mobilised for development purposes from the private sector in 2012-15, by income group

Source: 2016 OECD-DAC survey on amounts mobilised from the private sector by official development finance interventions. For more information, see www.oecd.org/dac/stats/mobilisation.htm
Aid for trade has supported trade development in 146 countries

A total of USD 298.3 billion has been disbursed for aid-for-trade programmes and projects since the Aid for Trade Initiative was launched in 2006. Aid-for-trade providers include some 60 bilateral and multilateral donors that report their official development assistance to the OECD-DAC Creditor Reporting System (CRS). Since 2006 bilateral donors have provided almost two-thirds of total support for aid for trade and multilateral donors the rest. The support is equally divided between grants and concessional loans, with LICs, specifically the least developed, receiving most of their support in the form of grants and MICs mostly as loans.

Since 2006, 146 developing countries have received aid-for-trade assistance, mainly in Asia (41.5%) and Africa (38.7%). Regional and global programmes have attracted almost 15% of total aid-for-trade disbursements. Over the same time period, middle income countries (MICs) have benefitted more than twice as much as low income countries (LICs) from aid-for-trade funding. To date, more than three-quarters of total aid-for-trade disbursements have financed projects in four sectors (Figure 11.5): transport and storage (28.6%), energy generation and supply (21.6%), agriculture (18.3%), and banking and financial services (11.1%).

**Figure 11.5. Total aid-for-trade disbursements by category, 2006-15**

USD BILLION, 2015 CONSTANT

- Transport and storage: 85.22 billion
- Energy: 64.47 billion
- Agriculture: 54.50 billion
- Business and other services: 16.42 billion
- Industry: 14.99 billion
- Trade policy and administrative management: 4.83 billion
- Trade facilitation: 2.80 billion
- Tourism: 1.24 billion
- Trade education/training: 0.25 billion
- Trade-related adjustment: 0.18 billion
- Fishing: 2.71 billion
- Regional trade agreements (RTAs): 1.09 billion
- Mineral resources and mining: 4.68 billion
- Forestry: 6.18 billion
- Communications: 5.29 billion
- Banking and financial services: 33.20 billion
- Total Aid for Trade disbursements, USD 298.30 billion

In addition, USD 248.1 billion in trade-related other official flows (OOF)\(^1\) has been disbursed since 2006, of which 74% is from international financial institutions (Figure 11.6). Most of this non-concessional funding has been for projects in economic infrastructure (47.5%) and for building productive capacities (51.6%); it has been invested almost exclusively in MICs (91.6%). Asia, the main beneficiary of trade-related OOF, has received USD 103.3 billion or 41.6% of this total. OOF support to Africa, at USD 40.8 billion, is surpassed by that to MICs in Europe, and to Latin America and the Caribbean (USD 42.2 and USD 58.4 billion respectively).

**Figure 11.6. Total trade-related OOF disbursements by category, 2006-15**

USD BILLION, 2015 CONSTANT

Transport and storage 60.58 billion

Banking services 53.39 billion

Energy 51.12 billion

Industry 40.06 billion

Mineral resources and mining 10.61 billion

Agriculture 10.83 billion

Business services 9.98 billion

Communications 6.12 billion

Trade facilitation 1.17 billion

Trade policy and management 0.87 billion

RTAs 0.04 billion

Training 0.03 billion

Tourism 1.89 billion

Forestry 1.39 billion

Fishing 0.26 billion

Multilateral negotiations 0.03 billion

Total trade-related OOF disbursements, USD 248.05 billion

Source: OECD-DAC CRS aid activity database (2017), DOI: http://dx.doi.org/10.1787/888933527165
AID-FOR-TRADE DISBURSEMENTS BY SECTOR, GEOGRAPHIC REGION AND INCOME

This section looks at aggregate aid-for-trade disbursements since 2006. In particular, it examines the distribution of the disbursements among the different categories that are used as proxies to measure the volume of aid for trade at the global level (i.e. trade policy and regulations, economic infrastructure and productive capacity). Next, the section looks at the countries and regions that receive these funds, and the donors who provide them. Lastly, it examines the financial terms of the disbursements. Throughout, reference is also made to trade-related other official flows.

Aid-for-trade disbursements for infrastructure

Between 2006 and 2015 a total of USD 155 billion was disbursed to support programmes and projects aimed at reducing the infrastructure gap in developing countries. Transport and storage projects attracted the majority of these funds (55%), followed by projects in energy generation and supply (41.6%). Information and telecommunication projects attracted relatively little concessional financing (3.4%). Asia was the main beneficiary, with USD 69.4 billion, followed by Africa (USD 55.4 billion). Much less support was destined to the transition economies in Eastern Europe (USD 12.9 billion), Latin America and the Caribbean (USD 11.1 billion) and Oceania (USD 2.1 billion).

A total of USD 117.2 billion in OOF was disbursed to finance economic infrastructure programmes: USD 62.6 billion for transport and storage projects and USD 52.1 billion for projects in the energy sector. OOF were predominantly made available by multilateral development banks and Korea for programmes for the most part concentrated in MICs, especially in Asia.

Aid-for-trade disbursements for building productive capacities

Programmes and projects aimed at building productive capacity in developing countries received USD 133.9 billion in aid between 2006 and 2015. USD 54.5 billion was dedicated to improving agricultural productivity and food security. Banking and financial services, and other business services, received USD 33.2 billion and USD 16.4 billion respectively. Most disbursements for building productive capacity went to Africa (USD 47.8 billion) followed by Asia (USD 41.7 billion), Europe (USD 13.7 billion), Latin America and the Caribbean (USD 11.9 billion), and Oceania (USD 1.2 billion).

A total of USD 128.1 billion in trade-related OOF has been made available since 2006 to finance programmes aimed at building productive capacity. Addressing market failures in banking and financial services, and in other business services, received USD 54 billion and USD 9 billion respectively. Pro-active industry-specific policies in the area of manufacturing, agriculture and mining received USD 40.1 billion, USD 10.8 billion and USD 10.6 billion respectively. The main recipients of these flows were MICs in Asia (37.6% of total), Latin America and the Caribbean (21.8%), and Europe (22.5%). Relatively little went to Africa (16.2%).

Aid-for-trade disbursements for trade policy and regulation

Aid for trade in its narrowest sense—support for trade policy and regulation—has attracted a total of USD 9.4 billion, or 3.1% of total disbursements since 2006. Most of this (USD 4.8 billion) has been for technical support to trade ministries for building capacity in trade policy and management, and for implementing trade agreements (including addressing technical barriers to trade, sanitary and phytosanitary measures). This is followed by support for trade facilitation (USD 2.8 billion), for active participation in regional and multilateral trade negotiations (USD 1.1 billion and USD 239.5 million, respectively), and for training and education (USD 209 million). Support for trade-related adjustments—one of the initial objectives of the Aid for Trade Initiative—only attracted USD 253 million. Only USD 2.1 billion in OOF went to finance projects in trade policy and regulation. This is because this is largely supported through technical assistance.
Aid-for-trade disbursements to geographic region

Since 2006, Asian countries have been the main recipients of aid-for-trade disbursements (USD 113.9 billion, with an additional USD 2.2 billion for regional programmes). Most of these funds were for countries in South and Central Asia (51.1%), followed by East Asia (34.4%) and the Middle East (12.7%). Trade-related OOF to Asia totalled USD 103.3 billion, with USD 56.9 billion for programmes in East Asia and USD 40.3 billion for South and Central Asia. Over the same period, aid for trade for Africa reached USD 106.4 billion, almost three-quarters of which was for countries in sub-Saharan Africa. In addition, donors disbursed USD 7 billion for regional programmes in Africa. Overall, only 16.6% of trade-related OOF were disbursed to countries in Africa, less than the amounts received by Latin America and the Caribbean (23.8%) and Europe (17.2%). In fact, trade related OOF has been directed overwhelmingly to MICs (96%), with only 3.5% going to the least developed (Figure 11.8).

