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Trade, growth and poverty: making Aid for Trade work for inclusive growth and poverty reduction

Kate Higgins and Susan Prowse

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Acronyms

AGOA	African Growth and Opportunity Act
AIDS	Acquired Immunodeficiency Syndrome
BCI	Better Cotton Initiative
BMZ	Federal Ministry for Economic Development and Cooperation (Germany)
CAS	Country Assistance Strategy
CCA	Causal Chain Analysis
CGE	computable General Equilibrium
CMiA	Cotton Made in Africa
COMESA	Common Market for East and Southern Africa
CRS	Creditor Reporting System
CUTS	Consumer Unity & Trust Society
DCCS	Duty Credit Certificate Scheme
DFID	UK Department for International Development
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EC	European Commission
ECOWAS	Economic Community of West African States`
EDF	European Development Fund
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organization
GATS	General Agreement on Trade in Services
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IEA	Integrated Economic Analysis
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
ILLSA	Institute of Labour Science and Social Affairs (Vietnam)
IOC	Indian Ocean Commission
ITC	International Trade Centre
KEPHIS	Kenya Plant Health Inspectorate Services
LDC	Least-developed Country
LOCP	Lango Organic Cotton Project
MDG	Millennium Development Goal
MFA	Multi-Fiber Agreement
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OIE	World Organization for Animal Health
PIA	Poverty Impact Assessment
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
RISM	Regional Integration Support Mechanism
RTFP	Regional Trade Facilitation Programme
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium-sized Enterprise
STD	Sexually Transmitted Disease

STDF	Standards and Trade Development Facility
SWAp	Sector-wide Approach
TRIPS	Trade-related Aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDAF	UN Development Assistance Framework
UNDP	UN Development Program
UNIFEM	UN Development Fund for Women
WHO	World Health Organization
WTO	World Trade Organization

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Executive summary

The objective of this paper is to outline how Aid for Trade can support developing countries to maximise the inclusive growth and poverty reduction impacts of trade. It is part of a programme of work titled 'Aid for Trade: Promoting Inclusive Growth and Poverty Reduction' funded by the UK Department for International Development (DFID) and the Swedish Ministry for Foreign Affairs and commissioned on behalf of European Union (EU) Member States to strengthen the poverty focus of the roll out of the EU Aid for Trade Strategy.

Following the introduction, Section 2 provides a brief overview of Aid for Trade. We argue that while development support for trade-related areas has been around for many years, the recent establishment of the Aid for Trade agenda – which seeks to help developing countries build the supply-side capacity and trade-related infrastructure they need to implement and benefit from WTO Agreements as well as to expand their trade more broadly – has resulted in trade-related assistance being placed firmly on the development policy agenda. We note that much of the framework for Aid for Trade was developed through the WTO Task Force on Aid for Trade, established in 2005, that outlined the challenges, objectives and categories for Aid for Trade. We argue that in the context of the global economic downturn, and the serious growth, poverty and equity impacts of this downturn, Aid for Trade is more important than ever. It has a particularly strategic and important role to play in supporting countries to grow and develop in a way that enhances comparative and competitive advantage, limits exposure and reduces vulnerability to trade-related risk, and, in particular, should also address issues associated with climate change.

Section 3 outlines the linkages between trade, growth and poverty. We note that the weight of evidence suggests that greater trade openness is an important element in explaining growth and has been a central component of successful development. We also note, however, that while the evidence linking greater trade openness to growth is compelling, the direction of the interaction between trade, growth and poverty is less clear: some evidence suggests that trade openness triggers growth which leads to poverty reduction, while other evidence demonstrates that economic integration into the world economy can be the result of successful and inclusive growth and development, rather than a prerequisite for it. Despite the lack of evidential consensus on the direction of the interaction between trade, growth and poverty, we argue that there is little doubt that changes in trade directly, and indirectly, affect the welfare of households. We suggest that understanding how changes in trade transmit to households is critical for effective Aid for Trade programming.

We draw on the work of McCulloch et al. (2001) to demonstrate how changes in trade directly and indirectly affect households through three channels: the distribution channel, which relates to changes in the prices of goods and services; the enterprise channel, which relates to changes in profits, wages and employment; and the government channel, which relates to changes in taxes and transfers. We argue that a range of household-related factors, including location and access to local, national and international markets; demographic structures of households; intra-household decision making; and assets will influence the ability of poor households, as well as individuals within those households, to respond to opportunities that emerge as a result of changes in trade and cope with adverse impacts that result from changes in trade. We also outline a range of contextual factors that affect the extent to which trade changes contribute to inclusive growth and poverty reduction, specifically: the type/s of goods and services traded; the political economy context; the investment climate; macroeconomic stability; and levels of poverty and inequality.

Section 4 reflects on this analysis to suggest how Aid for Trade programming can support trade expansion alongside inclusive growth and poverty reduction. We argue the focus of Aid for Trade programming should be threefold. First, Aid for Trade should support trade policy and integration that enables governments, through broadened revenue, for example, to support a country's poverty reduction efforts. Second, Aid for Trade should support trade expansion that creates and increases incomes for poor people. Third, Aid for Trade should mitigate and compensate for the adverse impacts of trade changes (trade-related adjustment costs), particularly when they affect poor people. With this in mind, we turn to each Aid for Trade category to suggest how trade expansion, inclusive growth and poverty reduction can be supported through Aid for Trade programming. Our intention is not to provide exhaustive guidance, but rather to suggest entry points and approaches that will yield trade and poverty reduction impact.

Trade policy and regulations

Aid for Trade that falls under the trade policy and regulations category supports countries to develop trade strategies, negotiate regional and international trade agreements and implement the outcomes of these agreements. Under this category, we suggest Aid for Trade should:

- Ensure clear linkages and connections between a country's trade agenda and the broader national development agenda;
- Support ex-ante, disaggregated trade policy analysis to identify how changes in trade will impact different economic and social groups;
- Support a disaggregated, inclusive approach to trade policy-related stakeholder engagement, which involves groups across the economic and social spectrum of society;
- Support countries to get a better deal in regional and international trade negotiations, and in doing so, seek to maximise both the trade and human development outcomes of regional and international trade agreements;
- Provide institutional and administrative support to regional trade groupings;
- Supporting trade facilitation – for example, improving the time and costs associated with trading, particularly across borders; and
- Support countries to meet trade standards imposed through regional and international trade agreements so they are able to take advantage of global markets.

Trade-related infrastructure

Aid for Trade that falls under the trade-related infrastructure category supports the development of the infrastructure hardware and software (in transport, telecommunications and energy, in particular) necessary to connect domestic markets to the global economy. Under this category, we suggest Aid for Trade should:

- Support aggregate increases in trade by supporting improvements in transport, energy and telecommunications and use revenue generated by these improvements to support a country's development objectives;
- Support the extension of trade-related infrastructure, such as roads, telecommunication services and power supply, to poorer trading groups (for example, women, smallholders, informal traders and micro-entrepreneurs);
- Consider and mitigate social risks related to investments in transport infrastructure (for example, the spread of sexually transmitted diseases (STDs) such as HIV/AIDS);
- Support the development of a country's domestic telecommunications standards and qualifications in order for it to support the development of critical sectors, such as manufacturing, and the economic development in rural and marginalised areas; and
- Support storage for agricultural producers to enable producers to respond more effectively to market signals and to cope with the price fluctuations that tend to accompany openness to international commodity markets.

Productive capacity building (including trade development)

Aid for Trade that falls under the productive capacity building (including trade development) category covers a wide range of assistance that seeks to promote the creation of an enabling business environment as well as to support the private sector to exploit its comparative advantages and diversify its exports. Under this category, we suggest Aid for Trade should:

- Support the development of a competitiveness and private sector development framework, which identifies the priorities for a country and enables development partners to mobilise around a mutually supportive policy set;
- Support improvements in the trade-related aspects of a country's business and investment climate, which promote the enabling environment for private sector development;
- Support agricultural diversification to harness untapped export potential;
- Support producers and traders to 'move up' the value chain;
- Support education and health improvements which can translate directly into heightened productivity and, as a result, positive trade outcomes; and
- Acknowledge that trade expansion will have differential impacts on women and men and therefore should be designed and implemented to address and support the different trade-related constraints and opportunities that women and men face.

Trade-related adjustment

Aid for Trade that falls under the trade-related adjustment category seeks to help countries with the costs associated with trade liberalisation, such as preference erosion, tariff reductions or declining terms of trade. Under this category, we suggest Aid for Trade should:

- Acknowledge that changes in trade will create 'winners' and 'losers', which can contribute to greater or lesser differentiation in the distribution of assets, incomes and opportunities between and within countries;
- Support initiatives that manage decreases in government revenue resulting from import and export taxes;
- Compensate for the adverse impacts of phasing out uncompetitive or unproductive sectors by supporting the provision of basic education and vocational training to enable workers and entrepreneurs to diversify their income streams and shift to sectors with export potential;
- Support measures that help stabilise farmers' returns from commodities, given increased exposure to the erratic international commodity market; and
- Support social protection measures (e.g. targeted household cash transfers) to help reduce vulnerability to changes in trade and trade-related shocks.

We conclude that Aid for Trade should be programmed to optimise the positive and limit the negative impacts of trade expansion on poor countries and poor people. It should help build the export potential of developing countries so that they are able to reap the benefits of global trade. It should also help poor women and men engage with domestic and international markets in a way that benefits them.

From an inclusive growth and poverty reduction perspective, we argue that going forward the Aid for Trade agenda needs to consider a range of issues. How should productivity improvement and poverty impact be balanced in investment decision making on Aid for Trade? How, when, why and to what extent should inclusive growth and poverty reduction considerations be explicitly integrated into Aid for Trade design and implementation? How should Aid for Trade interventions be prioritised and sequenced for trade, growth and poverty impact, and what are the implicit and explicit trade-offs? Integrating poverty and social analysis and expertise (including gender analysis) more thoroughly into Aid for Trade decision making, design and programming is critical. Providing clear and structured advice on how these questions are worked through in practice is vital. We hope further policy-focused research and guidance can go some way in addressing these issues.

