

BRIDGES NETWORK

# BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 2, ISSUE 4 - JULY 2013



## SPECIAL EDITION Aid for Trade: Into the future

### AID FOR TRADE

Can we apply what we have learned on Aid for Trade?

### CLIMATE CHANGE

Financing climate change adaptation through Aid for Trade

### GLOBAL VALUE CHAINS

An African perspective on the way forward



ICTSD  
International Centre for Trade  
and Sustainable Development

# BRIDGES AFRICA

VOLUME 2, ISSUE 4 - JULY 2013

## BRIDGES AFRICA

Trade and Sustainable Development News  
and Analysis on Africa

PUBLISHED BY

### ICTSD

**International Centre for Trade and  
Sustainable Development**

Geneva, Switzerland

[www.ictsd.org](http://www.ictsd.org)

---

PUBLISHER

Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF

Andrew Crosby

MANAGING EDITOR

Kiranne Guddoy

ADDITIONAL SUPPORT

David Smith

DESIGN

Flarvet

LAYOUT

Oleg Smerdov

PHOTO

Jan Hoffmann

---

To join the Bridges Africa Editorial Advisory  
Board write to us at [bridgesafrica@ictsd.ch](mailto:bridgesafrica@ictsd.ch)

BRIDGES AFRICA welcomes all feedback  
and is happy to consider submissions for  
publication. Guidelines are available upon  
request. Please write to  
[bridgesafrica@ictsd.ch](mailto:bridgesafrica@ictsd.ch)

- 
- 4 **Assessing the effectiveness of Aid for Trade:  
Lessons from the ground**  
*Vinaye Ancharaz, Paolo Ghisu, Christophe Bellmann*
  - 7 **Towards an "Aid for Trade Plus" initiative to finance LDCs  
climate change adaptation needs**  
*Vinaye Ancharaz, Paolo Ghisu, Sara Traubel*
  - 12 **Global value chains and Aid for Trade:  
An African perspective**  
*Jodie Keane*
  - 15 **Publications and resources**

## Playing it forward on Aid for Trade



*The 4th Global Review on Aid for Trade is taking place at a time when the donor community is rethinking aid and while recipient countries are calling for scaled-up resources, greater effectiveness and the integration of AfT with other agendas. This year's theme – "Connecting to Global Value Chains" – confronts the initiative with the reality of fragmented production and the rise of trade in tasks. Are the goalposts for Aid for Trade moving? What do such changes portend for countries seeking structural transformation and a path to economic growth and sustainable development? These questions are of great importance to the international community.*

*This special issue of Bridges Africa brings together some of what has been learned through ICTSD-led research and consultations on Aid for Trade over the past several years. This work has involved numerous contributors and stakeholders from both recipient and donor countries in understanding what makes Aid for Trade effective. This issue is intended to help those involved in the Global Review take stock of what has been learned and then to look ahead.*

*The issue leads with an article examining evidence on AfT effectiveness based on a series of country-level case studies conducted by ICTSD. These studies reveal that AfT generally works when the right conditions are present. Some of the findings have a sense of déjà-vu since they are also valid for aid more generally. But the evidence presented here serves to refocus on the critical success factors that matter for AfT effectiveness. The authors suggest that, going forward, the initiative should try to tackle these factors.*

*Among the ways to ensure that Aid for Trade is more effective is to ensure that it is well integrated with other initiatives. One avenue that holds promise is that of climate change financing. Aid for Trade and climate change adaptation funding could be linked in a complementary and mutually-reinforcing way. The authors argue that, where climate change adaptation projects have discernible trade-related effects, a case can be made for AfT to top up or co-finance such projects. The article discusses a strategy for operationalising an "AfT-plus" initiative.*

*The final article in this special issue takes on the issue of global value chains (GVCs) directly from the perspective of LDCs. It shows that few LDCs have managed to successfully integrate GVCs or upgrade along existing value chains. An important barrier is the governance of these GVCs: unequal power relations among key players have the effect of condemning LDC producers to the low-end of the chain. The article recommends that donors should better integrate GVC considerations into their AfT strategy to deliver aid more effectively to the LDCs.*

*This issue covers some of the key areas that should be in the minds of participants in the Global Review, but we remain aware that there are many areas that merit attention. We invite readers to participate in future issues of Bridges Africa and its sister publication Passerelles by helping to identify emerging issues and relevant research. We welcome your participation and contributions. Write to us at [bridgesafrica@ictsd.ch](mailto:bridgesafrica@ictsd.ch).*

*The Bridges Africa Team*

# Assessing the effectiveness of Aid for Trade: Lessons from the ground

Vinaye Ancharaz, Paolo Ghisu, Christophe Bellmann

*Case studies conducted on the ground in Malawi and Ghana, and six other developing countries suggest that AfT is effective when the right conditions prevail. However, these conditions are often absent. The AfT initiative should refocus on building the institutional mechanisms that are critical to effective delivery of aid.*

The need to evaluate Aid for Trade (AfT) is as old as the initiative itself. In its 2006 report, the WTO Task Force called for "concrete and visible results on the ground", arguing that such results would "provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda". However, efforts to monitor and evaluate AfT until now have largely been driven by donors. More recently, there has been a surge in interest in evaluating AfT as donors have come under tighter budget constraints.

