

# Aid and trade:

## Implications for the future of WASH

In 2013, Dutch development policy shifted from aid to trade as the primary engine of sustainable, inclusive growth. In conflict-affected and post-conflict countries and fragile states with insufficient capacity to reduce poverty, the focus remains on aid. But in low- and middle-income countries with growing economies, the new Dutch policy combines aid and trade. And in Brazil, China, Colombia and some other countries, the policy promotes trade and investment with activities that will contribute to economic growth and employment in the Netherlands.

Can the new trade-based approach help ensure that every person in the world enjoys safe water, sanitation and hygiene, now and forever? After briefly describing aid policies that are based on trade and reviewing the historical context, this background note looks at how the Netherlands' aid-and-trade agenda may affect achievement of that goal.

### Types of aid and trade

**Aid for Trade** is an initiative of the World Trade Organisation (WTO), launched in 2005 to help developing countries, in particular the least developed, build the trade capacity and infrastructure they need to benefit from free trade. The idea first arose at the Uruguay Round<sup>1</sup> because of the gap between developing countries' ability to implement new multilateral trading rules and developed countries' willingness to help them meet the requirements (Agboghoroma et al., 2009). Trade-related technical assistance and capacity building were the proposed solutions.

**Aid to trade** envisages a transition from aid-dominated relationships between donors and developing countries towards equitable partnerships between actors in developing countries and international business. Trade is seen as the engine of sustainable, inclusive growth.

**Aid and trade** seeks synergies between trade and development policy, based on the assumption that foreign private sector investment will best help developing countries eradicate poverty. The approach assumes that a certain level of aid is needed to create the conditions for trade and to protect the needs of the very poor, who may not benefit directly from trade. The combination of aid and trade is expected to benefit both the poor and the international business community.

**Trade not aid** is a response to the problems of aid as a vehicle for development. Proponents argue that economic transformation cannot be achieved by hand-outs or gifts. Instead, they see trade as the only viable strategy for developing countries' economic and social advancement. This approach is based on the premise that poor countries fail to prioritize the development of domestic resources because of their dependency on donors.

<sup>1</sup> The Uruguay Round was the eighth session of multilateral trade negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning 1986 to 1994 and embracing 123 countries. See [http://en.wikipedia.org/wiki/Uruguay\\_Round](http://en.wikipedia.org/wiki/Uruguay_Round).

## Historical context

Using trade to promote development and reduce poverty is not a new idea. In 1975 the Lomé Convention initiated an aid-and-trade agreement between the European Community and 71 African, Caribbean and Pacific countries. The agreement eliminated duties on agricultural and mineral exports to the European Community. In line with the Lomé Convention, donor assistance for trade development in the 1970s and 1980s was mainly channelled through government trade promotion organisations. Results were meagre, however: the macroeconomic environment was unfavourable, and the government agencies were not geared towards private sector development (Van Hove et al., 1999).

In the late 1980s, structural adjustment programmes promoted trade liberalisation and private sector development. According to Van Hove and Lecomte (1999), however, the infrastructure, technology, export finance and know-how were insufficient to achieve results, and marketing support was inadequate, with bottlenecks early in the production chain. "Increasingly therefore, 'aid for trade' projects focussed at the micro-level, on improvements to product design, production and the manufacturing process in individual companies, as well as developing the capacity of export promotion" (Van Hove and Lecomte, 1999, p.5).

The emphasis on trade is not entirely new for the Netherlands, either. In the late 1990s, then development minister Eveline Herfkens argued that European agricultural subsidies and international trade arrangements hampered economic progress in African countries and should be changed (Bieckmann, 2013).

## Aid and trade in the Netherlands

The new Dutch framework pursues three aims: "First, to eradicate extreme poverty in a single generation; second, sustainable, inclusive growth all over the world; and third, success for Dutch companies abroad" (DGIS, 2013).

Three motives lie behind the shift in Dutch policy (DGIS, 2013):

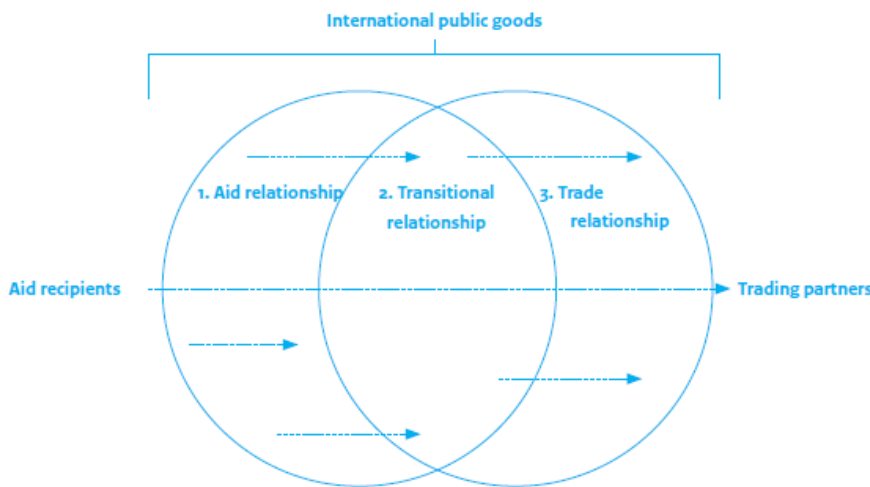
Countries that not so long ago were considered poor, such as Ghana, Vietnam and Ethiopia, are developing faster than expected. They no longer want their relationship with the Netherlands to be based on aid but are seeking a trade relationship based on equality.

