Chapter 3

Has Bringing Aid and Trade Together Helped?

The concurrent challenges facing the aid and trade communities led to a marriage of convenience from which aid for trade ensued. As the development promises of the Doha Round crumbled, the trade community had an urgent need to mollify developing countries by demonstrating a tangible development agenda. At the same time, the aid community of multilateral institutions, bilateral donors and non-governmental organisations (NGOs) were caught between the challenge to ramp up their disbursements to absorb growing national ODA commitments and increasingly strident critiques of the effectiveness of existing aid programmes. 'Aid for trade' enabled the trade and aid communities to leverage one another. The World Trade Organization could point to significant development-focused activity. The aid community accessed an expanded mandate to invest growing aid resources in productive capacity.

That aid for trade was an expedient product of circumstance is neither especially surprising, nor necessarily concerning – many positive initiatives have been born of pragmatism. As we wrote (Stiglitz and Charlton 2006), aid for trade had the potential to complement trade liberalisation and increase the ability of developing countries to take advantage of market access opportunities delivered through multilateral trade negotiations.

Yet from the start there were immediate fears that aid for trade was merely a semantic façade. After all, the concept of aid programmes focused on trade was not new. The International Trade Information Centre was established in 1964 under the General Agreement on Tariffs and Trade (GATT) to provide trade-related assistance. In the post-Uruguay era, trade-related assistance was stepped up through the Integrated Framework (IF) for Trade-Related Technical Assistance to Least-Developed Countries established in 1997 and the Joint Integrated Technical Assistance Program (JITAP) for Africa established in 1998. More broadly, to the extent that aid for trade covers wider assistance to developing countries to develop their supply-side capacity, much development aid over the last 20 years – including assistance in developing infrastructure and institutions and other support for integration into the global economy – has been trade-related.

Simply renaming this assistance 'aid for trade' would not deliver incremental benefit.[27] There were many warnings at the time of the launch of aid for trade that it would only be beneficial if it was additional, predictable and responsive to the needs of recipient countries (including the private sector), and increased the coherence of poverty-reduction assistance. Without these qualities, aid for trade would be little more than a repackaging of existing commitments – another *legerdemain* on the part of the rich countries.

Evaluating the impact of aid for trade involves two questions. First, have aid for trade projects been effective at promoting trade and development? This is the question that most of the analysis of aid for trade has focused on, and is relevant to the design and delivery of aid programmes. But this question goes to whether aid for trade is a good way to deploy bilateral development assistance, not whether it is the best way. The second question poses a tougher test: has the emergence of aid for trade increased the overall effectiveness of global aid programmes? This question incorporates issues of additionality and opportunity costs in overall development assistance.

3.1 Have aid for trade programmes helped to promote trade and development?

One would have hoped that aid for trade would have begun with an analysis of the major impediments facing developing countries with respect to trade, and then systematically gone about reducing those impediments. That kind of systematic analysis has not, for the most part, occurred. Had it occurred, it would have been realised that there are policies (such as escalating tariffs [see Stiglitz and Charlton 2005] of the advanced industrial countries) that impede developing countries' trade and development and which could be easily altered, in some cases with net positive benefits to the developed countries. It would have been realised too that the absence of small business finance has been a major supply constraint, and again there are low-cost policies and programmes that might have facilitated the flow of credit to local small enterprises.[28] Finally, a major barrier to trade (supply constraint) is lack of infrastructure.

Nonetheless, we believe that trade-related programmes funded by bilateral donors *can* be effective. Indeed it is possible that aid for trade, by being more focused on removing supply constraints on trade, could have leveraged effects on growth.[29] Several studies have demonstrated that aid spent on promoting trade is positively associated with global trade, particularly in poor

countries with weak infrastructure (Portugal-Perez and Wilson 2012).

Trade facilitation projects in particular have demonstrated considerable benefits. Trade facilitation covers a range of behind-the-border actions including institutional and regulatory reform, infrastructure, and customs and port efficiency. The total value of trade facilitation funding has increased considerably in recent years. Funding by the World Bank has risen five-fold in the last seven years and trade facilitation projects make up around half of all trade-related development assistance. Helble, Mann and Wilson (2011) used 16 years of trade and aid data for 40 donor countries to analyse the impact of trade facilitation on trade. Their results suggest that a 1 per cent increase in aid for trade facilitation is associated with about US$290 million of additional exports from the recipient countries.

