Federal Ministry
for Economic Cooperation
and Development

DISCOURSE 013

Shaping German Aid for Trade – Past Experience, Lessons Learnt, and the Way Forward

Contents

1. Background

This paper presents the main findings of a research project conducted by the German Development Institute (DIE-GDI) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). It is the abridged version of a more extensive paper prepared in the course of the project.[1] The paper analyses the current state of German trade-related development assistance and makes recommendations for incorporating the concept of Aid for Trade (AfT) therein. The research project aims to provide input for an informed discussion on how Germany can best contribute to the international AfT initiative by optimising both the quantity and quality of its trade-related development assistance. Related questions include the following:

- How does AfT contribute to the overall development objectives of German development policy, in particular poverty reduction?

- Against the background of past experience and future challenges, what are current areas of strength in which Germany could engage disproportionately compared with other donors?

- How should German development policy put the concept of AfT into practice given its crosscutting nature and wide scope?

- How can AfT be factored into donor-partner coordination?

The following section outlines the theoretical debate on trade and development and the role AfT can play in this respect. Section 3 outlines the political process behind the AfT initiative and the challenges for putting the concept into practice. An analysis of German trade-related activities in both their quantitative and their qualitative dimension (Section 4) prepares the ground for a discussion of how Germany should shape its portfolio in accordance with its potential comparative advantages in delivering AfT (Section 5). The paper ends with a summary of the main recommendations plus suggestions for possible next steps.

1 DIE-GDI 2009.

2. The Rationale Behind Aid for Trade

Trade has the potential to spur sustainable, long-term economic development. An open trade regime contributes to the efficient allocation of national resources, leading to a more competitive performance on world markets. It encourages economies of scale, technology spill-overs and, especially important for small countries, foreign investment. Sub-Saharan Africa (SSA) in particular is in need of more trade or, more precisely, of trade diversification and increased export revenues, away from a situation marked by high dependency on a few commodities and limited local value addition.

According to classic trade theory, a country benefits from specialising in the production and exportation of goods in which it has a comparative advantage, even if its trading partner is more efficient in all these goods in absolute terms. Both countries would still be better off and gain from this exchange. However, it is well known that the assumptions of these models do not fit well with real world conditions where markets, especially in developing countries, are far removed from functioning perfectly[2], and are more complex than those in the models, which consist of merely two (types of) countries, two factors of production and two goods.

As a reaction to these stringent assumptions, a body of "new trade theories" has emerged since the 1980s, addressing the complexities of trade and showing that deviations from free trade can enhance growth and welfare. These new theories arrive at the conclusion that – due to economies of scale and other market imperfections – the success of trade liberalisation is contingent on the application of a range of instruments. Strategic trade policies – such as the setting of industrial standards for the benefit of home country companies – are justified and should even be complemented by other forms of (non-trade) policies with a view to proactively developing a country's comparative advantages. But successful liberalisation requires institutions capable of transforming trade opportunities into economic growth. According to the concept of "systemic competitiveness" (Esser et al. 1995, p. 6), the ability of central actors to set priorities and define sequences is one key ingredient in a successful transformation from an inward-looking economy to one oriented towards world markets. Gradually ensuring national control over the industrialisation process and correctly assessing the domestic industry's potential for adjustment and restructuring is important in this respect. Moreover, it has been shown in new geographic economy theories that trade liberalisation should be situated in a regional or multilateral approach. Such an approach can contribute more to welfare creation than unilateral liberalisation. It also emphasises that welfare creation through trade liberalisation is highly dependent not only on specific country circumstances but also on historical developments (Schmieg 2006).

These arguments are in line with the observation that industrial and trade policies have been instrumental in the rise of the East Asian newly industrialising countries. Although one should be cautious when applying insights from the Asian experience to other parts of the world – especially to SSA countries marked by weak institutional capacities – this shows that countries can succeed in actively creating new areas of international competitiveness. The appropriate strategy depends upon country-specific circumstances and can-

2 Perfect markets are characterised by, *inter alia*, a high number of companies producing homogenous goods, numerous and fully informed consumers and low barriers for entering and exiting the market.

not be generalised to produce a globally valid formula. Endowments, history and geography all matter for the trade potential of any country at a given point in time and determine what needs to be done in order to develop it further.

Growth and trade are not ends in themselves but means to achieving an end: poverty reduction and sustainable development. Although the linkages between an open trade regime and poverty reduction are theoretically stringent and have been proven practically in a significant number of country cases, they do not materialise automatically and they do depend on specific country circumstances. The often uneven distribution of the gains from trade liberalisation within a country affects the poverty situation further. Resources are reallocated in line with efficiency requirements and are shifted from the least to the most productive sector. In the wake of this adjustment process, parts of the population may experience an increase in poverty – at least in the short-term. Furthermore, developing countries might lose out from trade with more advanced countries, since their innovative sectors face the risk of being crowded out due to intense international competition, while low levels of capabilities prevent them from realising the benefits offered (Deraniyagala and Fine 2006). The OECD (2008) cites a number of arguments why low-income countries have failed to seize the opportunities offered by trade liberalisation: in many cases, trade restrictions, tariff escalation and agricultural policies adopted by industrial countries act as constraints on the ability of low-income countries to participate in trade more fully. Furthermore, there are still relatively high barriers to South-South trade, preventing economic activity between neighbouring countries. Hence, important gains could potentially be realised from regional trade. Finally, and most importantly, some of the main obstacles encountered by low-income countries are the result of structural weaknesses (in the form of supply-side constraints, low levels of human capital, poor institutions and policies), high costs of doing business, insufficient infrastructure, and – in some cases – unfavourable geography.

To sum up, (regional and international) trade liberalisation can contribute to economic growth and poverty reduction, if carefully designed in accordance with country circumstances and accompanied with institutional reforms. A country-tailored approach is particularly important in the developing world with its wide range of specific needs. In this regard, the role of donors is to reinforce the potentially positive impact of trade by supporting their partners in making use of trade potentials. In other words, they can support them by proving Aid for Trade (AfT).

AfT is rooted in the conviction that trade can contribute to poverty reduction while recognising that improved market access alone is of little use. The innovative feature of AfT is its broad perspective, which takes into account a wide range of obstacles (e.g. insufficient economic infrastructure, weak productive capacities, inadequate financial services) that have prevented many countries from becoming globally competitive and reducing poverty by getting more engaged in trade. AfT brings these issues to the surface. Similarly, AfT recognises that trade aspects should not be confined to national export strategies but that they instead form an incremental part of every country's path towards economic development and should, therefore, be included when designing a national development strategy or relevant sector strategies (e.g. in the area of private sector development or agriculture).

AfT explicitly acknowledges the potentials of regional integration, especially in times of international turbulence (e.g. food crisis and economic crisis). Apart from being potentially profitable but often underdeveloped markets *per se*, regions also serve as stepping stones to international markets: they give countries the opportunity to acquire and test the skills necessary for satisfying international demand and also provide them with the enlarged consumer base they need in order to realise economies of scale and, hence, improve their international competitiveness.