1. Introduction

Economic growth plays a central role in poverty reduction and, on the whole, countries that have made trade a key part of their development strategy have grown at a faster rate than those that have not. A critical challenge for all developing countries is how to reap the full benefits of trade. Obstacles exist that result in the increasing marginalisation of developing countries in global trade: for example, sub-Saharan Africa's share of world exports fell from 3.9% in 1980 to 1.9% in 2006 (OECD, 2009). In addition, obstacles exist that result in unequal intra-country distribution of the benefits of trade: it remains the case that poor traders, workers, producers and consumers are unable to fully access the opportunities trade offers.

Supporting developing countries to overcome the barriers to trade expansion, while ensuring that poor people benefit from trade, is the rationale of the Aid for Trade agenda. Importantly, improved market access for developing country products has been highlighted continuously throughout the Doha trade negotiations. However, it has also been recognised that market access alone is of little use without the supply capacity to respond and complementary behind-the-border policies and investment. This has led to a more focused approach on the part of the development community towards increasing support for trade integration and adjustment. This approach has been coined Aid for Trade.

The objective of this paper is to outline how Aid for Trade can support developing countries to maximise the inclusive growth and poverty reduction impacts of trade. It is part of a programme of work titled 'Aid for Trade: Promoting Inclusive Growth and Poverty Reduction', funded by the UK Department for International Development (DFID) and the Swedish Ministry for Foreign Affairs and commissioned on behalf of European Union (EU) Member States to strengthen the poverty focus of the roll out of the EU Aid for Trade Strategy.[1]

Following this introduction, Section 2 provides a brief overview of Aid for Trade. Section 3 outlines the linkages between trade, growth and poverty and suggests some of the most critical contextual factors to consider in relation to trade, growth and poverty. Section 4 reflects on this analysis to suggest how Aid for Trade programming can support trade expansion alongside poverty reduction. Section 5 concludes.

[1] This project comprises two additional components: five Aid for Trade case studies (Cambodia's Trade Sector-wide Approach, the Regional Trade Facilitation Programme (RTFP), ComMark's Lesotho Textile and Apparel Sector Programme, Ethiopia's Trademarking and Licensing Initiative and a comparative study of trade development in the cotton sector) and a synthesis of these case studies, which draws out lessons for Aid for Trade programming; and a set of guidance notes on programming Aid for Trade for trade expansion and poverty reduction impact.

2. Aid for Trade: An overview

In several ways, development support for trade-related areas has been around for many years. The origins of Aid for Trade can in many respects be traced back to the early 1980s, when support for the integration of developing countries into the global economy through market-oriented and open liberalisation of trade-related policies was a major aspect of the lending programmes and activities of the International Monetary Fund (IMF) and the World Bank. These policies formed a central element of the policy set which came euphemistically to be called 'The Washington Consensus'.

The recent day Aid for Trade agenda originated through World Trade Organization (WTO) negotiations and can be traced back to developing country concerns, which focused on two key issues: first, the perceived limited benefits to developing countries from improved market access alone, without sufficient supply-side support; and second, the need for compensation for adjustment costs associated with multilateral (and indeed regional) trade liberalisation (IMF and World Bank, 2005).

In response to these concerns, the WTO Ministerial Meeting in Hong Kong in December 2005 called on donors to increase Aid for Trade resources to 'help developing countries, especially LDCs, build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade' (WTO, 2005). This meeting also emphasised that Aid for Trade had to be conceived as a fundamental component of what constituted 'development' in the multilateral trading system. This was significant, given that previous efforts to provide assistance within the context of trade negotiations were usually made on a so-called 'best endeavour' basis only. That is, trade negotiators made promises of additional trade-related assistance on behalf of their counterparts in development agencies without the assurance that assistance would be forthcoming. The Aid for Trade initiative made a significant contribution towards improving coherence between trade and development communities in donor countries.

Increased recognition of the importance of trade-related assistance came at a time when donors had agreed to a substantial increase in the overall aid envelope, in large part under the G8 Gleneagles Agreement and the UN Millennium Task Force. Up until this time, to a large extent the productive and trade agenda had received limited attention in donor-supported programmes (including those attached to the Poverty Reduction and Growth Facility – PRGF). Trade concerns, when they were expressed in poverty reduction strategy papers (PRSPs), did not necessarily result in trade-related investments (Capra International, 2003; Hewitt and Gillson, 2003; World Bank, 2004). In part, this was because investment needs for trade compete with other much-needed country-level investments in health and education. The commitments to increase overall assistance in 2005 allowed a rebalancing towards the trade and growth agendas. This led to a number of multilateral and bilateral development agencies committing substantial funds under the Aid for Trade rubric.[2] The Hong Kong Ministerial Meeting established the WTO Task Force on Aid for Trade to develop recommendations on how to operationalise Aid for Trade. The Task Force identified and recommended a number of challenges and objectives for Aid for Trade (WTO, 2006). These are outlined in Box 1.

[2] For instance, the 2005 financial commitment by the EU entails €2 billion per year (€1 billion per year each for the European Commission (EC) and the Member States) of trade-related assistance to partner countries by 2010. Trade-related assistance covers the WTO Aid for Trade categories of trade policy and regulations and trade development.

Box 1: Challenges and objectives for Aid for Trade

Challenges for Aid for Trade

- Low attention to trade as a **tool of development**
- Insufficient **trade mainstreaming** in national development strategies
- Lack of **private sector** involvement in identifying trade needs
- Limited **absorptive capacity in recipient countries**
- **Unpredictable donor response** to trade priorities
- Poor **donor coordination and coherence**
- Slow and bureaucratic **processes and delivery mechanisms** for rolling out trade-related assistance
- **Lack of data** on trade policies and their development impact
- **Lack of easily available information** on existing Aid for Trade instruments
- **Ineffective monitoring and impact assessment** of trade-related policies and donor activities
- Limited support for **regional, sub-regional and cross-border** trade-related programmes and projects
- Inadequate support to address the **adjustment costs** of trade liberalisation
- Insufficient resources for **infrastructure and productive capacity building**

Objectives for Aid for Trade

- Enable developing countries, particularly least-developed countries (LDCs), to **use trade more effectively to promote growth, development and poverty reduction** and to achieve their development objectives, including the **Millennium Development Goals (MDGs)**
- Help developing countries, particularly LDCs, to build **supply-side capacity and trade-related infrastructure** in order to facilitate their access to markets and to export more
- Help **facilitate, implement and adjust to trade reform and liberalisation**
- Assist **regional integration**
- Assist **smooth integration into the world trading system**
- Assist in the **implementation of trade agreements**

Source: WTO (2006).

Six categories for Aid for Trade were outlined by the Task Force on Aid for Trade. Over time, these have morphed into five categories, articulated in the 2nd Aid for Trade Global Review (OECD/WTO, 2009). It is important to note that these categories do not align exactly with the Creditor Reporting System (CRS) – a database covering approximately 90% of official development assistance (ODA) and which has been identified as the best available way to track Aid for Trade flows. These three sets of categories are outlined in Table 1.

Table 1: Aid for Trade categories

WTO Task Force categories (WTO, 2006: 2)[3]	2nd Aid for Trade Review categories (OECD/WTO, 2009: 52)	CRS categories (OECD/TWO, 2009: A2-4-A2-5)
Trade policy and regulations		
Trade policy and regulations, including training of trade officials, analysis of proposals and positions and their impact, support for national stakeholders to articulate commercial interest and identify trade-offs, dispute issues, institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with rules and standards.	**Technical assistance for trade policy and regulations**, for example, helping countries to develop trade strategies, negotiate trade agreements and implement their outcomes.	**Technical assistance for trade policy and regulations**, comprising the following sub-categories: trade policy and administrative management; trade facilitation; regional trade agreements; multilateral trade negotiations; and trade education/training.

[3] Note that trade policy and regulations and trade development are known as 'trade-related assistance'; other categories are known as the 'wider Aid for Trade agenda' (EC, 2008).

Trade development		
Trade development, including investment promotion, analysis and institutional support for trade in services, business support services and institutions, public–private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.		
Trade-related infrastructure		
Trade-related infrastructure, including physical infrastructure.	**Trade-related infrastructure**, for example building roads, ports and telecommunications networks to connect domestic markets to the global economy.	**Economic infrastructure**, covering communications, energy and transport.
Productive capacity building		
Building productive capacity	**Productive capacity building (including trade development)**, for example supporting the private sector to exploit its comparative advantages and diversify its exports.	**Productive capacity building (including trade development).**
Trade-related adjustment		
Trade-related adjustment, including supporting developing countries to put in place accompanying measures to assist them to benefit from liberalised trade.	**Trade-related adjustment**, helping countries with the costs associated with trade liberalisation, such as tariff reductions, preference erosion or declining terms of trade.	**Trade-related adjustment**, identifying contributions to developing country budgets to assist in the implementation of trade reforms and adjustments to trade policy measures by other countries and alleviate shortfalls in balance of payments owing to changes in the world trading environment.
Other trade-related needs		
Other trade-related needs.	**Other trade-related needs**, if identified as trade-related development priorities in partner countries' national development strategies.	**Other trade-related needs.**

