



# United Nations Inter-Agency Cluster on Trade and Productive Capacity

## The Multi Donor Trust Fund

Geneva,  
February 2019







# United Nations Inter-Agency Cluster on Trade and Productive Capacity

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UNCTAD, UNIDO, FAO, ILO, ITC, WTO, UNDP,  
the 5 UN Regional Commissions, UNEP, UNOPS, UNCITRAL

## **The Multi Donor Trust Fund**

**Geneva, 2019**

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## THE UNITED NATIONS INTER-AGENCY CLUSTER ON TRADE AND PRODUCTIVE CAPACITY

### **Presentation:**

The United Nations Inter-Agency Cluster on Trade and Productive Capacity is led by UNCTAD and includes FAO, ITC, ILO, UNDP, UNEP, UNIDO, UNOPS, WTO and the five UN Regional Commissions.

The Cluster is an inter-agency mechanism dedicated to the coordination of trade and development operations within the UN System. It proposes comprehensive solutions with an optimized articulation between the formulation of common policy recommendations and their effective translation through joint-programmes at the country level.

Since its establishment in April 2007 and its official launch by the United Nations Secretary-General during UNCTAD XII Ministerial Conference in April 2008, the UN Inter-Agency Cluster makes a concrete and direct contribution to United Nations System-wide Coherence reform and related 2030 Agenda for Sustainable Development by coordinating its participation:

- In the United Nations System including, as appropriate, within the United Nations Development Group (UNDG) machinery, with the view to the formulation of new United Nations rules, standards and best practices for development operations.
- In the Countries involved in a United Nations Development Assistance Framework (UNDAF) and having adopted a "Delivering as One approach".

Most of the members of the United Nations Inter-Agency Cluster are Non-Resident Agencies (NRAs).

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## **Initiatives:**

The following is a summary of the main initiatives undertaken by the UN Inter-Agency Cluster on Trade and Productive Capacity:

### **Contribution to the United Nations System-wide Coherence**

- Cooperation within the Cluster on the design and formulation of common policy analysis and recommendations developed in the context of the 2030 Agenda for Sustainable Development.
- Cooperation and coordination within the Cluster for a better inclusion of the Non-Resident Agencies (NRAs) in the Delivering as One (DaO) process. A better inclusion of the NRAs in the DaO is contributing to the increase of quality of the Joint-Programmes at the country level as those inter-agency operations benefit from a wide range of expertise existing within the UN System, notably on policy issues.

### **Operations of the Cluster in the context of the Delivering as One**

- Starting initially with projects in the eight One UN pilot countries, the Cluster has greatly expanded its participation in the design and implementation of Joint-Programmes with different intensity and configuration at the regional and national levels.
- As of 2019, the Cluster is covering more than 30 countries with joint-activities developed in the context of the United Nations Development Assistance Frameworks (UNDAFs)

Building on the principles of the aid effectiveness agenda, which calls for country-driven, coherent, timely, flexible and result-oriented assistance, the Cluster advocates for innovative pooled financing mechanisms such as the thematic Multi-Donor Trust Funds (MDTFs.)



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## THE MULTI DONOR TRUST FUND

In recent years, the United Nations Inter-Agency Cluster has constantly increased its participation in joint programmes developed in the context of the “Delivering as One”. The United Nations Inter-Agency Cluster remarkably contributed to the development of a new setting regarding United Nations operations at the country level-level making the best use of the expertise of the NRAs.

With a view to complementing funds available through the DaO funding mechanisms, UNCTAD initiated the process for the establishment of a **UN Inter-Agency Cluster Multi-Donor Trust Fund (MDTF) on Trade and Productive Capacity** to scale-up the Cluster’s activities both at the global and country levels.

In the context of the 2030 Agenda for Sustainable Development, this fund is expected to support the United Nations Inter-Agency Cluster in building a more holistic vision of “trade and productive capacity” and in developing concerted policy initiatives on key thematic areas which will guide the implementation of joint programmes at the country level. Donors are thus invited to support this initiative and provide adequate resources.

### **a) Rationale**

Trade has been acknowledged as an enabling factor for achieving the Sustainable Development Goals (SDGs). The 2030 Agenda for Sustainable Development represents a paradigm shift in the way all countries conceive economic and social progress which needs to be based on the three equally important and mutually supportive pillars of economic, environmental and social sustainability.

The Agenda places trade at the centre stage, by stating that “International trade is an engine for inclusive economic growth and poverty reduction and contributes to the promotion of sustainable development” (Paragraph 68) and recalls the role of “Private business, investment and innovation as major drivers of productivity, inclusive economic growth and job creation” (Paragraph 67).

An increasing number of developing and transition economies have successfully managed to integrate into the world economy in recent decades. Trade integration has been a key element of production expansion, technological upgrading, economic

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dynamism and job creation. Indeed, selected trade policies in conjunction with coherent sectoral and labor market policies have been the drivers of trade and investment expansions with large job creation and rapid income growth for workers. Trade integration can open a “vent for surplus”, permitting the employment of underutilized resources, particularly land and labor, easing balance-of-payments constraints and supporting structural transformation while building or upgrading productive capacities. However, many countries have not been able to benefit sufficiently from global economic integration and rising trade and investment flows. Their economic and development gap widened with those economies that succeeded associating economic integration with income and job creation.