3. Putting Aid for Trade into Practice: Challenges Involved

The AfT initiative gained momentum soon after the launch of the WTO Doha Development Round, when LDCs started to ask for assistance to strengthen their supply-side capacity and to cushion preference erosion[3] because they doubted that major positive development effects could be achieved through another round of trade liberalisation (Page 2007). These discussions led to the birth of the AfT initiative at the 2005 WTO ministerial meeting in Hong Kong. The inclusion of aid issues in a WTO declaration was noteworthy *per se*, since it signified unprecedented recognition that trade measures alone are not sufficient for developing countries to benefit from globalisation.

International commitments

AfT was given a fairly broad definition based on six categories: unlike the older concept of "trade-related assistance" (TRA), which can be subsumed under "trade policy and regulation" and "trade development", the current notion of AfT also includes support for "trade-related infrastructure", "building productive capacities", "trade-related adjustment" and "other trade-related needs" (WTO 2006). Several pledges were made to accompany the initiative, among them the EU commitment to increase its TRA (i.e. AfT categories "trade policy and regulation" and "trade development") to €2 billion per year by 2010 – with €1 billion in Community aid and €1 billion in bilateral aid from member states – and to scale up total AfT proportional to ODA increases. An ACP-specific angle was incorporated with 50 per cent of the rise in TRA being earmarked for ACP countries.

EU Aid for Trade Strategy

Besides these quantitative commitments, the EU Aid for Trade Strategy adopted in October 2007 incorporates strong qualitative elements too (Council of the EU 2007a). In addition to a firm reference to the Paris Declaration on Aid Effectiveness, a pro-poor focus, including economic empowerment of women, and environmental, social and economic sustainability, there is also mention of stakeholder participation, complementarity and cooperation between donors. As to the last point, EU donors had already committed themselves earlier to a number of – voluntary – rules for overall development cooperation in the so-called "EU Code of Conduct on the Division of Labour" (Council of the EU 2007b).[4]

Challenges in implementing AfT

AfT activities *per se* are no novelty for development policy since they have long been part of every donor's portfolio, albeit under different headings and often – at least until now – with little conceptual underpinning. For example, German development cooperation has regularly taken up trade issues in its private sector and agricultural development programmes, but a consistent strategic approach for enabling partners to transform access to regional and international markets into real business opportunities has yet to be elaborated.

However, implementing AfT causes considerable challenges: because of the wide range of issues

3 Preference erosion refers to the loss of preferential trade relations due to a general reduction of tariffs.

4 The aims stated in this document by EU donors include concentrating on a maximum of three sectors per country and limiting their presence in a given sector to 3 to 5 donors per country according to each donor's comparative advantages.

involved, AfT does not relate to any one specific sector of development cooperation but instead stretches over a number of thematic areas. This crosscutting feature has implications, especially in terms of monitoring AfT (and TRA as the basis for the EU commitment), donor coordination and the possibilities for applying programme-based approaches.

Moreover, (lack of) country ownership is repeatedly brought up as a possible factor hampering the implementation of AfT. While early national development strategies were found to neglect trade issues (Hewitt and Gilson 2003), an opposite trend can be observed in more recent documents. Likewise, the latest OECD "Aid for Trade at a Glance" report paints a positive picture: more than half of all partner countries participating in this self-assessment exercise stated that they have "fully mainstreamed trade through well-developed operational priorities and action plans" (OECD 2009, p. 8). However, the newer national development strategies are still frequently criticised for not dealing with trade in a comprehensive manner, in particular with regard to trade-poverty linkages (Driscoll et al. 2007; Kosack 2008). The regional dimension also continues to suffer from neglect, since national development strategies tend not to be aware of or appreciate the gains from cooperating regionally when removing supply-side constraints (Driscoll et al. 2007).

Integrating AfT into partner country structures often proves difficult due to the division of competences between ministries. While the negotiation and implementation of trade policy is usually centralised at the level of trade ministries, many trade-related issues, particularly those from the wider AfT agenda, come within the regulatory responsibility of other ministries (e.g. ministry for transport, ministry for agriculture). By the same token, trade ministries do not usually participate in the consultations where partner countries inform donors of their development priorities. Furthermore, lack of capacity makes it hard for partner countries – particularly the least developed ones – to integrate trade comprehensively into relevant strategies and to steer their implementation. Such capacity is more difficult to develop in productive than in other areas, since it necessitates bringing together not only different public entities but also – often heterogeneous – private sector actors and intermediary institutions under common programmes. The Integrated Framework (IF) was designed as the main coordination instrument in Least Developed Countries (LDC) to tackle weak capacities in trade policy but has so far not lived up to expectations.

Germany now needs to address these challenges jointly with other donors, with a view to fulfilling both the quantitative and qualitative commitments of the AfT initiative, also against the background of the Paris Declaration on Aid Effectiveness. Using current AfT figures as a starting point and given its relative weight within the joint EU approach to AfT, Germany assumes that its basic contribution to the EU pledge on TRA should at least equal its share in the EU budget and the 9th EDF (both approx. 22 per cent). Based on the pledge of €1 billion made by EU member states, this amounts to a provisional target of €220 million per year as of 2010. In line with the EU Division of Labour, this objective is considered open for modification, if German (dis)advantages compared with other EU member states in providing TRA are identified. In this regard, the following sections are intended to provide input for an informed discussion on the future German contribution to the AfT initiative – in both quantitative and qualitative dimensions – by assessing the potential strengths and weaknesses of German development policy in the field of AfT (and TRA as a sub-set).

4. The German Aid for Trade Portfolio

AfT is currently a factor in six out of the eleven priority areas (*Schwerpunkte*) defined by the BMZ, namely Sustainable Economic Development, Environment and Resource Protection, Governance and Civil Society, Food Security and Agriculture, Energy and Transport and Communication. Until recently, the BMZ lacked the tools for strategically planning the AfT activities that were implemented under this wide range of headings, instead they "happened" without much possibility to predict future flows and with severe difficulties when it came to determining their scale *ex-post*. As a first response to the AfT initiative, Germany has earmarked some limited funds for trade-related purposes in its yearly budget planning process. A more recent decision – which can be interpreted as a strong political sign in favour of AfT – introduced an internal BMZ target (*Zielgröße*) for TRA. This operative management tool will, to a certain extent, stabilise TRA since it obliges German implementing agencies to scale up TRA within their respective fields of activity with a view to jointly fulfilling the basic target of €220 million TRA mentioned above. The BMZ has specified that these increased efforts should disproportionately benefit SSA. The priority area Sustainable Economic Development – and especially private sector development – has been designated as the primary point of entry for additional TRA, other relevant priority areas in this context being Food Security and Agriculture and Governance and Civil Society.