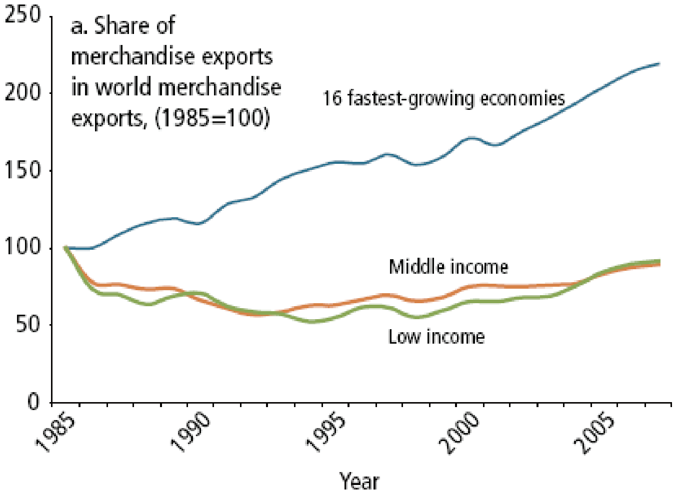
The Aid for Trade initiative is making progress in raising awareness about the support developing countries, particularly LDCs, need to overcome the barriers that constrain their capacity to integrate into the multilateral trading system and benefit from trade expansion. Developing countries are raising the profile of trade in their development strategies: according to the 2nd Aid for Trade Global Review, 79 Aid for Trade partner countries have a national development strategy, 43 countries have fully mainstreamed trade into national development plans and 32 countries have partly mainstreamed trade into national development plans (OECD/WTO, 2009). Donors are providing increased resources to developing countries to support trade expansion: Aid for Trade grew by more than 10% in real terms in 2006 and 2007 and total new commitments from bilateral and multilateral donors reached $25.4 billion in 2007, with an additional $27.3 billion in non-concessional trade-related financing (ibid). In addition, donors have developed strategies, strategic frameworks and operational guidance on Aid for Trade.

In the context of the global economic downturn, and the serious growth, poverty and equity impacts of this downturn, Aid for Trade is more important than ever. As the impacts of the downturn transmit through to developing countries – to a large extent through reductions in trade and potential protectionist tendencies – Aid for Trade has a particularly strategic and important role to play in supporting countries to grow and develop in a way that enhances comparative and competitive advantage, limits exposure and reduces vulnerability to trade-related risk. In particular, Aid for Trade should also address issues associated with climate change. For example, Aid for Trade geared towards the agricultural sector will increasingly need to take climate change into consideration, as this may lead to shifts in comparative advantage and export potential. Changes in temperature and precipitation, together with the increased frequency of extreme climatic events, such as droughts and floods, will affect yields (particularly in seasonally dry and tropical regions), reduce agricultural productivity and also increase the incidence of agricultural pests and diseases. Aid for Trade also needs to invest in trade-related adjustment activities to mitigate the poverty and growth impacts of reductions in global demand.

3. Trade, growth and poverty: What are the linkages?

There is a significant body of literature examining the relationship between trade, growth and poverty.[4] The weight of evidence suggests that greater trade openness is an important element in explaining growth, and has been a central component of successful development. Few countries have grown over the long term without experiencing a large expansion in trade. As Figure 1 indicates, the fastest-growing countries have expanded their shares of the global market for goods. In addition, most developing countries with rapid poverty reduction have sustained high economic growth (OECD/WTO, 2009).

Figure 1: Share of merchandise exports in world merchandise exports



Source: Gamberoni and Newfarmer (2009) in World Bank (2009).

There is less clarity, however, on how trade liberalisation, reform and expansion, growth and poverty interact. Some evidence suggests that trade openness triggers growth, and we know that growth is a central driver of poverty reduction.[5] But there is also evidence that demonstrates that economic integration into the world economy can be the *result* of successful and inclusive growth and development, rather than a prerequisite for it.[6] So inclusive growth processes can lead to trade openness and economic integration into global markets. In addition, while at an aggregate level there appears to be a strong relationship between trade openness and growth, trade liberalisation will create 'winners' and 'losers': it will benefit some while in the short term adversely affecting others. This will limit the poverty reduction impact of trade and may further entrench existing inequalities.

Trade reform and integration can provide significant welfare gains at the global level to include both developed and developing countries. However, trade reforms will require adjustment, and taking advantage of improvements in market access will require developing countries to undertake behind-the-border policy reform and capacity building. Gains from trade are conditional on an environment that allows the associated movements of labour and capital across sectors, that encourages the needed investment in new sectors of activity and that provides the vulnerable with some assurance that they will be assisted if necessary. Insofar as these conditions are not met, complementary reforms

[4] Seminal works include Berg and Krueger, 2003; Dollar and Kraay, 2004; Hertel and Reimer, 2005; Hoekman and Olarreaga, 2007; Hoekman et al, 2001; McCulloch et al., 2001; Ravallion, 2005; Winters et al., 2004. Note that poverty can be defined in several ways: as income poverty (e.g. living below $1.25/day), as subjective poverty (defined by the poor themselves) and as multidimensional poverty (where poverty is defined as a multifaceted phenomenon, including income poverty but also poverty in health, education, etc). This paper understands poverty as a multidimensional phenomenon.
[5] This claim is supported by several cross-country studies, including Berg and Krueger, 2003; Dollar, 1992; Dollar and Kray, 2004; Durnan Lima et al, 2008; Edwards, 1998; Sachs and Warner, 1995. This evidence has been challenged, however, on both methodological (e.g. Lübker et al., 2002) and empirical (e.g. Rodriguez and Rodrik, 1999; Rodrik, 2000; 2001; 2007) grounds.
[6] Chang (2007); Rodriquez and Rodrik (1999); Rodrik (2007).

need to be implemented before and in conjunction with trade reforms. Policy needs to be designed to offset to the extent possible any major negative impacts global reform may have on a substantial part of the more vulnerable in society. Some governments will have the capacity to redistribute; others may confront significant constraints.

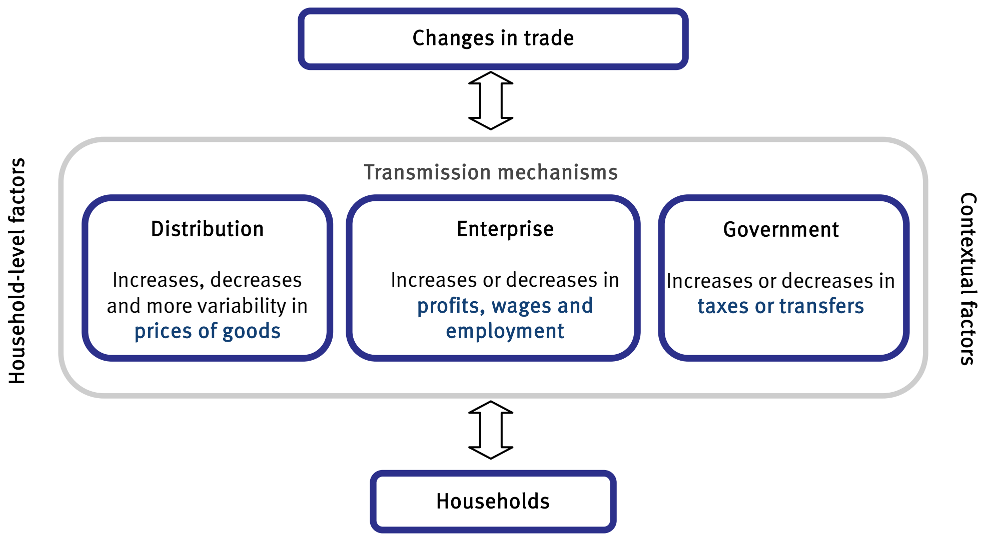
The list of beneficial concomitant reforms can be long, but most of the policies are additive to those of trade liberalisation, in the sense that they do not give rise to trade-offs. Moreover, there is evidence that openness can induce improvements in other policy dimensions. Aside from the importance of sound macroeconomic management and the effective provision and adequacy of social safety nets, policy action may be necessary to ensure that markets continue to function or develop. The evidence does suggest a need to place trade reform in the broader context of a development strategy.

So despite the lack of evidential consensus on the direction of the interaction between trade, growth and poverty, and the apparent context specificity of the interactions between trade, growth and poverty, there is little doubt that trade changes directly, and indirectly, affect the welfare of households. It is also evident that certain contextual factors influence the inclusive growth and poverty reduction potential of trade expansion and that a range of associated policies needs to accompany trade reform. From an Aid for Trade perspective, it is critical to understand how changes in trade transmit through to households, and what contextual factors influence this transmission, so that Aid for Trade programmes can be designed not only to increase the volume and value of trade, but also to enhance the poverty reduction impact of trade and respond to the different opportunities and constraints faced by different groups (e.g. large businesses, small and medium enterprises (SMEs), formal and informal traders and male and female producers and workers). Essentially, Aid for Trade should support trade that will contribute to economic development *and* poverty reduction.

3.1 Trade, growth and poverty: Key transmission channels

Changes in trade will directly and indirectly affect households. A framework developed by McCulloch et al. (2001) illustrates how changes in trade transmit through to households by means of three channels: the distribution channel, the enterprise channel and the government channel. Using this framework, we can see how changes in trade can offer considerable opportunities to poor households but also can increase the vulnerability of poor traders, producers and consumers and have short- or medium-term adverse impacts. Figure 2 builds on McCulloch et al.'s framework, drawing on work by Bird and Vandemoortele (2009).

Figure 2: Mechanisms transmitting changes in trade through to households



Source: Adapted from McCulloch et al. (2001).

Distribution channel: Changes in trade, derived from trade openness, can affect households directly through the distribution channel. This channel primarily relates to the **prices of goods and services** (Lustig and Walton, 2009; McCulloch et al., 2001). The extent to which changes in the price of goods and services affect poor households will depend on a range of factors, including the integration of markets over time and space, the world price, exchange rates, domestic taxes, transportation and storage costs as well as, where they exist, centralised marketing boards (sometimes also operating as cooperatives).

