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# AFRICA VIEWPOINT

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## Africa and Aid for Trade: What are the Trends? What are the Issues? *Viewpoint by David Luke, Trade and Human Development Unit, UNDP Office in Geneva\**

A new WTO/OECD Report, *Aid for Trade at a Glance 2009*<sup>1</sup> that was launched in Geneva in July 2009 provides grounds for cautious optimism that Africa's development partners are stepping up the effort to make additional funding available to support trade capacity development needs. But another report on global ODA that was released at about the same time by the OECD suggests that although ODA topped USD 119.8 billion in 2008, on this level of performance, USD 10-15 billion (in 2008 prices) will be needed if donors are to meet their 2010 commitments.<sup>2</sup> In an uncertain global economic environment, it remains to be seen whether aid budgets will come under pressure in the years ahead.

**What are the trends?** For the Aid for Trade (AfT) slice of global ODA, and its regional shares, Asia, to be sure, is the biggest recipient, receiving USD 10.7 billion (in 2006 prices) in 2007. Africa, which received USD 9.5 billion, was a close second. This represents almost a thirty per cent increase in Africa's share from an average of USD 6.2 billion in 2002-5. Trade-related infrastructure projects in sub-Saharan Africa account for most of the 2005-7 increase.

Globally, AfT commitments reached \$25.4 billion in 2007, an annual increase of over 10 per cent in real terms above the USD 21 billion 2005 baseline established in the previous *Aid for Trade at a Glance 2007* Report. These figures suggest that donors are on track to meet the AfT pledges that were made at the 2005 WTO Hong Kong Ministerial Conference when the initiative was launched.<sup>3</sup> With ODA rising, the declining share of AfT within total sector allocable aid suggests that the AfT increase was additional and not at the cost of social programmes. On this score, AfT has passed an early UNDP test that was set for

it – i.e. additional funding as a key criterion to judge the success of the initiative.<sup>4</sup>

**What are the issues for Africa?** Very briefly, four main issues can be highlighted. First, the global economy has changed significantly since the AfT initiative was launched in 2005 but the original rationale – to assist developing countries to better connect to local, regional and international markets – remains valid. By reducing supply-side constraints, increasing competitiveness, diversifying productive capacity and reducing trade costs, AfT can help low income countries overcome barriers that constrain their ability to grow - long-term goals which are essential for poverty reduction and human development.<sup>5</sup> In these times, there is also an element of an economic stimulus in AfT financing.

Second, AfT is growing in importance in donors' programming. The expectation is that the momentum will be maintained over the medium term. Most bilateral donors have adopted an AfT strategy. The World Bank, IMF, the regional development banks and the UN System are all fully behind the initiative.<sup>6</sup> UNDP actively participates in the UN Inter-Agency Cluster on Trade and Productive Capacity which aims to bring coherence to UN support on trade-related issues by coordinating AfT and Enhanced Integrated Framework interventions at country level, particularly through the UN-DAFs.

Third, African and other developing countries are increasingly taking ownership of the AfT initiative. Ninety developing countries (including 32 in Africa of which 20 were LDCs) responded to the survey that informs the analysis of the *Aid for Trade at a Glance 2009* Report.<sup>7</sup> The

<sup>1</sup> See David Luke et al 'Perspectives on Aid for Trade', in Lakshmi Puri and Philippe De Lombaerde eds., *Aid for Trade: Global and Regional Perspectives* (Bruges: Springer/United Nations University, 2009).

<sup>2</sup> See Ibi Ajayi, 'The Global Economic and Financial Crisis and its Implications for Africa, Final Report' (UNDP/RBA, June 2009).

<sup>3</sup> See e.g., AfDB, ECA and WTO, *Global Review of Aid for Trade 2009* (Addis Ababa: ECA, 2009).

<sup>4</sup> UNDP played a role in the mobilization of programme countries to help achieve the overall 80 per cent response rate. In 2007, only eight developing countries responded to the survey.

<sup>1</sup> [http://www.wto.org/english/res\\_e/booksp\\_e/aid4trade09\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/aid4trade09_e.pdf)

<sup>2</sup> OECD, Development Aid at its Highest Ever in 2008

([http://www.oecd.org/document/35/0,3343,en\\_2649\\_34447\\_42458595\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/35/0,3343,en_2649_34447_42458595_1_1_1_1,00.html))

<sup>3</sup> But these pledges were also relatively modest: e.g. the European Commission and European Union member states pledged a total of Euro 2 billion a year; the US pledged USD 2.7 billion a year; and Japan pledged USD 10 billion over three years.

\* Thanks to Jorge Meruvia, intern at the Unit, for background research.

majority of the developing countries indicate an increasing trend in integrating trade in their national development strategies.

Fourth, regional integration is assuming increased importance and AfT is supporting these processes as well as broader South-South cooperation and triangular North-South-South trends. Regional cooperation provides opportunities for modernizing and expanding vital infrastructure networks such as roads, ports, railways and communications.<sup>8</sup> These are key considerations as Africa is home to 15 land locked countries. The *Aid for Trade at a Glance 2009* Report highlights the COMESA-SADC-EAC North-South Corridor project, to which OECD donors pledged USD 1.2 billion in April 2009 to upgrade infrastructure and improve trade facilitation and regulatory processes. A further USD 500 million will be made available for improvements to the other corridors (shown in dotted lines in the map) that link to the North-South Corridor (shown in bold lines) while the Development Bank of South Africa announced a USD 1.5 billion investment to support the energy, ICT and transport sectors. Emerging economies such as China, India and the Gulf states are increasingly active in trade-related support and investments in Africa although these contributions are not part of the OECD's accounting. For example, according to one estimate, China was the source of USD 7 billion in infrastructure projects in Africa in 2006 although the grant element is difficult to ascertain and there is evidence of concentration of this funding in a handful of countries.<sup>9</sup>

As the AfT initiative grows in momentum, the new UNDP/RBA trade project provides a timely platform to assist programme countries and regional economic communities to leverage additional support.

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#### North-South Corridor



#### AFRICAVIEWPOINT

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The content of this brief does not necessarily reflect the official views of the United Nations Development Programme

<sup>8</sup> See UNCTAD, *Economic Development in Africa Report 2009: Strengthening Regional Economic Integration for Africa's Development* (Geneva: UNCTAD, 2009).

<sup>9</sup> See Vivien Foster et al, *Building Bridges: China's Growing Role as an Infrastructure Financier for Africa* (Washington DC: World Bank, 2008).