

# IMPLEMENTING AID FOR TRADE IN GERMAN DEVELOPMENT COOPERATION

## Summary

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Aid for Trade (Aft) supports developing countries in realising potential welfare gains from trade liberalisation. This area of development cooperation has recently gained additional prominence due to the conclusion of important trade agreements. In 2013, the members of the World Trade Organization (WTO) adopted their first agreement on trade facilitation, and in 2014, the European Union concluded Economic Partnership Agreements with several African regions.

Germany is a major donor of bilateral Aft:

- Between 2008 and 2012 Germany spent approx. EUR 500 million on Aft in the narrow sense.<sup>1</sup> This represented approx. eight percent (8 %) of the total German net disbursements of Official Development Assistance.
- Germany has numerous sophisticated Aft instruments at its disposal. They include not only classic elements of financial and technical cooperation but also instruments from other fields such as the ones used by the Federation of German Wholesale, Foreign Trade and Services (BGA e.V.) or Germany Trade and Invest (GTAI).
- German development cooperation succeeded in anchoring Aft as a cross-cutting topic in the area of private sector development.

However, other aspects could be significantly improved:

- The concept paper on Aft published in 2011 by the German Federal Ministry for Economic Cooperation and Development (BMZ) addresses current issues such as sustainable and

inclusive growth, social standards and synergies between development policy and trade policy, but does not cover them in depth. BMZ could better address current development policy debates, if it would more strongly embed these issues in its approach to Aft.

- While trade-related aspects are well integrated in BMZ policy papers and projects in the area of private sector development, this is not the case for agriculture, even though the latter area offers important entry points for trade issues as well.
- The introduction of the OECD trade development marker was intended to identify trade-related activities on the basis of a coherent strategy and to notify them to the OECD. These notifications form the basis for reporting Aft. However, the trade development marker is often used inconsistently, which highly reduces the quality and the comparability of data across German implementing organisations.

## Introduction

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In recent years, remarkable achievements were made in international trade: In December 2013, a WTO agreement on trade facilitation was reached, e.g. to reduce bureaucracy at border points. In 2014, the European Union concluded Economic Partnership Agreements with several African regional organisations.<sup>2</sup> Prior to this there had been only one similar EU agreement – that with the Caribbean Community (CARICOM). Even though the WTO agreement on trade facilitation has been recently delayed, these achievements still demonstrate the increased prominence of Aft.

<sup>1</sup> Aft in the narrow sense comprises the Aft categories “Trade policy and regulations” and “Trade development” (see box 1). The category “Trade development” is identified using a special OECD marker (“trade development marker”).

<sup>2</sup> East African Community (EAC), Economic Community of West African States (ECOWAS)/West African Economic and Monetary Union (UEMOA), Southern African Development Community (SADC)

## What is Aid for Trade?

The WTO launched the AfT initiative in 2005. It aims to support developing countries in realising potential welfare gains from trade liberalisation and to compensate them for losses which may arise from the implementation of trade agreements.

The definition, the properties and the added value of AfT have been the subject of fierce debate since the beginning of the initiative. AfT is neither a global development fund nor a new specific category of development cooperation. On the contrary, AfT also includes projects which traditionally belong to other, well defined aid sectors (e.g. in the area of agriculture or infrastructure). In order to identify clearly trade-related activities ("AfT in the narrow sense", see Box 1) and differentiate them from the wide range of other AfT projects ("AfT in the broad sense"), the OECD introduced a trade development marker in 2008. The decisive criterion for assigning this marker is the trade relevance of a project. However, the OECD defined the term "trade relevance" in a relatively broad sense, resulting in a considerable room for interpretation for its operationalisation.

