



Federal Ministry
for Economic Cooperation
and Development

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Aid for Trade in German Development Policy



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I. Why Aid for Trade is so important

Developing countries – and particularly the poorest – are very strongly integrated into the global economic system. As a result, the concrete characteristics of the multilateral trade system and regional and bilateral trade agreements have important implications for them. Quite apart from the sluggish international trade negotiations in the Doha Development Round, there have been vast changes in the **production structures of the global economy** in the past two decades. Production has become globalised. This means that a product is no longer manufactured in a specific country, but follows a production cycle leading through many countries; in other words, **value chains** are becoming **international**. This is reflected in the statistics as a sharp increase in the volume of international trade. For individual countries, this makes competitiveness far more important. On the one hand, the competitive conditions have become tougher; on the other hand, there are new opportunities to take over small steps in the production process that entail lower levels of initial investment. The globalisation of production has, however, also led to a situation where production conditions in the countries of origin are attracting increasingly critical attention. **Quality, social and environmental standards** in production are accordingly playing an increasingly important role for opportunities in the sales markets.

In this situation, and in the course of the WTO Doha Development Round, trade-related development policy has gained political importance since 2001 under the slogan **Aid for Trade (AfT)**. At the start of the negotiations, the developing countries had pointed to poor experience with the last round of liberalisation and called for assistance with trade-related activities. In the subsequent international discussion, a common understanding emerged that AfT should assist developing countries in deriv-

ing the maximum possible benefit from the world trade system. In this process, **trade** was understood as **a tool for development**, but it was also increasingly recognised that a wide range of conditions have to be met for trade liberalisation to contribute to more trade and specifically to more sustainable development and poverty reduction.

Trade plays a major role in achieving the **Millennium Development Goals (MDGs)**. An open, rule-based and non-discriminatory trade and financial system is an explicit sub-goal of the global partnership for development in the sense of MDG 8. AfT can contribute to inclusive growth and also to the creation of new and competitive jobs in the export sector, thus reducing absolute poverty in the sense of MDG 1. So that the upper income groups in developing countries are not the only ones to benefit from foreign trade, it is necessary to ensure that the welfare gains from trade also reach the poorer population groups, and particularly women (MDG 3) – pro-poor trade. As the MDG agenda cannot be funded by partners in the long term without trade-induced growth in their countries, trade, as an engine of growth and also a source of income, is key for implementing all the MDGs.

In future, the interactions between **trade and climate change** will have to be taken into account more systematically in implementing trade-related projects and programmes, not least because climate change will strongly affect prices, trade flows and value chains. For AfT the transfer of technology and knowledge relating climate change mitigation plays a particular role as well as adaptation through adjustment to changing export structures due to climate change. Another growingly relevant area is the introduction of environmental and CO₂ standards and labelling.

THE FIVE AID FOR TRADE CATEGORIES

German development policy sees **foreign trade** as an essential element in lasting growth which can make a key contribution to sustainable development and poverty reduction. As to AfT, German development policy aligns with the **five AfT categories** defined by the **WTO**. These distinguish between the **narrow sense of trade-related assistance (TRA)**, covering the categories of **trade policy and regulation (1)** and **trade development (2)** and

broad AfT (all five categories). AfT in the narrow sense promotes specific and mostly immaterial trade capacities (human capital, technical, institutional and regulatory capacities, trade environment and services). Broader AfT also includes **economic infrastructure (3)** and **building productive capacity (4)**. **Trade-related adjustment measures (5)** can assist partner countries through budget support in the case of short-term loss of revenue, for example, due to tax or tariff reforms or preference erosion.

II. More trade for development: potential and challenges

Trade is an **important driver of economic development** as it contributes to more efficient resource allocation, economies of scale (which reduce production costs), and technology and knowledge transfer. In this way, trade can contribute to pro-poor growth and the creation of new and competitive jobs in the export sector, and so to the reduction of absolute poverty. There is particular development potential in **regional economic (and political) integration**. Particularly countries with small domestic markets can benefit from an orientation to regional markets, as this opens up new sales markets and increases regional value added through the division of labour. Many developing countries have recognised the potential of regional integration and are members of regional economic communities, some of which have set far-reaching economic and political goals.

In many developing countries, participation in regional and global trade is hampered by poor internal framework conditions. The responsible **national institutions** frequently lack the necessary **analytical, management and regulatory capacity** to participate in international and regional trade negotiations and to develop and assert positions which are compatible with their own development needs. Furthermore, agreements are not implemented in a manner that reinforces the positive interactions between trade, sustainable development and poverty reduction.