The WTO Task Force has defined AfT as "whatever a partner country considers as trade-related". To capture this, the OECD has argued, "the AfT initiative has to go to the local level". Experience suggests that the effectiveness of AfT is likely to be affected by a range of country-specific factors, which can only be captured at the national level. Consequently, there is a need to also conduct evaluation of AfT programmes from the recipient country's perspective.

This article examines the conditions that make AfT effective by looking at country-specific factors based on the direct experience with AfT of eight developing countries, including four least developed countries (Bangladesh, Cambodia, Malawi, Nepal), three lower-middle income countries (Ghana, Guatemala, the Philippines) and one upper-middle income country (Peru). Assessments of the Aid for Trade initiative have been undertaken in these countries since mid-2010, using a methodology that the ICTSD has developed jointly with the South Asia Watch on Trade, Economics and Environment (SAWTEE), an NGO based in Nepal.

## Looking at the unique circumstances of countries

A variety of methods have been proposed to evaluate AfT, and these have generated evidence of various kinds. The value of the ICTSD-SAWTEE methodology lies in its simplicity and intellectual appeal. It is largely based on the Paris principles of aid effectiveness, including:

- local ownership of AfT projects – the degree of trade mainstreaming and the extent of stakeholder engagement in the design and implementation of projects;
- absorptive capacity – the institutions and human capability needed to effectively manage AfT flows and AfT projects);
- donor responses to recipient's needs – alignment of donors' objectives with the recipient's priorities and the extent to which donors use in-country systems for aid delivery.

However, the methodology goes beyond the Paris Declaration and includes other quantitative and qualitative benchmarks. Specifically, it argues that the additionality and predictability of AfT funds are critical to aid effectiveness and assesses these by tracking AfT flows. Moreover, the methodology considers the extent to which AfT is green, looking at possible inter-linkages between AfT projects and environmental and climate change financing. Finally, it proposes a framework to assess the impact of AfT projects at the macro level and in a particular sector.

### What do country studies tell us about AfT effectiveness?

Focusing on the indicators that could be marked on a Likert-type scale – that is, the 8 indicators from additionality to donor coordination proposed by our methodology –, we can rank the constraints to aid effectiveness in decreasing order of importance as follows:



- Lack of absorptive capacity
- Limited use of country systems (or inefficient/unreliable systems)
- Low degree of trade mainstreaming
- Lack of stakeholders coordination and involvement
- No additionality of AfT funding
- Low predictability of AfT disbursements
- Donors objectives misaligned with host-country priorities
- Lack of donor coordination

Overall, our findings are not radically different from what has emerged from the more general aid effectiveness debate. In that respect, Aid for Trade is no exception and might actually have done slightly better than other areas of ODA. In short, AfT is likely to be effective when the host country has the appropriate institutions and human resources to utilise aid; when the aid program enjoys broad local ownership, including political ownership; and when donor objectives are aligned with local priorities. To these, we shall add that, specifically for AfT flows, it is crucial that these are additional, and not just a diversion from existing ODA resources. Indeed, our analysis points to a strong correlation between additionality and the overall effectiveness of AfT.

An interesting observation from the above ranking is that the top four constraints are specific to the AfT recipient, and not specific to the AfT initiative itself. In other words, there is nothing inherently wrong with the way AfT is being conducted, so elaborate studies aimed at assessing AfT effectiveness may be looking at the wrong problem. A corollary is that the biggest returns to effectiveness are to be derived from tackling local constraints.

A surprising finding from the case studies is that there is a lack of awareness about AfT and on AfT projects, even in implementing agencies. This may be partly due to definitional problems and partly the result of poor information flow and lack of coordination among line ministries and implementing agencies.

Insights from the experiences of Malawi and Ghana can help complement the above summary of findings. In Malawi, a fragmented approach to aid is largely to blame for the country's failure to tackle its export constraints in a comprehensive manner. Indeed, a lack of local ownership, weak absorptive capacity, and poor alignment and coordination have meant that while overall exports were growing, the relationship with AfT remained weak. In particular, a fundamental disconnect between AfT and the private sector in most areas of economic activity was manifested not only in Malawi, but also in Ghana, Bangladesh and Guatemala.

In Ghana, the Northern Rural Growth Program, with projects financed by a mix of donors, has generated some modest gains. The programme – aimed at addressing some of Ghana's key national development priorities with a focus on improving income through production in the country's poorest regions — has benefited from a highly participatory, consultative and demand-driven process, involving the private sector, civil society, and local and regional authorities. However, due to lack of absorptive capacity, the programme has not been effective in achieving the majority of its short-term targets and is not likely to



meet its medium – and long-term objectives. What is more, the AfT programme itself lacks a substantive focus on tackling existing capacity constraints in Ghana. Unless this shortcoming is addressed, the programme will continue to show poor results.