In several cases, the benefits from integration have been mixed and generated growth without employment or created jobs that do not support a long-term pattern of poverty reduction, productivity growth, innovation and improving living conditions. Often, the fundamental unevenness in the generation of income and vulnerability in the production and export structure undermines the economic and social sustainability of their economic gains.

The challenge for developed and developing countries is now to achieve their sustainable development objectives, through individual and collective actions, benefitting from trade and investment integration through appropriate **participation in global value chains** and **efficient trade facilitation** support including modern partnership instruments to lead to **improved employment** opportunities while taking into consideration the nature of the complex challenges that this might pose in the current economic, environmental and social context.

## **b) Value-Added**

The Fund is benefiting from a recognized work developed by the Cluster under the three above-mentioned areas which ask for an extensive inter-agency collaboration. Three comprehensive Thematic Notes<sup>1</sup> (proposed in Annexes and summarized below) on Trade and Value Chain Development, Trade Facilitation and Trade and Employment are proposed as integral part of the UN Inter-Agency Cluster MDTF. The work of the Cluster under the three notes is closely interrelated.

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<sup>1</sup> See Annexes pages 7-30.

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### *Thematic note on Trade and Value Chain Development*

On trade-led Value Chain Development, the Cluster is proposing systemic capacity-building focusing on entire value chains from primary production through processing to trade. This would include policy and value chain governance, sector business environment, investment and technology transfer, quality and standards compliance, productivity, innovation, value addition, trade logistics, as well as related financial and other trade support services. Effective value chain development requires a well-coordinated multi-agency support. The Cluster partner agencies have combined expertise in all the above-mentioned areas, which will be coordinated at the Cluster level. The work of the Cluster on Value Chain Development will directly contribute to the **SDG 8, 9 and 17**, which call for support to export-led industrial and economic development and further integration of SMEs in global value chains and trade partnerships.

### *Thematic note on trade and employment*

On trade and employment, the work of the Cluster is proposing the development of a coherent policy framework that creates jobs using trade as an essential instrument. To achieve that exports, support a high share of employment creation a wide range of coordinated activities in the areas of sectoral and industrial development, investment (both domestic and foreign) promotion, skill strategies development (both in domestic and export sectors), trade and market access mainstreaming (including trade related regulations and voluntary standards), corporate social responsibility and social protection are conducted. The work of the Cluster on Trade and Employment will directly contribute to the **SDG 8** aimed at promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all by capturing the connection between growth inclusiveness, sustainability, job creation and quality of work.

### *Thematic note on trade facilitation*

On trade facilitation, the work of the Cluster is a mirror of the national inter-agency collaboration, which is necessary for practically all measures of trade facilitation. The Cluster' assistance directly contribute to the article 23 of the WTO Trade Facilitation Agreement entering into force on March 2017.

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### **c) A fund capitalizing on complementary initiatives**

The work of the Cluster under the three thematic notes all contribute to the **SDG 17** on the Global Partnership aiming at promoting a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization” while target 17.11 calls for “Significantly increasing the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020”.

The UN Inter-Agency Cluster MDTF on Trade and Productive Capacity is aimed at building on existing assistance provided by the individual members of the Cluster in the context of the 2030 Agenda for Sustainable Development.

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## ANNEX 1.

### UN Inter-Agency Cluster on Trade and Productive Capacity

#### Thematic note

#### Trade and Value Chain Development

#### **1. Trade-led Value Chain Development contributes to the SGDs**

Value Chains (Global, Regional and Local) have become a dominant feature of economic, trade and investment landscape in developing, emerging, and developed economies. As per UNCTAD estimate the value chains (intra-firm or inter-firm, regional or global in nature, and commonly referred to as Global Value Chains or GVCs) shaped by TNCs account for some 80% of global trade. The developing country share in global value-added trade increased from 20% in 1990 to 30% in 2000 to over 40% in 2013.

The international fragmentation of production is driven by changes in the business and regulatory environment, new technologies, shifts in corporate thinking and firm strategies, and the systematic liberalization of trade and investment over the recent past decades. Evidence based on the World Input-Output Database (WIOD)<sup>2</sup> shows that global value chains (GVCs) are creating more and more of world income, including labour income. This is by no means limited to manufacturing; indeed, more income is generated by exporting services within GVCs. Moreover, the fragmentation of the production process across different countries has led to a strong trade-investment nexus.

The linkage between value chains development-trade-growth is not new. At first point, the value addition increased trade that positively affects growth in incomes is by stimulating productivity. Recent data<sup>3</sup> show that higher value-added exports, part of which result from participation in GVCs, are associated with higher growth rates. GVC links in developing countries can play an important role in economic growth. Domestic value added created from GVC trade can be very significant relative to the size of local economies. In developing countries, for example, value added

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<sup>2</sup> IMF 2013: Trade Interconnectedness: The World with Global Value Chains

<sup>3</sup> Ibid

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trade contributes some 28% to countries' GDP on average, as compared with 18% for developed countries<sup>4</sup>. Furthermore, there appears to be a positive correlation between participation in GVCs and GDP per capita growth rates.

Economies with the fastest growing GVC participation have GDP per capita growth rates some 2 percentage points above the average. Countries that, over the last 20 years, managed to grow both their participation in GVCs and their domestic value added in exports experienced GDP per capita growth of 3.4% on average, compared to 2.2% for countries that only increased their participation in GVCs without “upgrading” their domestic value addition.

