EIF Enhanced Integrated Framework
Trade for LDC development

Official Development Assistance (ODA) and Aid for Trade

BACKGROUND AND PURPOSE:

There is a growing consensus that Official Development Assistance (ODA) alone won't be enough to help least developed countries (LDCs) recover from COVID-19. The pandemic is straining ODA and raising the transaction costs of international trade for LDCs due to supply chain disruptions and troubles in accessing trade finance.[1] Small and medium sized enterprises in LDCs that have had to rely on small amounts of funding from their savings, credit or loans from friends and family for their day-to-day operations are among the hardest hit by these global challenges.

The Enhanced Integrated Framework's Trade Funding Insights series is highlighting innovative financing opportunities for trade in LDCs, in order to help LDCs to take advantage of these opportunities. In this Insight, we look at the potential impact of COVID-19 on Official Development Assistance and Aid for Trade in LDCs, and explore how these funding mechanisms can be used to encourage more innovative private financing for trade.

WHAT IS OFFICIAL DEVELOPMENT ASSISTANCE?

According to the OECD Development Assistance Committee (DAC), Official Development Assistance (ODA) is provided by donor countries to support the economic development and welfare of developing countries.[2] ODA remains the main source of financing for many developing countries and can be delivered in the form of grants, concessional loans, debt relief or equity.

HOW CAN ODA SUPPORT TRADE IN LDCS?

One of the key ways that ODA is channeled to trade is through an initiative led by the World Trade Organisation called Aid for Trade.

Aid for Trade has helped LDCs to[3]:

- Develop trade strategies, negotiate trade agreements and implement their outcomes;
- Build infrastructure - roads, ports, and telecommunications networks that better connect domestic firms to the regional and global economy;
- Diversify trade by supporting the private sector to be more competitive and diversify their products;
- Improve access to finance and other business services;

HOW MUCH AID FOR TRADE DO LDCS CURRENTLY RECEIVE?

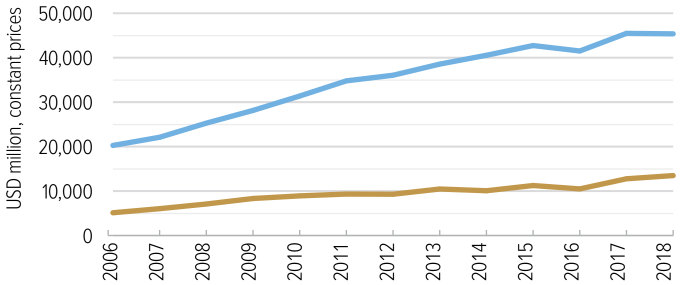
Since Aid for Trade started in 2006, a total of US$410 billion has been disbursed. More than 25% of that funding (US$108.4 billion) has been disbursed to 45 of the 46 LDCs.[4]

Aid for Trade funding to LDCs has been growing by roughly 13% each year since 2006. In 2018, LDCs received US$13.5 billion from Aid for Trade, representing 30% of total Aid for Trade.

Over 40% of total Aid for Trade received by LDCs has gone to only five LDC countries – Afghanistan, Bangladesh, Ethiopia, Tanzania and Democratic Republic of the Congo.

However, a different picture emerges when we look per capita. LDCs have received an average of US$20 per capita, which is triple the amount that is received per-capita by other developing countries.

Aid for trade disbursements, total and to LDCs, 2006–2018

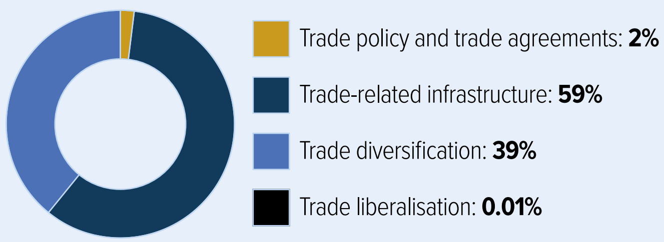


Adapted from: OECD-DAC CRS, aid activity database (2019) (accessed June 2020)

To date, roughly US$8 billion of Aid for Trade in LDCs has been spent on building infrastructure; US$5.2 billion on diversifying trade; US$242 million on developing trade strategies and agreements; and US$0.8 million on liberalising trade.[3]

Between 2012 and 2018, investments made by governments through ODA encouraged the sector to invest US$13.4 billion in LDCs.[5] This is also known as blended finance - when a government or philanthropic institution makes an initial investment to get a project off the ground, even if that means accepting larger risks or lower returns. This innovative financing approach often makes a project more attractive to private investors who seek higher financial returns but require lower risk.