Anchoring AfT in German development policy also requires the integration of trade aspects in relevant policy papers which determine how geographically and thematically allocated budgets are to be spent. While the reasoning of the AfT initiative is currently not (directly) reflected in most of them, many still offer some potential links for AfT. Moreover, the latest papers show a tendency towards deeper integration of trade. However, BMZ Strategies (*BMZ Konzepte*)[5] in particular exhibit some weaknesses: certain priority areas are not covered (e.g. Food Security and Agriculture), while some of the existing, mainly older, strategies do not integrate trade aspects sufficiently despite their high relevance for AfT (especially Financial System Development).

4.1 Quantitative Assessment[6]

German total AfT increased from €779 million in 2005 to €1220 million in 2007. With a relatively high but somewhat volatile average of €210 million TRA, ranging from €163 million in 2005 to €243 million in 2006 and back to €224 million in 2007, Germany has almost reached its self-defined target of €220 million as a contribution to the EU pledge. However, the level of engagement in TRA and, to a lesser degree, in total AfT fluctuated considerably during that period, a circumstance that is partly explained by a change in reporting practices used by one organisation (DEG). This lack of stability has a negative impact on the ability to predict and strategically plan these aid flows.

5 BMZ Strategies deal with the eleven priority areas and their sub-areas.

6 For further details on this section please see BMZ 2009 and the DIE-GDI 2009.

The contribution of German priority areas to AfT figures

19 per cent of German TRA can be attributed to the priority area Food Security and Agriculture, the remaining 81 per cent to Sustainable Economic Development.[7] The latter features highest in total AfT too (47 per cent), followed by Energy (20 per cent) and Transport and Communication (15 per cent). The priority area Governance and Civil Society is not covered by the AfT data at hand since these issues are not considered automatically AfT-relevant according to international monitoring rules.[8] However, such programmes may very well include important trade-related components, especially at the regional level in SSA where Governance Reforms offers the most obvious entry point for AfT due to the absence of a more economic-focused German thematic orientation (*Profilbildung*).

German engagement from an international perspective

In terms of total AfT, Germany is a major provider compared with other donors, ranking third behind Japan and the US and first among EU member states between 2001 and 2006. German AfT was especially high in the AfT category "building productive capacities" (7 per cent of all donor aid). Within this category, Germany has provided a remarkably high level of support – compared with other donors – for the sub-category "banking and financial support". In the case of aid for "trade-related infrastructure", the distinction between the level of support provided by Germany and that provided by other donors is less marked. However, Germany's contribution is still considerable in absolute terms, particularly with regard to the sub-category "energy". No German engagement was recorded in the category "trade-related adjustment". Half of total German AfT is provided in the form of loans. Among the EU donors analysed, only Spain and France use the loan instrument more intensively.

Geographical distribution

Despite the explicit designation of SSA as the primary target area of overall BMZ engagement, Asia was the most important destination for both German total AfT (44 per cent) and TRA (32 per cent) between 2005 and 2007. German support for Asia was especially high in the AfT category "trade-related infrastructure" but relatively low in "trade policy and regulation" (53 per cent and 12 per cent of total German aid in these categories). Over the period of analysis, Asia's share in German TRA increased, but its share in total AfT fell slightly.

During the same period, Africa's share in TRA remained fairly constant but its share in total AfT rose due to an increase in "trade-related infrastructure" for northern Africa. The yearly average of total AfT to Africa (28 per cent) was clearly below that for Asia, especially with regard to "trade-related infrastructure" (36 per cent compared with 53 per cent) and "building productive capacities" (24 per cent compared with 43 per cent). By contrast, Africa had notably high figures for "trade policy and regulation" (33 per cent). German support in total AfT for SSA[9] (16 per cent) and TRA (19 per cent) both appear low, particularly compared with its share in overall German ODA (30 per cent).

7 Almost half of TRA (48 per cent) in the priority area Sustainable Economic Development was contributed by "business support services and institutions" (CRS code). Other important themes within Sustainable Economic Development are "banking and financial services", "industry" (12 per cent each) and "trade policy and regulation" (7 per cent).

8 According to the rules defined within the OECD and WTO, donors can report such activities as trade-related using self-assessment reports (i.e. questionnaires) outside the CRS code system.

9 AfT to ACP countries shows a similar pattern (15 per cent of AfT, 18 per cent of TRA). Within this group of countries, ECOWAS member countries appear as joint top recipients of both German AfT and TRA, followed by SADC and ESA members.

Countries in eastern and south-eastern Europe received approximately the same level of German total AfT as the Americas (10 per cent) and even slightly outdid the Americas in TRA (12 per cent versus 11 per cent).

Germany ranked high among bilateral donors especially in eastern and south-eastern Europe and in Asia, and, to a lesser but still remarkable degree, in Africa. In all these regions, Germany's share in all donors' TRA was smaller than its share in total AfT. This can be partly explained by German practices for reporting TRA to the TBDBD, which tended to be more rigorous than those applied by other donors (and, hence, resulted in relatively conservative German TRA figures). The relatively low share of German AfT explicitly dealing with trade *per se* is another explanation for the notably stronger German position in wider AfT compared with TRA.

German implementing agencies

German implementing agencies can be classified according to their contractual relation to the BMZ. Financial Cooperation implemented by KfW Entwicklungsbank (*KfW development bank*) and what is known as "Technical Cooperation in the strict sense" as provided by GTZ (*Deutsche Gesellschaft für Technische Zusammenarbeit*), BGR *(Federal Institute for Geosciences and Natural Resources)* and PTB[10] (*Physikalisch-Technische Bundesanstalt*) are the contributions most bound by BMZ policy decisions, since the organisations concerned are contracted to implement the development assistance negotiated between Germany and the partner country. In addition, a number of other agencies ("Technical Cooperation in the broad sense") provide technical assistance not agreed upon directly in government negotiations. InWEnt[11] *(Capacity Building International, Germany),* DED[12] *(German Development Service)* and CIM[13] (*Centrum für internationale Migration und Entwicklung)* are the most relevant for AfT discussions in this group of implementing agencies. They align their activities – to various degrees – to BMZ country and sector focuses, but still act more independently of BMZ policies than KfW, GTZ, PTB and BGR. In addition, DEG[14] *(Deutsche Investitions- und Entwicklungsgesellschaft)* contributes to German ODA (and hence to AfT) but receives BMZ funding only occasionally and is not obliged to conform to sector and country focuses. This multitude of agencies with different types of status and, theoretically, sharply delineated areas of intervention is frequently criticised as fragmenting the German aid system.