## **2. Trade-led Development needs Focus on Value Chains**

Global Value Chains or supply chains have gained increasing importance in global trade relations and therefore in export-oriented development strategies of countries. The underlying principle is always a fragmented production where lead companies source inputs from suppliers based on agreed terms and conditions, often using international and private standards. While the impact on trade and economic growth is well established, from a developmental perspective the impact on employment or the environment is less straight forward and a number of bad practice examples have made it in the news in recent years.

While Global Value Chains create the opportunity for enterprises to move up the value addition ladder, they also offer the possibility for workers to acquire needed higher skills levels and work under better conditions. The developmental impact in Global Value Chains however depends on the governance and requirements by the partners for compliance with international standards for products, labour, health & safety and environmental impact.

When requested and enforced, such standards compliance can be an important motivation and door opener to export markets for enterprises, while at the same time significantly improving workers conditions, skills levels and ultimately employment and income, along with a better protection of the environment through the respect of sustainability requirements.

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<sup>4</sup> UNCTAD 2013: Global Value Chains and Development

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Being applied to an entire value chain, good governance and standards compliance can become a powerful tool to improve the living conditions of people at the beginning of a value or supply chain through market requirements set by sourcing companies and rewarded by consumers in international markets.

### **3. Challenges of Trade-led Value Chain Development**

Trade-led value chain development is a systemic but also complex development endeavour which faces a wide range of challenges, for example:

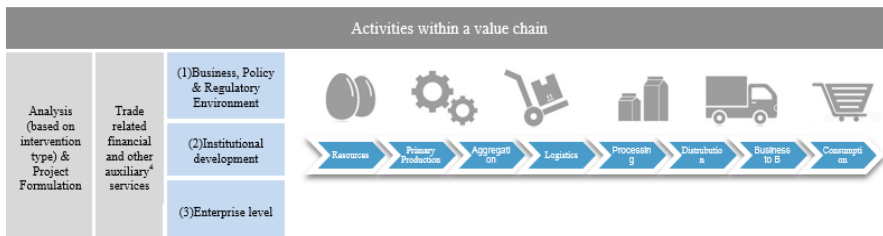
- i) Weak Value Chain Governance and insufficient coordination, synchronization of public and private actors and services;
- ii) Lack of Value Chain specific Business Environment provisions;
- iii) Insufficient policy advisory tools specific to Value Chains for analysis of competitiveness position, value addition opportunities;
- iv) Lack of compliance with a diversity of standards that are required to provide trust and confidence in the previous and subsequent elements of the value chain product related standards and technical regulations such as Sanitary and Phyto-Sanitary (SPS) measures, labour standards, occupational health & safety, sustainability and environmental impact standards;
- v) Low value chain performance at different stages (such as productivity at farm level, processing/operator level including lack of innovation, value addition, time and cost at border level) resulting in not competitive value chains;

### **4. Trade-led Value Chain Development requires Inter-agency Cooperation**

Capacity-building activities within a value chain can be divided into several inter-connecting stages, which are required to bring a product or service from conception to final disposal after use.

A mapping exercise can identify the various areas of experiences and services needed from different cluster agencies (See Table 1 “Value Chain based Areas of Capacity-Building Interventions”)

**Table 1 Value Chain based Areas of Capacity-building Interventions**



This schematic value chain visualizes that a comprehensive, effective value chain development process requires a well-coordinated multi-agency support. The Cluster partner agencies have combined expertise in all of the above-mentioned areas, which can be coordinated at the Cluster level. The available expertise focuses on the following intervention areas:

- i) Value chain governance (stakeholder consultative processes/round tables)
- ii) Policy and Business environment reform for sectors/value chains
- iii) VC analysis, competitiveness analysis, benchmarking, monitoring, etc.
- iv) Value chain cluster development
- v) Value chain performance development: productivity, quality management, resource efficiency and cleaner production (RECP), quality and food safety, process control, etc.
- vi) Standards compliance: product, worker/labour, health and safety, environmental, sustainability
- vii) Value addition, innovation, IPRs;
- viii) Investment and technology transfer;
- ix) Quality infrastructure and conformity assessment/product safety services
- x) Trade facilitation, mutual conformity recognition, e- certification, etc.
- xi) Trade related finance, export credit;
- xii) Business/trade linkages including between national-regional and global value chains



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Inter-agency cooperation for Value Chain Development needs to be based on and combine or synchronize the specific value added each partner-agency can contribute. Such inter-agency cooperation is to be based on intervention modules that are client needs-driven and not influenced by mandates of agencies.

In terms of size and covered areas, export or trade-led value chain development clearly surpass the mandate of a single organization and therefore require a new *modus operandi* in project development and implementation.

Additionally, also donors have more and more adopted systemic development concepts and therefore have moved from single agency projects to more holistic multi-agencies programs, involving specialized agencies with complementary expertise and services. Such integrated and at the same time more specialized form of technical assistance has been recognized as having more development impact.