### **The way forward**

The evidence gathered from the eight countries has several implications for the Aid for Trade initiative. First, AfT projects must address local capacity constraints and institutional weaknesses in their very design, and, more generally, the initiative should tackle problems related to additionality and misalignment. As the donor community calls for AfT to deliver results, it must share responsibility with partner countries to see if AfT brings value for money.

In this respect, the growing focus on AfT project evaluation could be counterproductive, possibly diverting limited resources from more pressing needs. In most of the countries considered in the study, and especially in the LDCs, the conditions that make AfT effective are often absent. Significantly, most of these conditions are host country-specific and are independent of the way the AfT business is conducted. It might therefore be more efficient for the donor community to devote greater effort to tackling the key determinants of success of AfT – notably, local capacity constraints and supply-side constraints – rather than investing more resources in AfT evaluations.

As donors come under a tightening budget constraints, there is a growing need to strengthen recipient countries' ability to effectively manage AfT resources. Enhancing partner capacity to benefit from AfT requires the establishment of effective institutional arrangements and mechanisms at the domestic level for stakeholder participation and interagency coordination, supported by appropriate legal frameworks. Yet, most countries have not elaborated a national definition of AfT nor have they established clear AfT strategies, incorporating results-based management practices, to allocate resources and assess impacts. Supporting them in this endeavor might have more impact than simply trying to improve the design and delivery of individual AfT projects.

Another problem emerging from the country studies is the limited coordination among relevant ministries and government agencies in the design and implementation of AfT programs. The private sector is generally poorly involved in the AfT process and country donor agencies do not always coordinate their activities among themselves and with national stakeholders. All these factors tend to affect local ownership, aid effectiveness and, ultimately, development outcomes regardless of the quality of the AfT projects.

Overcoming the constraints to AfT effectiveness is not an impossible task. Indeed, the eight countries have tried to address some of them with different degrees of success. There is a growing wealth of experience and creative solutions among recipient countries, particularly those who have been successful at making the most out of limited aid resources. As we move forward, identifying the best practices in managing AfT based on experiences so far, and sharing them among recipient countries might be one of the most efficient ways to improve the use of AfT resources and ultimately increase development impacts. Such South-South exchange of experiences should become part of a continuous learning process involving not only recipient countries but also traditional and emerging donors.

### **Notes:**

This article is based on a longer paper recently published by ICTSD: *Assessing the effectiveness of Aid for Trade: Lessons from the Ground*, July 2013 and the eight country studies are available on ICTSD's website at <http://ictsd.org/programmes/a4t/>

---

#### **Vinaye Ancharaz**

Senior Development Economist  
at the ICTSD.

---

#### **Paolo Ghisu**

Programme Officer for  
the competitiveness and  
development program at the  
ICTSD.

---

#### **Christophe Bellmann**

Programmes Director at the  
ICTSD

# Towards an “Aid for Trade Plus” to finance LDCs’ climate change adaptation needs

Vinaye Ancharaz, Paolo Ghisu, Sara Traubel

*This article discusses the potential architecture of an Aid for Trade Plus initiative to finance LDCs’ climate change adaptation needs as well as the attendant governance mechanisms.*

There is now a growing body of evidence suggesting that sub-Saharan Africa is among the regions of the world that is most exposed to the deleterious effects of climate change. Effects such as decreases in precipitation levels, increased frequency of extreme weather events, and shifting of rainy seasons would have a significant impact on the agricultural sector, livestock and fisheries, water resources, coastal zones, tourism and infrastructure. Given the economic importance of agriculture in many African Least Developed Countries (LDCs) – for example, Burkina Faso, where agriculture and forestry-related activities account for 86 percent of the country’s employment, contribute 40 percent to GDP and generate a significant share of foreign exchange, notably from cotton exports (over 50 percent) – these climate change-induced events could have far-reaching effects on trade, food security, and indeed on livelihoods and long-term development.

Adapting to climate change is a necessity for African countries, especially the most vulnerable economies – the LDCs. All African LDCs have drawn up a National Adaptation Plan of Action (NAPA) – a key instrument of climate change mainstreaming, also meant to serve as a fund-raising proposal for adaptation projects. However, the adaptation funds maintained by the Global Environment Facility (GEF) are both small relative to LDCs’ adaptation needs and they require co-financing, which has proved difficult for poor countries to provide on their own. Borrowing from other funds is costly and it may not be a desirable option for debt-laden LDCs. Moreover, it is morally objectionable to ask poor countries to borrow to deal with a problem that is not of their making.

The AfT initiative could complement adaptation financing where such projects have consists trade impacts. This article makes the case for an “Aid for Trade-plus” initiative which consists of an augmented AfT initiative that finances trade-related adaptation projects. At a time when the international community is pondering the future of AfT, this idea could provide a way to take the initiative forward and make it both more relevant and effective.