The analysis of German TRA data for the years 2005 to 2007 shows that GTZ was the most active German implementing agency: it implemented more than half of German aid commissioned by BMZ in the AfT category "trade policy and regulation" and around a third of "trade development". InWEnt contributed a high percentage to "trade policy and regulation" through training courses and the development of negotiating skills

10 PTB, the German national metrology institute, offers advisory and training services in quality infrastructure.

11 InWEnt offers services in human resource development, advanced training and dialogue.

12 DED works in human resource cooperation, placing its development workers in a wide range of partner country institutions.

13 CIM, a joint operation of GTZ and the German Federal Employment Agency, is a human resources placement organisation for specialised experts.

14 DEG, a member of KfW banking group, provides private companies with loans and equity finance. Although only DEG equity and equity-like financing is counted as ODA and, hence, as AfT, it can be argued that its lending activities in particular are of fundamental interest for TRA: since DEG loans are usually denominated in euros or US dollars, supported enterprises are encouraged to trade in order to generate foreign currency and, thus, reduce exchange rate risks.

(41 per cent). PTB is another important, though small actor working in core areas of TRA, namely the provision of advisory and training services relating to technical standards and quality infrastructure at the national and regional levels.

Public-Private Partnerships (PPPs), KfW and DEG each provided approximately 15 per cent of TRA. Since KfW concentrates on providing financial cooperation, its involvement is logically more pronounced in wider AfT than in TRA: it implemented the majority of support for "trade-related infrastructure" (86 per cent) and "building productive capacities" (53 per cent). By contrast, GTZ, BGR and PTB feature less strongly in total AfT (jointly 16 per cent) compared with TRA alone. DEG delivered a quarter of German aid in the category "building productive capacities", which it provides through equity and equity-like financing for banks and export-oriented businesses.

Multilateral TRA

The International Trade Center (ITC) and the WTO Doha Development Agenda Global Trust Fund were the main multilateral beneficiaries of German support between 2001 and 2006, with average yearly contributions of US $1.7 million and US $1.2 million, respectively. By contrast, German contributions to the Integrated Framework (IF) were limited in scale (US $0.1 million). Total German multilateral TRA showed a steep upward trend. It almost quadrupled between 2001 (US $1.8 million) and 2006 (US $6.6 million), albeit from a low starting point. Compared with other, especially Nordic donors, the share of German aid channelled through multilateral instruments remains low. This relatively moderate use can be partly explained by the stance taken by the German Parliament, which has capped the share of multilateral aid provided by the BMZ at one third of all ODA.

4.2 Achieving international benchmarks on aid effectiveness

A review of the German AfT portfolio in nine countries and regions[15] complemented by a more detailed analysis of the 15 activities identified as most relevant within these portfolios provides the basis for an assessment of existing German AfT with regard to the fulfilment of aid effectiveness criteria.

Trade-poverty linkages

Trade-poverty linkages do not appear to feature too prominently in the project / programme documentation studied, partly due to complex causalities implying a multitude of external influences from the macroeconomic sphere, partly because AfT-related elements are rarely constitutive features of activities and, hence, normally not explicitly mentioned in the impact chain.

Alignment

In most cases, the German engagement seems to clearly mirror the partner country's level of commitment to AfT. Some discrepancies can be observed in the Asian case study countries, where trade is high on the national agenda while Germany has phased out (Cambodia) or will phase out (Vietnam) its most clearly trade-focused activities. While the suitability of the German approach in these Asian countries could not be assessed within the scope of this study, overall findings indicate that the BMZ makes substantial efforts to align its aid – both in AfT and in other thematic areas – with strategies developed by partner countries.

15 Selected case studies include Burkina Faso, Ghana, Kenya, Mozambique, Cambodia, Vietnam, Bolivia and also the regional level in ECOWAS and SADC.

Harmonisation

German implementing agencies are intensifying their efforts to cooperate and increasingly engage in joint actions. Long-term advisers from DED and CIM are frequently embedded in GTZ programmes. These experts often work outside the capitals, thus allowing German development cooperation to keep in close contact with the reality on the ground. KfW is increasingly joining forces with GTZ by combining instruments of technical and financial cooperation. Cooperation among other German organisations occurs more rarely and is almost nonexistent in the case of DEG since its specific core business is providing financing to private businesses.

In some of the case study countries and regions, coordination of the explicitly trade-related activities (i.e. TRA) takes place in specially labelled trade sub-groups of donor coordination mechanisms that are otherwise sector-based. However, the bulk of activities analysed target productive capacities, an area where donors usually practise sector-based coordination. Therefore, it seems that the broad perspective of AfT has not (yet) been incorporated into coordination structures, either on the donor or the partner country side. Instead, structures are still dominated by purely sector-based aspects and have not yet been adapted to the requirements of AfT as a comprehensive and crosscutting initiative.

To conclude, most of the activities analysed can be interpreted as “examples of good practice” in the sense that they took an open economy with all its resulting challenges and potentials as the starting point for designing their support. However, only a few activities explicitly chose trade issues as a constituting element. The analysis showed that implementing agencies would, indeed, generally be willing to include trade issues, provided that doing so appeared meaningful in the specific country circumstances and corresponded to the requests expressed by partners. It has also become clear that there is potential to widen and scale up German AfT efforts.

5. Shaping German Aid for Trade According to Its Comparative Advantages

The assessment of the German trade-related portfolio made clear that better conceptual underpinning is needed in order to comply with the requirements of the new AfT concept. Above all, steps must be taken to ensure that trade-related activities do not simply occur as a by-product of other activities but are designed and implemented as the result of a genuine commitment to trade as a tool for development. The following considerations could guide the BMZ in re-thinking and re-shaping its AfT portfolio:

Positioning AfT vis-à-vis other topics within BMZ structures

Given the crosscutting nature of AfT, which touches upon a wide range of diverse issues, an approach focusing on integrating trade more comprehensively within existing priority areas would appear to be more promising than the creation of a priority area or sub-area targeting trade exclusively. Strategic considerations on shaping TRA should focus primarily on Sustainable Economic Development and also – due to its thematic importance for SSA – on Food Security and Agriculture. Furthermore, Governance and Civil So-

Sustainable Trade of Coffee and Cocoa from Ecuador

The economic situation of the rural population in Ecuador is characterised by poverty (some 61 per cent) or extreme poverty (29 per cent). Due to a lack of alternatives, income generation is largely geared towards short-term activities which tend to over-exploit and eventually destroy natural resources. There are large areas of Ecuador where unsustainable land use and poverty pose a threat to biodiversity.