## **5. What the Cluster can do for Trade-led Value Chain Development**

The UN Inter-Agency Cluster on Trade and Productive Capacity can play a number of roles in trade-led value chain development:

- i) Acting as convener and facilitator: bringing diverse set of public and private Value Chain actors together, such as the Ministries of Agriculture, Industry, Trade, Health, Science & Technology, and others; private sector, trade support institutions, etc.) thereby addressing a major challenge at national level, the lack of coordination/cooperation.
- ii) Promoting thematic focus on Trade and Value Chains and establishing linkage between Value Chain, Trade Facilitation and Employment.
- iii) Focusing on various groups of countries:
  - a. low-income, lower-middle income countries (thereby complementing EIF funding)
  - b. national and regional, intra-regional (south-south, etc.) value chain development
- iv) Providing a platform to identify and disseminate Good Practices through public goods on Trade and Value Chains.
- v) Bundling available specialized knowledge on issues such as Standards and Compliance (SPS) Trade Facilitation and other relevant issues for Value Chain development from existing specialized structures, mechanisms or

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networks such as STDF for SPS, Global Trade Facilitation Network for TF, EIF/DTIS, etc.

- vi) Improving thematic inter-agency coordination at United Nations Chief Executives Board level and with bi-lateral agencies.
- vii) Piloting new and innovative Value Chain development models, schemes, etc.
- viii) Establishing linkages with DFIs (WB and Regional Development Banks)

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## ANNEX 2.

### UN Inter-Agency Cluster on Trade and Productive Capacity

#### Thematic note

#### Trade and Employment

### 1. Context: Trade for Employment and Sustainable Development

Strengthening the potential of trade as an important means of achieving sustainable growth and creation of decent jobs in a globalizing world is critical in addressing the massive job challenges today. Global unemployment since the Great Recession has continued to increase, and by 2019, more than 212 million people could be out of work according to a recent ILO report. Young workers are particularly hit with a global youth unemployment rate of almost 13 per cent in 2014, with a further increase expected in coming years.

Moreover, global and regional trade integration over the last two decades has been contributing to important progress in poverty reduction and income growth in emerging and developing countries, taken as a whole. Yet, the number of people living on less than 3.10 PPP-adjusted USD per day has been recently estimated as nearly 36 per cent (around 2 billion), while people living in extreme poverty (on less than 1.90 USD per day) is estimated as 15 per cent of the total population of emerging and developing countries. Poverty reduction has been significant globally, but uneven across regions remaining stubbornly high in Africa and parts of Asia. Some developed economies, especially in Europe, have also experienced increased poverty and some estimates indicate that 300 million people in developed countries were living in poverty in 2012 (defined in relative terms based on incomes under 60 per cent of the median).

Global unemployment and widespread poverty are acute manifestations of the decent work deficits that afflict economies in the developed and developing world. Building productive capacity for benefiting from the potentials of trade is a fundamental strategy for reducing poverty through the creation of decent jobs and the promotion of sustainable and inclusive growth.

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## 2. Policy Challenges

The perspective of the 2030 Agenda indicates the broad acknowledgment that benefits from trade are not automatically generated by trade openness.

First, even when trade expansion triggers the growth of certain economic sectors, its employment impact varies considerably across industries and countries. In some cases, openness and market access may simply allow the expansion of few sectors which may lack significant backward and forward linkages with the rest of the economy. If this happens, the potential of direct and indirect net job creation is undermined, which often leads to the phenomenon of jobless growth as is commonly observed in commodity exporting countries.

Second, the quality of the newly-created jobs may not be sufficient to improve the living conditions and prospects of workers and thus contribute to an inclusive, economically and socially sustainable growth pattern. Unduly low pay, sometimes under the legal minimum wage, excessive work hours, workplace accidents and denial of workers' basic rights remain serious obstacles to the achievement of the 2030 Agenda.

Third, trade integration typically has distributional effects among asset owners and groups of workers, which are often not fully taken into account in trade and related policies. As a result, the economy-wide gains of trade are not sufficiently shared with those that lose from increasing integration. Significant efforts have been made to address this issue, particularly through providing a range of employment services and income support for the disadvantaged workers, but, in many cases, the overall re-distributional effects were rather limited. For this reason, trade has often been associated with rising inequality.

Fourth, lack of economic diversification renders many countries, in particular Least Developed Countries (LDCs) which are also characterized by a lack of human assets and low income, extremely vulnerable to the volatility of globally integrated markets. The economic, social and environmental sustainability of growth associated with trade integration will depend on the capacity to upgrade and diversify by creating productive capacities. These require more investment in social and physical infrastructure, physical and human capital as well as knowledge accumulation. Achieving such outcomes have become more challenging in the current global context.

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Trade and investment can be a vehicle of expansion of production, diversification, technological upgrading, growing incomes and social progress through the generation of decent work. The 2030 Agenda, including the SDGs and the Addis Ababa Action Agenda, recognizes that Sustainable Development needs to be pursued focusing on mutually supportive goals and instruments that ultimately create the productive capacity for sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Benefiting from trade and allowing a mutually beneficial intensification of trade and investment flows requires the development of productive capacity in the economy as a whole and in particular on those economic activities with potential for decent job creation.

### **3. Integration in the global production networks and Decent Work**

As a consequence of trade openness, technological innovation, ICT progress and reduction in transportation costs, 60 to 80 per cent of world trade is now conducted through global value chains. Global value chains are therefore of crucial and increasing importance to the world of work. In June 2016, the 105th session of the International Labour Conference discussed “Decent Work in Global Supply Chains” and their relation with trade.