The direct impact of price changes on poverty depends on whether poor households are net consumers or net producers of the good or service. A decrease in price will benefit net consumers and harm net producers; an increase in price will benefit net producers and harm net consumers (Turner et al., 2008). Price variability may also be a product of trade openness and liberalisation. The increased exposure of domestic markets to international price fluctuations, and the elimination of institutions or domestic markets that smooth domestic prices, will mean that producers and consumers will be more vulnerable to international price fluctuations (Winters et al., 2004). This will affect poor households, and they will respond by taking action to reduce risk exposure. For example, increased vulnerability to price fluctuations may lead poor farmers to diversify, at times to suboptimal crops, to reduce risk (Bird and Vandemoortele, 2009).

Enterprise channel: Changes in trade can affect households through the enterprise channel, which comprises **profits, wages and employment**. For example, cheaper imports will typically push down demand for import-competing goods and therefore reduce the domestic price of the import-competing good, leading to a decrease in demand for labour and therefore a fall in wages and/or employment, especially in the short term. Alternatively, cheaper imports may increase the profitability of other goods, including export goods, which use imported inputs in the production process, leading to increased production. This may increase the demand for unskilled and semi-skilled labour, creating additional employment, tightening the labour market and driving up wages (Turner et al., 2008). Trade openness and resulting cheaper imports may have other implications, for example for micro-entrepreneurs, who in the short term may be uncompetitive in more open markets (Bird, 2004).

Government channel: Changes in trade will also affect households through changes in **taxes and transfers**. For example, changes to trade tariffs, from which governments derive revenue, may affect the volume of government spending on key economic and social investments, such as infrastructure, health, education, sanitation and social protection. Governments may generate more, or less, revenue as a result of changes in trade policy. It is important to note here that, while trade reforms can affect government revenue, they do so less adversely and less frequently than popularly imagined. This is largely because trade volumes and collection rates tend to increase as tariff exemptions are removed or tariffs fall. Further, the extent to which increases, or decreases, in government revenue derived from trade affect poor people is ultimately a political decision (Winters et al., 2004). Moreover, appropriate fiscal measures can more than offset the erosion of trade taxes. These measures include moving towards a more uniform tariff structure, eliminating exemptions, improving the administration of tariffs and taxes and strengthening domestic taxation. Through timely and complementary fiscal programmes, middle-income developing countries as well as several low-income countries have largely succeeded in recovering tax revenues lost from reducing trade taxes. Experience suggests that reform of the domestic tax system should be undertaken in parallel with trade reform, not necessarily delayed until afterwards, to increase credibility of the liberalisation process and reduce the likelihood of a reversal (Prowse, 2006).

Across these channels, a range of **household-related factors** will influence the ability of poor households, and individuals within those households, to respond to opportunities that emerge as a result of changes in trade, and cope with adverse impacts that result from changes in trade. These include the location of the household, which affects access to local, national and international markets; demographic structures of the household; intra-household decision making; and assets of the household (e.g. human capital – levels of education and health; physical capital – land; social capital – family and social networks; and financial capital – savings and access to credit). Gender is critical here: women are typically more vulnerable because of gender differences in the distribution of income, and lack of access to productive assets such as credit and land, and this may limit the extent to which women can access trade-related opportunities. For example, in a study of Tanzania, Mozambique and Jamaica it was found that, because of poor infrastructure, restricted access to land and credit, labour discrimination and complex power relations over the control of resources, it was highly unlikely that the majority of vulnerable women would be able to take advantage of new opportunities resulting from trade (Fontana, 2009).

If households are unable to respond to changes in trade, they may have little choice but to draw down on assets in a way that leads to a downward spiral of wellbeing, increasing vulnerability and undermining productive assets. Some households may adopt risk-averse behaviour to pre-empt shocks, such as insurance, but may also resort to risk-spreading behaviour, including diversifying household livelihood strategies and avoiding investment in higher-risk, higher-return activities (e.g. commodities that earn a high price on world markets but are vulnerable to price fluctuations) (Bird and Vandemoortele, 2009).

3.2 Trade, growth and poverty: Important contextual factors

A range of **contextual factors** (largely reflective of social policy, political economy as well as governance and stakeholder voice issues) affects the extent to which trade changes contribute to inclusive growth and poverty reduction. These include: the type/s of goods and services traded; the political economy context; the investment climate; macroeconomic stability; and levels of poverty and inequality.

The type/s of goods and services traded influences how changes in trade will affect poverty. Increased trade in some goods and services will directly benefit poor producers, labourers and entrepreneurs through higher (for producers) or lower (for consumers) prices, employment or higher wages. Increased trade in other goods and services may not have any direct benefit. So, the *type* of good or service is a critical consideration in the context of poverty reduction impact.

In relation to this, specialisation in the type/s of goods and services traded needs attention. While the specialisation in tradable goods and services that often accompanies trade openness can have significant positive benefits, it can also increase risk if households and communities are reliant solely on one tradable product. For example, on a copper belt, households may narrow their livelihood portfolio to copper mining or an industry related directly to the sector (e.g. bars and restaurants catering to miners). While this allows them to maximise benefits when the sector is going well, such specialisation increases their vulnerability to external trade shocks (e.g. a fall in the price of the export product) (Bird and Vandemoortele, 2009).

Services (and notably finance), telecommunications and transport are critical but often forgotten, and therefore require attention. Finance, telecommunications and transport are key inputs into the production of goods, including agriculture and manufacturing. The costs of these inputs can account for a very high proportion of the total costs of production and are therefore important factors affecting competitiveness of firms. Services are also important determinants of the productivity of workers in all sectors: education and health care services are key 'inputs' into the maintenance of human capital. Therefore, service sector reforms and trade can potentially do much to enhance economic growth and welfare.

However, developing countries face two central challenges: first, identifying the particular elements of 'good' (economically sound) services policy; second, assessing how the choice of good policy at the domestic level can be supported by multilateral, regional or bilateral trade negotiations (Mattoo, 2003). The ability of trade agreements to promote real policy changes in services in-country is not clear. The role of trade agreements in services reform needs to distinguish between some agreements (notably bilateral and regional) that press for deeper services liberalisation, and multilateral mechanisms such as the General Agreement on Trade in Services (GATS), which operates on a much shallower commitment basis. The former may well lead to real policy change, the latter not necessarily. However, the latter may be a more sensible way to reap the benefits of the international trading system without incurring major policy problems.

Moreover many developing countries do not have the expertise to negotiate appropriate service offers. Addressing this deficit in negotiation skills, domestic enforcement and supply-side capacities requires a set of complementary policies to: strengthen negotiation capacity, taking domestic constituents sufficiently into account; strengthen the capacity to manage the process of market opening in a sequenced manner; and strengthen the ability to supply newly opened foreign markets (Sauvé, 2007).

The political economy context plays an important role in determining the extent to which a country, or group of people within country, benefits from trade. Institutions, both formal and informal, are critical as they both affect *and* drive trade and growth (see Rodrik, 2001; 2007). Relationships and power structures also play a central role. Consequently, different countries, and different social groups within countries, are likely to benefit differently from opportunities or challenges resulting from changes in trade. This will depend largely on access to and engagement with formal and informal institutions of influence, and the relationships and power structures that guide this. For example, the connections to powerful institutions and people that a large, profitable formal sector firm enjoys will differ from those of small, informal traders.

Even accepting that trade is likely to generate global gains, the distributive and redistributive dimensions of trade integration need to be taken into account if the political viability of integration is to be ensured. Simply pointing to the growth induced by trade and investment openness will not be enough to make trade acceptable to critics of global integration. Historically, providing significant assistance has been important in helping persuade countries to adopt more democratic, open, market-oriented systems. As Wolf (2004) notes, the EU's system of 'jurisdictional convergence' provides an example of how this has been managed. Members are obliged to accept freedom to trade, migrate and move capital; in exchange, the EU has provided an extraordinary successful machine for integrating poorer members and helping them converge with richer states. This process took place in Italy in the 1950s and 1960s and in Greece and Ireland in the 1980s and 1990s; it no doubt will occur for new Members in the coming decade. Liberalisation policies were combined with economic assistance to weaker countries and regions (through the Structural and Cohesion Funds, which account for about 35% of the EU budget, helping to shape positive popular perceptions of integration (Sapir, 2000; Tsoukalis, 2003)). The phenomenal growth machine of the East Asian tigers was in part due to the support provided to social policies in tandem with export-orientated policies. For example, South Korea provided an extensive system of health and pension entitlements, andhigh educational spending, alongside export promotion.

The political economy context at the country level will influence the extent to which poor people benefit from trade expansion. This will be guided by priority afforded to inclusive growth and poverty reduction by national and sub-national governments, as well as the nature of the state–citizen contract. It is likely that these two factors (the poverty reduction focus of a government and the nature of the state–citizen contract) will intersect and be mutually reinforcing. For example, a growth strategy that combines both openness to trade and a strategy to ensure the economic inclusion of poor traders, producers, entrepreneurs and consumers is likely to generate broader national support than an unbalanced strategy that widens inequalities and forces poor people to bear the adjustment costs of trade reform (Bird and Vandemoortele, 2009). This can be achieved in a number of ways, as the above examples of the EU and Asia provide. Economic assistance, in terms of both improved welfare and human capital provision, and assistance for adjustment and economic development (including employment opportunities), is important.

The investment climate will also influence trade expansion and the potential poverty reduction impact of trade. Investment will be determined largely by national capacities (e.g. education and technical capacity, and health, of the workforce), quality of infrastructure, legal frameworks and tax structures (Page, 2001). The private sector is largely the locus of trade and investment, but it often lacks the technical and financial resources needed for investment. At the same time, the business environment and physical and institutional infrastructure necessary for it to thrive are largely outside of its control. Efficient and competitive private sector firms do not develop solely because of their own internal capabilities. In addition, it is critical to note the gendered nature of the investment climate: women's work is more likely to take place in the informal economy, where women are subject to limitations and inefficiencies more so than men; women are often disadvantaged by prevailing laws and regulations; women are less likely to have title to land; and women frequently face gender bias in the socioeconomic environment when it comes to accessing economic resources and establishing and developing enterprises. These constraints not only disadvantage women but also reduce the growth potential, productivity and performance of a country's economy, placing significant development costs on society (Simavi et al., 2009).