Figure 11.7. Share of total aid-for-trade disbursements by region and income group, 2006-15


Figure 11.8. Share of total trade-related OOF disbursements by region and income group, 2006-15

Aid-for-trade disbursements by country grouping

The tendency to provide highly concessional funds, rather than low- or non-concessional OOF, to the poorest countries is reflected in the distribution of loans and grants. At the aggregate level, the shares of loans and grants have been almost equal since 2006. Yet 63.4% of disbursements to LICs have been made as grants, whereas MICs have received 67.4% as loans. The share of total country-specific aid-for-trade disbursements for the LDCs was 31.9%, while other LICs received 2.9%; 65.3% went to MICs. Aid for trade per capita, however, is USD 11.1 for the LDCs; USD 12.9 for other LICs; USD 5.7 for LMICs; and USD 2.8 for the UMICs.

The top ten aid-for-trade recipients have received a little over 35% (USD 104.6 billion) of total country specific aid-for-trade disbursements since 2006 (Figure 11.9). They comprise six countries in Asia, three in Africa and one in Europe. Among these, only Afghanistan is an LDC. To put the 35% in perspective, it should be noted that the total population of these top ten recipients is close to 30% of the total population of developing countries. The top ten recipients of trade-related OOF comprise four countries in Asia, two in Europe, two in the Americas and two in Africa (Figure 11.10). All top ten OOF recipients are MICs. Together they received 58% of total OOF during the period 2006-15.

Figure 11.9. Top ten recipients of total aid-for-trade disbursements 2006-15


Figure 11.10. Top ten recipients of total trade-related OOF, 2006-15

Aid-for-trade disbursements by donor

Since 2006, bilateral donors have provided 61.5% of total aid-for-trade disbursements, with the remainder being financed by multilateral donors. Together, the top ten donors (bilateral and multilateral) provide over 81% of total aid for trade (Figure 11.11). For trade-related OOF, the concentration is even stronger, with the top ten donors providing over 97.2% of the funds (Figure 11.12).

**Figure 11.11. Top ten aid-for-trade providers (total disbursements 2006-15)**

![Chart showing top ten aid-for-trade providers](image)


**Figure 11.12. Top ten providers of trade-related OOF (total disbursements 2006-15)**

![Chart showing top ten providers of trade-related OOF](image)

TRADE-RELATED INFRASTRUCTURE IS A DEVELOPMENT ENabler

Infrastructure development is critical for sustainable economic growth and poverty reduction. It enables the movement of people, goods and services and provides access to local, regional and global markets as well as health, education, water, energy and communications services. Infrastructure is estimated to have a socioeconomic rate of return of around 20%. This is mainly thanks to increased productivity resulting from reduced travel time and costs, access to reliable electricity, and broadband connectivity that allows individuals and businesses to plug into the digital global economy (MGI, 2016). While the provision of transport is potentially crucial for development, its impact depends on a variety of factors. Setting priorities, especially when resources are scarce, should rely on a detailed analysis of how transport policies can produce growth-inducing effects and reduce social costs (Bielenberg et al., 2016).

Because it is a critical enabler of both direct and indirect societal benefits, infrastructure is a core element of the Sustainable Development Goals, including: access to affordable, reliable, sustainable, and modern energy for all, as well as resilient infrastructure, inclusive and sustainable industrialization, and heightened innovation. Upgrading infrastructure is central to the agendas of many developing countries and regional economic communities (RECs). According to the 2017 OECD-WTO monitoring survey, the issue features in eight out of ten donor dialogues with partner countries and seven out of ten dialogues with RECs. Three quarters of the donor agencies participating in the 2017 monitoring exercise prioritise infrastructure development and half of them operate specific trade-related infrastructure programmes. These place a particular focus on transport and energy related infrastructure (78% and 72% respectively), and on communication infrastructure (68%).

This section discusses the use of official development finance for bridging the trade-related infrastructure gap. It starts with a short analysis of the volume of official development finance for infrastructure. Next, it highlights some of the strategies pursued by donors that are particularly active in this area and presents several case stories. It concludes with some observations about how to improve the effectiveness of support for trade-related infrastructure investments.

Infrastructure is a large component of the aid-for-trade portfolio

Since the start of the Aid for Trade Initiative, more than half of all related funds have been disbursed to build trade-related infrastructure. Together Japan, the World Bank Group, the European Union (EU) institutions, Germany and France disbursed over three quarters of all funds during the period 2006–15. This concentration is explained by the fact that, in general, the size of trade-related infrastructure projects surpasses the financial capacity of smaller donors. Often, these donors work together in multi-donor programmes to finance large-scale infrastructure projects.

In 2015 aid disbursements for trade-related infrastructure reached USD 20.65 billion, double the 2002-05 average baseline (Figure 1.13). Disbursements for transport and storage stood at USD 10.7 billion. For energy projects, they reached USD 9.5 billion, up almost USD 781.8 million compared to 2014. Information and communications technology (ICT) disbursements totalled only USD 443.1 million, mostly in the form of technical assistance for regulatory reform (Figure 1.14). ICT hardware investments were mostly financed by the private sector.

During the period 2006–15, Asia received most of the ODA disbursements for ITC (33%), followed by Africa (32.9%), Europe (10.3%), Latin America and the Caribbean (9.6%) and Oceania (1.6%; Figure 11.15). During the same period, 41.2% of cumulative disbursements went to the LMICs, followed by the LICs with 30.7% (LDCs 28.2% and OLICs 2.9%). The UMICs received 21.7% of total disbursements.

In 2015, OOF disbursements reached USD 20.9 billion, an increase of 521% compared to the 2002–05 average baseline. The distribution between the three main infrastructure sectors is comparable with that of ODA. What is very different from the ODA disbursements is that OOF is mainly destined for UMICs (50.8%) and LMICs (44.6%), with LICs only receiving 2.8%.
OECD (2015) found that total infrastructure investments in developing countries amounted to roughly USD 1 trillion in 2013, of which more than half was financed by developing country governments and a third by the private sector. Official development partners in general financed between 6-7% of these infrastructure investments, which amounted to about USD 55 billion, with bilateral donors financing around 46% and multilaterals 54% of these amounts. China, India, Turkey and Arab partners provided about 13% of total official support for infrastructure through South-South development co-operation.

Case stories shed light on infrastructure approaches and priorities

Donors have diverse strategies for tackling the infrastructure gap. Seeking to address inefficient and costly infrastructure delivery, many governments over the past two decades have turned to public–private partnerships (PPPs) to build and operate infrastructure. The key characteristic of PPPs is the outsourcing and “bundling” of project delivery components (e.g. design, building, financing, operations), to incentivise the builder-operator to incorporate long-term operating-cost considerations into the design and construction phases of a project, and to reduce co-ordination costs. Trebilcock and Rosenstock (2015), reviewing the benefits and drawbacks of PPPs for developing economies, find that relative to traditional procurement, PPPs are complex; they require governments to anticipate and plan for contingencies, and to monitor and enforce contracts over the long term. They argue that institutional capacity is a key determinant of PPP success.

Regional approaches to infrastructure challenges

The Programme for Infrastructure Development in Africa (PIDA), developed by the African Union, the New Partnership for Africa’s Development (NEPAD), the African Development Bank (AfDB), the United Nations Economic Commission for Africa (UNECA) and several regional economic communities, is taking a regional approach, which enables large competitive markets to be created out of smaller, isolated ones, thereby lowering trade and production costs. The price tag for carrying out PIDA between 2011 and 2040 is estimated at around USD 360 billion. This outlay is beyond the financing capacity of African governments or their donors. Attracting private sector financing is therefore essential for the realisation of the various infrastructure projects envisioned under the programme (NEPAD, 2016).
In 2007, the European Union and several of its member states established the **EU-Africa Infrastructure Trust Fund (AIFT)**. It aims to increase infrastructure investment in sub-Saharan Africa by blending long-term loans and risk capital with grant resources. To date, the fund, with grants of EUR 456 million, has generated investments of EUR 8.9 billion. In 2015, it supported six transport projects in some of sub-Saharan Africa’s least connected and most vulnerable areas, such as northern Nigeria and South Sudan. Furthermore, the fund supports projects that are closely aligned with PIDA objectives; more than half of all grants approved under the regional pillar of the fund directly support PIDA projects. The majority of these are in the transport and energy sectors, for example, the North-South Power Transmission Corridor and the West Africa Power Transmission Corridor (EC, 2015).