In its conclusion the Government, Workers and Employers representatives highlight the large benefits associated with global supply chains, including the contribution to economic growth, job creation, poverty reduction, entrepreneurship and transition from informal to the formal economy. It is also acknowledged that failures at all levels of global supply chains have contributed to decent work deficits, including undermining labor rights, particularly freedom of association and collective bargaining. Decent work deficits are pronounced in a significant number of Export Processing Zones linked to global supply chains. It is also recognized that governments may have limited capacity and resources to effectively monitor and enforce compliance with laws and regulations, while the expansion of global supply chains across borders have exacerbated these governance gaps.

With this background, the ILC points out that global action for decent work in global supply chains is needed, calling for: (i) “actively promote social dialogue and fundamental principles and rights at work, including freedom of association and

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the right to collective bargaining for all workers, regardless of their employment status, including in Export Processing Zones”; (ii) “consider to include fundamental principles and rights at work in trade agreements, taking into account that the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage and that labor standards should not be used for protectionist trade purposes”.

Referring to the ILO’s Social Justice Declaration of 2008, the international community achieved agreement on a balanced reference to the crucially important relationship between trade and labour standards.

Concrete steps to ensure better coherence between trade and investment policies and the promotion and protection of decent work are needed to ensure that international trade and investment become true drivers of sustainable development – generating growth and prosperity, as well as decent work and social justice, fundamental preconditions for lasting peace.

#### **4. Policies and Capacity Building for “Trade for Employment and Sustainable Development”**

Trade and globalization contributes to creating decent jobs, when trade and employment as well as other complementary policies are effectively integrated in a coherent manner as part of a broader sustainable development strategy. The UN Inter-Agency Cluster on Trade and Productive Capacity can support governments and national stakeholders in addressing their specific challenges of designing and implementing coherent policy frameworks and building capacity to make trade a vehicle of decent work and sustainable development.

##### ***Addressing specific challenges for developing countries***

To enable the creation of decent employment in a world with trade expansion and continued fragmentation of production along the global value chain is challenging for developed and developing countries. Developing countries face competition for both exports and on domestic markets from countries that have already built productive capacities and specialized in certain areas. Market access, nowadays increasingly in the form of non-tariff measures such as product quality standards and regulations, constitute difficulties for low income countries. Furthermore, two relatively recent

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developments pose additional challenges for developing countries. First, the trade slowdown may require adjustments to policy strategies to use trade as a means of job creation. Second, recent evidence indicates production is deepening within the producing countries, for instance, by expanding domestic production to intermediate inputs. This could increase the difficulties of countries not yet well integrated in global value chains to get integrated. Therefore, a policy framework should be developed in a given country, taking into account its specific circumstances.

### *A coherent policy framework*

Strengthening the trade-employment linkage requires a focused and multidimensional action which can jointly tackle a wide range of policy challenges. Successful trade integration into the global economy requires a consistent set of policies in the areas of trade, infrastructure investment, regulations, skills and education, labor market, environmental and social protection, as well as creating the incentive at the sectoral level to develop dynamic productive capacities and strengthen the connectivity of markets and enterprises via local and global supply chains. Cases of successful “export-led growth strategies”, for instance, have been characterized by a coherent and self-reinforcing set of policies and institutions affecting the quantity and quality of investment, the labor market and the development of human capital. Certain forms of export-led growth may come at the expenses of social and environmental outcomes, which can undermine its own sustainability. Successful development under the new and universally approved Agenda will depend on the broader concept of sustainability, with an additional attention to the social and environmental dimensions.

Policy frameworks for making trade a driver of sustainable development and employment need to be developed by tapping on existing research, dedicated country-specific analysis and intervention-specific assessments. This requires a fundamental process of participation of government, private sector, civil society and social stakeholders to ensure that interventions are effectively leading to environmental, social and economic sustainability.

Among the necessary action and partnership interventions:

- Understand the economy-wide implications of trade and investment integration and of social, environmental and economic policies that affect

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trade. Identify the country-specific policy gaps in the areas of pro-employment macroeconomic and sectoral policies that can stimulate growth through trade and investment expansion and support the related policy formulation processes.

- Further the collective understanding on the implication of labor provisions on regional and global trade agreements, their effects on labor force and market outcomes at the global and national level.
- Understand which specific skill gaps can impede trade and economic diversification in tradable sectors. Skills are one of the major factors impacting on the ability of firms in tradable sectors to participate effectively in export markets, to connect to global and regional supply chains and to hold their own when their domestic market opens to foreign competition. The extent to which education and training systems meet the skills needs of employers and workers in tradable sectors varies significantly between countries. Dialogue between sector stakeholders has proved to be crucially important both to formulate and implement policies.
- Understand the effect of regulations and (mandatory and voluntary) standards on the potential of regional and global integration to create decent jobs. Regulatory coherence within countries and regulatory convergence among countries can lower hurdles to trade while achieving important non-trade objectives related to health and environmental protection (including with SPS measures and TBT). Non-tariff measures have been identified as the main obstacle to trade disproportionately affecting LDCs. Measures need to be understood and streamlined also in least-developed and developing countries. Modern trade agreements are increasingly about regulatory issues rather than tariffs. Understanding the implications and the potential of such provisions is paramount for developing countries to benefit in terms of sustainable development and job creation.
- Identify policy solutions and implement technical cooperation programs to reduce the carbon, water, land, materials and environmental pollution embodied in trade, labor and final consumption. Identify how technical and financial assistance can support environmental and social standards. Explore the scope of Green Export Processing Zones to get a competitive advantage, including through clean and



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reliable energy provision and increasing productivity. Identify targeted trade policies in the domain of environmental goods and services including organic production with the potential of creating employment, particularly in Africa, reducing the cost of clean technology and healthier food.

