EXECUTIVE SUMMARY

Aid for trade is a means to help developing countries, especially low-income countries, integrate into the world economy as a way to spur growth. The recent financial crisis and global recession have, if anything, made aid for trade more urgent. Trade worldwide is likely to contract in 2009. It has become a main channel through which recessionary impulses from the United States and Europe are transmitted to developing countries. But these forces will sooner or later reverse: when growth does resume, trade is likely to be a leading source of demand. Helping countries to take full advantage of the global recovery, whenever it comes, has become a priority for rekindling growth, as well as sustaining rising incomes into the future.

The aid-for-trade program of the World Bank Group, as with other donors, is multifaceted. It goes beyond *concessional* lending commitments to low-income countries (the conventional definition used by the OECD/WTO). It also involves World Bank *nonconcessional* trade-related lending to middle-income countries. Promoting trade-led growth in middle-income countries creates market opportunities for neighboring low-income countries, to say nothing of the benefits such opportunities entail for trade creation worldwide. Moreover, investments by the World Bank's private sector arm—the International Finance Corporation (IFC)—in *private sector activities* can also generate trade and growth by expanding productive capacity in tradable goods. IFC private investments in the financial sector have also been instrumental in overcoming crisis-induced constraints on trade finance.

Finally, focusing solely on financial flows would miss the important role of *policy advice and technical assistance* embodied in studies and capacity-building efforts of donors. The World Bank Group provides many of these services, often working with other development partners—the International Trade Commission, UNCTAD, UNDP, and the World Trade Organization, to name a few. All this is to say that aid for trade is complex and multifaceted, and the program of the World Bank Group is no exception. This report aspires to cover all these dimensions.

Trade Now Figures Prominently in World Bank Country Strategies

Much progress has been made in integrating trade into development strategies, reflecting a collective effort by governments and donors, and by the trade and development communities working together. One measure of this integration is the prominence given to trade and competitiveness in the World Bank's Country Assistance Strategies, which partner governments and the World Bank forge together. Some two-thirds of these country strategies now identify trade as a priority area. This focus is part of a larger process in which governments are integrating trade into their national development programs and strategies to reduce poverty.

One result is that World Bank Group support for trade-related activities has grown significantly. The World Bank's *concessional lending* to low-income countries has risen from US$2.3 billion annually in 2002–05 to an average of US$3.9 billion in 2007–08. Investments through the IFC in building new productive capacity and infrastructure in low-income countries have added another US$3.4 billion in private investments. Activities in Africa amount to more than one-third of the WBG's total lending to low-income countries.

In addition, World Bank *nonconcessional trade-related lending* to middle-income countries has risen from US$3.7 billion in 2002–05 to US$6.6 billion in 2007–08. This increase in lending is important both because there is still significant poverty in these countries and, as noted above, because more rapid growth of middle-income countries translates into more growth in low-income countries. The World Bank Group has complemented these resources with support for *trade finance,* including a US$3 billion guarantee program and a new trade finance liquidity program that is expected to mobilize some US$50 billion over three years in partnership with donors and participating banks.

Although financial resources are an important measure of aid-for-trade delivery, improving institutions and policies is critical for enhanced trade and growth performance. To that end, providing technical assistance and building domestic capacities can contribute to improvements in the competitiveness of developing countries' firms and farmers. Assistance can also lead to more effective use of infrastructure and better management of institutions.

Efforts to Promote Aid for Trade Are Beginning to Pay Off

Efforts to promote aid for trade, though perhaps taking a different course from the one the negotiators at the December 2005 WTO Ministerial Conference would have foreseen, are paying dividends. Countries are requesting more aid for trade, donors are supplying it, and countries that need it are, in general, getting it. And some early evidence suggests that aid for trade is making a difference. Within the World Bank, aid for trade has a somewhat higher success rate than projects not related to trade.

These favorable developments, however, are not cause for complacency. The financial crisis and global recession will undoubtedly put pressure on aid for trade, from both the supply side, as donors turn their attention to paring back expanded deficits in coming years, and from the demand side, as countries cope with multiple demands on scarce development assistance, including much-needed assistance for maintaining social expenditures. Notwithstanding these constraints, the global recession has at the same time increased the urgency of making investments today that will allow countries to take advantage of a recovery in the global economy tomorrow—or whenever it occurs. That work must begin now.