## **Climate change financing: A global effort**

The global effort to mitigate, and adapt to the current and anticipated effects of climate change has been intense in recent years, and yet resources available are insufficient to meet the needs of the LDCs. The international community has mobilised a plethora of funds and resources aimed at adapting to and mitigating climate change. Estimates suggest that close to USD 100 billion is available through these funds. Financing is coming mainly from the governments of developed countries, and is being channelled either through bilateral aid or multilateral funds administered by various UN institutions. A crucial actor in the climate change financing arena is the GEF, a multilateral body that administers a number of the largest climate change funds.

The architecture of climate change financing is in a state of continuous flux. The most recent innovation is the establishment of the Green Climate Fund, agreed at the 16th UNFCCC Conference of the Parties (COP) in 2010. The GCF is expected to become the main multilateral financing instrument for climate action in developing countries, providing a total of USD 100 billion per year.

## USD 100-450 billion

It is estimated that developing countries need between USD 100 billion to USD 450 billion per year to adapt to the effects of climate change.

### Climate change adaptation: a funding gap with consequences

However, in spite of the multitude of actors and the size of funding available, a large resource gap still exists. This is particularly the case for funds aimed at supporting adaptation measures. It is estimated that developing countries need between USD 100 billion to USD 450 billion per year to adapt to the effects of climate change.

The UNFCCC has called the climate change needs of LDCs, "urgent and immediate", especially in the area of adaptation, which LDCs have identified as their top priority. The Least Developed Country Fund (LDCF), set up in 2002, is specifically geared to providing adaptation finance to LDCs. The fund has supported the preparation of National Adaptation Plans of Action (NAPAs) – a process through which LDCs identify their adaptation priorities and their funding needs. To date, all LDCs have submitted their NAPAs. Some of these propositions have translated into implementation: as of January 2013, 80 specific NAPA activities have been implemented or are in the process of being implemented in 46 LDCs, with the total amount of funding dispersed for these projects running to USD 1.07 billion.

However, what appears to be an important contribution of the LDCF to finance adaptation efforts hides a difficult situation for LDCs: the LDCF only covers part of the cost of adaptation projects. LDCs are expected to raise the remaining funds independently through co-financing. The current track record reveals that about 75 percent of the total amount spent so far on the implementation of NAPA activities has come from this co-financing share, outside of the LDCF.

LDCs are encouraged to seek aid from bilateral donors or multilateral funds. In reality, however, LDCs have often ended up footing a large portion of the bill themselves. For example, a NAPA project under implementation in Burkina Faso at a cost of USD 23.3 million is financed to the tune of 75 percent by three Burkinabe ministries, with the LDCF and other multilateral and bilateral donors playing a relatively small financing role.




---

*Rich countries' commitment to climate finance has lagged behind policy action, leaving LDCs with a large share of the cost of their adaptation needs.*

---

Such a situation poses a moral and financial dilemma: first, as established early on in the multilateral climate change talks, a proportional burden of responsibility for climate change action falls on the industrialised countries, as they were historically the largest emitters of greenhouse gases, and continue to be among the biggest polluters. LDCs, in contrast, contribute a negligible share to global emissions. However, rich country commitments to climate finance has lagged behind policy action, leaving LDCs with a large share of the cost of their adaptation needs.

Second, given their financial constraints, LDCs should not be expected to cover the costs of adaptation. These countries are often heavily indebted and rely on bilateral budget support. Asking them to finance their adaptation projects may lead to resources being diverted from crucial areas such as health or education. Alternatively, LDC governments may not invest sufficiently in adaptation, which they see as a smaller priority relative to their more pressing needs. This option, unfortunately, is a tragic reality among many LDCs.



### **The co-financing potential of AfT**

It is in this context that the AfT initiative shows promise as a potential source of co-financing to complement the overall climate change finance architecture.

AfT is intended to enhance developing countries' capacity to trade by building economic infrastructure and institutions, and addressing other supply-side constraints. A close look at the adaptation priorities that LDCs identified in their NAPAs shows that a strong synergy can be built between climate change financing and AfT. This is because many of the climate change-related projects have clear trade-related impacts. More specifically, many adaptation projects focus on sustaining LDCs' trade in the agricultural sector. A key priority of LDCs is to promote climate-smart agriculture, through enhanced productivity, diversification and better infrastructure.

---

*A key priority of LDCs is to promote climate-smart agriculture, through enhanced productivity, diversification and better infrastructure.*

---

Adaptation projects, such as experimental changes in crop mix, livestock breed and fish species, development and diffusion of drought-resistant crop varieties, improved soil and water management systems, and refurbishing of weather-battered coastal infrastructure, are aimed at maintaining or raising agricultural yield in the face of climate change or variability. Whether the agricultural crops concerned by these measures are traded or not, a strong link exists between climate change adaptation and trade, even if this link is not direct and often not quite obvious. In the case of an export crop, adaptation can help maintain or increase the level of exports. Where the crop is meant for local consumption, adaptation can contribute to national food security and save foreign exchange by avoiding the need to import. In any case, even a previously non-traded crop can become an important export product if successful adaptation generates an exportable surplus.