### ***Trade-related capacity-building***

Effective development and implementation of coherent policy framework requires a wide range of capacity building interventions, especially in developing countries. In order to maximize the decent work outcomes of trade, efforts should be made to improve countries' capacities in developing and implementing policies in the areas of sectoral and industrial development, investment (both domestic and foreign), skill strategies (both in domestic and export sectors), mainstreaming trade and market access, corporate social responsibility and social protection. Among others:

- Technical support in the formulation of policies and private sector oriented interventions on activities with potential for decent job creation through trade and investment integration.
- Creating connectivity between MSME, local and global value chains as well as promoting formalization of employment to support export capacity and productivity.
- Supporting international efforts to promote sustainable investment and decent work through training of Investment Promotion Agencies (IPAs). Joint events for information sharing and capacity-building, such as in investment facilitation and sustainable development, enhance their policy on corporate social responsibility. This includes promoting more socially responsible supply chains, and participates actively in various other international initiatives as well as at the country level.
- Support coherent policymaking by strengthening the ability and institutional infrastructure to develop coherent regulations (including standards) that achieve important non-trade objectives such as health, environmental and social protection while not putting economic development and job creation at risk. Provide technical support to strengthen regulatory convergence at the regional and global level and to assess the potential for employment creation.

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- Technically support the development of labor market institutions and policies and implement the finding and policies on skills for trade and economic diversification through effective country tailored training programmes.
  - Support the implementation of social protection floor components that enhance the resilience to trade-induced economic shocks and the process of structural transformation towards a more productive and export-oriented economy.

### *Partnership*

A partnership between national governments, stakeholders, and social and development partners with the technical support of International Organizations can help address these challenges. The Agenda 2030 is giving the universally shared framework for creating support to countries in achieving their goals of sustainable and inclusive growth and decent work for all by benefiting of trade integration. A number of programmes supported by the UN Cluster on Trade and Productive Capacity MDTF (on Trade and Employment) could provide capacity-building to generate sustainable growth and decent work through strengthening of their productive capacities and deepening their trade integration.

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## ANNEX 3.

### UN Inter-Agency Cluster on Trade and Productive Capacity

#### Thematic note

#### Trade Facilitation

### 1. Trade facilitation reforms contribute to the SDGs

As trade has become more liberalized through lower tariffs and quotas, the focus of policy makers has shifted to include other impediments to the cross-border movement of goods, and particularly those of an administrative and logistical nature. Transport connectivity, the quality of logistical services, border management and regulatory requirements all play a growing role as determinants of international trade flows. Trade Facilitation (TF), in particular, has been identified as a tool for increased and smoother trade between countries.

The United Nations have promoted Trade Facilitation reforms for many decades. An important turning point was the UN conference on trade efficiency, which resulted in the adoption of the 1994 Columbus Ministerial Declaration on Trade Efficiency. This declaration, in turn, was instrumental for the inclusion of Trade Facilitation in the WTO agenda at the Singapore Ministerial Conference in 1996. Subsequently, the WTO included Trade Facilitation in its negotiating agenda in 2004. After ten years of negotiations, the Trade Facilitation Agreement (TFA) was agreed during the Ministerial Conference in 2013, as part of the Bali Package, and has been inserted as Annex 1 in the Protocol of Amendment adopted in November 2014.

Today, the United Nations continues to support broad and ambitious Trade Facilitation reforms. This support is driven by three main motivations.

First, Trade Facilitation implementation is good for trade. It is particularly relevant for the participation of developing countries in global value chains, trade in manufactured goods, and regional integration. Small and medium enterprises (SMEs) and perishable, time sensitive and intermediate goods sectors in least developed and landlocked developing countries benefit the most from reduced transaction costs and

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times. Land transit for landlocked countries trade, or the journey between the port/airport and the SME premises, remains in many developing countries the area where Trade Facilitation can make the biggest difference for small businesses.

Secondly, many specific Trade Facilitation measures help ensure revenue collection and the enforcement of health, safety and other regulations that support public welfare. Trade Facilitation and the protection of the public from lost revenues or health hazards are not competing policy objectives; on the contrary, a large number of specific TF measures clearly help both: a) the ease of doing business, and b) the fight against under-valuation, counterfeit trade or smuggling. Well-designed TF measures improve the effectiveness of control agencies; as such they not only reduce the need for physical inspections; they also increase the likelihood of detecting fraud.

Thirdly, Trade Facilitation reforms are positive steps towards human, enterprise and institutional development. They help small traders, who are often women, enter the formal sector, make economic activities more transparent and accountable, promote good governance, generate better quality employment, strengthen IT capabilities, and generally help modernize societies by bringing benefits in terms of administrative efficiency. Many Trade Facilitation measures directly help informal businesses to better participate in foreign trade, thus supporting the Sustainable Development Goal (SDG) target 8.3 on the “formalization and growth of micro-, small- and medium-sized enterprises”.