The members of the **Association of Southeast Asian Nations (ASEAN)** have renewed their commitment to the Master Plan for Connectivity 2025, which focuses on five areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and mobility of people. The assessment of the forerunner—the 2010 Master Plan—shows that almost half of the 39 identified infrastructure gaps were tackled. Notable progress has been made on the ASEAN Highway Network, which created integrated, safe, and environmentally sustainable regional land transport corridors linking all ASEAN Member States and neighbouring countries (ASEAN, 2016). Transport and transit infrastructure is also a priority in the Asia-Pacific region.

Transport has been one of the **Asian Development Bank’s (ADB)** main priorities and now receives more than 30% of total lending. Progressively, the focus of its portfolio for sustainable transport has centred on four key areas: urban transport, low-carbon and climate-resilient transport, cross-border transport and logistics, and integration of safety in road investments. The ADB has established a Sustainable Transport Partnership Facility to enable development partners, research institutes, and nongovernment organizations to provide financing, expertise, and in-kind contributions to enhance and scale-up ADB’s sustainable transport operations (ADB, 2010).

The **Australian government** has recently approved a new strategy for development assistance that prioritises increasing investment in infrastructure. The strategy spotlights investments to enhance trade and connectivity throughout the region and mobilise private sector finance to improve access to infrastructure services and promote women’s participation and empowerment. Australia intends to give less priority to financing for infrastructure building, focusing more on providing technical assistance for project preparation and regulatory reform (Australia, 2015).

The **United States Agency for International Development (USAID)** finances the construction of energy, roads, and communications infrastructure in more than 60 countries. Particular emphasis is placed on construction and rehabilitation of infrastructure in conflict and disaster-affected countries, such as Afghanistan, Pakistan and Haiti, to foster stability and fuel economic recovery. For example, USAID has built or rehabilitated more than 3,000 kilometres of roads in Afghanistan, provided technical assistance for the 2010 Afghanistan-Pakistan Transit-Trade Agreement (APTTA), and supported the Cross-Border Transport Agreement (CBTA) between Kyrgyzstan, Tajikistan and Afghanistan (USAID, 2014).

The infrastructure strategy of the **World Bank Group** is structured round three pillars: interventions to ensure access to basic infrastructure services; regional projects in the areas of power grids, broadband, transportation corridors and renewable energy; and mobilising private capital. The Bank also manages the Global Infrastructure Facility (GIF), a partnership among governments, multilateral development banks, private sector investors, and financiers to design and implement infrastructure projects that a single agency cannot handle on its own. Working with client governments, the GIF tries to structure infrastructure projects in ways that will attract private capital. Private or public sector entities operating on a commercial basis are tasked with implementing the projects. The partnership focuses on trade enabling projects that facilitate or enhance interconnectivity and trade, including freight rail networks, seaports and inland terminals, airports and toll roads (World Bank, 2016).
Transport and transit corridors

Transport and transit corridors have been around for centuries, but it is only in the last few decades that they have been recognized for the value they can add to economic growth—particularly for landlocked countries. While transit corridors are often more effective, they are also politically more challenging because countries bear different shares of the project costs. This creates asymmetric incentives to expend limited funds and resources on the corridor over other domestic projects, particularly when it is difficult to establish ex ante which country “gains the most”. An honest broker, such as a development bank or a multi-donor programme, can help overcome this problem. In addition, there might also be downsides related to displacement or conflict. These potential challenges need to be addressed, especially because regional connectivity projects often permeate peripheral areas of nation-state boundaries. The potential large-scale environmental impact also needs to be factored in (Yhome and Chaturvedy, 2017).

The infrastructure strategy of the Japanese International Cooperation Agency (JICA) focuses on the development of trunk corridors as key axes to stimulate economic activity. In Africa, Japan is involved in eight economic corridors: the Trans-Maghrebin Corridor, the West Africa Growth Ring, the Northern Corridor, the Nile Corridor, the Djibouti–Addis Ababa Corridor, the Central Corridor and the Nacala Corridor. JICA provides technical assistance for participatory formulation of long-term master plans, which includes environmental and social impact assessment (JICA, 2016). In Asia, JICA and the ADB are building capacity for enhancing cross-border transport and trade across the Great Mekong sub-region corridor. The programme builds on progress already made through the Cross Border Transport Facilitation Agreement. By laying the ground for faster, easier, cheaper, compliant, and more inclusive cross-border transport and trade, it is expected to make a significant contribution to the ASEAN Economic Community (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 124).

Transport corridors have also been developed under the Central Asia Regional Economic Cooperation (CAREC) programme. The 2008 CAREC Transport and Trade Facilitation strategy identified six strategic corridors to be improved: Europe–East Asia; Mediterranean–East Asia; Russian Federation–Middle East and South Asia; Russian Federation–East Asia; East Asia–Middle East and South Asia; Europe–Middle East and South Asia. Although there have been improvements in customs administration, better co-ordination among custom offices is still needed. Furthermore, although intra-regional and extra-regional trade volume grew, the increase remained well below the assessed potential. Consequently, the CAREC countries have refined their strategy by shifting the focus to improving the quality of logistics services and increasing the level of connectivity. For hard infrastructure, there is a new emphasis on long-distance freight movement. In services, the need to connect the six CAREC corridors and major seaports is emphasized. The refined strategy also stresses the importance of extending and completing the six strategic multimodal corridors (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 107).

The German development co-operation agency, GIZ, partnered with the Malian Ministry of Commerce and the Senegalese Ministry of Investment Promotion to implement a trade facilitation programme on the Dakar-Bamako. The project provides advisory services for simplifying Malian and Senegalese custom procedures and transit systems. By engaging private sector actors the project is able to enhance transparency and better disseminate information regarding transit regulations to corridor users. Given the broad variety of actors and interests involved, the establishment of co-ordination committees at different levels has been a major success factor. Anchoring the committees in existing structures also has facilitated the continuation of their activities after the end of the project (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 65).
Trans-regional corridors are also increasingly attracting attention and investment. The most ambitious is China’s revival of the historic Silk Road trade route. Announced in 2013, two new trade corridors—one overland, the other by sea—are planned to connect China with its neighbours in Central Asia, the Middle East and Europe. The aim is to generate USD 2.5 trillion in additional annual trade with the nations along the proposed routes over the next ten years. Fulfilling this ambition will require collaboration among the 40 countries located along the silk routes, both the overland routes from China to Europe and the sea routes. The project requires significant funding—an estimated USD 8 trillion between 2010 and 2020 alone. The Chinese government has announced several commitments, including a USD 40 billion Silk Road Fund for projects in the Central Asia region (Lehmacher and Padilla, 2015).

Asia provides more examples of trans-regional corridor proposals, such as the Indo-Pacific Economic Corridor to connect the Indian and the Pacific Oceans through South and Southeast Asian littorals; initiatives to link East Asia to Africa and Europe through South and Southeast Asia; the Bangladesh, China, India and Myanmar Economic Corridor to connect China’s southwest region to India’s eastern region through Bangladesh and Myanmar; and the Trans-Himalayan Economic Corridor to link South and Southeast Asia to Central Asia (Yhome and Chaturvedy, 2017).

Railways

The condition of railway infrastructure and the performance of most rolling stock are generally poor in Africa. However, rail transport has an important role to play in the growth and sustainable development of the African continent over the next few decades (AfDB, 2015). For instance, more than 95% of Ethiopia’s trade passes through the port of Djibouti. The new Addis Ababa–Djibouti railway provides landlocked Ethiopia with railroad access to the sea. The new line was built between 2011 and 2016 and financed by China at around USD 4 billion. The railway has reduced cargo transit times from 3 days by road to 12 hours by train.

The CAREC transport programme includes the construction of 75 kilometres of railway line between Mazar-e-Sharif in Afghanistan and Hairatan on the Uzbekistan border. The railway line cuts through bottlenecks and raises the profile of Afghanistan as a transit route by connecting two CAREC corridors, i.e. the Russian Federation–Middle East corridor, and the South Asia and Europe–Middle East and South Asia corridor. Intensive multiple-donor engagement has been a success factor for the project. This engagement also improved the adaptability of the project to changing conditions during implementation. The ADB provided supervision, both from headquarters and by the resident mission (OECD-WTO, 2015).