Macroeconomic stability, which provides confidence in the future economic performance of the country, is another contextual factor to consider (Rodrik, 2003, in OECD, 2009). In terms of devising a programme of trade liberalisation, policymakers need to take into account the relationship between trade liberalisation, the exchange rate and tax revenues. An appropriate real exchange rate to ensure export competitiveness is important; a real depreciation may be necessary to underpin successful trade reform. Domestic price inflation and an exchange rate that is grossly over or undervalued or particularly volatile will distort the relative price signals that are critical for taking advantage of trade liberalisation to reallocate resources more efficiently into the tradable goods and services sector. A competitive and stable real exchange rate, and domestic price stability, underpin investor confidence in establishing a long-term export capability and ensure that producing tradable goods and services can be profitable over time.

Levels of poverty and inequality within a country needs consideration in the context of trade expansion and its poverty reduction potential. High levels of income poverty limit effective demand in the domestic market and consequently hinder market-based development. Given that most countries have developed their export markets on the heels of national markets, this has implications for trade expansion. Without expanding national markets, there is little availability of capital for investment in infrastructure to generate growth, new markets and potential trading opportunities (Bird and Vandemoortele, 2009).

Inequality, and the different constraints and opportunities faced by different social, cultural and economic groups, is important. A range of characteristics – sex, location, occupation, ethnicity, wealth – influence the distribution of constraints and opportunities. Gender inequality requires particular attention (see Çagatay, 2001; Diop, 2008). Export expansion in many countries has resulted in an increased number of jobs for women. This has positive spin-offs, including increased autonomy and negotiating power for women in the household. Evidence also indicates that in households where income is controlled by the mother, education and nutritional levels among girl children improves. There are potential drawbacks for women, however. Women are generally more vulnerable to the negative effects of trade liberalisation, experiencing lower wages and poor working conditions (Jones and Baker, 2008). This presents a paradox for trade that seeks to support development objectives: lower wages may be a country's comparative advantage and result in the creation of jobs that would otherwise not form, but this may involve the adverse incorporation of women and girls in exploitative work.

It is important to realise that, when it comes to trade, inclusive growth and poverty reduction, there is no 'one-size-fits-all' strategy. Indeed, a recent cross-country assessment of the relationship between trade, development and poverty reduction found that the same set of policies results in distinct outcomes in different country contexts (CUTS, 2008). Another study on the gender effects of economic partnership agreements (EPAs) in Tanzania, Mozambique and Jamaica demonstrates that to understand the opportunities for and constraints on trade expansion, analysis of transmission mechanisms, and context, needs to be carried out at the country or regional level (Fontana, 2009). This is the only way to truly understand how the linkages between trade, inclusive growth and poverty reduction may play out.

4. Trade, growth and poverty: How can Aid for Trade support trade expansion, inclusive growth and poverty reduction?

4.1 Aid for Trade: Supporting trade expansion, inclusive growth and poverty reduction

We have established that trade expansion can contribute positively t inclusive growth and poverty reduction directly, through changes in prices, increased incomes and employment opportunities, and indirectly, through expanded resources for government expenditure. Changes in trade can also adversely affect poor households, by increasing their vulnerability through exposure to price fluctuations, for example.

Aid for Trade should be programmed to optimise the positive, and limit the negative, impacts of trade expansion on poor people. It should help build the export potential of developing countries so that they are able to reap the benefits of global trade, and help poor people engage with domestic and international markets in a way that benefits them. It needs to take into account short-term needs and longer-term objectives. The efficacy of Aid for Trade is probably indisputable but the challenge is how to utilise scarce resources and deliver tangible benefits to developing countries.

Problems in the provision of assistance for trade-related capacity building are very similar to those of other sectors, and they relate to both recipients and providers promoting trade development by focusing on very limited sets of policy interventions. Assistance needs to be provided within a coherent development framework in which a trade agenda *prioritises* areas of action, to improve the ability of the country to increase trade and productivity growth that provides for poverty alleviation and welfare gains. Equally, at the global level, mechanisms within the multilateral trade rules need to assess and take account of the implementation costs, the availability and need for assistance and the appropriate transition and sequencing of policy to meet WTO obligations to ensure that other vital development-related priorities are not diverted (Prowse, 2002). To a large extent, this is in line with the standard Paris Declaration on Aid Effectiveness, agreed in 2005. That is, support should be provided in a coordinated and coherent manner, centred on a country's overall development strategy.

Increasingly, donors are paying more attention to ensuring policy linkages take place: for example, the overarching objective of UN Development Program (UNDP) Aid for Trade support is to build partner country capacities to leverage trade for poverty reduction and the achievement of the MDGs. Member countries also recently directed the UN Conference on Trade and Development (UNCTAD) to enhance its work on the linkages between trade, the MDGs and poverty reduction. Further, the World Bank is refining its approach to Aid for Trade in response to a 2006 independent evaluation of its trade-related work which recommended giving greater attention to addressing poverty and distributional outcomes from trade reforms and external shocks. The EU Aid for Trade Strategy embraces pro-poor and inclusive growth as one of its five strategic objectives (OECD/WTO, 2006).

To ensure Aid for Trade supports trade integration and expansion as well as inclusive growth and poverty reduction, the focus of Aid for Trade programming should be threefold. First, Aid for Trade should support trade policy and integration that enables governments, through broadened revenue, for example, to support a country's poverty reduction efforts.[7] Second, Aid for Trade should support trade

[7] In devising a programme of trade reform and integration, policymakers need to take into account the relationship between trade reform and integration, the exchange rate and tax revenues. The evidence suggests that tariff revenues depend on the structure of the tariff and customs regimes. Trade taxes represent one-quarter to one-third of total tax revenue in some low- and middle-income developing countries. Mobilising alternative sources of revenue therefore is important, particularly in low-income countries, in which tariff revenues constitute a high component of total public sector resources. Assistance to countries to ensure that tax revenues are sufficiently broadened and made more robust is important.

expansion that creates and increases incomes for poor people. Third, Aid for Trade should mitigate and compensate for the adverse impacts of trade changes (trade-related adjustment costs), particularly when they affect poor people. Bird and Vandemoortele (2009) argue that growth can contribute to poverty reduction through two channels: employment-led poverty reduction or government-led poverty reduction. They state that the extent and sustainability of employment-led poverty reduction will depend on the sector in which employment-led growth is concentrated, the degree of access poor people have to markets, the terms on which poor people participate in markets and how increased income is spent. Employment-led poverty reduction links with the second priority outlined in Figure 3 below. In relation to government-led poverty reduction, they argue that growth can lead to poverty reduction if revenues raised from growth are used to improve health and education outcomes, as well as to address inequality. This links with the first and third priorities outlined in Figure 3.

Figure 3: Aid for Trade priorities and corresponding responses

Aid for Trade priority	National, regional and global mechanisms	Aid for Trade response
Support trade policy and integration that enables governments, through broadened revenue, for example, to support a country's poverty reduction efforts	*Government-led poverty reduction*	Support policies to maintain and build revenue and linkages between trade and broader national development objectives (i.e. trade mainstreaming)
Support trade expansion that creates and increases incomes for poor people	*Employment-led poverty reduction*	Support poor traders, producers and entrepreneurs to take advantage of the positive opportunities generated by trade
Support mitigation and compensation for trade-related adjustment	*Government-led poverty reduction*	Support policies and programmes that mitigate against, and compensate for, trade-related adjustment

4.2 Aid for Trade: Working at the national, regional and global level

A priority of the Aid for Trade initiative needs to be supporting the establishment of viable mechanisms at the country, regional and global levels.

At the **country level**, trade-related priorities need to be defined within the context of the country's overall development strategy. Diagnostics should analyse and prioritise the most binding constraints. These need to be fed into the national development process and involve consultation with a range of stakeholders from the private sector and civil society. It is crucial that the constraints experienced by men and women in a range of economic roles, and across the income distribution, are taken into account. This will involve consulting with potential investors, big business, small and medium-sized enterprises (SMEs), small informal traders and micro-entrepreneurs. It will also involve speaking with women and men and people from a range of social, livelihood and ethnic backgrounds. It is vital that aid effectiveness principles of country ownership and donor harmonisation and alignment inform donor behaviour to ensure an aligned and coordinated approach to trade and development.

At the **regional level**, and with the emerging importance attached to regional integration, countries again should prioritise regional projects that support national development objectives. The criteria for regional Aid for Trade remain that it must tie into national trade strategy and priorities. There needs to be a compelling case that regional cooperation is the most efficient and effective instrument for the country. Here, buy-in at the national political level is essential and aid effectiveness principles remain important.

At the **global level**, it remains the case that implementation of regional or multilateral trade rules will incur costs. Agreements therefore need to take into account capacity building needs and assistance available, and ensure appropriate sequencing into a country's overall development process. Arising from the Uruguay Round Trade Agreement, in certain areas many developing countries encountered implementation problems and costs. This related particularly to new rules (for example in the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)). As a consequence, in current negotiations under the Doha Development Agenda, modalities for trade facilitation negotiations recognise the importance of assistance to support countries for future implementation. If assistance is not forthcoming, implementation of the agreement can be delayed.