German development cooperation efforts are aimed at linking environmental protection and development by supporting the rural population with regard to the sustainable use of natural resources, income generation, and trade. Small-scale farmers receive assistance in developing sustainable value chains. At the same time, the approach encompasses institutional capacity development for the protection of natural resources at the national and local levels. For example, the Ministry for Environmental Protection is receiving support for the implementation of the National System for Protected Areas. Several dialogue platforms also involving civil society have been introduced with the aim of balancing environmental protection and the sustainable use of natural resources. Public Private Partnerships (PPPs) in the timber and the cocoa sectors are increasing the quality of natural products and seeking to integrate small-scale farmers in export-oriented value chains. Thanks to the German engagement, 27,000 hectares are now being cultivated under sustainability criteria, and more than 7,000 small coffee farmers increased their income by up to 70 per cent between 2004 and 2008 through improved market access for fair traded organic coffee. In the case of cocoa, the increase was 104 per cent. A total of 21 PPPs have been agreed upon with 18 national and international companies, more than doubling public investment and guaranteeing the ownership and sustainability of the income opportunities thereby generated for the rural population.

ciety deserves special attention at the national and regional levels. Deeper integration of trade issues in the respective strategies for BMZ priority areas would give them a more international and regional slant. These strategies would need to acknowledge that developing countries cannot isolate themselves from the rest of the globalising world and that economic policies increasingly have to take external influences affecting a country's opportunities into account. However, if trade-related aspects become more prominent in the German aid portfolio, trade-poverty linkages will also require a comprehensive analysis and conceptual underpinning during all phases of project management.

Some extensions and revisions of BMZ policy papers are needed: first, BMZ Strategies need to offer both more comprehensive coverage (especially with regard to the priority area Food Security and Agriculture) and deeper integration of trade aspects in areas of clear relevance for AfT (primarily Financial System Development but also Biodiversity and Social and Ecological Market Economy). Second, an independent position or strategy paper mapping out the future German approach to AfT should supplement the existing range of policy papers.

There should be the possibility of renegotiating the agreed priority areas for each country and region in cases where the needs of the respective partner have changed or donors have modified their in-country (or in-region) division of labour. In the context of changes sparked off by the implementation of Economic Partnership Agreements (EPA), such a modification could also be considered for the thematic orientation of German development policy at the regional level in SSA.

Strengthening Reforms and Economic Competences in African RECs

German support for trade and regional integration processes in sub-Saharan Africa dates back to the 1990s. Responding to the new drive throughout the African continent towards a fresh era of "open regionalism" and of deeper regional integration, Germany is seeking to contribute to these reform processes and to strengthened governance, including at the supranational level. Assistance for Regional Economic Communities (RECs) has increased substantially over the past decade.

In the Southern African Development Community (SADC), technical assistance was provided to spur the process of developing the SADC Trade Protocol starting in 1996. Since 2002, the cooperation approach between SADC and Germany has been much enhanced so as to include, under the overall heading of *Support to Governance Reform Processes,* support for the organisational development and institutional strengthening of the SADC Secretariat, and also support for trade policy, standards and quality assurance, customs modernisation, macroeconomic convergence, and promotion of regional private sector associations and public-private dialogue initiatives on the integration process. German cooperation has also been instrumental in setting up the Project Preparation and Development Fund – the aim of which is the preparation of bankable projects in the region – which became operational in 2009. Since January 2008, when the SADC FTA became operational, 85 per cent of goods can be traded duty free in the initial 12 countries. Intra-regional trade has risen to 18 per cent of total trade despite still suffering under non-tariff barriers and infrastructure deficiencies.

In the East African Community (EAC), expertise has been made available through the German programme to help underpin negotiations for the Customs Union, established in 2005, and for the Common Market Protocol, expected to be finalised in 2009. Again, strengthening the Secretariat in its coordinating, planning and monitoring functions with regard to the process of deeper integration is considered critical. Germany is contributing to enhancing management capacity, monitoring and evaluation competence, and to building up expertise in trade and economic integration issues. These contributions are complemented by measures to build awareness and develop capacity within the private sector and civil society organisations in the EAC region in order to foster a pragmatic and broad-based integration approach. Germany, together with other donors, has also assisted in setting up the EAC Partnership Fund, a new aid modality aimed at better harmonisation and coordination of donor programmes in support of regional integration within the EAC.

A major strength of the German approach is the long-term relationships that have been established with the regional organisations and other important stakeholders in the regions. Building on this experience, similar programmes have been set up in the Economic Community of West African States (ECOWAS) and are about to be launched in the Central African Economic and Monetary Union (CEMAC).

Financial commitments

Germany has almost reached its provisional target of €220 million as its contribution to the EU pledge on TRA. However, TRA levels have fluctuated significantly. It is, therefore, necessary to stabilise these aid volumes with a view to maintaining this high level of engagement and improving predictability. Recent efforts undertaken by the BMZ by setting up an internal target line will have a positive effect in terms of such stabilisation and will even mean some further increases in TRA.

Yet, looking at the overall European situation, it seems that the EU pledge has not resulted in mobilising significant amounts of TRA as the EU already provides assistance on a high level. The initial EU pledge for TRA should, therefore, be regarded as a general commitment to the topic and not as an immovable benchmark. EU donors including Germany should continue to work on advancing the AfT initiative, even though one of their targets – the provision of €2 billion TRA – may soon be reached. Such an approach seems even more reasonable since valid arguments (strong past involvement, Germany's experience as an exporting nation, ties to many developing countries based rather on trade relations than on history and geopolitics, broad range of instruments well suited to tackle a cross-cutting issue like AfT) support the idea that Germany should engage disproportionally strongly in TRA compared to other EU member states. Furthermore the current financial and economic crisis means that AfT can have an immediate stimulus effect, averting the worst consequences of the downturn while laying the groundwork for a more stimulating business environment (e.g. trade finance). As global demand has decreased, AfT should continue to focus on developing local and especially regional markets, including trade and investment flows.

The TRA pledge's lack of "bite", means that the EU commitment to increase AfT proportionate to overall ODA will gain in importance. By focusing more strongly on upgrading productive sectors and trade-related infrastructure as well as on strengthening adjustment capacities, the somewhat artificial and often counterproductive divide between TRA and other AfT categories could be reduced. ACP countries especially will need additional support for wider AfT in order to be able to reap the benefits offered by EPAs. However, bearing in mind the broad scope of AfT, which accounts for almost one fifth of overall German ODA, it makes little sense to set an internal BMZ target for AfT similar to that for TRA. Instead, softer and more quality-centred approaches should be employed, such as ensuring that the German in-country sector concentration offers entry points for AfT and, more generally, contributing to an appropriate and harmonised (German and international) response to the demand from partners for AfT. Partners should also be encouraged to take a broad view when analysing their trade-related needs.

Geographical focus

To date SSA has not been the main beneficiary of both, German AfT and German TRA. In this respect, the EU commitment to devote 50 per cent of its TRA increase to ACP countries is a chance for Germany to change course by re-focusing its trade-related activities on SSA. Putting SSA higher on the AfT agenda seems equally necessary from a purely German perspective, since the primary BMZ objective is to reduce poverty, making SSA a natural target region. However, efforts to scale up AfT for SSA might be constrained by a lack of absorptive capacity, particularly at the regional level. Other donors are also expected to put increased emphasis on trade, adding to the risk of overburdening existing structures. Coordination of these increased efforts will play a decisive role.

