

Focusing on what matters in Aid-for-Trade:

Increasing effectiveness and delivering results

Key points

- Aid-for-Trade can help ensure trade delivers growth, jobs and structural economic change by addressing supply-side constraints
- Inadequate information on binding constraints to trade, coupled with insufficient monitoring and evaluation, country ownership and coordination, reduce the impact of Aid-for-Trade investments
- Improving the effectiveness of Aid-for-Trade to address economic and political constraints and more effectively leverage private flows also entails addressing bottlenecks within donor and recipient institutions that impede progress

Increasing the ability of developing countries to benefit from trade is critical for economic development and structural economic change. The Aid-for-Trade (AFT) initiative (box 1), launched in 2005, aims to provide a structured and enhanced approach to trade-related development assistance (WTO, 2006). It signifies an acceptance by donors that while trade is an important means to growth and development, there need to be substantial supply-side investments and complementary policy reforms to help developing countries lower the cost of trading, increase the productivity of producers, help firms diversify into new export products, and integrate into global value chains.

Annual commitments to AFT have increased rapidly since 2005, standing at over \$32 billion in 2010. AFT now constitutes up to one-third of all official development assistance (ODA). However, seven years after the launch of the initiative, governments and citizens in recipient and donor countries are justifiably concerned about whether and how this substantial investment has addressed the constraints that impede developing countries from benefiting from global trade.

Declining aid funds in many donor countries and an increased focus on results have augmented the need to show that AFT interventions are ‘working’ in order to maintain momentum. While the empirical literature confirms that AFT can be effective at the macro and the micro level, its impacts may vary considerably depending on the type of intervention, the income level and location of the recipient country and the sector to which AFT flows are directed.

The evidence on the effectiveness of different types of AFT flows is mixed: results are not always comparable because of different definitions of its specific categories (see Busse et al., 2001; Cali and te Velde, 2011; Ivanic et al., 2006; and Basnett et al.,



Workers unloading imports in Maputo harbour, Mozambique

2012 for an overview). Some studies find that aid to trade-related infrastructure is effective in promoting recipient countries’ exports, while the impact of aid to trade policy and regulations on trade-related performance varies. The benefits from AFT tend to increase with more targeted flows. Further, trade facilitation and aid to trade-related infrastructure have significant positive impacts on recipient countries’ trade costs.

This Briefing Paper draws on a recent ODI Working Paper (Basnett et al., 2012) to discuss the process-related success criteria that contribute to determining the effectiveness of AFT when identifying trade-related priorities, structuring delivery, designing and implementing projects and programmes, and during monitoring and evaluation.

AFT in practice: barriers and opportunities

A review of the growing number of country-level case studies (e.g. Adhikari et al., 2011 and Sok et al., 2011), donor AFT portfolio evaluations (Bird et al., 2011 and Goppers and Lindhal, 2009) and country survey

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Box 1: What is the Aid-for-Trade initiative?

The Aid-for-Trade (AFT) initiative was launched at the World Trade Organization Hong Kong Ministerial Conference in 2005 and formalised through the recommendations provided by the Aid-for-Trade Taskforce (WTO, 2006). Article 57 of the Conference Declaration called for support to developing countries, particularly least-developed countries (LDCs), to expand their trade capacity and benefit from various multilateral trade agreements. AFT funding is generally disaggregated into five categories:

- trade-related infrastructure
- support to trade policy and regulations
- addressing trade-related adjustment costs
- building productive capacity, and
- trade development.

A review of flows between 2006 and 2010 shows the following:

- an increase from \$20.6 billion in 2006 to \$32.1 billion in 2010
- an increasing number of donors that are not members of the Organisation for Economic Co-operation and Development (OECD)
- large developing (and especially lower-middle income) countries are the top beneficiaries
- sub-Saharan Africa is the largest regional recipient
- by sector, transport and storage are the largest areas of AFT investment.

In the current economic climate of uncertain export demand and fluctuating commodity prices, AFT can play an important role in supporting countries to diversify trade and reduce output volatility, particularly by improving productivity and addressing market failures (such as the under-provision of infrastructure).

... responses to the 2011 AFT Global Review (WTO/OECD, 2011), shows how and why AFT does or does not achieve its desired results in specific contexts. They suggest that AFT is subject to the same failures of collective action that affect aid in many other sectors. These relate to political economy dynamics among donors, recipients, regional economic communities and their member state governments.