3.2 Has the emergence of aid for trade increased the overall effectiveness of aid?

The key problem in evaluating the 'aid for trade initiative' is that it is difficult to ascertain the counterfactual, i.e. what would have happened in its absence? Without evidence of additionality and a clear distinction between projects that would have occurred anyway under development programmes, it is challenging to assess whether the initiative has delivered *incremental* benefits to developing countries.

The promise of aid for trade was that it would prove to be more than new nomenclature. When UNCTAD Secretary-General, Rubens Ricupero, called for aid for trade at the 2003 Cancun WTO meeting, he specified that trade assistance must be additional, 'developing countries need aid for trade, and such aid must not come at the expense of aid for development'. The WTO Ministerial Declaration in Hong Kong also called for 'appropriate mechanisms to secure *additional* financial resources for Aid for Trade' [emphasis added] (WTO 2005).

However, in the seven years since the initiative was launched, there has been scant evidence that aid for trade has been additional. Certainly the volume of aid for trade has increased. According to the OECD and WTO's 2011 review, *Aid for Trade at a Glance*, aid for trade commitments reached US$40 billion in 2009, a 60 per cent increase over the decade. The report claims that much of this increase is incremental to regular development assistance. But these claims are not fully convincing. While the OECD and WTO have invested significant resources in

building an inventory of information on aid for trade flows, there remains no comprehensive analysis of aid for trade quality or its effectiveness (either in its direct mission of promoting trade or its more fundamental goals of promoting growth and poverty reduction) or the extent to which it represents additionality. For the most part, the measurement and evaluation framework relies on self-assessment. As donors provide their own financial and other reporting, there is little independent verification of additionality or impact.

Indeed, there is no clear framework for how additionality is measured. Many of the commitments made by governments in the last decade have been opaque and the amounts are re-announced several times in successive packages. Worse, the line between more general aid for development and aid for trade is arbitrary (how close to a port does a road need to be in order to be aid for trade?). This blurring of categories means that it is easy for donor countries to count development projects as aid for trade projects (Page 2007).

Since most countries have not reached their commitment to reach 0.7 per cent of GDP in aid, it is hard to see aid for trade as additional. It is certainly not additional to what they had previously promised to deliver.

If aid for trade is not additional to existing aid commitments, then donors must answer some fundamental questions about its purpose and utility. Development assistance reclassified as aid for trade obviously cannot fulfil the compensation motive arising from the unfairness of the Uruguay Round. And developing countries will hardly feel better about the collapse of the Doha Round knowing that assistance that they would have otherwise been receiving is now labelled aid for trade.

Assessments of the effectiveness of aid for trade have been equally problematic. External measurement of the results of aid for trade is challenging. Many projects do not have defined baselines against which impacts can be assessed.[30] There is only a weak framework to evaluate the impact of aid for trade projects and programmes on welfare, growth and inequality.

Indeed, despite evidence of success in case studies in specific areas, structural features of aid for trade as it has emerged give cause for doubts about its *overall* effectiveness. The model of bilateral disbursement (which has been de facto adopted by donor countries) has meant that aid for trade comes with all the challenges of traditional development aid. Priorities may be skewed toward the interests of preferences of donors, and there

may be limited country ownership and a range of explicit or implicit conditions.

Earlier, we argued that if aid for trade has not resulted in additional resources, then it certainly can't perform the role intended as providing partial compensation for the unbalanced nature of the trade agenda or the failure of developed countries to live up to their promises that the Doha Round would be a Development Round. Yet developing countries might be even more concerned: if aid for trade is less effective at poverty reduction than unrestrained aid, then the aid for trade movement could have been counterproductive, at least as far as that critical goal is concerned.[31] If aid for trade has not lead to more assistance, then it may create a high opportunity cost. By imposing an additional constraint on the way aid money is spent, aid for trade has the potential to have a negative impact on developing countries.