It can be assumed that Europe and Asia offer some potential for scaling up AfT since Germany has a substantial record of trade-related activities as well as the necessary policy orientation (in terms of priority areas) in these regions. It would be more challenging to pursue a similar approach in Latin America, where Germany lacks the relevant priority areas.

Bilateral modes of delivery: implementing agencies and delivery mechanisms

In principle, Germany is well-positioned to respond to a wide range of trade-related needs in a relatively flexible manner thanks to its diverse set of instruments. If well-managed and fine-tuned (i.e. aligned with needs and coordinated with one another and with the instruments of other donors), this diversity can become an outstanding feature of German AfT. The general tendency is definitely towards increased interaction and cooperation among German implementing agencies. But as most activities are linked to trade only marginally, so far harmonisation efforts have usually not targeted trade explicitly.

The future approach could be, first, to instruct KfW, GTZ, PTB and BGR and encourage all other relevant implementing agencies to deal with the potentials (and risks) of trade more explicitly in their activities, for example by increasingly supporting the efforts of (agricultural and non-agricultural) businesses to realise their export potentials. Second, the BMZ should strive for better harmonisation of its multitude of AfT instruments, with each implementing agency contributing its specific AfT talents: GTZ's asset is its multidimensional approach to agricultural and private sector development and its process orientation in support of institution building at the policy level. The technical expertise of CIM, whose seconded staff work in line with partner country structures and are very well integrated into them, and the contacts with the micro-level established by DED should remain embedded in larger German programmes. Since the ability to also cover rural areas is frequently cited as a German comparative advantage, such cooperation should be intensified so as to promote exporting businesses outside urbanised regions. InWEnt should be encouraged to contribute its extensive experience and gear it more systematically towards "trade policy and regulation" as well as "trade development". The Public-Private Partnership (PPP) instrument should be better integrated into relevant programmes, especially with regard to linking up German and European enterprises with potential business partners in developing countries. While PTB has a relatively clear-cut intervention area (quality infrastructure), steps must be taken to make sure that its activities are properly coordinated with other German (and international) activities in support of technical standards – especially those implemented by GTZ.

There is considerable room for improvement with regard to combining financial cooperation with technical cooperation. For example, KfW could seek more opportunities to provide financial services to exporting businesses otherwise supported by GTZ. Another area with high potential for combining financial with technical cooperation is "Trade Facilitation", where support for the modernisation of customs systems can be linked with infrastructure support. Where possible, DEG investment activities should be taken on board:

Competitive Manufacturing in Ethiopia

The Ethiopian economy continues to be highly dependent on agriculture while industrialization is still in its infancy. Agriculture currently accounts for 45 per cent of GDP, 87 per cent of foreign exchange earnings and 85 per cent of employment. Agriculture-led growth and the transition from subsistence agriculture to agro-based industrialization as well as export-led industrial growth are seen as long-term economic development strategies by the Ethiopian Government.

But productive sectors have to become more competitive, employing modern technologies and skilled workers. German support in Ethiopia is following a unique, integrated multilevel approach in order to enhance productivity and promote exports. Cutting across various supply-side dimensions, it addresses the quality infrastructure, private sector competitiveness, and the skills base of industrial workers. Advances in one field often depend on advances in other fields, and these interrelations need to be taken into consideration in order to guarantee the success of the program. The Engineering Capacity Building Programme (ECBP) is a programme that is managed and coordinated by the Ethiopian Government. The contributions of various German implementing agencies are fully embedded in the programme, which is coordinated by GTZ on the German side. GTZ is providing strategic and managerial advice on private sector and value chain promotion in several priority export sectors, including the textiles and leather industries, food processing, and pharmaceutical production. DED is supporting regional Bureaus of Trade and Industry in developing business services for small-scale farmers and strengthening export-oriented value chains. PTB is offering technical expertise to the Quality and Standards Authority of Ethiopia with a view to developing adequate laboratory capacities and meeting WTO accession requirements. InWEnt is offering training courses for vocational education institutions while KfW is funding the building of schools and vocational training centres. CIM and DAAD are sending experts in the fields of quality assurance and vocational and further training, who are largely funded by the Ethiopian Government. ECBP thus brings together all relevant German implementation agencies in one coherent approach. Between 2006 and 2008, exports within the sectors receiving support increased by 30 to 40 per cent, in 2009 the first Ethiopian pharmaceutical enterprise received official international Good Manufacturing Practices (GMP) certification and it is anticipated that the above qualification measures will substantially increase productivity, growth and employment in the same sectors.

Internet: http://www.ecbp.biz/

although DEG operates independently from BMZ country and sector focuses, its tools have the potential – if applied properly – to complement the more conventional aid modalities, especially when it comes to private sector development. Such approaches would live up to the spirit of the AfT initiative by targeting all aspects of trade in a holistic manner.

Intervention areas

Germany and most other donors spend the bulk of TRA on (more money intense) “trade development”, while “trade policy and regulation” clearly receives less funding, particularly from bilateral donors. Yet, it can be argued that this latter category contains topics in which Germany has gained considerable experience, hinting at the existence of a potential comparative advantage (e.g. quality infrastructure, reform of customs and tariffs, trade in services). Moreover, German implementing agencies may be in a good position to deliver the stable and long-term commitment required for ensuring the success of such activities and build the trust necessary for politically sensitive areas such as trade negotiations. For example, Germany is the only donor with a specialised implementing agency dealing with quality infrastructure (PTB). It should, therefore, take advantage of this unique feature.

To increase absorptive capacity and prepare the ground for successful AfT, Germany should develop partner countries’ institutional capacities, starting by clarifying what donors can offer under

Supporting countries in southern and eastern Africa in modernising their customs policies and administrations

For developing countries, efficient customs administration is a key tool for promoting economic growth and social development as public revenues in developing countries still largely depend on customs. The traditional functions of customs administrations are highly challenged by the liberalisation and globalisation of trade. Customs administrations therefore need to prepare for their new tasks: bringing forward trade facilitation, elaborating trade statistics, supervising trade agreements, protecting intellectual property rights and supporting the development of regional economic communities such as free trade areas and customs unions.

German development cooperation is supporting the efforts of partner countries in sub-Saharan Africa to build capacity in the respective fields. The aim of the programme is to provide advanced training for officials of customs authorities from SADC, EAC and ECOWAS member states. Training future management staff in customs will put these countries in a better position to adapt their national rules and regulations to the international regimes of the World Trade Organization (WTO) and the World Customs Organization (WCO), as well as to the changing economic conditions caused by regional integration. Since the start of the programme in 2005, more than 75 young professionals have taken part in this one-year training course. Through the programme participants learn how to perform tasks relating to modern customs policies professionally, taking on the role of “change agents” in their institutions and thus contributing to major change processes and customs modernization reforms in their institutions and also at the regional level. Furthermore, participants can make use of a network of customs professionals from the SADC/EAC/ECOWAS region as well as international organisations like WCO and from Germany.

