

# Executive summary

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Trade objectives feature prominently in the development strategies of developing countries. Despite the COVID-19 pandemic, trade remains a development priority. This is the strong message that emerges from the 2022 Aid for Trade monitoring and evaluation (M&E) exercise, conducted jointly with the Organisation for Economic Co-operation and Development (OECD).

Developing countries and their financing partners are looking to the multilateral trading system to deliver development outcomes. Of the 53 developing countries which responded to the questionnaire accompanying the M&E exercise, 50 (94 per cent) include trade priorities in their development strategies, including 25 least-developed countries (LDCs) (93 per cent). Responses also indicate that 31 donors (86 per cent) include trade priorities in their development strategies.

## COVID-19 pandemic and climate change

The COVID-19 pandemic has prompted a readjustment of Aid for Trade priorities. Many responses to the questionnaire from both developing countries and donors refer to strategies developed specifically to support economic recovery from the pandemic. A little more than two years after the start of the pandemic, trade and the global economy continue to be impacted by it and by the measures taken to control its spread.

Most developing country responses to the questionnaire indicate that Aid for Trade has grown in importance due to the economic and trade impacts of the COVID-19 pandemic. Several donors note that Aid for Trade can mitigate these impacts and support economic recovery from the pandemic.

The enduring impact of the pandemic on the global economy is high inflation, strained public budgets and raised concerns about access to essential supplies, such as food. These issues have been exacerbated by the crisis in Ukraine.

Trade facilitation is the most frequently cited Aid for Trade priority by all participants in the 2022 M&E exercise. It was also a prominent theme at the Aid for Trade event in March 2021 to examine the impacts of the COVID-19 pandemic on trade and development in developing countries.

The event highlighted the importance of trade facilitation on micro, small and medium-sized enterprises (MSMEs), which was also stressed by respondents in the context of addressing the COVID-19 pandemic. Gender perspectives are also increasingly being integrated into Aid for Trade programming. In particular, responses highlight the importance of Aid for Trade in implementing the WTO's Trade Facilitation Agreement and in helping MSMEs recover from the pandemic.

Promoting export diversification, international competitiveness, building productive capacities and connecting to global value chains also rank highly among the trade priorities of developing countries and donors, in particular for landlocked developing countries and LDCs.

## Growing awareness of climate change risks

With greenhouse gas emissions at their highest levels in human history, environmental sustainability ranks high as an Aid for Trade priority, particularly among donors. Action to mitigate the effects of climate change is the main objective. Aid for Trade has taken on greater importance in the context of grappling with the

effects of global warming and climate change, some respondents stress. Several donors also point to the potential of Aid for Trade to reduce aid fragmentation.

Immediate and deep cuts in emissions are needed to limit global warming and to limit temperature rises to below 2°C. This urgency is reflected in the responses given in the questionnaire.

The development and trade strategies of developing countries increasingly refer to the environment. However, the transition to environmentally sustainable (green) growth is still at an early stage. Objectives are frequently presented in broad terms, with few targets against which to measure progress.

Challenges in establishing sustainability targets and a lack of in-depth knowledge about the expected trade effects of climate change are among the issues cited as holding back progress. Together with limited access to funding, these factors impede further integration of environmental objectives into trade and development strategies.

Policy commitments were made by governments in the run-up to the 26<sup>th</sup> United Nations Climate Change Conference in November 2021 to align official development assistance with the Paris Agreement on climate change. Donors and south-south partners have pledged to support the transition to a low-carbon economy by expanding financing devoted to mitigating the effects of climate change – financing which currently falls short of pledged levels.

The OECD's declaration to align development cooperation with the goals of the Paris Agreement may help to mobilize additional resources to help developing countries transition to clean and sustainable energy. Given the role that trade plays in the transfer of technology, skills and know-how, integrating a trade perspective into these financing programmes is an area where the Aid for Trade Initiative can add value.

Engagement between the public and private sector to help to finance the transition to a

low-carbon economy is on the rise. This is an area where Aid for Trade can play a catalytic role by helping to mobilize finance for green supply-side infrastructure and by supporting the private sector to take advantage of opportunities in the low-carbon economy.

There is a discernible trend to greater scrutiny of the “quality” of the development that is being promoted and the sustainability of supply chains. Concerted efforts are also being made by developing countries and their financing partners to integrate women's economic empowerment objectives into climate-related financing programmes.

## Digital connectivity emerged as a factor for economic resilience

Digital connectivity quickly emerged as an important factor for economic resilience during the COVID-19 pandemic, as lock-down measures limited person-to-person contact. The pandemic has accelerated e-commerce growth in countries at all levels of development, producing a COVID-19 connectivity boost among developing countries and LDCs. Responses from LDCs cite e-government as a driver of the digital economy.

However, the rapid growth in demand for digital connectivity and services has exposed shortcomings in, for example, information and communication technology (ICT) infrastructure, regulation frameworks, affordability of connection and digital skills. These factors mean the digital divide remains wide, both within and between countries, with MSMEs and women particularly affected.

Basic infrastructure remains a binding constraint for some LDCs. The continuing investment needed to upgrade ICT infrastructure places a fiscal burden on developing countries. Improvements are needed in the quality and scope of regulatory frameworks for e-commerce, and shortfalls in ICT skills need to be addressed.

ICT plays an essential role in accelerating digital connectivity and facilitating e-commerce, which can help to address the world's most pressing

climate and environmental concerns. In turn, improved digital connectivity is fundamental to fulfil the promise of ICT for trade and development outcomes.

Even though digital connectivity is widely recognized as a driver of women's economic empowerment, more than 70 per cent of respondents to the questionnaire highlight that women face particular difficulties in accessing digital technologies.

Digital connectivity and e-commerce are areas where public-private partnerships are flourishing. There is still considerable scope to expand Aid for Trade financing in this area, in particular with regard to bilateral donors and south-south partners. Trade can help to bridge the gap and to reduce the cost of access to ICT services and goods.

## Integrating women's economic empowerment into Aid for Trade

The questionnaire data demonstrate how Aid for Trade promotes women's economic empowerment, how donors and partner countries are aligned in their support for gender targeting in Aid for Trade priorities and how Aid for Trade can be a significant instrument to mobilize funds in support of women's economic empowerment.

The vast majority of both developing countries (92 per cent) and donors (90 per cent) include women's economic empowerment as a priority in development strategies. Countries integrate gender issues into a wide range of instruments and policies, starting with their overarching development strategies. In particular, they develop dedicated instruments that address gender perspectives within a specific policy scope. However, integrating gender into trade policy remains an on-going challenge for most countries.

Gender-related Aid for Trade programmes which are specific and targeted focus mostly on women entrepreneurs and farmers. In contrast, there is less focus on the services sector – even though this is the sector in which most women

work. The tourism sector is an exception and is a focus of Aid for Trade programmes. The M&E exercise highlighted, for the first time, that preventing violence against women is a key target of some Aid for Trade programmes.

Women entrepreneurs and business owners tend to have less extensive business networks than male counterparts. Aid for Trade programmes that provide digital networks and platforms and that also offer digital literacy courses can help to reduce the gap.

Aid for Trade programmes targeting women include trade facilitation, access to trade finance, networking and digital platforms, adaptation to climate change, prevention of gender-based violence, and trade promotion and export readiness. Facilitating trade through better infrastructure and simplified procedures can help everyone to trade, including women business owners and leaders.

Collecting data on trade broken down by gender is essential to support the development of gender-responsive trade policies and to promote women in trade. However, it still remains a challenge for most countries, as does conducting gender impact assessments of Aid for Trade programmes. However, efforts are being made by several countries to improve this.