Aid for trade expenditure in LDCs



WHAT ARE THE MAJOR CHALLENGES FOR ODA IN LDCs?

A 2019 study by the UN Conference on Trade and Development (UNCTAD)[6] found that the largest challenges for ODA in LDCs are:

- **ODA dependency.** While improved economic growth in LDCs has meant less dependence on aid, ODA still represents a significant part of many LDC development budgets. This means that fluctuations in donor government aid budgets can greatly impact the ability of LDCs to meet their development priorities.
- **Misalignment of donor and LDC priorities.** Donor priorities can sometimes be different to priorities of LDCs as set out in their national development plans.
- **Funding is often channeled through donor projects.** This causes government representatives to move from government institutions to projects funded by donor agencies.
- **Donor commitments unmet.** In 1981, donors' pledged to allocate 0.15–0.20% of their gross national income (GNI) in aid to LDCs, however most have not met this pledge. Had donors honoured their pledge, LDCs would have received an additional US$33-$58 billion in 2017. This signifies a considerable shortfall of external development finance.

HOW MIGHT COVID-19 AFFECT ODA?

Despite many crises, from the oil crisis in the 1970s to the financial crisis in 2008, ODA has remained the most resilient development finance flow.

This is because ODA has been mainly driven by political leadership and international commitments; more so than fluctuations in a country's gross national income.

OECD surveys of ODA donor countries conducted in March and October 2020 found that donors had committed US$12 billion for the COVID-19 response in 2020.[7] US$5 billion in ODA had been re-programmed, and US$7 billion in additional funding has been made available. At the time of writing, about US$6 billion has been disbursed. Donors have also paused or rescheduled loan repayments for recipients that have requested it.

WTO estimates that COVID-19 will depress global trade by 13-32% in 2020. The International Monetary Fund (IMF) projects that the global economy will contract by -3% this year - a larger contraction than during the 2008–09 financial crisis.

In terms of the future, OECD has projected three scenarios. If donor countries choose to support an inclusive global recovery, ODA volumes could increase. If countries protect and maintain their ODA levels from 2019, ODA as a share of GNI will actually increase. However if countries decide to peg their ODA to their falling gross national incomes, ODA could decline by up to 14 billion.

The consequences of these three scenarios are similar for Aid for Trade, although in the short term, Aid for Trade levels will suffer as ODA is shifted to support more humanitarian assistance.

WHAT ACTIONS CAN BE TAKEN TO INCREASE ODA EFFECTIVENESS?

More efficient use of funding resources, through innovative financing mechanisms such as blended finance, will help to ensure LDC governments and businesses remain resilient in the face of uncertainty and/or large fluctuations in ODA and Aid for Trade funding.

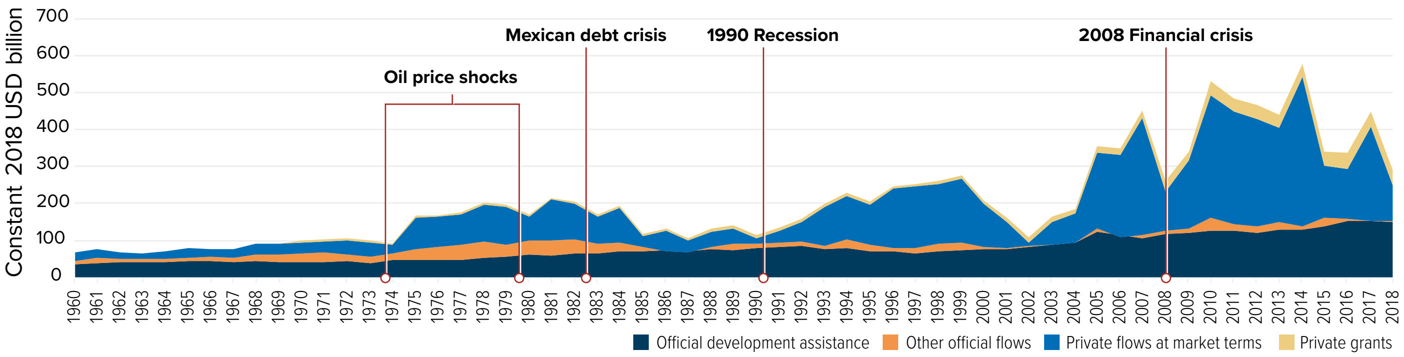
For LDC authorities in charge of/supporting trade efforts:

- Ensure ODA is triggering private sector investment. When a government makes an initial investment to get a project off the ground, it can encourage the private sector to invest in that project as it less risky.