The three Aid for Trade priorities outlined above, and these three levels of operation (national, regional, global), need to set the framework for Aid for Trade design and implementation. With this in mind, we now turn to each Aid for Trade category to suggest how trade expansion, inclusive growth and poverty reduction can be supported through Aid for Trade programming. Our intention is not to provide exhaustive guidance, but rather to suggest entry points and approaches that can support trade, ensure growth is inclusive and contribute to poverty reduction.[8] Indeed, as Hudson (2005) argues, when developing countries choose to make trade a part of their development strategies, donors should ensure that support is provided to enable them to respond to the opportunities trade liberalisation can bring. The issue is not trade or aid but rather how aid can be provided so that it enables countries to translate opportunities to trade into economic growth and poverty reduction.

4.3 Trade policy and regulations

Aid for Trade that falls under the trade policy and regulations category supports countries to develop trade strategies, negotiate regional and international trade agreements and implement the outcomes of these agreements.

Trade policy and regulations activities may include:

- Support to **ministries and departments** responsible for trade policy;
- Support for the **mainstreaming of trade** into national development strategies (e.g. PRSPs);
- Support for improved **trade facilitation** (e.g. simplification and harmonisation of import and export procedures, such as licensing procedures; support for customs departments; support for tariff reform);
- Support for developing countries' effective participation in **regional and multilateral trade negotiations**, including training of negotiators and policy analysis to assess potential impact of positions;
- Support to **national stakeholders** to articulate trade-related interests;
- Support for solving **trade disputes**; and
- Institutional and technical support to **facilitate the implementation of trade agreements** and adapt to and comply with **rules and standards** (e.g. sanitary and phytosanitary measures) (OECD, 2007 and OECD, 2008 in Turner, 2008; OECD/WTO, 2009; WTO, 2006).

Ensuring clear linkages and connections between a country's trade agenda and the broader national development agenda is critical to achieve trade expansion, inclusive growth and poverty reduction. National trade strategies should expand trade while supporting a country's

[8] Note that more comprehensive advice will be provided through a set of guidance notes developed as a separate component of this project.

broader development objectives (for example, growth and the achievement of the MDGs). In LDCs, the Enhanced Integrated Framework (EIF) and the Diagnostic Trade Integration Study (DTIS) play key roles in mainstreaming trade into broader development frameworks. This is because the purpose of a DTIS is to help LDCs identify their trade priorities in national development strategies and PRSPs (OECD/WTO, 2009). Progress on developing national development strategies, and integrating trade into these, has been positive. This indicates a welcome acknowledgement on the part of developing countries of the importance of integrating their trade strategies into broader national development frameworks. There is evidence that the DTIS process is also leading to the identification of poverty-related trade priorities: through the DTIS process, Laos has requested assistance to promote handicrafts through technical training and fair trade links; Mali has highlighted the need to assist small farmers to reduce vulnerability; and Vanuatu has proposed further study on and support for women entrepreneurs.

Cambodia has placed much emphasis on linking its trade and development strategies. Through a trade sector-wide approach (SWAp), known as the Trade Sector Programme 2006-2008, the government is seeking to integrate and align trade policy into its broader development and poverty reduction agenda. With high-level (prime ministerial) support, as well as support from key donors, the Trade SWAp demonstrates how Aid for Trade can support the integration of trade into broader development frameworks. The success of mainstreaming trade into a country's development process depends on the existence of strong national implementation arrangements. While leadership is needed to manage the trade agenda, it should not be managed by a single government institution. In Cambodia, the authorities recognised that the success of 'mainstreaming' trade would depend on ability to ensure that stakeholders were convinced and participated in the benefits. With assistance, the Cambodian Ministry of Commerce established a dedicated core trade network (across ministries and stakeholders) to provide general trade training on trade policy and project management. In particular, support was given to the 'core team and network' to understand national policy instruments as well as donor frameworks on PRSPs, the World Bank Country Assistance Strategy and the UN Development Assistance Framework (UNDAF) (Siphana, 2006).

Supporting ex-ante, disaggregated trade policy analysis is another critical issue to consider if trade policy is to support trade expansion, as well poverty reduction, objectives. Trade policy changes will create 'winners' and 'losers', and understanding these dynamics and action that could enhance opportunities and limit adverse impacts across different social and economic segments of society should be supported. Cambodia took this approach through its DTIS, into which human development impact assessments were incorporated. This involved human development impact analysis across 19 export sectorsand ensured that issues beyond trade and productivity expansion were considered when establishing Cambodia's trade priorities. Fontana (2009) argues that there is a need for systematic integration of sound gender-focused analysis in DTIS and other trade impact assessments. To achieve this, partner governments must be supported to collect detailed sex-disaggregated data and to conduct quantitative and qualitative research to gain a better understanding of trade impacts on specific groups of women and men. Further, a disaggregated, inclusive approach, which involves the participation of groups across the economic and social spectrum of a society, should be applied to the development of trade policy. It is critical that the views and concerns of poorer traders and producers be heard. Further, participatory monitoring mechanisms should accompany ex-ante analysis to ensure that trade reforms are 'on track'. DFID India supports a programme with the Indian Ministry of Commerce and UNCTAD, which aims to make India's trade policies reflect the priorities of vulnerable and poor people. It has secured broad participation in public dialogue and helped communicate to the government the impact of its trade policy decisions on poorer segments of society (DFID, 2008).

Aid for Trade can support countries to get a better deal in regional and international trade negotiations. This may involve providing trade negotiation support to improve country negotiators' capacity and familiarity with international trade legislation. There are examples of Aid for Trade providing this form of support: ComMark's Lesotho Textile and Apparel Sector Programme involved trade negotiation support focused on the expiration of the Multi-Fiber Agreement (MFA), and accessing benefits available through the African Growth and Opportunity Act (AGOA) and the Southern Africa Customs Union (SACU) Duty Credit Certificate Scheme (DCCS). Other countries, such as the UK, have provided technical and financial assistance to negotiating teams in the Economic Community of West African States (ECOWAS) for West Africa, the Caribbean Regional Negotiating Machinery and the East African Community–Common Market for East and Southern Africa–Southern African Development Community (EAC-COMESA-SADC) for EPA negotiations. Support has also been given to countries like Botswana, Namibia, Lesotho, Nigeria and South Africa to help civil society and the private sector gain a voice in the negotiation process, as well as build government negotiation capacity (DFID, 2008).In providing this support, Aid for Trade should seek to maximise both trade and human development outcomes of regional and international trade agreements. If international trade agreements are to result in positive outcomes for poor female as well as male traders, producers and entrepreneurs, it is critical that solid ex-ante analysis of the poverty and growth implications of particular negotiation positions can be conducted by or is made available to trade negotiators. Ex-ante analysis enables policy stakeholders to identify and anticipate the likely differentiated impacts (by sector, sex, social group, income group, for example) of the potential impacts (both detrimental and beneficial) of changes in trade policy. Such evidence is capable of informing the design of trade agreements, trade policy and programming to promote inclusive growth and poverty reduction, and the design of mitigation measures to help countries adjust to the costs of trade reform.[9] Supporting this sort of analysis, and building the capacity of trade negotiators to use and leverage this analysis, is a sound entry point for Aid for Trade support.[10]

Aid for Trade can provide institutional and administrative support to regional trade groupings to strengthen these groupings and enhance their impact. For example, Germany has been providing regional economic communities across sub-Saharan Africa (e.g. SADC, EAC and ECOWAS) with assistance since the 1990s. In the case of SADC, this has involved support for the organisational development of the SADC Secretariat, as well as support for trade policy, standards and quality assurance, customs modernisation and public–private dialogue on the integration process. Germany has also been instrumental in setting up the Project Preparation and Development Fund, which supports the preparation of bankable projects in the region. A major strength in the German approach is the long-term relationships it has established with these regional organisations and key stakeholders (BMZ, 2009).

Supporting trade facilitation – for example, improving the time and costs associated with trading, particularly across borders – can support trade expansion, inclusive growth and poverty reduction. Reducing the time and costs associated with customs and border processes should improve productivity for all traders and can be expected to yield benefits for a range of typically poorer trading groups, including informal traders, women and SMEs. We know that high transaction costs, inefficient and cumbersome customs and border processes and lack of information on regulatory measures constitute disincentives for small traders to engage formally in trade (Lesser and Moisé-Leeman, 2009). Emerging evidence also suggests that trade logistics barriers, such as complex and slow regulatory policies and procedures, inconsistent application of tariffs and fees and inefficient border control and inspection regimes can disproportionately disadvantage certain groups, such as women, who are the highest users of some border crossings (DFID, 2008; IFC, 2009).[11] The North–South Corridor, an integrated trade facilitation and trade-related infrastructure programme, which is part of RTFP in Southern and Eastern Africa, demonstrates a regional approach to tackling some of

[9] For example, it will inform which sectors to focus on, such as those with good forward and backward linkages, or regions in the country with growth and poverty reduction potential, and inform the design of policies to integrate excluded and discriminated groups into domestic markets.

[10] Turner et al. (2008) provide a review of ex-ante tools for the analysis of trade liberalisation. Qualitative tools include flowcharts and checklists. Quantitative methodologies include analysis based on micro-level data (e.g. household surveys) and macro-level data (e.g. national accounts data), and may include computable general equilibrium (CGE) models, causal chain analyses (CCA) and others. Methodologies complementing the two include poverty impact assessment (PIA) or poverty and social impact analysis (PSIA), results chain analysis or integrated economic analysis (IEA).

[11] A COMESA study found that women were the highest users of both the Egypt–Sudan and the Ethiopia–Djibouti borders (Asfour, 2008).

these constraints. It seeks to reduce the time and cost involved in transport along a major regional transportation network; in doing so, it is expected to produce important benefits in terms of improved access to international and regional markets and increased competitiveness of regional products. The major innovation lies in the fact that it builds on an integrated, multi-modal approach which addresses both infrastructure needs (road, rail, ports and border posts) and the regulatory environment (such as streamlining cross-border clearing procedures and harmonising transit and transport regulations). By working to eliminate different types of bottlenecks – such as delays at border crossings – along the entire route, it has the potential to achieve considerable reductions in travel times.