For example, the New Rice for Africa (NERICA) – a rice variety that delivers high yields, adapts well to African environments and can thrive on poor soil conditions and dry lands – has been successfully adopted in LDCs like Guinea, Sierra Leone and Uganda. This has led to increased yields and higher incomes for farmers, as well as foreign exchange savings for these countries.

These are projects in the climate change domain; yet they have discernible trade-related impacts. As such, adaptation projects provide a link between climate change financing and the AfT initiative, a key objective of which is to help developing countries increase their exports. However, this link is currently either not specified or not sufficiently emphasised in NAPAs. Instead, climate change adaptation efforts are seen more as an isolated or self-contained issue.

Table 1 (next page) sets out a possible mapping of adaptation projects into relevant AfT categories and Table 2 provides some practical examples from NAPAs.

---

*A unique opportunity exists to realise synergy between AfT and climate change adaptation funds.*

---

A unique opportunity exists to realise synergy between AfT and climate change adaptation funds. The benefits from doing so are two-fold: first, AfT could provide additional resources to top up limited adaptation finance, or it could serve as an effective co-financing instrument. Second, a complementary and reinforcing approach between the AfT initiative and the adaptation funds is likely to bring additional benefit and greater

effectiveness in tackling both climate change and trade-related issues in pursuit of sustainable development goals.

**Table 1: Mapping AfT to climate change-related projects**

AfT category	AfT sub-category	Climate change related project
Trade policy and regulation and trade-related adjustment	Trade policy/ Multilateral trade negotiations	Market access for new products (new crop varieties or new agricultural/industrial products)
Economic infrastructure	Transport and storage	<ul style="list-style-type: none"> <li>Investments in dams, hydraulics, modern water distribution systems</li> <li>Rehabilitation of weather-battered infrastructure</li> <li>Protection of coastal zones from sea-level rise</li> </ul>
Building productive capacity	Agriculture	<ul style="list-style-type: none"> <li>Soil rehabilitation, land terracing, fertilisation</li> <li>Diversifying into climate change-resistant crops</li> <li>Changes in crop mix, changes in mix of livestock breed and fish species</li> </ul>
	Industry	Diversifying away from sectors (such as agriculture) vulnerable to climate change

Source: Adapted from Ancharaz and Sultan (2010)

**Table 2: Trade-related aspects of adaptation projects, selected countries and projects**

Country	NAPA project	Relevant AfT category
Madagascar	Rehabilitation and/or construction of protective dams and dykes	Trade-related infrastructure
	Implementation and mobilisation of water management associations	Building productive capacity
	Support to the intensification of crop and livestock production	Building productive capacity
	Promoting the use of information – education – and communication-sharing systems to reach rural communities	Building productive capacity
Lesotho	Improve resilience of livestock production systems under extreme climatic conditions in various livelihood zones in Lesotho	Building productive capacity
	Promoting sustainable crop based livelihood systems in foothills, lowlands and Senqu River Valley	Building productive capacity
	Capacity building and policy reform to integrate climate change in Sectoral Development Plans	Trade policy and regulation
	Management and reclamation of degraded and eroded land in flood prone areas (pilot project for Western lowlands)	Building productive capacity
	Improvement of community food security through the promotion of food processing and preservation technologies	Building productive capacity
Malawi	Improving agricultural production under erratic rains and changing climatic conditions	Building productive capacity
Ethiopia	Development of small scale irrigation and water harvesting schemes in arid, semi-arid, and dry sub humid areas of Ethiopia	Trade-related infrastructure
	Realising food security through multi-purpose large scale water development project in Genale–Dawa Basin	Trade-related infrastructure
Senegal	Promoting drip irrigation	Building productive capacity

Source: Individual countries' NAPAs. Available at: [http://unfccc.int/adaptation/workstreams/national\\_adaptation\\_programmes\\_of\\_action/items/4585.php](http://unfccc.int/adaptation/workstreams/national_adaptation_programmes_of_action/items/4585.php). Accessed 01/05/2013

**AfT and adaptation financing: AfT and adaptation financing: promoting synergy**

Operationalising the proposed synergy is not straight-forward, however. To this end, a forthcoming study by ICTSD proposes a four-pillar approach to making the two funds complementary and mutually reinforcing:

- The links between climate change adaptation and trade should be explicitly recognised and built upon. One way of doing this is by specifying the trade impacts of NAPA projects and clearly linking NAPAs with Poverty Reduction Strategy Plans (PRSPs).
- While advocating for more resources for climate-change adaptation, LDCs can also demonstrate the linkages between trade-related adaptation projects and the AfT initiative and ask that AfT co-finance such projects. This requires AfT to provide scaled-up and additional resources.
- At the operational level, LDCs will need to submit their NAPAs and PRSPs together to identify their complementary trade and adaptation needs. A common funding agency could efficiently synthesise trade-related and climate change-related financing needs. Alternatively, a dedicated AfT facility (on the trade side) might be needed as a counterpart to the GEF (on the climate change side).
- Lessons learnt from both AfT and adaptation funding should be integrated in order to make the two funds operate in a coherent, complementary and mutually reinforcing manner. For example, AfT funds could be improved through greater country ownership, whilst in NAPA projects, the trade-development nexus could be further emphasised.