The rehabilitation of already existing railway system is also crucial. The European Bank for Reconstruction and Development (EBRD) funds the rehabilitation of railway infrastructure in Bosnia and Herzegovina. The project has been co-financed by the European Investment Bank (EIB) and several other donors. Japan, for example, provided funds to help rebuild the Jedrinje tunnel between Sarajevo and Mostar, while the EU, Italy, United States and Canada supported the project’s planning stages. The project also includes support for administrative and regulatory reforms. Greater high-level policy dialogue, together with strategic engagement with a broad range of stakeholders, is essential to deliver reforms in transport regulation (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 76).

Ports

Port projects have irreversible effects on the local economy and local community, as well as on the way the regional and national economy operate as a whole, with; in particular, they have major impact on regional transport systems. Investments in port planning should consider these potential broad impacts as part of a national freight transport and logistics strategy. Furthermore, private investment in port terminals is facilitated by the by development of national freight transport and logistics strategies (ITF, 2015).
The Kenya Ports Authority and TradeMark East Africa have undertaken an infrastructure development project for the port of Mombasa, the principal gateway to Eastern Africa. The key challenges—low performance, particularly at the ship-to-shore interface; lack of capacity; and slow clearing and forwarding arrangements—all result in high cargo dwell times. Project activities include upgrading the main gates, installing security equipment and the construction of an additional climbing lane. The expansion of the gate has led to improved port access and reduced congestion and truck turnaround times. Surveys show that truck turnaround has been halved, from eight hours in 2014 to four hours in 2016. A user satisfaction survey showed that 86% of export drivers and 28% of import drivers were satisfied with the infrastructure changes (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 80).

Afghanistan, Iran and India recently finalized the trilateral transport and transit pact that regulates infrastructure improvement in the seaport of Chabahar, located on Iran’s South-Eastern coast. India had previously invested USD 135 million to build the Zaranj-Dilaram highway connecting the Kabul-Herat Highway to Chabahar port, providing land-locked Afghanistan with access to the Arabian Sea and the Persian Gulf. The development of the port is expected to revive Afghanistan’s historic and natural role as a crossroads connecting Central Asia to South Asia, while making it easier for Afghan goods to reach the lucrative Indian market. Upon completion of the work, Chabahar’s capacity should increase to 8 million tons, as compared to the current 2.5 million. Although the project has potential to become a game changer in the region, the political and security situation in Afghanistan and the region may hinder progress (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 61).

Airports

Transport and communication linkages are crucial for small islands and developing states. To rehabilitate the Bonriki International Airport in Kiribati, one of the most remote countries in the world, Chinese Taipei committed USD 15 million to the World Bank’s Kiribati Aviation Investment Project. The project includes investments in infrastructure, sector reform, and training to strengthen airport operations and management capacity, as well as project support. While the project is still ongoing, some challenges have already risen. For example, procurement and contract management require daily on-site technical support to resolve issues, ensure progress and enhance institutional capacity. Local circumstances, such as adverse weather, can also delay the construction schedule (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 12).

Soft infrastructure

The Czech Republic is running a project to improve road traffic management and regulations in Mongolia. It aims to establish a unified road transport system (including for the transport of goods) with the latest monitoring and control systems. It also aims to improve vehicle registration and technical control, meeting international standards. The project is founded on the transfer of know-how in regulating areas such as transit transport, driving hours and rest periods, and weights and dimensions of load (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 58).

Case stories in trade-related infrastructure offer lessons for the future

The case stories show that improving trade-related infrastructure helps to reduce transport costs, which in turn increases market access and boosts trade flows. The resulting structural transformation can help farmers, for example, to move from subsistence to commercial agriculture or to non-agricultural activities. These impacts can lead to increased welfare, raising higher incomes and reducing poverty. However, these potential economic gains must be balanced against the possible environmental costs. Road and rail development can lead to deforestation and biodiversity loss. Increased traffic on new roads increases air pollution, which can affect health negatively.
Nonetheless, financing the required levels of public investment in trade-related infrastructure in developing countries faces challenges in today’s context of scarce financial resources. Even when the infrastructure is in place, operation also requires funding. Safeguarding debt sustainability requires action on several fronts: boosting public savings by enhancing domestic revenue mobilization and reducing non-priority outlays; ensuring efficient use of funds by strengthening public investment management; developing local capital markets; and tapping into all available sources of concessional financing (IMF, 2016).

Enhancing the role of the private sector in infrastructure delivery also should be promoted where feasible. This requires concerted efforts to improve the regulatory and macroeconomic environment and enhance countries’ capacity to negotiate and implement public-private partnerships that will allow them to effectively balance risk-sharing between the public and private partners. Donors also have an important role to play in boosting private sector investment in infrastructure by lending technical support to governments seeking to attract funds, actively engaging their private sector arms in infrastructure projects, and providing effectively-designed risk-mitigation mechanisms.

**DONOR SUPPORT FOR ICT IS CRITICAL FOR DEVELOPMENT**

Digital technologies are spreading rapidly in developing countries, offering unprecedented opportunities to tackle development challenges in innovative ways. Many of the challenges faced by local small and medium enterprises are the result of market failures and information asymmetries. These are all domains in which effective ICT applications can make a significant difference (UNCTAD, 2011).

Digital connectivity can help to accelerate the achievement of the 2030 Agenda. Moreover, ICT provides new and more automated means to monitor and assess progress towards the Sustainable Development Goals (SDGs) and enable evidence-based decision making. Donor agencies have shown an interest in ICT for development since the 1990s (Heeks, 2009). Recently, it has become a more strategic priority for them because ICT offers more innovative, cheaper and affordable ways of delivering development services. The 2017 OECD-WTO monitoring exercise found that ICT is prioritized in the development strategy of two-thirds of the donors, followed by e-government and e-commerce (58% and 50% respectively). Donors report that this area is attracting either significant or some growth of demand (44% for each). Although e-commerce and other digital strategies feature in two-thirds of the country and regional dialogues, less than half of the donors operate special initiatives covering these areas. Half of these special initiatives are undertaken in close co-operation with the private sector.

This section looks at donor strategies for helping to increase connectivity in developing countries, provides data on donor support for ICT, and offers examples of some programmes. The section concludes with some lessons learned.

**Disbursements for ICT, by category, region and country grouping**

ODA for ICT is captured in the OECD Creditor Reporting System (CRS) under five categories: 1) technological research and development; 2) radio, television and print media; 3) communication policy and administrative management; 4) information and communications technology; and 5) telecommunication. The 2002-05 annual baseline average was just short of USD 500 million. In 2013, ITC disbursements reached their highest level, at USD 812.5 million; this was largely the result of two large telecommunication projects in Turkey and Romania, both financed by the European Union. Between 2006 and 2015, average overall ICT disbursements fluctuated between USD 650 million and USD 700 million; the largest share (35.2%) was devoted to financing telecommunication projects, followed by investments in information and telecommunication technology (24.1%), policy and management (16.6%) and finally research and development (10.5.2%); Figure 11.14.
The relative share of aid for ICT in total aid for trade is small and declining; it went from 3% during the baseline period to 1.2% in 2015. The surge in 2013 mentioned above marked a break in this declining trend and the share reached 2.3%. Most of the aid-for-trade support for ICT is actually provided in the form of technical assistance for institutional and human capacity building in the area of ICT regulations. Investments in physical ICT infrastructure are mostly undertaken by the private sector once the regulatory framework is in place and operating effectively.

During the period 2002-15, most of the aggregate ICT disbursements were for Asia and Africa (each USD 2.5 billion), Europe (USD 794.9 million), Latin America and the Caribbean (USD 735.7 million), and Oceania (USD 124.3 million). Regional and global programmes received USD 970 million (Figure 11.15). The UMICs were the largest recipient group, with a share of 29.3% of total disbursements during the period 2002-15; the LDCs share stood at 24.6%; OLICs at 2.0%; and LMICs at 21.2%. The top three donors—the EU institutions, Japan and the World Bank—provided close to half off all disbursements during that period.

