

## Chapter 7

# Assessing the Effectiveness of Aid for Trade: Lessons from the Ground

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### 7.1 Introduction

This chapter enquires into the conditions that make Aid for Trade (AfT) effective by drawing on evidence on the ground. This evidence is not quantitative, nor does the chapter purport to undertake a systematic evaluation of the AfT initiative. Instead, it is based on a set of country-level case studies that the International Centre for Trade and Sustainable Development (ICTSD) has undertaken since mid-2010, using a unique methodology developed jointly with SAWTEE.<sup>1</sup>

The ICTSD studies offer fresh insights into the dynamics of AfT on the ground, the institutional set-up underlying the initiative, and its weaknesses. The methodology, based broadly on the Paris principles, allows an assessment of AfT effectiveness using a combination of quantitative indicators and information from key stakeholders, obtained through interviews. Unfortunately, there is no way of aggregating these diverse indicators into a conclusive statement about AfT effectiveness. Hence, as far as possible, we shall avoid making inferences about whether AfT has or has not worked in a given country. We focus instead on pointing out those circumstances that appear to enhance the effectiveness of AfT with the aim of teasing out lessons of best practice that could inform and enhance the initiative in the future.

The findings, ultimately, have a sense of *déjà-vu*: AfT seems to have been most effective when it is additional and predictable; when AfT projects are owned by the host country and trade is mainstreamed into the national development strategy; when donor objectives are aligned with the recipient government's priorities; and, critically, when local absorptive capacity exists. The case studies also reveal a lack of awareness of the AfT initiative both in concept and in practice, even among those responsible for implementing such AfT projects in the country. It appears that this situation is due to a definitional problem as well as poor co-ordination among implementing agencies.

The rest of the chapter is organised as follows. The next section explains the need for AfT evaluation, presents some available evidence and describes briefly the methodology used in ICTSD country studies. Section 7.3 briefly discusses some trends in AfT to place in context the discussion in the following section on the additionality and predictability of AfT funds. Section 7.4, the core of the chapter, provides insights from the country studies. Section 7.5 summarises the key findings, draws out lessons of best practice and offers some thoughts on the way forward.

## 7.2 Evaluating Aid for Trade: why, how and what?

### 7.2.1 Why evaluate AfT?

The need to evaluate AfT is as old as the initiative itself. In its 2006 report, the WTO Task Force called for ‘concrete and visible results on the ground’, arguing that such results would ‘provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda’.<sup>2</sup> However, while the Task Force set a number of goals for the AfT initiative to pursue, it fell short of providing any guidelines on how to conduct a proper evaluation of the initiative. In the meantime, a number of developments have made evaluation more urgent than ever before. Donors are facing a tight budget situation at home, and perhaps more than ever before, there is a need to demonstrate to donors that AfT is value for money and that their disbursements help poor countries harness the benefits of trade as an engine of development.

### 7.2.2 Evaluation methods and difficulties

A variety of methods have been proposed to evaluate AfT, and these have generated evidence of various kinds. The Third Global Review, in 2011, threw the spotlight on 269 case stories of AfT and more than 140 self-assessments by partner countries and donors that the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) had compiled. However, most of these case stories were based on specific AfT projects in a country or at the regional level. Inevitably, they told a rather positive story of AfT.

A meta-evaluation of AfT by the OECD, drawing on projects in two sectors – transport and storage – in two countries – Ghana and Vietnam – over the period 1999–2010 offers a more nuanced view on the effectiveness of AfT (OECD 2011). This study, based on a count of key words occurring in evaluations of trade-related operations by aid agencies, shows that trade or trade policy linkages hardly ever feature in these evaluations. More importantly, the evaluations provided little insight into AfT’s impact: causal links between projects and performance were hard to establish.

A more systematic approach to AfT evaluation centres on the Paris principles, as recommended by the WTO Task Force. This approach implicitly assumes that aid will be effective – in terms of achieving its goals – if it adheres to the Paris principles of strong ownership, alignment of aid along national priorities, co-ordination among donors, mutual accountability and transparency, and adequate absorptive capacity in the host country. An analysis of donors’ evaluations of trade-related technical assistance and capacity building (TRTA/CB) programmes by the OECD confirms that most of the ‘success stories’ were indeed cases where these good practices were faithfully adopted (OECD 2006).

Some studies have used econometric analysis to identify the impact of AfT programmes at the aggregate level on some quantifiable target, such as exports or export growth. In general, however, such studies have suffered from the lack of a long enough time series because the AfT initiative was formally established only in 2006. Another problem is reverse causality: since AfT is meant to boost exports, one should observe countries with large exports to be receiving small AfT flows. If this endogeneity problem is not

properly addressed, a regression of exports on AfT is most likely to yield a negative coefficient on AfT, which could lead to the misleading conclusion that AfT reduces exports!