**Conclusion**

Despite only having contributed minimally to climate change, LDCs are the most affected by it. In the future, climate change will pose a huge challenge to these countries' livelihoods, and will probably call for important sacrifices to be made in order to adapt to the unfolding reality of climate change. Adaptation, however, is costly. Whilst the international community has already made important financial commitments, a huge funding gap remains. The need to cover this gap is urgent.

In this context, a complementary approach between AfT and adaptation financing presents an important opportunity. To the extent that adaptation projects have discernible trade-related impacts, a case could be made for the AfT initiative to top up limited adaptation funding or to co-finance adaptation projects. While intellectually appealing, operationalizing this idea calls for, first, formal recognition of the links between the two types of financing mechanisms, and, second, appropriate governance structures that could harness the inherent synergies.

At a time when the AfT community is pondering future directions for the initiative, this idea deserves a bit of consideration. If implemented, it could make both AfT and adaptation funds more effective, and help contribute globally to sustainable development.

**Vinaye Ancharaz**

Senior Development Economist  
at the ICTSD.

**Paolo Ghisu**

Programme Officer for  
the Competitiveness and  
Development programme at the  
ICTSD.

**Sara Traubel**

Intern for the Competitiveness  
and Development programme at  
the ICTSD.

# Global value chains and Aid for Trade: An African perspective

Jodie Keane

*This article gives a brief introduction to GVC analysis, by explaining the importance of governance and reviewing the experience of some African LDC producers attempting to upgrade within GVCs. In this context, the role of donor intervention, including through Aid for Trade, in facilitating participation in different types of value chains will be discussed.*

**A**lthough global value chains (GVCs) have existed for decades now, interest in the literature has reignited in recent years, particularly since the global financial crisis. Policy makers have sought to better understand the dynamics and governance of GVCs as well as the opportunities and constraints that this type of trade poses for firms in the various stages of participation. Since the fragmentation of production means that global trade is now characterised by trade in tasks, it is important for policy makers in sub-Saharan Africa (SSA) to identify potential GVCs in which they can effectively participate, as well as obtain a better position within existing GVCs and improve outcomes over time.

## Who governs GVCs?

At a fundamental level, all trade takes place within a value chain. Therefore, one approach to analysing GVCs is to simply link suppliers of a good or service to end users and consumers. However, the analysis is more complex: it must deal with the type of relationships that exist between suppliers and consumers: how trade is organised, and who controls it through exerting power on suppliers, consumers, or new entrants. The GVC literature recognises that the benefits for producers from participating in one type of value chain as opposed to another are related to who governs it. This means that attention must be drawn to how the integration process of producers in SSA with this type of trade is currently managed, as well as how it has occurred in the past.

Why do governance structures matter? Because of the increasing consolidation of marketing and retailing nodes of GVCs located in developed-country markets, there has been considerable debate as to the best means of engaging with the types of GVCs which may exhibit more hierarchical governance structures. Much attention in the GVC literature has been given to the link between shifts in the pattern of global trade and qualitative changes in the governance structures of GVCs. As the share of intra-firm trade has increased in recent years, the drivers of GVCs are increasingly lead firms and transnational corporations (TNCs). Given this increase in coordination, some authors suggest that this presents new challenges for producers in SSA; others, however, argue that new opportunities have arisen.

For example, although some authors posit that the now recognised phenomenon of trade in tasks may be a potential lifeline to SSA, discussion on how this region already trades within GVCs is generally avoided. The presumption – not entirely wrong – is that specialization in specific tasks according to patterns of comparative advantage has resulted in SSA producers being confined to the low-end of the value chain, often entailing heavy concentration in commodity exports, with little prospects of upgrading.

There has been a limited ability of producers in SSA to tap into the modern export sector. Where movement into non-traditional exports has been achieved, it has typically been facilitated by preferential access into developed-country markets. This has provided a form of locational advantage to attract investment, and has taken the form of outsourcing production through developing contractual relations between firms across borders, or of offshoring and the relocation of production from one country to another.

Because governments set the rules for private sector actors, they can in turn influence the relationships between firms in GVCs. To some extent, such external governance – 'external' because the government is outside of the value chain – of a given value chain



matters the most because it influences the bargaining power of domestic producers. This can affect not only relations between firms and, therefore, internal GVC governance, but also developmental outcomes more broadly, including through enabling firms to upgrade and obtain a more secure supplier position.