Source: OECD-DAC CRS: aid activity database (2017), DOI: http://dx.doi.org/10.1787/888933527317

[Link to source]

Source: OECD-DAC CRS: aid activity database (2017), DOI: http://dx.doi.org/10.1787/888933527336

[Link to source]
ICT for infrastructure

The African Development Bank promotes connectivity through the Connect Africa Initiative, a global partnership launched in 2007 that mobilises human, financial, and technical resources to bridge gaps in African ICT infrastructure. It includes fibre connectivity projects with regional and national submarine backbones; policy interventions to promote open, transparent and non-discriminatory access to ICT networks; and simplified licencing procedures for networks and e-applications. An AfDB assessment found that while considerable progress has been made in the area of broadband connectivity, about 87% of the African population is still unable to connect to the internet (AfDB, 2013). Modest progress has been made in creating the enabling regulatory frameworks; in Kenya, Mauritius, South Africa, Tanzania, and Uganda, the entire telecommunications, broadcasting and information technology sectors have been regulated (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 16).

Public institutions in developing countries are increasingly getting involved in ICT infrastructure development. For instance, the government of Pakistan has embraced the digital economy and now offers a wide range of services online, including social welfare payments, citizen liaison services and automated border control. Some of these services are exported to other developing countries. The Universal Service Fund aims to provide national broadband coverage in every region in Pakistan by 2018. Its main objective is to increase the level of telecom penetration in rural areas by encouraging telecom operators to focus on rural and unserved populations; improve broadband penetration in the country; and significantly boost e-services in both rural and urban parts of the country. As of 2016, the results include: almost half a million contracts signed, more than 700 000 broadband subscribers, and the establishment of 1 328 educational broadband centres as well as 369 community broadband centres (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 87).

The case of Tonga offers a good example of the potential of ICT infrastructure in providing small islands and land-locked countries with an opportunity to overcome the high transaction costs they face. Under the Pacific Regional Connectivity Program, the ADB, the Government of Tonga, the Tonga Fibre Optic company and the World Bank joined forces to finance an 827-kilometer submarine fibre-optic cable system linking Tonga to Fiji via the Southern Cross Cable—the main trans-Pacific link between Australia and the United States. Thanks to this investment, high-speed broadband internet is transforming everything from health care, business and government services to education, disaster management, and the social life of Tongans. International connectivity costs have already fallen by more than 60% (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 97).

ICT for productive capacity

ICT applications have been widely used to improve the life of rural agricultural communities, providing them with better networking opportunities and facilitating access to advanced techniques. Furthermore, ICT enables farmers to enter new markets and gain access to digital services, such as credit or crop failure insurance, or to consult the latest weather report. All of this makes their agricultural activities both more productive, boosting marketing prospects for producers and traders, and more secure. Agricultural market information services can also be effective at the policy level, enabling the tracking of commodity prices and supplies, and ensuring greater transparency (GIZ, 2015).

The GSoko platform links small holders to grain buyers across East Africa. Using digital technology it provides information about market opportunities, tracks goods, enhances transparency and connects buyers and sellers. The platform also issues regional quality certifications and protects farmers against prices falling too low by offering storage facilities that enable them to sell their goods at more favourable prices in the future. The platform, which received a USD 4.4 million DfID grant, is implemented by the Eastern Africa Grain Council in partnership with various industry stakeholders (grain traders and buyers; policy and research bodies; trade and information agencies). Engagement with the private sector has proved critical to the success of the project (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 70).
Large multinational companies have also been active in promoting access to e-commerce for small and medium enterprises. For instance, Amazon has offered the Fulfilment by Amazon service to producers that want to sell their products online. Using this service, Thailand’s Lanna Clothes Design has increased its online business by 70% after just 10 months; the number of employees has increased from 5 to 20, most of them women from rural Chiang Mai or the neighbouring province. This experience has also had positive externalities in the local community: based on her own e-commerce success, the owner plans to help local designers grow their businesses; at the same time, twice a year her company donates clothing and food to a nearby orphanage with 600 children (OECD-WTO aid-for-trade monitoring exercise 2017, Private sector case story 88).

**ICT for trade policies and regulations**

In 2013, the United Nations Conference on Trade and Development (UNCTAD) and the Economic Community of West African States (ECOWAS) supported the implementation of regional e-commerce legislation through a joint capacity building programme. The programme strengthened e-commerce know-how, reviewed the current state of cyber legislation, and discussed ways to achieve regional integration and the harmonization of regional e-commerce legislation. It demonstrated the need for member states to continue the implementation of regional legislation on e-transactions, data protection and cybercrime. At the ECOWAS level, the process of harmonization needs to consider all relevant areas, including e-money, online administration and new issues arising from cloud computing ((OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 59).

Certification of origin for exports can be costly for small farmers and entrepreneurs in developing economies. With the support of TradeMark East Africa, the Kenya National Chamber of Commerce and Industry has automated the application for and issuance of certificates of origin. Whereas the manual process took an average of up to three and a half days to complete, automating the process reduced the time to less than one and a half days. The inclusive and consultative project was stakeholder-driven (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 54).

Case stories in support for digital technology offer further lessons

Several of these case stories illustrate the opportunities provided by digital technologies to increase private sector engagement in development. Most donors have abandoned support for ICT infrastructure, leaving the job to the private sector. The most effective roles for the private sector include investing in ICT infrastructure (which tends to be very capital-intensive), operating ICT networks and delivering ICT services. Companies are interested in ICT-for-development initiatives for both commercial and corporate, social responsibility reasons.

Companies—especially those that provide digital content—can use their know-how to deliver innovative services for development. In addition, they are often able to address the lack of hard and soft ICT infrastructure more efficiently than donors. They might also be more willing to scale-up their ICT infrastructure investments. A fair and transparent regulatory and policy framework helps to secure and promote private-sector involvement.

Yet the development of expertise and technological innovation in developing countries cannot be left to the market alone. It is up to governments to ensure that the poor benefit from ICTs whenever and wherever possible. This can be ensured by formulating policies that specifically focus on the interests of the poor; encouraging network operators to channel part of their investments towards less commercially attractive regions; encouraging and co-financing ICT applications that directly benefit the poor, such as information points in local community centres; and investing in ICT applications in the public sector.
A review of empirical findings demonstrates the effectiveness of aid for trade in numerous settings and aspects. Velde te et al (2013) confirm that aid for trade, in general, is effective at both the micro and macro levels. They note, however, that the impacts may vary considerably depending on the type of aid-for-trade intervention, the income level of the beneficiaries, the sector to which the support is directed and the geographical region of the recipient country. In the case of sectors, for example, Ferro et al. (2012) find that a 10% increase in aid to transportation, information, communication and technology, energy, and banking services is associated with increases in the exports of manufactured goods from the recipient countries of 2.0%, 0.3%, 6.8% and 4.7%, respectively.

Aid for trade also has great potential to reduce trade costs. Cali and te Velde (2011) examined the impact of aid for trade on trade costs and exports; they found that a USD 1 million increase in aid-for-trade facilitation is associated with a 6% reduction in the cost of packing, loading and shipping to the transit hub. Busse et al (2012), using panel data on 99 developing countries covering the period 2004-09, show that aid for trade is closely associated with lowering trade costs, and therefore may play an important role in helping developing countries benefit from trade. Cirera and Winters (2014) find that aid for trade has a positive impact on exporting and importing times in sub-Saharan African countries, but other factors explain differing experiences in structural change.

Helble et al. (2012) empirically assess the relationship between different aid-for-trade categories and trade performance. They find that a 1% increase in aid-for-trade facilitation could generate a USD 415 million increase in global trade. An USAID (2010) evaluation of trade assistance focusing on expansion of exports, trade policy reform, increased participation in trade agreements, and efficiency gains from trade facilitation assistance, finds that each additional US dollar increases the value of developing country exports by USD 42 two years later. OECD-WTO (2013a) finds that one US dollar invested in aid for trade is on average associated with an increase of nearly eight US dollars in exports from all developing countries and an increase of twenty US dollars in exports from the poorest countries. These effects were found to be even higher for exports of parts and components.

On the basis of a literature review, Martuscelli and Winters (2014) conclude that trade liberalisation generally boosts income and thus reduces poverty, with gains for those working in the export sector and losses in the import-competing sector. A fairly common finding is that female workers gain from trade liberalisation. De Melo and Wagner (2015) confirm these findings and observe that aid for trade has also helped reduce poverty through other channels. For example, aid targeted to building productive capacities in agriculture and insurance schemes that remove risks can raise the productivity of households that are close to the poverty line. Road rehabilitation can also reduce the monopsonistic power of traders in remote areas, thereby raising the incomes of the poor from sales of their agricultural production.