Meeting trade standards imposed through regional and international trade agreements can pose significant obstacles to developing countries. Aid for Trade can support developing countries to meet these standards so that they are able to take advantage of global markets. For example, the multi-donor funded Standards and Trade Development Facility (STDF)[12] was established to help developing countries learn about standards and ways to satisfy them by funding small technical assistance projects in specific countries (World Bank, 2009). DFID's Regional Standards programme supports fisheries in Mozambique to maintain EU standards accreditation, supporting the incomes of fishermen as well as securing the valuable foreign exchange Mozambique earns through fish exports (DFID, 2008). In Kenya, the EU has recognised the Kenya Plant Health Inspectorate Services (KEPHIS) as a competent authority to inspect exports to the EU. This saves time and money by cutting out previously onerous red tape: a KEPHIS certificate of conformity costs just €5 and increases transparency and predictability for Kenyan horticulture. As Kenyan horticulture farmers are small-scale growers, we can anticipate that this will have positive trade and inclusive growth outcomes (EC, 2008).

4.4 Trade-related infrastructure

Aid for Trade that falls under the trade-related infrastructure category supports the development of the infrastructure hardware and software (in transport, telecommunications and energy, in particular) necessary to connect domestic markets to the global economy.

Trade-related infrastructure activities may include:

- Support for **policy and administrative management and development** in transport, telecommunications, storage and energy generation and supply;
- Support for transport (road, rail, water and air transport), telecommunications, storage and energy **construction, generation and supply**; and
- **Education, training and research** in transport, telecommunications, storage and energy (OECD, 2007 and OECD, 2008 in Turner, 2008; OECD/WTO, 2009; WTO, 2006).

Trade-related infrastructure assistance should support trade expansion, as well as inclusive growth and poverty reduction, directly and indirectly. Inclusive growth and poverty reduction benefits may result from aggregate improvements in trade: trade expansion resulting from infrastructure improvements in transport, energy and telecommunications may generate revenue that can be harnessed to achieve a country's development objectives. The benefits may also be direct: extending trade-related infrastructure to poorer trading groups (e.g. women, smallholders, informal traders, micro-entrepreneurs) will enable them to engage more effectively with domestic and global markets. For example, we know that inadequate transport poses significant challenges to poorer and more vulnerable groups: in many countries, rural women spend 30% of their income on transport, and much of their time, thus reducing their ability to invest in higher value-added activities. Village transport surveys in Tanzania and Zambia show that women spend nearly three times as much time in transport activities compared with men, and they transport about four times as much in volume (Malber-Calvo, 1994 and Barwell, 1996 in ITC et al., 2008; see also Fontana, 2009). Aid for Trade

[12] Donors include the World Bank, the WTO, the World Health Organization (WHO), the World Organization for Animal Health (OIE) and the Food and Agriculture Organization of the UN (FAO).

assistance for trade-related infrastructure can also have broader development impact by considering associated social issues: for example, RTFP – an Aid for Trade programme based in Southern and Eastern Africa – has taken steps to deal with the spread of sexually transmitted diseases (STDs) such as HIV/AIDS, one of the most prominent social risks related to investments in transport infrastructure. Responding to a proposal by the North Star Foundation, RTFP has funded the establishment of three 'wellness centres' for the provision of low-cost, low-maintenance primary health care along with HIV/AIDS prevention activities. Two of these centres supported by RTFP will be situated at the Chirundu border crossing and one at Beit Bridge, which connects South Africa and Zimbabwe.

Supporting the development of a country's domestic standards and qualifications for services, in telecommunications for example, can also yield strong development dividends. In the case of telecommunications, it is generally recognised that the sector's developmentis critical to manufacturing, as well as other service industries. Increasing access to telecommunications has had, in a number of instances, a significant impact on rural and economic development. For example, in Bangladesh, assistance to support the establishment of an appropriate regulatory framework has allowed competitive private external wireless operators to expand and provide a more rapid service, compared with the fixed line state-owned incumbents. Once the regulatory environment was secure, it allowed independent commercial activities to expand. In Bangladesh the Village Phone Programmes, operated by Grameen Phone, provides mobile phone services to around 50 million people (around 350,000 fixed lines in service in 2000 servicing 125 million). The programme leverages micro-loans from the Grameen Bank, providing women with loans to buy cell phones from Grameen Phone. This service coverage in poorer rural areas has had a significant social and economic impact on the operators, mostly rural, poor women for whom income-generating opportunities are limited. Increased transparency and formalisation can also reduce opportunities for petty corruption and harassment (financial or sexual) against smaller traders and women.

Supporting storage for agricultural producers offers a sound entry point for Aid for Trade. Improved storage enables producers to respond more effectively to market signals and to cope with the price fluctuations that tend to accompany openness to international commodity markets. Lack of storage means that smallholders tend to sell in the immediate post-harvest period when prices are low, as they are unable to wait until prices are higher. This has implications for profits, as well as food security, and emphasises the importance of ensuring the right institutions and structures are in place to enable farmers to cope with fluctuating prices (Winters et al., 2004).

4.5 Productive capacity building (including trade development)

Aid for Trade that falls under the productive capacity building category covers a wide range of assistance that seeks to promote the creation of an enabling business environment and to support the private sector to exploit its comparative advantages and diversify its exports.

Productive capacity building activities may include:

- Support for **business support services and institutions**, such as trade and business associations; regulatory and legal reform aimed at improving the investment and business environment; capacity building and advice for private sector firms; trade information; public–private sector networking, including trade fairs and e-commerce;
- Support for **banking and financial services**, including financial policy and administrative management; formal, semi-formal or informal sector financial intermediaries; monetary institutions; education and training in banking and financial services; and
- Support for **trade-associated activities in agriculture, forestry, fishing; industry; mineral resources and mining; and tourism** (OECD, 2007 and OECD, 2008 in Turner, 2008; OECD/WTO, 2009; WTO, 2006).

Increasing the productive capacity of a country requires distinctive forms of assistance, frequently from a number of donors, around a mutually supportive policy set. For example, in Mozambique a competitiveness and private sector development framework was developed, supported by the World Bank. This provided several recommendations, to which other donors have responded. These included the need to: improve competition in the overall incentive regime, including in factor markets of labour and land; reduce time and costs of transport and customs administration; undertake measures to diversify the export base; improve management of 'mega projects' to ensure social and economic development; and support business skills and services. Mozambique is undertaking a more comprehensive approach and programme of capacity building centred on these themes (Brady, 2008).

Supporting enterprises to trade, improving the trade-related aspects of a country's business and investment climate, as well as promoting the enabling environment for private sector development, are necessary to harness the growth and poverty reduction potential of trade. Policies should enable countries not only to link national markets into international markets but also to extend and deepen markets in such a way as to transmit price signals through the economy and enable poor people to benefit from the advantages offered through trade (Bird and Vandemoortele, 2009). Aid for Trade programming needs to identify the potential opportunities *and* constraints experienced by different groups engaged with trade – including big business, SMEs, micro-entrepreneurs, agricultural producers, informal traders – and support traders to benefit from trading opportunities and manage or limit trading constraints.

Supporting agricultural diversification to harness untapped export potential should be a key priority for Aid for Trade. German development cooperation is supporting agricultural diversification in Ghana to benefit from untapped export potential in non-traditional agricultural products such as fresh fruit, nuts and wood products. In addition, regional trade offers potential for processed food and animal products. The German approach to capacity development aims to improve the competitiveness of agricultural producers and processors (frequently women) and increase the value-added generated – particularly in rural areas – thereby contributing directly towards poverty alleviation. Through institutional support and policy advice for rural extension services and producers' associations, the programme is seeking to upgrade the market orientation of selected agricultural value chains, strengthen private sector institutions and increase efficiency in the public sector (BMZ, 2009). EU Aid for Trade support is contributing towards reinforcing Madagascar's comparative advantage in the lychee market by helping to structure the trade in a way that enhances product quality. This has included supporting growers to have access to quality plants and technical guidance; training processors to master post-harvest operations such as automatic sorting and sulphuring; supporting processing and treatment plants to confirm to EU regulations concerning food safety and traceability; and supporting communication and promotion campaigns for the Madagascan lychee to enable access to new markets. This has particular poverty reduction benefits: lychee growing is a very seasonal activity and one which provides an income for some 30,000 producers when expenses are particularly high (EC, 2008).

Supporting producers and traders to 'move up' the value chain can support increases in the value of trade and contribute to poverty reduction. A recent Aid for Trade initiative in Ethiopia demonstrates how Aid for Trade can help secure intellectual property rights and support producers to gain a greater share of the retail price of niche products. Through the Ethiopian Trademarking and Licensing Initiative, Aid for Trade has supported the establishment of a licensing programme to secure trademarks for Ethiopia's fine coffee brands. By securing trademarks, it is hoped that Ethiopia will improve its coffee export income and coffee producers will enjoy higher and more stable prices. There is some preliminary evidence of both trade and poverty impacts from this initiative. According to the Oromia Coffee Farmers Cooperative Union, it has already been able to secure export prices of more than $2 per kg, representing an increase of an estimated 50-100%. There are other ways Aid for Trade can support producers to engage with and benefit from higher value global supply chains. In the cotton sector, Aid for Trade projects have been supporting cotton producers to benefit from international firms' corporate social responsibility motivations, and to respond to demands for niche organic cotton. Two projects – the Better Cotton Initiative (BCI) and Cotton Made in Africa (CMiA) – link international cotton retailers with cotton that is produced meeting a number of sustainability criteria. Involvement in these projects by cotton producers appears to be worthwhile: in the case of CMiA, evidence from Zambia indicates that the project has resulted in a doubling of profit for participating farmers and a tripling of profit for lead farmers. Considering slightly higher labour needs, this translates into an estimated 85% and 158% higher return on family labour for participating farmers and lead farmers, respectively. The Lango Organic Cotton Project (LOCP) – a project in Uganda funded by the Swedish International Development Cooperation Agency (Sida) – has supported cotton farmers, who are 'organic by default', to obtain organic certification and to access a growing international niche market.