Internet: http://gc21.inwent.org/globaltrade

Connecting Ghana's Agricultural Sector to Global and Regional Markets

Thanks to continuous reform efforts, Ghana has become a relatively open country, achieving stable economic growth rates of around six per cent. Exports remain concentrated on a small number of commodities, including mainly traditional agricultural products such as cocoa beans, and minerals. Recent analyses identify a large but mostly untapped export potential, especially in terms of non-traditional agricultural products such as wood products, fresh fruits and nuts. In addition, regional trade offers potential for animal products and processed food.

The German approach to capacity development is aimed at improving the competitiveness of agricultural producers and processors (frequently women) and at increasing the value added generated, particularly in rural areas – thereby contributing directly to poverty alleviation. Through policy advice and institutional support for rural extension services and producers' associations, the programme is seeking to upgrade the market orientation of selected agricultural value chains, increase efficiency in the public sector, and strengthen private sector institutions. There are various outgrower schemes that provide financial assistance, while the development of a national quality infrastructure system with the Ghana Standards Board has the aim of guaranteeing the quality and safety of agricultural products. Thanks to these measures, it has for instance been possible to successfully integrate some 1,000 certified outgrowers in the Ghanaian orange juice value chain and thus stabilise their incomes, create 175 new jobs mainly for women, and increase exports to 3,000 tons of ecologically certified juice annually (worth US $ 1.5 million).

the heading "AfT" and how additional funding can be tapped. Furthermore, Germany should intensify its support in the area of PRSP formulation with a view to ensuring the proper integration of trade, also in regional terms.

International and regional value chains in agricultural products will continue to be very important, especially in SSA. Hence, this intervention area should remain high on the German AfT agenda and its market orientation should be further strengthened where appropriate. In addition, the value chain approach should be strengthened to include other, non-agricultural sectors.

Germany is strongly engaged in developing the private sector even though such activities are rarely explicitly geared towards export-oriented businesses. This intervention area should remain high on the German agenda but with a more pronounced orientation towards regional and international export potentials. Moreover, cooperation among the various German instruments available for private sector development requires some optimisation as described above.

Financing SME exporters in Ukraine

Benefiting from structural reforms in the 1990s and low labour costs, Ukraine quickly became integrated in the global value chain during the last decade. The trade and service sector, which accounted for nearly 60 per cent of GDP in 2007, is the mainstay of the economy. Demand from international manufacturing and services value chains in particular has boosted exports from US $ 30 billion (2003) to over US $ 60 billion (2007). Besides corporate clients, about 20,000 small and medium-sized businesses are becoming increasingly integrated into the exporting value chains, providing an important source of income and employment. Periodical business climate surveys have highlighted the high importance of SME access to credit for investments and working capital so as to improve international competitiveness.

In order to develop financial institutions' capabilities, German Financial Cooperation has established the German-Ukrainian Fund to promote small businesses in rural and urban areas. This Fund is providing loans to small businesses through suitable Ukrainian financial institutions. In addition, US $ 77 million has been provided through in the form of direct lending to four larger and medium-sized banks and indirect equity participation including Ukreximbank and Pro Credit Ukraine (through ProCredit Holding); this investment is supporting a large number of SMEs, among which exporting units are important beneficiaries. Ukreximbank has an SME portfolio of US $ 2 billion which provides loans to larger and medium sized exporters, while Pro Credit Ukraine serves the smaller business segment of currently about 25,000 small businesses with an outstanding loan portfolio amounting to US $ 290 million. Among those there is a growing number of small businesses, who are engaged in exporting goods and services. Although the ongoing financial and economic crisis has had an adverse affect on the export sector in Ukraine, Pro Credit Ukraine is doing its best to maintain support to its clients during this challenging period by adopting loan restructuring in response to the adverse global market environment. Through its participation in the microfinance enhancement facility and in the Equity Support Programme for Ukrainian banks, German development cooperation is providing strong support for the maintenance and expansion of credit to small businesses, many of which are engaged in export.

While technical assistance has played a major role in TRA, KfW involvement has been limited in scale. New lines of action should be opened up here. This seems particularly promising in the area of financial services, where KfW has been very active but without focusing specifically on trade finance. Scaling-up of financial cooperation should ideally be accompanied by technical assistance, at least in poorer countries.

Development and Diversification of Agricultural Production in Cambodia

Cambodia's agricultural sector including forestry and fishery products offers great development potential. However, rural infrastructure suffered greatly during the civil war, so that rehabilitation and expansion of the rural road network as well as of institutional capacities for agricultural production and marketing are of critical importance. The country is currently a net food importer and has lost its former rice export capabilities.

Against this background, the objective of German development cooperation is to provide and secure year-round accessibility for rural producers to markets, inputs, financial services and other small-scale institutional infrastructure. Parts of the engagement began as an emergency reconstruction measure in cooperation with the World Food Programme; German support now involves a comprehensive approach involving capacity development in three rural provinces. The project executing agency is the Ministry of Rural Development and its Provincial Departments. By 2008, an overall total of 1,650 km of rural roads had been completed. The German engagement has made it possible to raise farm production and gradually resume rice exports. To increase the competitiveness and the added value of selected agricultural sectors, farmers and their associations are encouraged to go through certification procedures, engage in the high-potential production of organic foods and explore new regional and global markets for their products. Exports of organic rice increased from 320 tons in 2005 to 720 tons in 2007, along with increases in export earnings and income. Training courses developed for the rice sector are now being transferred to other agricultural and industrial sectors.

KfW would have the tools necessary for also stepping up wider AfT. Although infrastructure projects should still be mainly carried out in multi-donor initiatives – albeit in an internationally more harmonised manner through better coordination or even some consolidation of the various existing instruments – KfW should be flexible enough to complement comprehensive German programmes with (smaller-scale) infrastructure elements, e.g. in the area of Trade Facilitation or storage facilities for agricultural development.

Multilateral instruments

Germany has been less inclined to use multilateral instruments for TRA and AfT. Therefore, potential exists for scaling up its multilateral TRA and AfT, especially in areas which are highly sensitive politically or where multilaterals clearly enjoy a comparative advantage because of, for example, a lack of necessary expertise among bilateral donors. Relevant multilateral channels include EIF (see also below), ITC, UNCTAD and UNIDO. German development policy should have the leeway to increase support in these areas.

Donor coordination and programme-based approaches

In LDCs, the Enhanced Integrated Framework (EIF) should remain the main point of reference for coordinating AfT, provided that it can overcome the weaknesses of its predecessor, the Integrated Framework (IF). In participating partner countries, Germany should ensure that its AfT portfolio is in line with EIF instruments. Moreover, the role of EIF donor facilitator is worth considering in a country where Germany already has a track record, including in AfT-related sectors, if requested by the respective country.