### Box 1. The six AfT categories

#### 1. Trade policy and regulations

*Preparation, execution and implementation of trade agreements, etc.*

#### 2. Trade development

*Trade and investment promotion, trade finance, etc.*

#### 3. Trade-related infrastructure

*Transport, storage, communications and energy, etc.*

#### 4. Building productive capacity

*Support of productive sectors (agriculture, industry, etc.) without direct link to trade*

#### 5. Trade-related adjustment

*Accompanying measures to realise welfare gains*

#### 6. Other trade-related needs

*AfT in the narrow sense*

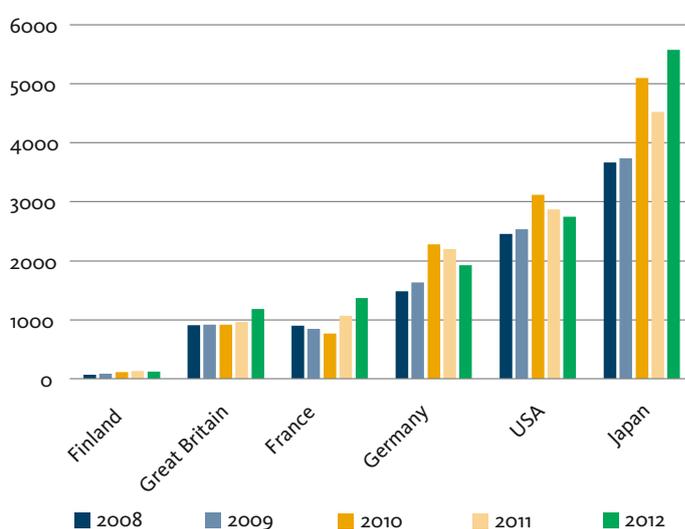
*AfT in the broad sense*

## Germany's contribution to Aid for Trade

Along with Japan and the USA, Germany is among the three biggest AfT donor countries worldwide in absolute numbers (Figure 1). If AfT disbursements are considered as a percentage of the gross domestic product, Germany falls behind other countries such as Finland or Great Britain, but comes ahead of Japan and the USA. Germany's disbursements for AfT in the broad sense vary over time and do not show a clear trend: Between 2008 and 2012, they ranged from EUR 1.0 to 2.2 billion. This fluctuation may be explained, at least in part, by the enormous volume of AfT in the broad sense, since it covers a wide range of measures (from infrastructure projects to the improvement of economic framework conditions and the development of productive capacities). The AfT initiative is only one of the many determinants impacting the scale of these projects. This complicates the interpretation of the AfT volume.

Over the same period, Germany provided AfT in the narrow sense amounting to EUR 516 million on average. With this, Germany easily met its pledge of EUR 220 million per year starting in 2010 which it had committed itself to reach at the beginning of the AfT initiative. However, no clear increase in the volumes of AfT in the narrow sense can be observed. They even fell from EUR 600 million in 2009 to EUR 457 million in 2012. This may be due to the fact that the BMZ has no budget particularly devoted to trade or other incentives on the supply side to promote trade-related projects. The declining volumes may also be related to how AfT in the narrow sense is identified and reported to the OECD.

**Figure 1: Total AfT disbursements of selected donor countries in Million Euros (2008-2012)**



Source: own calculation based on data from the OECD Creditor Reporting System, 2014

## The BMZ concept paper on AfT

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Germany has made efforts to strategically anchor the AfT initiative in German development cooperation. Published in 2011, the BMZ concept paper on AfT is of particular importance in this respect. In line with international practice, it follows a strategy of “soft” mainstreaming. BMZ did not create a separate priority area devoted to trade but relied upon awareness raising and persuasion of the stakeholders of German development cooperation in order to incorporate trade in the existing aid sectors. Hence, in Germany - like in many other donor countries - AfT was integrated as a cross-cutting issue within the existing priority areas. This also means that all essential BMZ policy papers as well as relevant projects of technical and financial cooperation should take trade-related aspects into account, provided this makes sense content-wise and is requested by partner countries. A whole range of BMZ priority areas is worth considering: among others, sustainable economic development, resource protection, food security and agriculture, energy, transport and communication.

Although a policy paper aiming at “soft” mainstreaming certainly requires a more open formulation than a strategy paper for a clearly defined sector, the BMZ AfT concept lacks focus and analytical depth, also compared to those of other donor countries such as Finland and Great Britain. This is reflected particularly in three aspects which should be given priority when revising the concept paper:

### **i) Vagueness when defining goals and intended impacts:**

The AfT concept paper remains relatively vague when defining goals and intended impacts of AfT projects. Although a wide variety of instruments are used for AfT, the BMZ should focus more on clearly defined high-level outcomes and intended impacts. This would also create a better basis for future evaluations.

