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Aid for Trade (AfT) – which contributions can be achieved by entrepreneurial development cooperation?

In the context of globalisation trade is playing an important role when it comes to sustainable economic development and poverty reduction. A sustainable expansion of trade flows and an exchange of supply chains as well as direct investments are opening up new opportunities to generate growth to emerging and developing countries. A multitude of reforms often has to be implemented inside the country before a developing country is able to benefit from a liberal world trading system. On the one hand it is essential to create the necessary framework conditions for developing a competitive export sector and trading capacities, on the other hand economic and social costs related to market opening are to be kept as low as possible or equalised.

In November 2001, the World Trade Organization (WTO) took up negotiations within the context of the so-called DOHA Development Round. Its declared objective, besides the advancing multilateral trade liberalisation, is to extend the benefits of global trade especially to developing countries. During the Hong Kong Ministerial Conference in December 2005, representatives of WTO member states decided to further provide support of developing countries' efforts to formulate and implement trade policies and to establish conditions that encourage trade by mutually reducing tariff and non-tarriff barriers. The AfT initiative, among others, is designed to help developing countries to increase their capacity to trade on global markets.

I. Categories and definitions

The AfT-measures range from building up trade-related infrastructure to facilitating better access to trade finance. After identifying trade-related development priorities, the WTO AfT Task Force specified five sub-categories in order to regularise the different measures and to classify each trade-related project.

The first two categories are summarised under the term Trade Related Assistance (TRA) and represent the narrow definition of the term AfT. These involve activities designed to build up immaterial trading capacities such as regulatory frameworks and human capital. The broader definition also includes the creation of material trading capacities, e.g. investments in the transport sector, expansion of port and customs facilities or telecommunications.

1.	**Trade policy and regulation**
a)	Preparing for, participation in and implementation of international trade negotiations
b)	Institutional and technical support to facilitate development and implementation of trade agreements
c)	Trade facilitation
d)	Regional trade agreements
e)	Human resources capacities in the trade sector
2.	**Trade development**
a)	Building up a corporate landscape and climate, business support institutions and MNPQ (programme by the German Federal Ministry of Economics and Technology: Measurement, Standards, Testing and Quality assurance)
b)	Access to trade finance
c)	Trade promotion, market analysis and strategy-building for trade in the productive sector (farming, forestry and fisheries, industry, mining, tourism, services), also at meso and micro levels
3.	**Trade-related infrastructure**
a)	Transport and storage
b)	Communications
c)	Energy
4.	**Productive capacity**
a)	Banking and financial services
b)	Advisory and other services
c)	Productive capacities in the productive sectors
5.	**Trade-related adjustment**
a)	Multi-sector support, commodity aid and general programme aid

At the WTO's Hong Kong Ministerial Conference, the European Union made a commitment to development cooperation contributions (EZ) amounting to a total of 2 billion euro per year, 1 billion euro from the Commission, 1 billion euro from its Member States, starting in 2010. The pledges however only refer to the first two AfT- categories, the so-called TRA. In October 2007, the EU published as first international donor its AfT strategy[1]. This strategy makes it possible to set trade-related development cooperation in a broader context of development policy. Paying consideration to Paris Declaration principles, AfT is supposed to be a means to achieve the Millennium Development Goals and to help in particular the least developed countries to identify unexploited commercial potentials.

II. Aid for Trade in German development cooperation

In the German development cooperation AfT is not regarded as a stand-alone topic. Many different sectors of development cooperation, such as agriculture, business development, food supply and environmental policy, however, are associated with trade-relevant aspects. The German Federal Ministry for Economic Cooperation and Development (BMZ) follows the AfT strategy of the EU and supports its commitment to increase spending on AfT-funds to 2 billion euro. Given the German contribution to the EU's budget (approx. 22%), Germany's share amounts to at least 220 million euro annually. The regional focus of the German trade-related development cooperation lies on sub-Saharan Africa. German development policy uses a range of instruments for financial, technical and entrepreneurial cooperation which enables it to cover a large share of AfT measures successfully. What TRA is concerned, i.e. the building of immaterial trading capacities, besides the technical cooperation also the financial and entrepreneurial cooperation play a more and more important role. Developing countries can be supported, e.g. by granting them access to trade finance.

III. Aid for Trade projects by DEG

DEG- Deutsche Investitions- und Entwicklungsgesellschaft mbh, finances investments of private companies in developing and transition countries thereby promoting private business structures and business landscapes in the individual countries. Many of these investments are made in the productive, export-orientated sector. Thus DEG provides support particularly in creating supply-side trade capacities hereby making a major contribution towards supporting developing countries integrate into world trade.