## **2. Trade-led growth strategies need trade Facilitation**

Barriers to trade become barriers to development (Kituyi, 2013). Global trade involves certain transport and transaction costs that are unavoidable; yet, in practice, they are often higher than necessary due to unnecessarily bureaucratic trade procedures and documentary requirements. Higher trade costs are a direct hindrance to trade, and numerous studies have estimated the positive impact that the WTO TFA will have on global trade and income through its creation of lower trade costs (e.g. WTO 2015a, WEF 2014b, OECD 2015).

In the context of today’s trade logistics, implementing Trade Facilitation reforms has become more important than ever. The standardization, harmonization and simplification of trade procedures makes trade easier, thus reducing the costs to trade.

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### *Trade in manufactured goods*

Globally, there is more trade in manufactured goods today, including by developing countries. These countries are no longer just providers of raw materials, but increasingly import raw materials and intermediate goods, so as to produce manufactured goods for export. Based on data on port traffic, for example, UNCTAD estimates that the share of developing countries in the volume of seaborne imports has more than tripled since 1970 (UNCTAD 2015c). A Trade Facilitation measure such as “advance ruling” (Article 3 of the TFA) is more important for manufactured goods than for raw materials. When the first “smart watch” arrived at the border and a Customs officer had to decide if this was a computer, jewelry, a toy, a component of a telephone, or (perhaps) a watch, the importer would certainly have benefited from a binding advance ruling.

### *Globalized production processes*

Trade is increasingly part of Global Value Chains (GVCs). Businesses trade more and more in intermediate goods, with a growing share of intra-company trade. Within logistics expenditures, companies spend increasingly on transport, reducing their expenditures on inventory holdings. Deliveries are often JIT (Just In Time) and waiting times at the border need to be minimized and predictable. Improvements in global logistical networks, including reductions in transport and communication costs and innovations in managerial procedures have allowed countries to specialize in tasks rather than final products. Firms operate global supply chains, and value is added in different countries before reaching the final market (World Economic Forum, 2012).

Customs procedures, transportation costs and delays are among the largest factors holding developing countries back from integrating into GVCs. Empirically, TF reforms increase a country’s inclusion in GVCs, its integration into global logistic networks, productivity growth, employment, and the diversification of exports. All of these have then, consequently, led to increases in foreign investment (World Economic Forum, 2014).

In this context, any Trade Facilitation measure that helps to improve and speed up processes, such as pre-arrival processing or the publication of average release times, is increasingly important for a country’s participation in global value chains.

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### ***Trade diversification***

In parallel to growing intra-regional trade, a diversification of trading partners can be observed in current trading patterns. The more businesses want to sell and source abroad, the more they benefit from TF measures such as Internet publication of trade requirements or the use of international standards. While rich economies may have their own consular offices or commercial representations abroad, traders in smaller and less developed countries depend even more on access to information through the Internet.

### ***Trade facilitation and economic growth***

Trade Facilitation can contribute to reducing the wedge between export and import prices. By reducing trade costs, the prices to consumers and also to firms that import inputs for production will decrease. This, in turn, increases real disposable incomes and/or profits. Empirical evidence suggests that the extra cost of delays, red tape inefficiency and, in some cases, corruption can add as much as 15 per cent to the price of goods, undermining the competitiveness of goods from countries. It has been pointed out that national income effects from improved Trade Facilitation can be up to twice or three times as large as those would that result from removing all tariffs globally on manufactured goods (Hoekman and Shepherd, 2013).

It has been estimated that an immediate and full implementation of the TFA's provisions would lead to an increase in the average economic growth in developing countries of almost 0.9 per cent annually, whereas for developed countries this would lead to 0.25 per cent of additional growth in GDP. For both groups, a quick implementation of the provisions would be more beneficial than if it is done at a slower pace over several years (WTO 2015).

Trade costs in developing countries are estimated to be on average 1.8 times higher than in developed countries. The highest trade costs per continent are faced by African countries, at over 260 ad valorem tariff equivalents, with an additional 40 per cent trade costs incurred by remote and landlocked countries. In fact, the ten countries with the highest trade costs are either African or Small Island Developing States (SIDS), while the ten countries with the lowest trade costs are all located in Western Europe or North America (WTO 2015a, UNCTAD 2015c). The trade enhancing impact of Trade Facilitation reforms vary by region and product. Globally, trade

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costs can be reduced by around 14 per cent, ranging from 10 per cent for agricultural products to 18 per cent for manufactured goods (Hoekman and Shepherd, 2013). Africa is the region that will benefit the most from TFA implementation, with an estimated 16.5 per cent cost reduction. According to income groups, LDCs can be expected to achieve the biggest reduction, about 17 per cent (WTO 2015a).

### **3. Implementing trade facilitation reforms**

#### ***Implementation capacity***

The capacity to implement Trade Facilitation reforms is closely linked to a country's level of development. Implementation costs come from different sources: institutional and organizational costs, human resources and training costs, regulatory and legislative costs, diagnostic and needs assessment costs, awareness-raising and change-management costs, equipment and infrastructure costs, operational and maintenance costs, and even political resistance costs.