Three-quarters of the world's people living below the poverty line can be found in middle-income countries with large populations, such as India, Pakistan and Nigeria. Overseas development assistance (ODA) is now much less important for these countries than their domestic investments, remittances, trade and private funds.

Its long-standing aid relationships and good contacts with emerging countries have positioned the Netherlands to benefit, through trade, from rapid economic growth in Asia, Africa and Latin America, especially given the slow economic growth in Europe.

The Dutch policy framework suggests that aid can be replaced by trade ('from aid to trade') and that aid relationships are a stepping stone for developing a trade relationship (Figure 1).

**Figure 1. Recipients and partners in Dutch aid, trade and investment agenda**



Source: DGIS, 2013, p.28

Globally, in recent years, annual trade-related overseas development assistance (ODA) commitments<sup>2</sup> have been \$25 billion to \$30 billion, or about 30% of total ODA. Denmark and Germany have made aid-for-trade programmes a strategic priority (OECD/WTO, 2013). Australia and Norway also have aid-for-trade or aid-to-trade policies. Norway's new development policy, Sharing for Prosperity<sup>3</sup>, was rolled out in the same month as the Netherlands' aid-and-trade approach. Both policies call for redistribution of wealth, but the Norwegian policy is more detailed and arguably more innovative (Bieckmann, 2013): whereas the Dutch policy would postpone redistribution until growth has occurred, the Norwegian policy assumes that greater equality actually stimulates growth.

## Implications for the WASH sector

As the nature of international aid changes, the water, sanitation and hygiene (WASH) sector faces a pressing challenge to increase its effectiveness and relevance. Although the 2015 millennium development goal (MDG) for drinking water has been met, 748 million people still lack access to an improved drinking water source, and 2.5 billion people are without access to a basic toilet (WHO, 2013). In addition, based on IRC research, many people who have nominal access to water and sanitation actually receive very poor levels of service. The sustainable development goal (SDG) for water in the post-2015 development agenda is likely to be agreed as universal access to sustainable WASH services (da Silva-Wells et al., 2013).

In the WASH sector, are aid and trade interchangeable or sequential interventions? Will they serve the same groups, or should they be seen as separate interventions? The new Dutch policy will alter the roles of the main WASH actors—NGOs, government and private sector. How will the practices and relationships of organizations, partnerships and businesses be affected?

<sup>2</sup> ODA includes technical assistance to help countries develop trade strategies, negotiate more effectively, and implement outcomes; build infrastructure (roads, ports, telecommunications) that links domestic and global markets; and invest in industries and sectors to diversify exports and build on comparative advantages. ODA also includes adjustment assistance: defraying the costs associated with tariff reductions, preference erosion, or declining terms of trade.

<sup>3</sup> Sharing for prosperity: Promoting democracy, fair distribution and growth in development policy. Available at: <[http://www.regjeringen.no/pages/38299114/PDFS/STM201220130025000EN\\_PDFS.pdf](http://www.regjeringen.no/pages/38299114/PDFS/STM201220130025000EN_PDFS.pdf)>.

Currently, more than 90% of the Dutch support for WASH is targeted to rural areas, with some 70% of funding allocated for new services and 10% to 20% for improving levels of service to the already served (DGIS, 2014). Will trade likewise target the poor and unserved, or will it focus on the middle class, with the objective of improving levels of service? DGIS has stated that it will increasingly pay attention to urban water supply and sanitation and urban wastewater management (DGIS, 2014). It seems unlikely that the private sector will be interested in serving the poor who live in rural areas and informal urban areas. Can the WASH sector make profitable business cases for serving poor and unserved people in rural and peri-urban areas?

Part of the new Dutch development agenda involves helping the private sector invest in developing countries with activities that will facilitate the success of Dutch companies abroad (DGIS, 2013). This may be perceived as a reintroduction of tied aid and a move away from agreements made in the Paris Declaration (2005), the Accra Agenda for Action (2008) and the Busan Declaration (2011) on the effective use of development funds<sup>4</sup>. How does the new Dutch aid-and-trade agenda fit with the international agreements on aid effectiveness? Will private sector investments be coordinated with countries' national programmes? Will the Dutch private sector be held accountable for the long-term effects of its investments, and if so, by and to whom? Are additional agreements on international aid effectiveness needed?

## IRC's vision

IRC believes that achieving sustainable WASH services for all is possible in countries with strong sectors and government leadership.