### **ii) Little attention to current key topics:**

The AfT concept paper only touches upon some topical issues - such as sustainable and inclusive growth, social standards, the role of the private sector, and synergies between trade policy and development policy - but does not explore them in depth. In order to better reflect such current development policy debates, the concept paper should take more into account these topics that will remain relevant also in the medium-term.

### **iii) Inconsistency in the application of the trade development marker:**

BMZ tried to develop a uniform national definition of the term “trade relevance” to guarantee a uniform application of the OECD trade development marker. However, the great diversity of its AfT projects constitutes a major challenge for Germany in this respect. For example, the German National Metrology Institute (Physikalisch-Technische Bundesanstalt) is mainly dedicated to quality infrastructure whereas the KfW Development Bank manages AfT projects, among others, dealing with agricultural finance and microfinance systems. These projects differ considerably in their approach and relation to trade. Due to a lack of a common German definition, the implementing organisations have developed their own specific understanding of the trade development marker.

However, a common definition and interpretation of the term “trade relevance” is necessary in order to apply the trade development marker in a sound and coherent manner and to report the volumes of the clearly trade-related activities to the OECD. Moreover, such a definition would be a key element of a coherent implementation strategy. Therefore, the BMZ should determine uniform rules for the application of the trade development marker in cooperation with implementing organisations, and enforce and review them regularly.

### **Mainstreaming within existing sectors: varying results**

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The evaluation of BMZ policy papers shows that the documents on private sector development address AfT aspects in a detailed manner. On the other hand, the relatively recent papers on agricultural development hardly discuss AfT issues. Project documentation shows a similar pattern. Agricultural projects seldom address trade-related topics, although many of these projects would offer relevant entry points such as regional and global value chains. All in all, AfT mainstreaming in German development cooperation has so far been successful, especially in the area of private sector development, where in particular the topics quality infrastructure and regional integration have gained in importance.

Against this background, there should be a discussion within BMZ and the relevant implementing organisations on how regional and global trade contributes to agricultural development and food security and how these items could be included in the corresponding policy papers and projects.

A similar point can be made regarding trade facilitation. It is to be expected that the demand for such assistance will increase as soon as the implementation of the WTO agreement on trade facilitation begins. Should Germany wish to not (only) use multilateral implementing channels, the profile of the German organisations in this area has to be raised.

## Conclusion

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At the international level, Germany is a pioneer in the field of AfT. In order to maintain this position in the long term, BMZ must sharpen the content of its strategy. It should focus on outcomes and impacts and give increasing consideration to current topics. In order to improve the steerability of AfT, the implementing organisations need to use the trade development marker in a uniform manner.

## References

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**Kröger, A. and P. Voionmaa (2015)**, *Aid for Trade, Policies and Strategies in German Development Cooperation*, German Institute for Development Evaluation (DEval), Bonn.

The BMZ should make the strengthening of trade aspects in agricultural projects and the development of expertise in trade facilitation a topic for discussion. No matter how AfT is anchored in German development cooperation, the decisive stimulus has to come from the partner countries. Only when they actively request AfT will it obtain the legitimacy needed for gaining awareness in German development cooperation.

## Disclaimer

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This Policy Brief is based on the findings of a study carried out by DEval which analyses AfT as a cross-cutting topic in German development cooperation. It is not an impact evaluation but an analysis of different documents and data on trade-related development cooperation.

## Authors

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**Antje Kröger**  
Former DEval Evaluator



**Petra Voionmaa**  
Freelance Consultant

The German Institute for Development Evaluation (DEval) is mandated by the German Federal Ministry for Economic Cooperation and Development (BMZ) to independently analyse and assess German development cooperation interventions. Evaluation reports contribute to the transparency of development results and provide policy-makers with evidence and lessons learned, based on which they can shape and improve their development policies.