Setting up an enquiry point, training Customs officers, automating procedures, or drafting a new regulation requires an initial investment. Applying different methodologies, the OECD, World Bank and UNCTAD have come to similar results concerning the order of magnitude of the required resources. Depending on a range of factors, the average developing country may need to invest roughly between 5 and 15 million US\$ to achieve compliance with the TFA. At the same time, care needs to be taken when interpreting these figures. They only present estimates as regards an order of magnitude; the amount varies significantly by the size of the country, ambition, current level of implementation and several other factors; these estimates were made only with a view to nothing greater than compliance, while, in reality, most countries would usually aim at more ambitious, and thus also costlier, reforms.

#### ***Mainstreaming trade facilitation***

Trade Facilitation should be an important component of national development plans. Depending on a country's development strategy, some measures should be given a higher priority than others. It will also be important to keep in mind ongoing and planned programmes. For example, many countries are already in the process of public sector reform programmes which may also entail enquiry points and other means to enhance transparency and which can be built upon to support trade facilitation. In

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other cases, regional programmes to promote transit may involve transport markets and infrastructure that need to be complemented by trade facilitation measures.

### ***Assisting Customs and Trade compliance***

The role of national Customs Authorities is changing. In addition to helping Governments deal with national and international policies associated with revenue collection and fight fraud and corruption, these entities are becoming more and more active in border protection and management. Customs' presence at border posts (air, land and sea) allows the control of importation/exportation of prohibited and restricted goods. In such an environment, reform and modernization are imperative to Customs entities in order to adapt and better respond to the challenges they face. Automation is an essential part of the modernization of any Customs office. Thus UNCTAD's Automated System for Customs Data (ASYCUDA) provides for above outlined needs, besides being the repository of statistical information on foreign trade transactions essential for economic planning and encouraging international trade. The recognition of the impact that ASYCUDA Projects have on user countries is reflected by the numerous requests for collaboration and partnership received from International Organizations such as ITC, UPU, UNESCO and WTO, or trade associations such as IATA and DCTA to facilitate the compliance of their standards and tracking of illicit trade.

### ***Empowering National Trade Facilitation Committees***

Trade Facilitation reforms usually involve a wide range of stakeholders, including the public and private sectors, users and providers of trade supporting services, Customs and trade promotion agencies. These different stakeholders are grouped in National Trade Facilitation Committees or similar bodies, as per WTO TFA Article 23 and UN-CEFACT<sup>5</sup> recommendation #4. Support to the implementation of TF reforms should always involve and aim at strengthening the National TF Committees.

UNCTAD, in collaboration with the International Trade Center (ITC) and the United Nations Economic Commission for Europe (UNECE) and other agencies, provides intensive professional support programmes and materials for the Secretariats and the members of National Trade Facilitation Committees (NTFCs). The main objective is to help them implement, in a coordinated manner, trade facilitation reforms.

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<sup>5</sup> United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) supported by the United Nations Economic Commission for Europe (UNECE)



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#### **4. Inter-agency cooperation in implementing trade facilitation reforms**

Trade Facilitation is a cross-cutting issue, involving a wide range of national players and topics. The aims of Trade Facilitation reforms are included in the mandates and activities of a large number of United Nations agencies and divisions and units within the agencies, including those working on trade, transport, logistics, Customs automation, regional integration, electronic commerce, and governance issues.

#### **5. What the UN Inter-Agency Cluster can do for trade facilitation reforms**

Trade Facilitation includes transparency, standardization, harmonization and simplification of trade procedures. Transparency of trade procedures is key for building the necessary trust for importers and exporters to engage in international trade. International standards, harmonization of procedures and their simplification for example through streamlining and automation make trade easier and faster.

In all these areas the United Nations Agencies provide a wide range of services and solutions. In practice, United Nations agencies are already cooperating in numerous Trade Facilitation programmes, including, above all, UNCTAD, the UN regional commissions, ITC and UNIDO. The regional commissions contribute with their regional and technical knowledge and contacts, tracking implementation and challenges through their joint Global Survey on Trade Facilitation and Paperless Trade Implementation; UNECE in particular contributes norms, standards and recommendations through its support to the Global UN Centre for Trade Facilitation and Electronic Business (UN-CEFACT) with the participation from other UN Inter-Agency Cluster' member agencies such as UNCITRAL and UN-ESCAP. UNCITRAL is also active in contributing in legal standards which are recommended to establish an enabling legal environment for commercial and non-commercial transactions. UNCTAD leads a number of capacity building and research initiatives, as well as in Customs automation and trade portals, ITC supports SMEs and the private sector in general, and UNIDO contributes with aspects related to sanitary and phytosanitary and other standards. The WTO Trade Facilitation Facility assumes important coordinating functions, not only for the partners in the MTRF, but also other international agencies involved in TF implementation.

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## **6. The UN Inter-Agency Cluster Multi-Donor Trust Fund as a complementary tool to systemic, inter-agency support to trade facilitation reforms**

The MTDF is a key tool to implement joint trade facilitation programmes. It will complement already existing collaboration under different inter-agency MOUs, and programmes that may be implemented by the UN-Trade Facilitation Implementation Cooperation Initiative (TFI) in which UN agencies that have active trade facilitation programmes participate.

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