Also by financing local commercial banks DEG is able to contribute to trade development. Many companies in transition and developing countries have no access to loans and no possibilities of trade financing - both important instruments for being competitive on international markets and for being successful in exports. DEG finances commercial banks who are focussing on small and medium-sized enterprises and whose business operations include the financing of exporting companies as well as trading transactions. In the context of the Trade Facilitation Programme with the European Bank for Reconstruction and Development, DEG entered into cooperation with banks from Georgia, Kazakhstan, Russia and Ukraine.

When it comes to defining its trade-related share of business, DEG follows the classification of the AfT task force of WTO, which determines the individual AfT relevance of each project by identifying the import and export share of the corresponding company's turnover.

To determine the share of AfT-relevant projects, since beginnings of 2009 the corporate policy project rating (GPR) has been used to identify in the course of the due diligence the trade-relevance of each project by means of the Trade Development (TD) marker. To do so, the projects are divided into three different categories, which are trade-neutral projects and projects whose main or secondary objective is trade. To classify projects accordingly, the cumulative proportion of exports and imports to the total turnover of the project company is being considered. If the share is below 25%, the project is classified as trade-neutral, if it is above 25% the project is a project with trade as secondary objective. If the share is above 50% the project is classified as project with trade as main objective. Projects need to be qualified as Official Development Assistance (ODA)[2] in order to be counted as a German AfT funding. Both the volume AfT as well as TRA are calculated on the basis of DEG's annual gross ODA volume. That's why only equity investments and quasi-equity loans to DAC countries from DEG's

1 Council of the European Union (2007): EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries, Brüssel.

2 ODA – Official Development Assistance. DEG's risk capital (equity and quasi equity-loans) is reported as ODA; long-term loans and guarantees by DEG, however, are reported as Other Official Flows (OOF).

product range can be reported as ODA. Considering an annual volume AfT of about 30% and a volume TRA of about 10% of the gross ODA volume, according to experience, a reference value of about 80 million euro AfT and 27 million euro TRA annually can be indicated.

IV. Example projects[3]

Example project 1: Crop input finance and export of cotton, Zambia

Ranked 165 (out of 177 countries) in the Human Development Index, Zambia is one of the less developed countries of sub-Saharan Africa. Essential problems are, among others, the limited involvement of Zambia's private-sector into world trade as well as the high rate of underemployment (over 80%). Since 2004, DEG has financed a Zambian agricultural financier with the aim of systematically integrate smallholders into world trade. The project involves the support of smallholders in the purchase, further processing and sale of their produced cotton on international markets via the project companies, assuring them a guaranteed purchase price before sowing. In addition, the agricultural financier provides seed and agricultural chemicals interest-free to the smallholders. These input-related expenditures are later offset against the buying-in price of the cotton. This project helps to secure and improve the basic needs and employment of around 80,000 supplying smallholders and their families. In alliance with the agricultural financier, DEG supports around 85,000 smallholders in increasing their harvest yields by approximately 50% by offering them a training programme. Around 80% of the produced cotton is destined for export markets. The generated inflow of foreign exchange amounting to more than 35 million euro (2008) is an important contribution to Zambia’s economy considering its current account deficit of about 10%.

Example project 2: Equity investment company, Kenya/ Africa supra-regional

Although Kenya’s economy is the biggest within East Africa with a GDP of about USD 30 billion, it only ranks 148 in the Human Development Index. The scarcity of equity capital and long-term loan capital obstructs the development process, as local commercial banks do rarely, if indeed at all, invest on a long term basis in labour-intensive sectors. In addition, interests on borrowed capital are high and the volume of foreign investments very low. DEG has been cooperating closely for more than 20 years with the equity investment company Industrial Promotion Services Kenya (IPSK), which was established in 1963 by the Aga Khan Fund for Economic Development (AKFED). The project company has presently a participating interest in 12 companies of the food, clothing, printing and packaging industry. About half of the investment portfolio consists of export-oriented companies. Besides support in the form of capital, IPSK also supports management and has influence on the strategic orientation. Unique features are the high social and environmental standards that IPSK sets for all twelve of the business enterprises. Over 10,000 direct employees and 34,000 smallholders benefit from incomes over the general pay scale and high social benefits, such as private health care and funded health centres. In 2003, DEG approved equity financing for IPSK to the amount of USD 5 million in order to facilitate further investment activities in other countries, such as Uganda and Tanzania.

V. Conclusion

The topic AfT is becoming more and more important. To this end, DEG can play an important role due to its many years of experience of cooperating with the private sector.

[3] Example project 1 treats a long-term loan, which cannot be reported as ODA thus not contributing to AfT statistics. Project example 2, however, being an equity finance can be reported as ODA hereby contributing to AfT statistics.