Drawing on existing political economy and institutional analysis on aid effectiveness, we examine how incentives for different actors often lead to bottlenecks. Past work in this area (Ostrom et al., 2001; Booth 2011) highlights the importance of country ownership throughout the programming and policy cycle, and of recognising that institutional and organisational structures and relationships may affect the sustainability of interventions. At each of the four stages of the AFT programming cycle – identification of AFT needs, structuring its delivery, design and implementation, and monitoring and evaluation – donors and recipients should consider potential barriers and misaligned incentives in order to increase the chances that AFT will achieve its goals.

Identification of Aft needs

The prioritisation of AFT interventions is usually carried out through a needs assessment process that reveals the key constraints countries face to more active participation in global trade. These are intended to guide the integration of

trade into national development plans. While the level of consultation and analysis varies among developing countries, this process and its translation into programming helps to determine the effectiveness of AFT (Hallaert and Munro, 2009).

Table 1: Identification of Aft needs

Key processes within stage	Criteria to increase effectiveness
Determining relevance of trade-related constraints in poor development outcomes	<ul style="list-style-type: none"> • Data on the impact of trade-related constraints. • Selection of the appropriate tools to analyse constraints. • Resolving competing priorities in other sectors. • Familiarity with country context by experts identifying constraints.
Prioritising binding constraints to improved trade performance	<ul style="list-style-type: none"> • Adequate resources to prioritise among large number of needs. • Capacity or agreement on priorities between actors. • Consultation with other line ministries, the private sector and other non-state actors.

Effective coordination and identification of AFT needs and strategies in developing countries and between donors and recipients remain important (WTO/OECD, 2011). In some countries, the needs assessment process is seen as owned by the Ministry of Trade and donors, and does not incorporate the cross-cutting significance of these constraints for other ministries. Ultimately, it lacks the necessary cross-governmental prioritisations and there is a lack of follow-up by governments or donors. In Cambodia, conversely, a public-private dialogue forum headed by the Prime Minister has helped improve coordination, identified constraints and mobilised action for policy reform.

Selecting the most effective structure for the delivery of Aft

Recent years have seen increased AFT commitments and growing diversity in approaches to delivery. There has been a broad spread of AFT coverage but, as a result, some areas are under-supplied. Shifting donor priorities mean a lack of funding consistency for recipients. An analysis of AFT in Malawi found that ‘the impact of AFT is close to negligible with respect to Malawi’s trade deficit and export growth, largely because of a fragmented approach to aid that does not tackle Malawi’s export constraints in a comprehensive manner’ (Said, 2011: 47). Recent moves towards more pooling of funds, and more trans-national and corridor approaches to AFT, could address some of these concerns. The impact of the North-South corridor initiative

in Africa and the Greater Mekong region initiative in Asia illustrate the potential of regional actions in boosting trade.

Table 2: Selecting the most effective structure for the delivery of AFT

Key processes within stage	Criteria to increase effectiveness
Developing AFT objectives and strategies	<ul style="list-style-type: none"> • Familiarity among donor officials with their own AFT strategy and priorities. • Linkages between AFT and other related development strategies (e.g. agriculture, infrastructure and the development of small- to medium-sized enterprises). • An understanding at country level of AFT as a concept and its objectives (and what projects are considered to be AFT).
Selection of appropriate aid instruments and modalities	<ul style="list-style-type: none"> • Assessment of the relative benefits and risks of loans and grants (and blended finance). • Assessment of benefits (improved efficiency) and risks (may create too much uniformity in provision) of pooling funds.
Structuring trans-national programmes	<ul style="list-style-type: none"> • Effective coordination between regional recipients and/or member states of Regional Economic Communities (RECs). • Capacity among RECs to design, implement and monitor AFT investments. • Potential linkages/ conditionality between AFT and regional trade agreements. • Donor structures to deliver regional and transnational AFT.

Design and implementation of Aft

Many countries face difficulties in developing bankable projects and programmes based on identified needs (UNECA, 2011). Despite the increased integration of trade into national development plans and the growing number of needs assessments (especially through the multi-donor Enhanced Integrated Framework), projects rarely align with country priorities. Donors often maintain their own areas of focus, without corresponding efforts to increase coordination and pool funds. There remains scope for expanding the provision of aid through sector-wide trade plans. Moreover, a purpose of AFT interventions should be to leverage additional public and private sector investments. This potentially catalytic role of Aft could be considered in greater depth during programme design.