These capacity problems are equally present in **regional institutions**, leading to weaknesses in policy formulation and coordination (including donor harmonisation). The continuing relatively high trade barriers between developing countries are another reason for South-South trade to be still relatively weakly developed. In addition, there is often a lack of **reliable infrastructure and rapid and reliable border procedures**. Good transport infrastructure

is one of the central requirements for division of labour and trade, while a continuous and reliable energy supply is essential for production. Modern information and communications technologies reduce transaction costs and make trade relations possible.

Furthermore, important **supply side constraints** include:

- Inadequate production and delivery capacity and lack of product diversification;
- Non-tariff trade barriers, for example, bureaucratic and corrupt customs and border crossing procedures and structures;
- Lack of quality infrastructure, which is a requirement, for example, for compliance with health, environmental and social standards;
- Lack of trade finance or guarantees to secure international trade transactions.

Given the range of possible bottlenecks, trade liberalisation requires a clear **political commitment to gradual reform** which can be supported by **development policy measures – Aid for Trade**. To make trade and growth sustainable in this process, flanking social and environmental policy measures may be required (e.g. establishing social security systems, introducing production standards). Finding the right sequence of trade-related reforms is often decisive in making trade reforms effective for development.

III. Our goals

The priority goal of German trade-related development policy is to assist partner countries in successfully **integrating themselves into the global economic system and regional economic communities**, diversifying their economies and exports and using trade in goods and services and foreign direct investment to more effectively reduce poverty in the context of sustainable development – in other words, ‘help for self-help.’ Based on partner needs, this includes:

- Strengthening negotiation **capacities and capacities for policy design** with the goal of improving the partner’s ability to more effectively influence the national, regional and international economic **framework conditions** for trade in the interests of their own development goals;
- Enhancing **capacities to effectively implement agreements and policies**. This includes the ability of partners to guide trade policy towards coherence, poverty orientation and social and ecological sustainability, in order to increase the positive effects of trade liberalisation;
- Increasing **partner countries’ own trade capacities**, and specifically the export and supply capacities of the private sector;
- Improving integration into regional and international **value chains** and strengthening compliance with **social and environmental standards**;
- Strengthening the **private sector and civil society**;
- Developing economic **infrastructure**.

Through synergies, AfT can also help achieve goals in **other policy areas**, for example, improving the socio-economic position of **women** or protecting the **environment** and **human rights**, if projects are oriented, for example, to the employment of women or compliance with environmental and social standards. By integrating trade, patent and environmental legislative concerns, AfT promotes protection and sustainable use of **biodiversity** in developing countries. AfT also aims to improve the availability of basic foods through production, storage and marketing, and thus to contribute to **food security**. As AfT also promotes product and market diversification, it acts to protect against **crises** (e.g. climate change) and **exogenous shocks**.

IV. Strengthening German Aid for Trade

FINANCIAL VOLUME

German development policy gives high priority to the issue of trade and has committed to spending at least **EUR 220 million annually** from 2010 for **trade-related assistance (TRA)**. In line with the EU strategy on AfT and where there is corresponding need among partner countries, half the increase (from the base year 2005) will be made available for the **African, Caribbean and Pacific (ACP) Group of states**, particularly in **sub-Saharan Africa**. German development policy is further committed to the goal of the EU strategy to increase **TRA in proportion with the growth in official development aid (ODA)**. Currently (2009) Germany spends **EUR 700 million** on TRA and over **EUR 1.8 billion** on AfT (in the broad sense), putting it in **third place** among bilateral donors, after Japan and the USA (OECD database).

PARTNER ORIENTATION

German AfT is **aligned with** the strategies of its partner countries and works to increase the partners' **ownership**. An essential requirement for German AfT is demand-oriented formulation and prioritisation of needs by the partner countries. A clear statement of need by the partner makes it possible to cooperate flexibly within the agreed priority areas.

HIGH DEGREE OF FLEXIBILITY AND BROAD RANGE-OF TRADE-RELATED ACTIVITIES

Within **German development policy**, **trade is not a separate priority area**, but rather a part of bilateral development priorities and programmes. AfT can be embedded as a component in a broader programme, or be a primary goal in the development policy priority areas of sustainable economic development, food security and agriculture, conservation and sustainable use of natural resources, or democracy and public administration. Even so, to make full

use of the opportunities it is important to plan and implement trade-related activities with a genuine understanding of **trade as a tool for development**, and not as a by-product.

TRADE POLICY AND REGULATION

In trade policy and regulation, German activities employ a multi-level approach which focuses primarily on strengthening national and regional negotiation and implementation capacities and developing and implementing environmental, social and technical standards.