Education and health improvements can translate directly into heightened productivity and, as a result, positive trade outcomes. The capabilities of individuals and households are powerful determinants of whether they will be able to respond to new trading opportunities. Therefore, to support trade expansion and enhance the poverty reduction impact of trade, Aid for Trade should seek to build the productive capacity of poor traders, producers and entrepreneurs (Kanji and Barrientos, 2002; Lall, 1992). This may be achieved through training and education, which can improve access to markets, productivity and profitability, help fill the need for skilled workers in the growing tradable sectors and/or help those unemployed as a result of trade reform to gain productive employment. For example, in China greater educational attainment facilitates mobility from farm to non-farm employment, which is often a pathway out of poverty. One extra year of schooling was found to increase a worker's chance of finding off-farm employment by 14% (Zhang et al., 2002 in OECD, 2009). The Ethiopia Trademarking and Licensing Initiative highlights the fact that complementary skills development may be necessary to enable producers to enhance their engagement with international markets, and the benefits they derive from increased openness to these markets. Here, it was found that producer cooperatives would have benefited from capacity development in business and legal skills to support their understanding of intellectual property issues. In addition, farmers would have benefited greatly from agricultural extension, to ensure that their coffee production was of the quality required, and to make them aware of how to benefit from the initiative and negotiate higher farm-gate prices under the new market conditions. UNCTAD (2008) has concluded that improving women's skills accumulation and education is the most critical complementary policy needed to deal with the gender-related aspects of trade-related adjustment. Unsurprisingly, supporting the health of workers has also been found to contribute to productivity improvements. For example, in Bangladesh, the introduction of health and labour standards audits in as many as 600 factories has been associated with improved productivity (DFID, 2008). Through ComMark's Lesotho Textile and Apparel Sector Programme, anti-retroviral drugs have been provided to HIV-infected workers in the textile and apparel sector to support productivity (through improved wellbeing) and reduce turnover rates, as well as strengthen the perception internationally that Lesotho is an ethical sourcing destination.

Trade expansion will have differential impacts on women and men, and Aid for Trade assistance needs to address and support the different constraints and opportunities that women and men face. For example, while women are typically more vulnerable to trade changes, trade does present significant opportunities for women in non-traditional agricultural activities, such as clothing and textiles, cut flowers and electronics in export processing zones. This paid employment can contribute to shifting gender dynamics and can improve women's autonomy and economic and social status (OECD, 2009). Fontana (2009) argues that policy needs to give priority to well-designed and comprehensive interventions to facilitate women's economic mobility across sectors and occupations and to widen their options. These interventions should include: supporting the full enforcement of labour standards and anti-discrimination legislation; promoting mechanisms that foster small female traders and producers participation in trading and production groups; designing agricultural extension services and vocational training to meet the specific needs of female farmers; promoting gender audits of administrative procedures related to trade; and protecting women's rights over their own financial assets and supporting them to claim a fair remuneration for contributing to their family business. Involving women in trade-related activities has the potential to generate significant growth and poverty reduction impacts. For example, the Cambodian garment industry earns significant foreign exchange for the country, comprising 76% of total merchandise exports (2005 figure).[13] Young women, typically uneducated and from rural areas, comprise 90% of the sector's workforce. As well as spurring economic growth, the garment sector, and the predominance of women in the sector, has helped breakdown restrictive social norms and attitudes that only men should be involved in economic activities. The sector contributes directly towards wellbeing improvements for female workers, but remittances sent back home also support households with food, health care and education, contributing to poverty reduction in these poor rural areas (Neak and Yem, 2006 in OECD, 2009).

4.6 Trade-related adjustment

Aid for Trade that falls under the trade-related adjustment category seeks to help countries with the costs associated with trade liberalisation, such as preference erosion, tariff reductions or declining terms of trade.

Trade-related adjustment activities may include:

- Contributions to developing country budgets to assist with the **implementation of a country's own trade reforms and trade policy adjustments of other countries** (OECD, 2007 and OECD, 2008 in Turner, 2008; OECD/WTO, 2009; WTO, 2006);
- Contributions to developing countries budgets to **alleviate shortfalls in balance of payments owing to changes in the world trading environment** (OECD, 2007 and OECD, 2008 in Turner, 2008; OECD/WTO, 2009; WTO, 2006);
- Support to facilitate the **transition out of uncompetitive export sectors into higher potential sectors**; and
- Measures to **support trade-related adjustment at the household level** (e.g. social protection).

Changes in trade will create 'winners' and 'losers' and result in trade-related adjustment costs. This can contribute to greater or lesser differentiation in the distribution of assets, incomes and opportunities between and within countries. Policy interventions for adjustment can occur at the national, sectoral and household level. They can be either short-term transfer policies, aimed at helping governments, sectors or households adjust, in the short term, to shocks resulting from shifts in trade-related policy, or structural reform polices, to support changes in the structure of the economy and tax system to mitigate the longer-term impacts of trade changes. Through these measures, Aid for Trade can facilitate the adaptation of poor households, or poor countries, to trade changes. This will ideally result in a fairer distribution of the gains from trade.

At the **national level**, Aid for Trade can support initiatives that manage decreases in government revenue resulting from import and export taxes, for example. In the short term, this may include the provision of budget support to enable trade-related adjustment and help government adjust to fiscal imbalances. In the medium term, this may include supporting the design, negotiation and implementation of trade liberalisation that considers the poverty and revenue implications of liberalisation across sectors and over time (e.g. reducing taxes on imports predominantly consumed by poor people, or inputs for goods or sectors where poor people are heavily engaged); designing and implementing tax policies to expand a country's domestic tax base; and support in the implementation of these progressive tax systems. Current experience in COMESA highlights how Aid for Trade can support countries to adjust to the costs of trade liberalisation. Indeed, the COMESA Aid for Trade Strategy is seeking to address issues of adjustment costs through the COMESA Fund Adjustment Facility, whereby Member States will receive support to address both revenue losses and broader social and economic adjustments resulting from trade liberalisation. As a first step, the Regional Integration Support Mechanism (RISM), with funding from the Ninth European Development Fund

[13] Note that the Cambodian garment sector has been seriously affected by the global financial crisis. Lack of diversification in the drivers of trade expansion and growth in Cambodia has proved problematic.

(EDF9), will provide COMESA/EAC/Indian Ocean Commission (IOC)/Intergovernmental Authority on Development (IGAD) members with the resources to finance revenue losses as a result of the implementation of regional integration policies. Based on national plans for the implementation of regional integration commitments and the estimated budgetary implications, Member States can submit applications for funding. Additionally, there are plans to acquire funds to finance programmes aimed at mitigating broader social and economic consequences of adjustment.

At the **sectoral level**, Aid for Trade can compensate for the adverse impacts of phasing out uncompetitive or unproductive sectors. This may involve the provision of basic education and vocational training to enable workers and entrepreneurs to diversify their income streams and shift to sectors with export potential. This approach was adopted in Mauritius, a country which radically restructured its economy by transforming traditional sectors (sugar and textiles), promoting existing sectors such as financial services and developing higher value-added industries such as information and communication technology (ICT). The government was fully aware that both trade and labour reforms needed to complement each other to minimise adjustment costs and maximise sustainability. Aid for Trade supported the provision of vocational training to workers displaced as part of an effort to move from traditional sectors to high-value industries (OECD, 2009).

At the **household level**, Aid for Trade can support measures that help stabilise farmers' returns from commodities, given increased exposure to the erratic international commodity market. In addition, and in the short term, Aid for Trade can support social protection measures (i.e. targeted household cash transfers) to help reduce vulnerability to changes in trade and trade-related shocks. There is evidence to support this approach: in South Africa, it has been found that workers receiving social cash transfers look for work more intensively than workers who do not receive such grants. Research finds that this is because grants are likely to relax liquidity constraints and mitigate social risks in poor households, thereby encouraging migration and employment search (Samson, 2008 in OECD, 2009). Similar evidence has emerged in Brazil, Mexico, Kenya, Namibia and Zambia (OECD, 2009).

5. Conclusion

This paper has sought to outline how Aid for Trade can support developing countries to maximise the inclusive growth and poverty reduction impacts of trade. We have done this by outlining the linkages between trade, growth and poverty and highlighting some of the critical contextual factors that influence these linkages. We have suggested entry points and approaches for Aid for Trade programming that have the potential to support trade expansion as well as trade-induced poverty reduction.

We have argued that Aid for Trade should be programmed to optimise the positive, and limit the negative, impacts of trade expansion on poor countries and poor people. It should help build the export potential of developing countries so that they are able to reap the benefits of global trade, and help poor women and men engage with domestic and international markets in a way that benefits them.

From an inclusive growth and poverty reduction perspective, the Aid for Trade agenda, going forward, needs to consider a range of issues. How should productivity improvements and poverty impacts be balanced in investment decision making on Aid for Trade? How, when, why and to what extent should inclusive growth and poverty reduction considerations be explicitly integrated into Aid for Trade design and implementation? How should Aid for Trade interventions be prioritised and sequenced for trade, growth and poverty impact, and what are the implicit and explicit trade-offs?

Integrating poverty and social analysis and expertise (including gender analysis) more thoroughly into Aid for Trade decision making, design and programming is critical. Providing clear and structured advice on how these questions are worked through in practice is vital. We hope further policy-focused research and guidance can go some way in addressing these issues.

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