While donors aim to improve their alignment around national or sector-wide plans, this is

Table 3: Design and implementation of Aft

Key processes within stage	Criteria to increase effectiveness
Developing programmes that reflect Aft priorities	<ul style="list-style-type: none"> • Coordination between donor agencies to avoid duplication. • Effective recipient focal point and coordination mechanism. • Aft awareness among donor field offices. • Joint planning between donors and recipients on trade related constraints.
Implementation of programmes	<ul style="list-style-type: none"> • Coordination between ministries, and between implementing agencies and ministries. • Stable tenures of officials on both sides to improve coherence and consistency. • Improvements to, and utilisation of, country systems to deliver Aft

rarely reflected in the situation on the ground. For instance, the proliferation of parallel implementation units has created additional burdens for governments and has weakened government capacity by siphoning off competent officials. Global Review surveys indicate that donors find structures are too weak for effective alignment, whereas numerous recipient countries ‘point to the problem of donors having specific interests in certain sectors that do not necessarily coincide with government priorities’ (WTO/OECD, 2011: 81).

Monitoring and evaluation

While trade programmes are increasingly realistic about what Aft can contribute (e.g. improving trade performance and competitiveness), there is still a desire to relate all project outcomes to results far beyond what is attributable, realistically, to the scope of a trade facilitation or trade policy support programme (such as poverty reduction, rather than improving customs procedures or reducing time to access markets).

This was confirmed by a meta-evaluation of 162 evaluations of Aft projects in the transport and storage sectors in Ghana and Viet Nam (Delpeuch et al., 2011): evaluations tend to rely on general concepts, such as gender or poverty reduction, rather than trade shares or income distribution, and most evaluations of Aft operations say little about trade. Similarly, a review by Cadot et al. (2011) of 85 recent World Bank projects revealed that only five included rigorous evaluation components and all used simple before/after processes, with little in-depth investigation of the causal role of the interventions.

A recent OECD (2012) report argues for a stronger focus on rigorous evaluation methods that integrate meta-evaluations, systematic reviews, and econometric analysis. Moving towards a culture of greater independence in evaluation, where evaluators are not always incentivised to provide favourable assessments, will also contribute to more robust evaluations and better lessons learning (see Cadot et al., 2011).

Table 4: Monitoring and evaluation

Key processes within stage	Criteria to increase effectiveness
Developing a clear results framework	<ul style="list-style-type: none"> Set objectives that have direct impacts on trade-related constraints and that are both deliverable and measurable. Use empirically-tested results chains
Selection of appropriate indicators	<ul style="list-style-type: none"> Develop quantifiable indicators that translate to national priorities. Establish clear indicators, particularly on institutional capacity.
Impact assessment	<ul style="list-style-type: none"> Develop baseline data. Use of sophisticated evaluation methods. Effective control for other policy variables.
Ensuring M&E and impact assessment inform on-going and future projects	<ul style="list-style-type: none"> Invest in lesson learning process. Incentivise programme managers to ensure rigour in evaluations Overcome barriers to joint monitoring procedures.

Conclusion

AfT has emerged as an important vehicle to help the private sector in developing countries improve its trade capacity and to benefit from the expansion of global markets. This matters for economic growth and job creation, helping developing countries to move from reliance on aid to the use of trade to generate higher standards of living. While growing empirical and qualitative evidence indicates that AfT has a positive overall impact, many individual projects are failing to deliver results, in part because of the issues raised in this briefing paper.

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This leads us to the following suggestions to help AfT deliver better results:

- While a key aim of AfT is to contribute to economic development, many projects do not map the channels through which this change is to happen. Demand for specific AfT projects must be driven by the recipient country, and AfT must address barriers to trade in a measurable way.
- Improving the impact of AfT interventions means addressing the most binding constraints to trade. This will include an understanding of the nature and causes of coordination failures and information asymmetries specific to the political economy of recipient countries and regions, as well as donor agencies.
- Given that trade is, by definition, cross-border, there is a strong economic rationale to strengthen regional institutions as well as for more investment in trans-national corridor approaches. However, many RECs lack institutional capacity, legitimacy from member states and the ability to absorb large-scale funds.
- Investing in the collection of baseline data and providing measurable intermediate outcomes (e.g. port clearance time), and final outcomes to which AfT interventions have made a plausible contribution (e.g. trade volumes) would help to address concerns about attribution.

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