At the **intergovernmental (macro) level**, German trade-related development policy promotes regional economic integration. Secretariats of regional organisations are advised on economic and trade policy issues. Among others the capacity of partner institutions to develop their negotiating mechanisms, implement regional trade agreements and include the private sector and civil society in regional integration processes is strengthened.

At the **national macro level**, partner countries are assisted in formulating, negotiating and implementing trade policies and regulations, for example, strategies to diversify the economy, to promote trade and investment, or for focused expansion of productive capacity in selected sectors. Other possible areas include modification of national standards, or commodity governance. The private sector and civil society are integrated into the relevant political processes.

TRADE DEVELOPMENT: PRIORITY OF GERMAN TRA

In the context of trade development, trade-related institutions and implementation actors are enabled to strengthen the regional and international competitiveness of local companies and agricultural

producers. This is a priority of German TRA, with over 90% of German TRA funding and around 16% of AfT in the broad sense going to trade development.

At the **meso level**, German TRA supports business-oriented trade promotion organisations, public institutions and private sector organisations (e.g. associations, export and investment promotion agencies, fair trade and organic/ecological organisations). Various measures help them create a supportive environment for value addition and exports, strengthen quality infrastructure and enforce compliance with standards. The goal is to strengthen the competitiveness and export capacity of agricultural producers and small and medium-sized enterprises (SME) and to offer improved (financial) services for foreign trade deals.

Finally, German AfT helps SMEs and small-scale farms to improve their export and marketing capabilities and to use value chains at the **micro level** in order to achieve higher levels of value added. Producers are assisted in meeting standards required in international markets. Particularly important are support for fair trade initiatives, their links to bilateral development cooperation activities and certification of export goods with regard to social and/or ecological quality.

In addition, there are measures for **capacity development in the productive sectors** (agriculture, forestry, industry, fisheries, mining and also services) which are partially or primarily concerned with assisting the partner country develop trade. These may include activities which create a pro-trade environment, increase the volume and value added of exports, diversify products or target markets, boost foreign investment in order to increase trade and employment, or stimulate trade activities of domestic companies, for example, through access to trade finance.

Côte d'Ivoire: promoting certified sustainable cocoa production

To support ecologically and socially sustainable and profitable cocoa production and connect small growers with the Côte d'Ivoire's high-quality export markets, the Sustainable Agricultural Network (SAN) standard was introduced, with support from the Rainforest Alliance (RA). To this end, German development cooperation and the US Agency for International Development (USAID) entered into a public-private partnership, with Kraft Foods and the cocoa trader Armajaro as the private partners. Six cooperatives of cocoa growers were trained in sustainable cultivation techniques with the goal of increasing the quality and quantity of cocoa production and meeting the SAN standard. The cocoa was then purchased by the exporter Armajaro and sold to Kraft Foods, which now uses the RA seal on its Côte d'Or chocolate. In all, the measure supported 5,600 growers, who delivered 6,000 tons of certified cocoa, and were thus able to improve their living conditions. In 2010, after the project ended, all the cooperatives supported again opted for RA certification.

BUILDING PRODUCTIVE CAPACITY

Building productive capacity in partner countries entails strengthening more efficient and socially and ecologically sustainable production structures and enhancing the competitiveness of productive sectors. In contrast to trade development which specifically promotes trade and is more concerned with developing immaterial trade capacities (human capital, technical, institutional and regulatory capacities, trade environment and services), this involves general enhancement of productivity and production. Between 2007 – 2009, on average around 40% of German AfT was in this category, particularly in the areas of financial system development and agriculture.

ECONOMIC INFRASTRUCTURE

Economic infrastructure addresses a key bottleneck in the practical functioning of trade. It covers not only transport routes but also warehousing, cold chains, communication systems, harbour clearance and energy. Between 2007 – 2009, on average around 40% of German AfT funds were in this category. Developing and strengthening regional energy mar-

kets is becoming increasingly important for our partners. German AfT acts here to complement development policy support of renewable energies and energy efficiency. As one of the largest shareholders in the World Bank and regional banks, Germany works to expand their involvement in this area, in order to meet the most urgent needs for physical infrastructure.

V. The future direction of German Aid for Trade

SETTING NEW PRIORITY AREAS

The future priority areas for German AfT are based on the comparative advantages and experience from our work to date, partner needs, a special focus on Africa, the importance of regional integration, and the potential for cooperation with the private sector.