For the private sector:

- Look for opportunities to invest in blended finance mechanisms.

Total net resource flows from DAC countries to developing countries



Adapted from: OECD (2020), Development Co-operation Report 2020: Learning from Crises, Building Resilience, OECD Publishing, Paris.

For donor governments:

- Support national ownership of projects and alignment to LDC national priorities. This will better support structural transformation in LDCs and increased economic independence.
- Support LDC governments to pursue blended finance opportunities. Investors need more blended finance vehicles that are specifically designed to support small and medium enterprises in key sectors in LDCs. Setting up well-designed blended finance vehicles to enable large investment opportunities for private investors but small investments in SMEs is key. This also involves supporting LDC governments to pursue the opportunities brought by these vehicles.

READ MORE

1. World Economic Forum (2020). COVID-19 is exacerbating the global trade finance gap https://bit.ly/36sWyq5
2. OECD (2019) Official Development Assistance: https://www.oecd.org/dac/stats/What-is-ODA.pdf
3. WTO & OECD (2019) Aid for Trade at a Glance https://www.wto.org/english/res_e/publications_e/aid4trade19_e.htm
4. DAC List of ODA Recipients (2020): http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm
5. OECD & UNCDF (2020) Blended Finance in the Least Developed Countries http://www.oecd.org/dac/blended-finance-in-the-least-developed-countries-57620d04-en.htm
6. UNCTAD (2019) The Least Developed Countries Report: https://unctad.org/topic/vulnerable-economies/least-developed-countries/ldc-report
7. These data are partial and preliminary
8. USAID: Trade capacity building/Aid for Trade https://www.usaid.gov/what-we-do/economic-growth-and-trade/trade-and-regulatory-reform/trade-capacity-buildingaid-trade
9. EU (2020) Aid for Trade Progress Report https://op.europa.eu/en/publication-detail/-/publication/f022db96-d854-11ea-adf7-01aa75ed71a1

We can help

The Enhanced Integrated Framework supports LDCs to leverage official development assistance for trade development.

Contact *EIFpartnerships@wto.org*

WHO PROVIDES THE MOST AID FOR TRADE TO LDCS?

The major donors of Aid for Trade to LDCs are the World Bank Group, the United States, European Union and Japan. Australia, France, Germany and the EU also have global strategies dedicated to Aid for Trade with a strong focus on LDCs.

USA

The USA is the largest single country provider of Aid for Trade in the world. Since 2001, the USA has provided more than $54.4 billion in Aid for Trade (based on disbursements) in more than 130 countries.[8] 33% of this has been spent on LDCs. The US helps developing countries accede to, or comply with, the World Trade Organization (WTO) and provides technical assistance in order to build trade competitiveness.

World Bank Group

The World Bank Group currently has US$5.7 billion in Aid for Trade commitments to LDCs through its Umbrella Facility for Trade, Trade Facilitation Support Program and the Enhanced Integrated Framework, These funds support many different areas of trade development – from helping governments design and implement policies that maximize trade competitiveness to strengthening supply chains and trade logistics.

European Union

The EU and its member states are the world's largest provider of Aid for Trade, supplying 30% (EUR $13.5 billion) of global aid. 22% of the EU's Aid for Trade disbursements in 2018 went to LDCs. The latest 2017 EU Aid for Trade strategy aims to increase the proportion of EU Aid for Trade directed towards LDCs to 25% by 2030.[9]

Japan

Japan provides Aid for Trade to the LDCs, through various initiatives such as the Expanded Partnership for Quality Infrastructure investment, One-Stop Border Post and Business Education Initiative on Human Capacity Development.

Find more about the major Aid for Trade donors at: https://www.oecd.org/development/aft/aidfortradedonorpartnercountryprofiles.htm

EIF's briefs offer an overview of key trade-related issues and up-to-date analysis based on the programme's work with the world's least developed countries, and offer expertise on essential matters related to local, national, regional and global trade.

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The Enhanced Integrated Framework brings together partners and resources to support the Least Developed Countries in using trade for poverty reduction, inclusive growth and sustainable development.

EIF Enhanced Integrated Framework
Trade for LDC development

EIF Partner Agencies

International Monetary Fund (IMF)

International Trade Centre (ITC)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Development Programme (UNDP)

World Bank Group (WB)

World Trade Organization (WTO)

United Nations Industrial Development Organization (UNIDO)

World Tourism Organization (UNWTO)

EIF Trust Fund Manager

United Nations Office for Project Services (UNOPS)

EIF Trust Fund Donors