#### **Donor intervention in GVCs**

A recent review of LDC participation in GVCs finds that donor interventions to improve the position of LDC producers generally focus at the production node, and are concerned primarily with building productive capacity. However, in other cases, governments have made more targeted attempts at influencing the governance structures within which firms trade. Some examples of upgrading experiences of SSA firms within GVCs are discussed below. These experiences draw attention to why not only does what you export matter, but also how you export it.

#### *Ethiopian horticulture*

Ethiopia's cut flower industry has recently emerged and successfully penetrated EU markets at a time when standards, delivery requirements and the capabilities demanded from producers are high. Entering this market required a multitude of capabilities at firm, sector and national levels, many of which were absent or weak domestically. The trigger factors for the emergence of the flower industry in Ethiopia include several factors, such as natural endowment and generous government incentives for all export activities. Producers also organised effectively so as to lobby for government assistance, which was in turn supported by donors, in particular the Dutch.

The Dutch have played a triple role in Ethiopian horticulture: as investors, an end-market and as a donor. They provided the technology and investment to start off the horticulture industry in Ethiopia; they also trained local workers, including at the higher end, through training programs at state universities. The Dutch-Ethiopian cooperation has been win-win on many fronts. Ethiopia benefits from a more diversified industrial base, job creation and foreign exchange earnings while the Dutch enjoy the security of a high-quality supply base for their world-leading flower auctions. Ethiopia's experience highlights how the distribution of power along value chains and between different types of actors must be taken into account by governments and mediated.



*Lesotho's clothing*

Lesotho's export success for garments really took off after the African Growth and Opportunity Act (AGOA), which offers duty-free, quota-free (DFQF) to African exporters, was put in place in 2000. This export success was driven mainly by Asian investors serving the US market. However, because of recent changes in the South African operating environment – characterised by high costs and increasing labour market rigidities –, Lesotho has become an attractive location for South African apparel manufacturers. These firms aim to transfer further production as well as some higher value-adding pre- and post-production functions, such as pattern making, fabric management and logistic coordination, from South Africa to Lesotho. The government of Lesotho is actively trying to attract these investments.

*Services*

Services such as logistics and transport are integral to the connection to external markets of all LDCs and to their participation in value chains (regional or global), and are not separate value chains as conventionally understood. Increasing the number of functions undertaken in a given value chain may mean taking responsibility for sourcing and directly supplying buyers, which may require new technologies and investment in logistics. Developing logistics and transportation systems may enable producers to subsequently obtain more functions within and across a given value chain (e.g. tourism, horticulture or textiles and clothing). Therefore, interventions related to logistics and transportation can assist African producers in terms of upgrading their position within a given value chain, but also ensuring that more value added is created domestically through making interventions that can benefit many value chains.

**Conclusion**

Assisting producers in improving their capabilities at one node of production in a given value chain may subsequently help in the development of other value chains. Engaging businesses and governments with the concept of economic and social upgrading within GVCs and attempting to influence this trajectory seems to be a good starting point for designing Aid for Trade interventions. That is, improvements in soft infrastructure such as availability of vocational training and accreditation may subsequently increase the quality of production, economic returns, and domestic value added.

It is important to look objectively at the evidence of what really obstructs trade by African producers in order to draw conclusions on whether aid can help and, if so, what types of aid – including Aid for Trade. The importance of looking at a value chain holistically, rather than at individual stages of production or products, suggests that approaches to trade capacity building should start from a broad view of how a country is trying to change its trade, and then an assessment of the obstacles to this.

It is in this sense that greater consideration must be given to how governments can be better assisted in performing this role, including through the provision of Aid for Trade. This will inevitably mean looking beyond making investments in hard infrastructure, such as transportation, to also developing soft infrastructure, such as developing the capabilities of suppliers so that they can meet the standards demanded by their clients. It will also mean developing the capabilities of governments so that they can effectively influence GVCs with a view to shaping developmental outcomes. This may entail creating dialogue with the private sector so as to facilitate upgrading processes and enhance the potential positive spillover effects on other sectors.

**Jodie Keane**

Research Fellow with the Trade Program, International Economic Development Group at the Overseas Development Institute.

# Publications and resources



## Addressing Local Content Requirements in a Sustainable Energy Trade Agreement – ICTSD – June 2013

Building upon a previous ICTSD-paper on LCRs as well as on recent research by the Peterson Institute, this research paper puts forward a series of innovative recommendations on how to phase out local content requirements so as to comply with current trade-rules. The article, authored by ICTSD Senior Fellow Sherry Stephenson, acknowledges the need for a smooth transition in stimulating the supply of renewable energy and highlights other policy measures which may be preferred, both from a legal and economic perspective. <http://bit.ly/11RZ5Ag>



## Cotton: Trends in Global Production, Trade and Policy – ICSTD – June 2013

After years of negotiations and even a framework resolution to a pivotal trade dispute, cotton still remains a critical concern for countries at the World Trade Organization. However, historically high prices, and evolving trade patterns may change the role of price depressing subsidies provided by developed countries in discussions on the fibre. New legislation in the United States is anticipated to address the WTO dispute with Brazil and is likely to be the single most important policy change to affect the commodity in the near term. This note aims to summarize recent ICTSD research on proposed changes in US policy while offering recommendations based on changes in global production and trade. <http://bit.ly/13WdVZs>