- The commitment to assist the **regional economic integration** of partner countries will be further intensified. Partner institutions will be strengthened with particular focus on the **negotiation and implementation of economic partnership agreements** between the EU and ACP nations.
- **Trade facilitation** (reducing bureaucracy at the border) will be strengthened. Trade facilitation is concerned with more efficient border crossing for goods, and is closely linked with regional integration and transport promotion. Current German approaches aim at simplifying and harmonising customs declarations, border management and goods control systems. Accelerated and more cost effective border crossing as well as contracts and direct investment in transportation and trade infrastructure will benefit both domestic and foreign companies in the export-import business.

Trade facilitation in Central Asia

Trade in Central Asia is complicated by the great distances to international waters and high bureaucratic hurdles. One of the greatest challenges is transforming the wide diversity of framework conditions, such as customs procedures or quality standards under the Soviet system, into a system compatible with the international trade regime. To facilitate trade, Kyrgyzstan introduced a pre-customs single window. Kyrgyzstan was assisted in this by advisers from Senegal, as the Senegalese model was more suitable for the Central Asian context than models and expertise from the trade sector of leading industrialised nations. Since 2006 Kyrgyzstan has reduced the number of export/import forms by 60%. Tajikistan is showing similarly impressive results. German development cooperation played a decisive role in supporting and financing this South-South cooperation. The experience and knowledge thus gained is now being used in other projects and programmes in other countries in Central Asia and Central America.

- **Quality infrastructure** will be strengthened. Improved, harmonised quality standards and internationally recognised conformity assessment structures are a core element in reducing technical barriers to trade and a central requirement for increased integration at regional and international levels. With its National Metrology Institute (PTB), Germany is the only bilateral donor to have an internationally recognised institution working in this area in development cooperation. In the quality infrastructure area, important framework conditions are also being created for foreign companies in developing countries. These give rise to concrete possibilities for cooperation with the private sector.

Establishment of regional quality infrastructure in the East African Community (EAC)

In East Africa, German development cooperation is assisting the EAC Secretariat in developing a regional quality infrastructure (QI) system (including standardisation, quality assurance, accreditation and testing). Activities first concentrated on establishing a legislative framework for regional QI compatible with WTO rules. In 2007 the EAC passed the SQMT Act, which contains regulations for harmonising standards, reciprocal recognition of conformity assessments and quality seals, establishing testing and metrology laboratories, coordinating accreditation processes and implementing technical regulations. German development cooperation is helping the EAC Secretariat and the individual QI institutions to implement the regulations and integrate the regional QI institutions into supraregional structures through training, study tours and the exchange of experience and knowledge within the region.

→ The Potential of **regional and international export markets** will be systematically incorporated into the design of measures for developing productive capacity. Activities in rural development and private sector promotion are more directly concerned with integrating producers into regional and international **value chains**. The value chain approach covers all agricultural and non-agricultural sectors, as well as services with export potential. Trade-related activities do not arise as a by-product, but – with due attention to the potential and risks in the individual case – are planned and implemented with the understanding that trade is an important instrument for poverty reduction and development generally.

HELPING PARTNER COUNTRIES TO INTEGRATE TRADE IN DEVELOPMENT PLANS AND PROMOTING DONOR COORDINATION

In the future, partner countries will be given greater assistance in integrating trade aspects into their **development strategies** in a systematic and poverty-sensitive way. The economic situation of a country should not be considered in isolation from regional circumstances and trends. Trade integration affects many more areas than simply promoting national export strategies. Trade needs to be seen as a primary element in socio-economic development, and should be given corresponding attention in national development strategies and other relevant sectoral strategies in each country. Many national development plans currently still lack a nuanced analysis of the risks and opportunities of trade integration and its effects on poverty for various segments of the population.

Effective division of labour between donors is also crucial for the effectiveness of Aft. In the least developed countries (**LDCs**), German development policy will give increased support to the **Enhanced Integrated Framework (EIF)**. In our view, the EIF is the decisive coordination instrument for Aft between a partner country and (bilateral and multilateral) donors. A participatory process coordinated by a facilitator identifies the potential for trade and the bottlenecks (Diagnostic Trade Integration Studies – DTIS) and draws up an action plan with priorities. This flows into the national poverty reduction strategy. German trade-related development policy promotes the EIF financially, cooperates closely with other donors, and – as far as possible – closely coordinates current and future Aft in LDCs with the orientation framework specified by the DTIS. Germany is prepared to act as donor facilitator in at least three more LDCs. In **non-LDCs** the issue of trade also does not receive sufficient attention among the donor coordination sub-groups, because of its cross-sectoral nature. Therefore, Aft-related groups should be more strongly and consistently linked in the future.