Ghimire et al (2016) find that aid for trade has positive and significant effects on multiple measures of export performance. However, they also find that aid for trade exhibits diminishing returns. Tadesse et al (2017) find that aid for trade from both bilateral and multilateral donors leads to significant reductions in trade costs for recipients at both the aggregate and sector levels. However, the effectiveness of aid for trade in reducing bilateral trade costs and allowing developing countries’ full integration into the global market does not only depend on the size of flows, but also on the co-ordination between bilateral and multilateral donors. They conclude that these observations demonstrate the need for further strengthening of the initiative. This reinforces the findings of Hynes and Holden (2016), who argue that the Aid for Trade Initiative has substantial achievements to its credit and that there is reason to reinforce its positive elements.
The inquiry into the United Kingdom’s (UK) Africa Free Trade Initiative by the All-Party Parliamentary Group for Trade out of Poverty (2016) noted that aid-for-trade programmes have helped individual African governments and regional economic communities lower tariffs, harmonize regional trade arrangements, improve hard and soft trade infrastructure, and cut red tape by modernizing customs systems, procedures and facilities. Most of this progress has been made in East and Southern Africa. Yet despite the progress in improving trade conditions, sustained effort needs to be put into further freeing up trade and boosting the competitiveness of African countries. The evaluation recommends that a successor to the Africa Free Trade Initiative should be part of the UK’s strategy (APPG-TOP, 2016).

The 2015 independent evaluation of the Netherlands’ Centre for the Promotion of Imports (CBI) from Developing Countries (Netherlands, 2015) concluded that technical assistance to individual companies for strengthening their competitive edge in European markets, and for improvement of business support organisations in developing countries, has been successful in helping companies to overcome scarcity of market information and market entry barriers. This was not always sufficient, however, to increase exports. In some cases, observed export increases could not always be (fully) attributed to CBI programmes and activities. CBI’s contribution was, therefore, judged more modest when set against the ultimate intended trade performance goals (Netherlands, 2015).

An independent evaluation of Finland’s Aid for Trade Action Plan 2012-15 (Finland, 2016) found that it is not possible to measure the impact at the aggregate level; at the project level, however, there is ample proof that positive results and impact were achieved. Many projects in Finland’s priority sectors, such as water, energy, environment, ICT and innovation, forestry and fisheries, have also led to increased involvement of private sector partners in developing countries. The evaluation recommends integrating aid for trade into existing and new development policy strategies, and strengthening private sector involvement and multi-stakeholder participation in aid-for-trade planning and implementation.

The Australian Office of Development Effectiveness examined 24 aid-for-trade projects to identify lessons that could be learned to help guide the scope and focus of the upcoming aid-for-trade evaluation (Australia, 2016). Recalling the findings of Aid for Trade in Action (OECD-WTO, 2013) the report highlights the need for trade to be mainstreamed into a country or region’s development strategy, and for donors to align their strategies around recipient countries’ existing trade priorities. Identifying bottlenecks and binding constraints are important prerequisites for designing successful aid-for-trade interventions. It is also important for the various interventions to complement each other. Mobilising the support of the private sector and civil society remains critical to effective implementation of trade-related reforms. Furthermore, consideration should be given to how a country or region is connected to global value chains. Given the cross-border nature of trade policy and regulations, regional solutions are often essential.

Half of the donors and one-third of the partner countries participating in the 2017 aid-for-trade monitoring exercise have undertaken aid-for-trade evaluations since the start of the Initiative in 2006. Increasingly, these evaluations are part of broader growth and poverty alleviation programmes. For instance, Germany’s Gesellschaft für Internationale Zusammenarbeit (GIZ, 2015) developed a manual to emphasise the role that trade can play in promoting broader growth and, ultimately, poverty alleviation in GIZ initiatives. Taking aid for trade as a catalyst for mainstreaming trade and mobilising resources for the developing and least-developed countries, the manual highlights entry points for aid for trade in a number of sectors, ranging from agriculture to climate change. It contains an updated aid-for-trade results model, which demonstrates the many ways in which other initiatives link up with aid for trade.
THE WAY FORWARD

The 2017 OECD-WTO aid-for-trade monitoring exercise offers a view of aid-for-trade priorities among the various respondent groups. Almost 90% of partner countries give the highest priority to support for trade facilitation, followed by export diversification (63%), trade policy and regulations (48%) and transport infrastructure (47%). Donors, on the other hand, accord the highest priority (74%) to support for trade policy and regulations, closely followed by support for trade facilitation (70%). Regional integration and connecting to value chains follow next on the list of donor priorities (52% and 40% respectively). Both partner and donor countries give little priority to e-commerce in their aid-for-trade strategies (13% and 15% respectively; Figure 11.16).

According to 88% of the donors that participated in the 2017 survey, the SDGs will focus prominently in aid-for-trade priority development over the next five years. The aid-for-trade strategy of 60% of the donors will focus specifically on promoting private sector investment (60%) and green growth (50%), while also targeting results (48%) in areas such as trade facilitation (45%), gender equality (43%) and poverty reduction (40%), especially through regional programmes (43%) and in the LDCs (35%).

Figure 11.16. Partner and donor countries’ aid-for-trade priorities

The SDGs are less of a game changer for the aid-for-trade strategies of the partner countries, with only 21% listing them as drivers of change in their strategies since 2014 (Figure 11.17). Changes in these strategies are driven mainly by their national development strategies (64%), the implementation of the trade facilitation agreements (39%), efforts to reduce poverty (36%) and efforts to improve international competitiveness (36%), amongst others through regional integration (32%), industrialisation (25%) and the expansion of services (21%).
Commitments shed light on funding trends

Aid-for-trade commitments are firm obligations, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation. As such, commitments are an expression of the current priorities of the recipient and donor. Commitments are recorded as the full amount of the expected transfer, irrespective of the time required for the completion of disbursements, which in some cases may take many years. Hudson (2013) finds that on average almost all commitments tend to be met within two years, with the overwhelming majority met immediately. There are substantial differences among donors, however, and with respect to individual sectors. Some sectors, such as infrastructure, have very long lags. The remainder of this section provides an analysis of aid-for-trade commitments up to 2015, the latest year for which detailed information is available. It highlights distribution by sector, region and income; donors; and the financial terms of the support committed.

Budgets in 2015

In 2015, aid-for-trade commitments reached USD 53.9 billion, an increase of USD 5.4 billion in real terms from its 2014 level an additional USD 31.6 billion compared to the 2002-05 baseline average. Trade-related OOF increased by USD 5 billion in 2015 to reach USD 60.1 billion, more than four times the 2002-05 baseline average.

According to the 2017 OECD-WTO aid-for-trade monitoring exercise, ten donors reported a decrease in their aid-for-trade allocations since 2014. No change was reported by eleven donors, while six donors augmented their spending by more than 10% and another eleven donors did so by less than 10%. The average annual 9.5% increase in aid-for-trade commitments has contributed to reversing the trend—which started in early 1980—of a declining share of ODA devoted to promoting economic growth. In 2015, the share of aid for trade in-sector allocable aid stood at 33.3%.
### Sectoral distribution in 2015

In 2015, aid commitments for economic infrastructure reached USD 31.8 billion, up 14.3% compared to 2014 (Figure 11.18). Most of the increase was centred in the area of transport and storage, which rose by USD 3.0 billion, compared to 2014, and has almost tripled in volume since the 2002-05 average baseline. Support to energy generation and supply also increased by more than USD 1 billion to USD 15.9 billion. The communications sector, however, continued its downward trend with a further decrease of 28% to USD 560 million. OOF for economic infrastructure decreased 0.9%, to USD 27.5 billion (Figure 11.21). Most of this decline is due to reductions in support to the communication and energy sectors, which dropped respectively by 25.6% and 3%.

The building productive capacity category, at USD 21 billion rose by 6.2% in real terms from its 2014 level. As in past years, the largest share of support is directed to agriculture which attracted USD 9.6 billion, a USD 1.2 billion rise or 15% growth from 2014. Further increases are noted in the fishing, industry and mining sectors up USD 3.4 million, USD 391.3 million and USD 86.8 million respectively. In contrast, the business and banking sectors fell by USD 291.4 million and USD 9.3 million. Support to tourism now at USD 89.3 million, also recorded a fall of 34% from 2014.