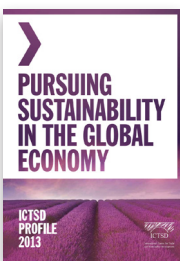
## IP Trends in African LDCs and the LDC TRIPS Transition Extension – ICTSD – June 2013

This Policy Brief by Fikremarkos Merse (Addis Ababa University School of Law) provides an overview of the intellectual property landscape in African LDCs, in the context of the current LDC TRIPS extension debate. The brief shows that African LDCs are at different stages with regard to TRIPS implementation and they continue to face immense challenges towards building their technological base, thus their need for continuous flexibility and policy space. <http://bit.ly/1bvvsq>



## Technical Note: The LDC TRIPS Transition Extension and the Question of Rollback – ICTSD – May 2013

When the WTO agreements entered into force in 1995, LDCs were given until 1 January 2006 to implement the obligations contained in the then-newly adopted TRIPS Agreement. In 2002, the LDC transition period was extended until 2016 for pharmaceutical patents, with a later decision in 2005 extending the period for all intellectual property rights until July 2013. The 2005 decision also had a "no roll back provision" providing that LDCs should not implement policies during the transition period with a "lesser degree of consistency with the provisions of the TRIPS Agreement." This Policy Brief, considers the technicalities of the no-rollback issue bearing in mind the legislative history of the TRIPS Agreement and its implications for LDCs. <http://bit.ly/13iF3k0>



## ICTSD Profile 2013: Pursuing Sustainability in the Global Economy– ICTSD – May 2013

International policy frameworks can be powerful drivers of systemic change. Since 1996, ICTSD has worked with policymakers, advocates and business, and leading thinkers globally and regionally to ensure that trade related policies contribute to a fairer and more sustainable global economy. The ICTSD Profile 2013 offers a strategic view of this complex and evolving landscape of policy development and shows how ICTSD and a global network of actors collaborate to achieve these objectives. <http://bit.ly/193xLoD>

EXPLORE THE TRADE AND SUSTAINABLE DEVELOPMENT  
WORLD FURTHER WITH ICTSD'S BRIDGES NETWORK

## PASSERELLES

Analysis and news on trade and sustainable development  
*Francophone Africa focus - French language*  
[www.ictsd.org/news/passerelles](http://www.ictsd.org/news/passerelles)

## BRIDGES

Trade news from a sustainable development perspective  
*International focus - English language*  
[www.ictsd.org/news/bridges](http://www.ictsd.org/news/bridges)

## BIORES

Analysis and news on trade and environment  
*International focus - English language*  
[www.ictsd.org/news/biores](http://www.ictsd.org/news/biores)

## BRIDGES AFRICA

Analysis and news on trade and sustainable development  
*Africa focus - English language*  
[www.ictsd.org/news/bridges-africa](http://www.ictsd.org/news/bridges-africa)

## PUENTES

Analysis and news on trade and sustainable development  
*Latin America and Caribbean focus - Spanish language*  
[www.ictsd.org/news/puentes](http://www.ictsd.org/news/puentes)

## МОСТЫ

Analysis and news on trade and sustainable development  
*CSI focus - Russian language*  
[www.ictsd.org/news/bridgesrussian](http://www.ictsd.org/news/bridgesrussian)

## PONTES

Analysis and news on trade and sustainable development  
*International focus - Portuguese language*  
[www.ictsd.org/news/pontes](http://www.ictsd.org/news/pontes)

## 桥

Analysis and news on trade and sustainable development  
*International focus - Chinese language*  
[www.ictsd.org/news/qiao](http://www.ictsd.org/news/qiao)



### International Centre for Trade and Sustainable Development

Chemin de Balexert 7-9  
1219 Geneva, Switzerland  
+41-22-917-8492  
[www.ictsd.org](http://www.ictsd.org)

BRIDGES AFRICA is made possible through  
generous contributions of donors and  
partners including

### UK Department for International Development (DFID)

### Swedish International Development Cooperation Agency (SIDA)

### Netherlands Directorate-General of Development Cooperation (DGIS)

### Ministry of Foreign Affairs of Denmark, Danida

### Ministry for Foreign Affairs of Finland

### Ministry of Foreign Affairs of Norway

BRIDGES AFRICA also benefits from in-kind  
contributions from its contributing partners  
and Editorial Advisory Board members.

BRIDGES AFRICA accepts paid advertising  
and sponsorships to help offset expenses and  
extend access to readers globally. Acceptance  
is at the discretion of editors.

The opinions expressed in the signed  
contributions to BRIDGES AFRICA are those  
of the authors and do not necessarily reflect  
the views of ICTSD.

Material from BRIDGES AFRICA can be used  
in other publications with full academic  
citation.

Price: €10.00  
ISSN 1996-919