Once the EIF is up and running, discussions on similar mechanisms for non-LDCs and the regional level should be advanced, if such an additional structure has the potential to deliver added-value in the respective national or regional circumstances. If this is not the case, donors should strive to use existing configurations as efficiently as possibly by creating interlinkages between thematic sector groups relevant for AfT (e.g. agriculture, private sector development, transport and electricity) or by addressing AfT at a higher level of the coordination structure where heads of sector coordination groups meet.

The European Commission needs to proactively support the coordination of AfT from EU member states (and from other donors, if possible), particularly in the context of EPA-related support. The idea of appointing one AfT lead donor per ACP region seems worth considering for larger EU donors like Germany. This would certainly require strong political will from all EU member states, some decentralisation of decision-making and also fresh funds, for instance, in order to close the gaps in regional representation and develop the capacity of regional structures on both the donor and the partner side.

Germany has only lately started to channel large volumes of ODA through programme-based approaches (PBAs). Where the relevant criteria, such as accountability and transparency of fund use, are fulfilled Germany is ready to provide assistance, including AfT, through budget support or sector-wide approaches. Sector budget support for productive sectors or infrastructure might become more important in the context of EPA implementation and could act as forward-looking adjustment support for restructuring national economies. If ACP countries or regions show clear commitment combined with the necessary accountability procedures, Germany should examine – on a case-by-case basis as anyway required by the German Parliament – its possibilities when it comes to providing them with trade-related budget support. Similarly, Germany should remain ready to contribute to regionally-owned funds once they exist, provided they fulfil core criteria (among others accountability and transparency).

Thus, in summary, the BMZ has several options for accommodating the topic through “Financial Cooperation” (KfW), “Technical Cooperation in the strict sense” (GTZ, PTB, BGR), “Technical Cooperation in the broad sense” (InWEnt, DED, CIM), other German institutions (DEG) and multi-donor initiatives. Irrespective of what the final German AfT approach looks like, putting it into practice will necessitate the full support of key persons within the BMZ and in German implementing agencies. This support is more likely to be forthcoming if requests are made by the partner side.

Only if partner countries identify trade in a comprehensive manner as an area necessitating donor support, will AfT have the legitimisation to stay high on the donors’ agendas. In that case, trade has a good chance of being properly mainstreamed within German development policy. However, Germany needs to make a start now on carving out a strategy to position itself within international discussions and to determine how it will respond to AfT requests from its partners.

6. Recommendations and Next Steps

Main recommendations

Positioning AfT vis-à-vis other topics within BMZ structures

- AfT should be scaled up primarily through the comprehensive and deep integration of trade in existing priority areas, especially Sustainable Economic Development, Food Security and Agriculture and Governance and Civil Society.
- Trade-poverty linkages require more comprehensive analysis and conceptual underpinning.
- Current sector focuses in partner countries and regions should be evaluated with regard to possible need for renegotiation, for example at the regional level in SSA.

Financial commitments

- EU donors should continue advancing the AfT initiative, even though one of their targets – the provision of €2 billion TRA – may soon be reached.
- The study found arguments in favour of a disproportionately large engagement in TRA by Germany compared with other EU member states.
- Germany should prove its commitment to development-friendly trade policy by scaling up overall AfT, especially in the context of EPA-related support.

Geographic focus

- Any increased effort in AfT should primarily focus on SSA. Furthermore, eastern and south-eastern Europe and Asia offer some potential for scaling up.

Bilateral modes of delivery: implementing agencies and delivery mechanisms

- German implementing agencies should be instructed (KfW, GTZ, PTB, BGR) and encouraged (InWEnt, DED, CIM, DEG) to target the potentials (and risks) of trade more explicitly in their activities.
- To make full use of its wide range of agencies and their respective tools, Germany should strive to fine-tune their interaction, e.g. through joint approaches.

Intervention areas

- Themes that should stay high on the German AfT agenda include developing partner countries' institutional capacities to shape and implement their trade policies within wider development strategies, quality infrastructure, reform of tariffs and customs, private sector development and value chain development, also in non-agricultural sectors.
- Tools offered by KfW should be used to their full potential, particularly in the area of trade finance, but also with regard to wider AfT.

Multilateral instruments

- German development policy should have the leeway to scale up multilateral TRA and AfT in areas where this seems reasonable.

Donor coordination and programme-based approaches

- Germany should continue to support EIF processes at the international level and ensure that its AfT portfolios are in line with EIF instruments at country level. Additionally, acting as donor facilitator in an EIF country and/or as AfT lead donor in an ACP region should be considered.
- In non-EIF countries where the establishment of an additional, EIF-like structure is not likely to deliver sufficient value-added, donors should strive to use existing configurations as efficiently as possibly, e.g. by creating interlinkages between relevant sector groups or by addressing AfT at a higher level of the coordination structure.
- The possibilities for stepping up the use of programme-based approaches (in the form of sector budget support or sector-wide approaches) and for contributing to regionally-owned AfT funds should be examined.

Possible next steps

- Carving out a strategic approach to AfT in an inclusive manner involving the whole BMZ structure, including its field staff, and all relevant German implementing agencies.
- Continuing to integrate trade into relevant BMZ policy papers.
- Elaborating toolboxes for implementing agencies regarding how to design a trade-related activity with special emphasis on trade-poverty linkages.
- Promoting cooperation among German implementing agencies with special reference to AfT.
- Pursuing content-wise coordination among EU donors with a view to engaging in joint actions.
- Assessing where Germany could act as EIF donor facilitator and, with regard to ACP regions, as AfT lead donor.
- Keeping an eye on the special needs of ACP countries that sign an EPA.

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List of Abbreviations

ACP	African, Caribbean and Pacific States
AfT	Aid for Trade
BGR	Federal Institute for Geosciences and Natural Resources
BMZ	Federal Ministry for Economic Cooperation and Development
CIM	Centrum für internationale Migration und Entwicklung
CEMAC	Economic and Monetary Community of Central Africa
CRS	Creditor Reporting System
DAAD	German Academic Exchange Service
DDAGTF	Doha Development Agenda Global Trust Fund
DED	German Development Service
DEG	German Investment and Development Company
EAC	East African Community
EC	European Commission
ECBP	Engineering Capacity Building Programme
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FTA	Free Trade Area
FZ	Financial Cooperation
GDI-DIE	German Development Institute
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IDA	International Development Association
IF	Integrated Framework
InWEnt	Capacity Building International
ITC	International Trade Center
KfW	KfW Development Bank
LDC	Least Developed Country
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public Private Partnership
PTB	German National Metrology Institute

SADC	South African Development Community
SSA	Sub-Saharan Africa
SME	Small and Medium Enterprises
TCBDB	Trade Capacity Building Database
TRA	Trade-Related Assistance
TZ	Technical Cooperation
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WCO	World Customs Organisation
WTO	World Trade Organisation

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