The trade development marker was introduced to identify those activities in the category of building productive capacity that contribute “principally” or “significantly” to the development of trade. A focus on trade development reveals an increase of USD 1.4 billion in 2015 to USD 6.3 billion covering almost a third of the total amount for building trade capacities. Two-thirds of this support is concentrated in the areas of agriculture and business services.

Aid for trade in its narrowest sense of support to trade policy and regulations attracted USD 1.1 billion in 2015, an increase of 18.2% compared to 2014 and a 46% growth from the baseline average. Trade policy management and trade-related education both increased by USD 165 million and USD 18 million respectively, though trade facilitation at USD 420 million saw a small decrease of 5.4% compared to its 2014 level.

With respect to trade-related OOF, increases were seen in both the trade policy and building productive capacity categories. The latter rose from USD 27 billion in 2014 to USD 31.7 billion in 2015 a 17.3% increase. In volume terms the main increases were in mining up USD 1.4 billion and industry up USD 1.3 billion. Amounts to trade policy increased by USD 600 million, the bulk of which were allocated to trade facilitation which rose by USD 400 million from its 2014 level. Economic infrastructure remained essentially at its 2014 level at USD 27.5 billion, with a slight decrease of 0.9%. This decline is due to decreases in the communication and energy sectors, which fell by 25.6% and 3% respectively.

### Regional distribution in 2015

In 2015, 44.4% of aid-for-trade commitments were destined for Asia, which amounted to USD 23.9 billion, an increase of USD 4.9 billion compared to 2014. Though amounts to the South and Central Asia region declined by USD 1.2 billion, Far East Asia increased by USD 5.1 billion, mainly due to major commitments to Indonesia (energy) and the Philippines (transport and storage). It should be noted, however, that allocations to Asia fluctuate significantly from one year to the other. In general, this is caused by large biennial commitments from Japan and the ADB towards economic infrastructure. Increases were also noted in Africa up USD 1.9 billion from 2014 to USD 18.2 billion while those to Latin America and Oceania increased by USD 81 million and USD 133 million respectively. Commitments to Europe, however, declined by USD 2 billion (Figure 11.19)
Regional and global aid-for-trade programmes were allocated USD 6.4 billion in 2015. This is more than a threefold increase compared to the 2002-05 baseline average. Regional aid for trade offers great potential as a catalyst for growth, development and poverty reduction, but projects are often difficult to realise. While regional aid for trade faces many practical implementation challenges, however, experience has shown that associated problems are not insurmountable, but rather require thorough planning, careful project formulation and prioritisation on the part of policy makers (OECD, 2014).

Again, most of the 2015 trade-related OOF was destined for middle income countries in Asia (48.5%), Latin America and the Caribbean (16.5%), Europe (12.8%), Africa (20.1%) and Oceania (0.6%) (Figures 11.22 and 11.23). Regional and global programmes only attracted 1.5% of total trade-related OOF commitments in 2015.

**Income group distribution in 2015**

Aid-for-trade commitments to the LDCs increased in 2015 by USD 4.3 billion to reach USD 17.2 billion (Figure 11.20). Other low income countries saw their support double to USD 2.0 billion. The share of commitments to the low income countries as a whole reached 35.8% of total aid-for-trade flows in 2015, compared to 28.9% in 2014. With commitments of USD 19.6 billion, the lower middle income countries were the largest aid-for-trade recipients in 2015, whereas the upper middle income countries saw their commitments drop by USD 600 million, to USD 8.6 billion.

Countries in the middle-income group were by far the largest recipients of trade-related OOF. At USD 51.6 billion or 85% of total commitments, this group received an increase of USD 5.3 billion from their 2014 levels. To a lesser extent the low-income group also increased by USD 0.6 billion to USD 5.7 billion, with the lion’s share being attributed to the least developed countries.

**Aid-for-trade providers**

In 2015, bilateral providers committed USD 31.1 billion or 58% of total aid for trade. Japan, the largest donor, with commitments of USD 11.8 billion directed most of its funding to Asia mainly for transport/storage and energy sectors in Asia. Other main bilateral contributors are Germany, with USD 5.6 billion, followed by the United States with USD 3.4 billion and France with USD 2.8 billion. The United Arab Emirates is also becoming an important aid-for-trade provider, with commitments in 2015 reaching USD 0.9 billion, followed by Kuwait with USD 394.2 million. Most bilateral donors provide the majority of their support in the form of grants, with the exception of Japan and Germany, which also provide a large share in loans. Multilateral providers also increased their commitments by USD 1.9 billion to USD 22.7 billion. The EU Institutions and the World Bank remain the main contributors providing almost two-thirds of multilateral aid for trade.

Main increases in 2015 were provided by the Arab Fund, the African Development Bank, EU Institutions and IFAD. In contrast, multilateral institutions were the largest contributors of trade-related OOF providing USD 45.7 billion or 76% of the total. Main contributions were noted from the Asian Development Bank, EBRD, the IFC and the World Bank. All of which, apart from the World Bank, increased their allocations in 2015. On the bilateral side, the main OOF contributor by far is Korea. At USD 11.4 billion up by USD 4.5 billion from 2014, Korea’s allocation represents 79% of the total for all bilateral providers of aid for trade.
**Figure 11.18. Aid-for-trade commitments and disbursements by category**

USD BILLION (2015 CONSTANT)

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<tbody>
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<td>COMMITMENTS</td>
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<td>DISBURSEMENTS</td>
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**Figure 11.19. Aid-for-trade commitments by region**

USD BILLION (2015 CONSTANT)

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<td>Europe</td>
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<tr>
<td>Oceania</td>
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<tr>
<td>Global</td>
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</table>


**Figure 11.20. Aid-for-trade commitments by income group**

USD BILLION (2015 CONSTANT)

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<tr>
<td>O LICs</td>
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<tr>
<td>LMICs</td>
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<tr>
<td>UMICs</td>
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<tr>
<td>Non-country</td>
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</table>

Figure 11.21. Trade-related OOF commitments and disbursements by category

USD BILLION (2015 CONSTANT)

**COMMITMENTS**

- Building productive capacity
- Economic infrastructure
- Trade policy and regulations

**DISBURSEMENTS**

Source: OECD-DAC CRS: aid activity database (2017), DOI: [http://dx.doi.org/10.1787/888933527450](http://dx.doi.org/10.1787/888933527450)

Figure 11.22. Trade-related OOF commitments by region

USD BILLION (2015 CONSTANT)

- Africa
- Americas
- Asia
- Europe
- Oceania
- Bilateral unspecified

Source: OECD-DAC CRS: aid activity database (2017), DOI: [http://dx.doi.org/10.1787/888933527469](http://dx.doi.org/10.1787/888933527469)

Figure 11.23. Trade-related OOF commitments by income group

USD BILLION (2015 CONSTANT)

- LDCs
- O LICs
- LMICs
- UMICs
- Non-country specific

Source: OECD-DAC CRS: aid activity database (2017), DOI: [http://dx.doi.org/10.1787/888933527488](http://dx.doi.org/10.1787/888933527488)
South-South co-operation

A number of significant providers of development co-operation do not report their development finance flows to the OECD. A conservative estimate by the OECD indicates that total gross concessional development finance by ten non-reporting countries amounted to USD 7.5 billion in 2014 (Table 11.1).