OPTIMISE COORDINATION BETWEEN THE VARIOUS IMPLEMENTING ORGANISATIONS

German development policy has a number of so-called implementing agencies. These offer our partners customised answers to their highly diverse trade-related needs, acting at various intervention levels with different participants. To achieve the full benefit and synergies from the complementary interaction of the service profiles of the various institutions and donors, the activities of the implementing agencies will be directed more explicitly at trade issues and effects in the future, and they will be more consistently deployed in accordance with their core functions and strengths.

The German Federal Ministry for Economic Cooperation and Development (BMZ) contracts the implementing agencies with the concrete realisation of the development projects and programmes of the German Government. KfW Entwicklungsbank and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a subsidiary of the KfW Group, are responsible for financial cooperation. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) mbH is responsible for technical cooperation with Germany's partner countries, for preparing and sending out development workers, and for human resource development and further training. The Centrum für internationale Migration und Entwicklung (CIM) is in charge of placing experts in partner countries. There are other, specialized implementing agencies of technical cooperation, such as the Federal Institute for Geosciences and Natural Resources (BGR) and the National Metrology Institute (PTB).

Through its long-term presence (including in rural areas), **technical cooperation** establishes solid partner relationships, which are useful for interventions in the area of trade which entail long-term implementation and results. In future, **financial coop-**

eration will identify more possibilities for complementary financial services for the actors and areas assisted by trade-related technical cooperation. The **Deutsche Investitions- und Entwicklungsgesellschaft (DEG)** will continue to support the development of private sector structures through investment in SMEs in emerging and developing countries, and will supplement the KfW in financing commercial banks focusing on export-oriented SMEs.

MODIFICATION OF INTERNAL PROCEDURES

To enable partner countries to make greater use of trade opportunities, **trade-related aspects**, especially efforts to strengthen trade capacity and performance and its effects on poverty, must be taken into account **more systematically in planning, managing and implementing** German development cooperation **in the future**. Internal **strategy formulation processes, programming procedures and preparation of political dialogues** are being modified to meet financial commitments and the substantive/conceptual objectives of this strategy.

STRENGTHEN RESULTS ORIENTATION AND EFFICACY OF THE MEASURES

To use AfT effectively as an instrument for poverty reduction and sustainable development, the link between trade and poverty reduction must in future be taken into account more clearly, both conceptually and in the context of programme implementation (trade-poverty linkage). In terms of the results chain, AfT begins with levers that can effectively, sustainably and demonstrably improve the partner countries' **capacity to trade and thus its trade performance**. In development policy terms, the aim is to achieve positive results for sustainable development and poverty reduction. Increased orientation to results in AfT projects and programmes will be achieved through **greater attention to measurable results and the incorporation of corresponding indicators**.

Systematic project reviews will identify the key barriers to trade and corresponding concrete AfT needs. Binding results chains and objective indicators will be developed jointly with the partner. The **results chain for poverty reduction and employment** will in future be even more systematically documented in the programmes through appropriate objectives and indicators. In accordance with the managing-for-results approach, funds will be used so that the set objectives are achieved in the most effective manner, taking into account the partner's requests. Results will be monitored in the course of the projects using customised **results-based monitoring systems** and subjected to interim evaluations so that any necessary corrective action can be taken. Independent final and ex post evaluations provide a concluding or retrospective assessment of the success of German AfT measures.

To maximise the desired impacts on poverty and prevent additional impoverishment, distributional effects must be more systematically analysed in advance, and the impacts on poverty given more attention in programme design in the future. Partner institutions are thus assisted in **estimating ex-ante the social and economic consequences of measures** on poor households, **with the participation of the target groups**. Customised **adjustment assistance** will help prevent negative impacts of trade on specific poor or vulnerable population groups, if at all possible.

German development policy is also active **at the international level** in support of an increased **results orientation of AfT**. This applies particularly to the processes for managing for development results (MfDR), evaluation and indicator formulation within the framework of the Organisation for Economic Cooperation and Development (OECD) and the WTO. The goal here is to orient results chains to trade and poverty reduction and to develop indicators and evaluation methods for the various AfT cat-

egories and forms of implementation. German development policy also gives great priority here to ensuring reciprocal **accountability** between donors and recipients on the basis of the Paris Declaration. Besides the WTO, the OECD in particular has a key role to play as a result of the Aid Effectiveness Agenda and global AfT Initiative. Germany supports these processes through its proactive involvement in implementing and developing the OECD's AfT monitoring framework, the EU's AfT monitoring report and accountability within the G8/G20.

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