Strong sectors have well-articulated goals and enabling environments with efficiently operating service providers supported by service authorities who are able to plan, coordinate, regulate and monitor service delivery. Service delivery requires clear institutional policies with priorities, targets and procedures that include planning, budgeting, expenditure management, procurement and civil service management. A sector must also have the capacity to identify challenges and trends, find solutions and implement them at scale.

Strong government leadership makes effective use of all available resources. This requires that all partners collaborate to achieve a shared vision under the leadership of national and local governments, working together on agreed sector targets using nationally established systems and procedures.

Today, however, the WASH sectors in many middle-income and transitioning countries do not receive the political priority or have the capacity to guarantee equitable and sustainable services for all. The question, then, is whether and how the new aid-and-trade agenda can strengthen these countries' WASH sectors and governments so that the SDG for water can be achieved.

We expect the upcoming debate—The Limits of Aid, the Future of Trade?—on 17 September 2014 to shed light on opportunities and challenges of the aid-and-trade agenda for improving countries' WASH sectors and government leadership to achieve safe water, sanitation and hygiene goals for every person in the world, now and forever.

<sup>4</sup> These agreements, which the Netherlands has signed, cover cooperation with national governments country-specific strategies (ownership), participation of local institutions, harmonisation of procedures, measuring of results and mutual accountability, and predictability of funding.

## About IRC

IRC is an international think-and-do tank that works with governments, NGOs, entrepreneurs and people around the world to find long-term solutions to the global crisis in water, sanitation and hygiene services. At the heart of its mission is the aim to move from short-term interventions to sustainable water, sanitation and hygiene services.

**Authors:** Erma Uytewaal, Jeske Verhoeven with contributions from Paul van Koppen, Harold Lockwood Stef Smits and prepared by Vera van der Grift.

## Sources and further reading

- Action Aid, Both ENDS and SOMO, 2013. The Dutch Good Growth Fund: Who profits from development cooperation? Available at < <http://www.bothends.org/en/Publications/document/110/The-Dutch-Good-Growth-Fund-who-profits-from-development-cooperation> > [Accessed 15 August 2014].
- Agboghoroma, A., Busse, M., Falatik, S., Hoekstra, R., Königer, J., Koopman, G., Kühne, C., and Roloff, N., 2009. Aid for trade: Making trade effective for development. Case studies from Kenya, Tanzania and Uganda. Edited by PricewaterhouseCoopers and Hamburg Institute of International Economics (HWWI). Available at: <[http://www.hwwi.org/fileadmin/hwwi/Leistungen/Gutachten/Aid\\_for\\_Trade.pdf](http://www.hwwi.org/fileadmin/hwwi/Leistungen/Gutachten/Aid_for_Trade.pdf) > [Accessed 29 August 2014].
- Bieckmann, F., 2013. Dutch development policy lacks an alternative economic vision. The Norwegians do it better. Available at: <<http://www.thebrokeronline.eu/Articles/Dutch-development-policy-lacks-an-alternative-economic-vision> > [Accessed 29 August 2014].
- Directorate General for International Cooperation (DGIS), 2014. External support agency highlights 2014. Developed and coordinated by the Water, Sanitation, Hygiene and Health (WSH) Unit at the World Health Organization (WHO) in preparation for the Sanitation and Water for All (SWA) High-Level Meeting (HLM), April 2014. Available at: < [file:///D:/Downloads/14063\\_Netherlands%20ESA%20for%20Web.pdf](file:///D:/Downloads/14063_Netherlands%20ESA%20for%20Web.pdf) > [Accessed 29 August 2014].
- Ministerie van Buitenlandse Zaken (DGIS), 2013. Wat de wereld verdient: Een nieuwe agenda voor hulp, handel en investeringen. [pdf] Ministry of Foreign Trade and Development Cooperation of The Netherlands. Available at: < <http://www.government.nl/documents-and-publications/letters/2013/04/05/global-dividends-a-new-agenda-for-aid-trade-and-investment.html> > [Accessed 15 August 2014].
- OECD/WTO (2013). Aid for trade at a glance 2013: Connecting to value chains. Available at: < [http://dx.doi.org/10.1787/aid\\_glance-2013-en](http://dx.doi.org/10.1787/aid_glance-2013-en) > [Accessed 15 August 2014].
- Silva-Wells, C. da, Uytewaal, E., and Verhoeven, J., 2013. Information package: Aid effectiveness. Available at: < <http://www.ircwash.org/resources/information-package-aid-effectiveness> > [Accessed 15 August 2014].
- Van Hove, K., and Lecomte HB., S., 1999. Aid for trade development: Lessons for Lomé V. Paper based on an ECDPM project, New Forms of ACP-EU Trade Cooperation, sponsored by the Belgian and Swedish governments. Available at: < <http://ecdpm.org/wp-content/uploads/2013/11/DP-10-Aid-for-Trade-Development-Lessons-for-Lome-V-1999.pdf> > [Accessed 29 August 2014].
- World Health Organization (WHO), 2013. Development cooperation. [online]. Available at: <<http://www.who.int/trade/glossary/story016/en/index.html> > [Accessed 29 August 2014].