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<td>Brazil</td>
<td>469</td>
<td>411</td>
<td>316</td>
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<td>…</td>
<td>Institute of Applied Economic Research (IPEA) and Brazilian Cooperation Agency (ABC)</td>
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<td>Chile</td>
<td>24</td>
<td>38</td>
<td>44</td>
<td>49</td>
<td>33</td>
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<td>People’s Republic of China</td>
<td>2,785</td>
<td>3,123</td>
<td>2,997</td>
<td>3,401</td>
<td>3,113</td>
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<td>27</td>
<td>42</td>
<td>45</td>
<td>42</td>
<td>Strategic Institutional plans, Presidential Agency of International Cooperation</td>
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<td>…</td>
<td>21</td>
<td>24</td>
<td>10</td>
<td>Annual budget laws, Ministry of Finance</td>
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<td>794</td>
<td>1,077</td>
<td>1,223</td>
<td>1,398</td>
<td>1,772</td>
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<td>56</td>
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<td>203</td>
<td>526</td>
<td>169</td>
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<td>Qatar</td>
<td>733</td>
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<td>1,344</td>
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<td>…</td>
<td>Foreign aid reports, Ministry of Foreign Affairs</td>
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<tr>
<td>South Africa*</td>
<td>229</td>
<td>191</td>
<td>191</td>
<td>148</td>
<td>100</td>
<td>Estimates of public expenditures, National Treasury</td>
</tr>
</tbody>
</table>

Notes: These data are OECD-DAC Secretariat estimates of concessional flows for development from countries that do not report to the DAC statistical systems. Unlike the figures of reporting countries, these estimates are on a gross basis because information on repayments is not available. The estimates are based on publicly available information and are therefore not necessarily complete or comparable. For some countries, estimates of funds channelled through multilateral organisations are based on data from the UN Department of Economic and Social Affairs, www.aidflows.org and websites of other multilateral organisations. The data include only development-related contributions. Local resources – financing from a country through multilateral organisations earmarked to programmes within that same country – are excluded. Moreover, as for reporting countries, coefficients are applied to core contributions to multilateral organisations that do not exclusively work in countries eligible for receiving ODA. These coefficients reflect the developmental part of the multilateral organisations’ activities.

*” Not available.
* Figures for India and South Africa are based on their fiscal years. For example, 2012 data correspond to fiscal year 2012/13.

Brazil’s development co-operation is estimated by the OECD to have amounted to USD 500 million in 2010, up from USD 362 million in 2009. Brazil has prioritized technical assistance, skills transfer and capacity building over other modalities of co-operation. It is also engaged in triangular co-operation, partnering with several international organisations and members of the OECD Development Assistance Committee (DAC), such as Germany, Japan, Spain and the United States. For instance, the Brazilian government recently signed a Memorandum of Understanding with the International Trade Centre (ITC) to provide technical assistance to African countries on trade facilitation initiatives. As a result, two workshops were held, in Angola and Mozambique, with a focus on the implementation of the WTO Trade Facilitation Agreement. The workshops achieved good results as they allowed for an exchange of experiences among the Brazilian, Angolan and the Mozambican governments with the technical support of the ITC. (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 83).
China’s total concessional finance for development is estimated by the OECD to have reached USD 3.4 billion in 2014, compared to USD 3 billion in 2013. In September 2015, President Xi announced additional commitments of USD 2 billion for South-South co-operation and to implement the SDGs (IDS, 2016). Moreover, Chinese investments in Africa are expected to increase: the Johannesburg Action Plan for comprehensive strategic and co-operative partnership with Africa provides for USD 35 billion in concessional loans and credits in 2016-2018, as well as USD 10 billion for the China-Africa Production Capacity Co-operation Fund; it also increases in the existing China-Africa development fund (for equity investment) from USD 5 billion to USD 10 billion. China’s main priority sectors are public facilities, industry and economic infrastructure. The new action plan for Africa also includes the digitalisation of media and communications and the promotion of e-commerce (IDS, 2016). The private sector is also engaged in this area. For instance, ZTE and Huawei provide equipment and technical assistance to enhance e-governance programmes in Rwanda. (IDS, 2015).

India’s total concessional development finance is estimated by the OECD to have reached USD 1.4 billion in 2014, compared to USD 1.2 billion in 2013. India’s priority partner countries are its neighbours in South Asia. Between 2009 and 2015, Bhutan received 61% of India’s bilateral development co-operation, followed by Afghanistan (9%), Sri Lanka (7%), Nepal (5%), Bangladesh (3%), Myanmar (2%) and the Maldives (2%). Co-operation with Africa has increased, with the majority of new lines of credit being allocated to Africa in 2014. The main sectors of India’s development co-operation are health, education, energy (hydropower) and information technology. In recent years, India has become an important actor in promoting regional integration, with the main instruments being India’s trade concessions through the Free Trade Agreement of the ASEAN, as well as through the South Asian Association for Regional Co-operation and the South Asian Free Trade Area. Furthermore, India is playing a major role in strengthening the existing regional infrastructure and lending support for the development of human resources (OECD-WTO aid-for-trade monitoring exercise 2017, Public sector case story 24).

In 2014 Brazil, Russia, India, China and South Africa created the New Development Bank to mobilize resources for infrastructure and sustainable development projects, complementing the efforts of multilateral and regional financial institutions for global growth and development. In 2016, the Bank approved seven investment projects for a total of over USD 1.5 billion, with more than 75% of projects dedicated to sustainable infrastructure, mainly for renewable energy generation.

**CONCLUSIONS**

Digital connectivity can help to accelerate the achievement of the 2030 Agenda for Sustainable Development. Internet and related technologies can be used to reinforce the partnership approach that is explicitly mandated in SDG 17. However, the real significance of ICT for the SDGs is in helping to realise other targets. Digital technologies can contribute to the achievement of the SDGs related to infrastructure development (Goal 9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; and Goal 11 – Make cities and human settlement inclusive, safe, resilient and sustainable). Satellites, drones and the Internet of Things can generate highly accurate, geo-referenced digital data about human settlements, providing the information needed for infrastructure projects that better match social and economic needs. ICT infrastructure can also help to deliver more affordable and inclusive energy, for instance through home systems such as off-grid solutions or small-scale power grids. These new technologies will contribute to guaranteeing access to energy for all (Goal 7).

Moreover, ICTs provide new and more automated means of monitoring and assessing the progress towards the SDGs, thereby enabling more evidence-base decision making. This is the essence of the “data revolution,” called for by the High-Level Panel of Eminent Persons in their 2013 report. Some monitoring tools for tracking progress toward the SDGs are based on the use of big data. However, to garner the full benefits of data revolution, simultaneous improvements in national statistical capacity are required. The United Nations, the European Union, the World Bank and the UK Department for International Development are the largest supporters of statistical capacity building.
In addition, organisations such as the Partnership in Statistics for Development in the 21st Century (PARIS21) have a significant role in co-ordinating donor efforts. In 2016, more than 150 data champions convened the Global Partnership for Sustainable Development Data to support countries in harnessing the data revolution for development.

Nonetheless, one of the biggest barriers to successful use of ICTs for development is the challenge faced by the poorest in gaining access to quality and affordable Internet connections. Access is not just about infrastructure. It is also about ensuring that digital communication channels, content and delivery are relevant to and understandable for less literate users.

While donor agencies provide relatively little financial support for ICT development, they increasingly use challenge funds to support digital businesses and innovative solutions for poverty reduction. These funds help to channel public financial resources to business activities that have potential development impact but still lack commercial viability. Donor agencies consider these funds a means of engaging the private sector, and in particular small and medium enterprises, as direct partners without creating market distortions. The funds are considered versatile instruments that reduce the risks and costs of private investment while challenging the private sector to innovate for the public good.

For instance, TradeMark East Africa supports the “Logistics Innovation for Trade” challenge fund, with the objective of promoting innovative solutions for East Africa’s transport and logistics industry. TradeMark East Africa’s risk-sharing support helps the fund co-invest in business projects that have been regarded by other financial investors as too risky. Among the projects recently selected is an online platform where transport and logistics stakeholders can meet and share information. Moreover, it provides users with the opportunity to send out transport requests and to quote, book and deliver with full track-and-trace functionality (including handling, insurance, warehousing, etc.).

Although considerable funding has been allocated through challenge funds, there is still little evidence of their long-term effectiveness and development impact. The focus of evaluations has often been limited to measuring their efficiency of operations—management costs, leverage ratio, etc.—rather than their development impact. The success and social/environmental impact of a challenge fund depends on: additionality (i.e. serving companies that could not access commercial finance); positive externalities (i.e. the selection of projects with the highest potential development benefit); and systemic impact (i.e. driven by demonstration/imitation effects and the creation of new markets).
REFERENCES


GIZ (2015), Aid for Trade Manual For greater results orientation in the field of trade” Deutsche Gesellschaft für Internationale Zusammenarbeit, Bonn, Germany


NOTES

1. Transactions known as OOF are those made by the official sector with countries on the DAC List of ODA Recipients, but which do not meet the conditions for ODA eligibility, either because they are not primarily aimed at development or because they have a grant element of less than 25%.