Despite these problems, AfT assessments at the aggregate level, albeit scant, have been more common than project-based evaluations. These studies, such as by Ferro et al. (2011), Cali and te Velde (2011) and Brenton and von Uexkull (2009), have used regression to investigate the impact of AfT on exports. Several econometric studies have used gravity models (e.g. Portugal-Perez and Wilson 2012; Shepherd and Wilson 2009). Some – especially on trade facilitation – have also used CGE (computable general equilibrium) modelling (e.g. Zaki 2010) but these studies have not focused on any AfT projects as such; moreover, they have adopted a much larger view of trade facilitation than is commonly understood in the WTO circles.

The focus on aggregate-level analysis of AfT is not difficult to understand. It was long thought that AfT projects lacked the characteristics of ‘clinical’ policy interventions and were therefore not amenable to randomised control trials, which have been successfully used in project evaluations in other areas of development assistance (e.g. poverty alleviation or health). Moreover, externalities in AfT projects make it difficult to appropriate benefits and to assign them to a specific project. Incentives and costs are two other constraints to project evaluation (Cadot and de Melo 2013). AfT project evaluations are likely to suffer from a time-consistency problem: project managers generally loathe undertaking such evaluations knowing that they might be held accountable for poor results. They may find a convenient excuse in the fact that evaluation costs are typically high relative to the value of trade-related projects, making evaluations appear a waste of resources.

However, a ‘culture of rigorous evaluation’ among AfT donors and implementing agencies is emerging now (Cadot et al. 2011) as the demand for aid to show results has increased sharply. Even so, the uptake is very slow, and concrete evaluations of AfT projects at the national level remain rare.

### 7.2.3 Evidence

The body of evidence available on the effectiveness and impact of AfT varies in type and rigour, ranging from simple case stories to rigorous econometric studies. Here, we provide a selective review of the evidence, focusing on studies that have investigated the AfT–exports relationship. This evidence is the closest, and therefore most comparable, to the evidence from the country studies presented in this chapter.

Cadot et al. (2011) provide an up-to-date survey of the empirical evidence.<sup>3</sup> Cali and te Velde (2011) consider the effects of (lagged) AfT flows among other control variables on trading costs and export value, in turn, in a panel of developing countries. They find that Aid for Trade facilitation and AfT disbursements on economic infrastructure tend to reduce trading costs and boost exports in a significant manner while aid for building productive capacity did not seem to have such effects.

Brenton and von Uexkull (2009) examine the impact of export-development aid from the German Development Cooperation (GIZ) on 48 developing-country exports at a matching product level. Their results show that AfT (both contemporaneous and lagged) had no significant effects on product-level exports. Conversely, there was a tendency for AfT to pick promising export sectors, suggesting a potential misallocation of AfT.

A notable recent study by Ferro et al. (2011) looks at the impact of AfT directed at *services* (such as transport, communications, energy, banking and business services) on the exports of downstream manufacturing sectors in a large panel of aid-receiving countries. They find that aid to the energy and banking sectors has a significant positive impact on exports of downstream manufacturing sectors.

## 7.2.4 The ICTSD–SAWTEE methodology

The methodology used in conducting the country-level studies is based on the Paris principles of aid effectiveness as highlighted above. However, it goes beyond the five key elements and includes several other quantitative and qualitative benchmarks. Specifically, the ICTSD–SAWTEE methodology assumes that additionality and predictability of AfT funds are important preconditions for AfT effectiveness, and proposes various indicators to track them. Essentially, we qualify AfT funds as additional if AfT flows to a country have not increased over time at the expense of non-AfT official development assistance (ODA) flows. A sufficient condition for additionality is that both AfT and non-AfT ODA increase consistently through time. Similarly, AfT is said to be predictable if disbursements, on average, keep pace with commitments. Quantitatively, the gap between disbursements and commitments should not widen, and preferably narrow down, over time.

The methodology also explains how some of the other elements of the Paris Declaration could be assessed using quantitative indicators (see Table 7.1). However, because of data limitations, not all of the proposed indicators could be computed in the country case studies. Ultimately, the methodology produces a combination of quantitative evidence and qualitative data that need to be judiciously used in determining the effectiveness of AfT. To this end, the narratives on impacts at both the macro and micro levels could be particularly instructive.

Our methodology does not purport to provide a binary answer to the question of whether AfT in a given context has been effective. It serves rather to draw attention to the essential conditions that affect aid effectiveness and weigh up their implications for the design and implementation of AfT projects in the future.

## 7.3 Aid for Trade global trends

### 7.3.1 Aid for Trade: is it additional?

The additionality of trade-related development assistance has long been at the centre of AfT discussions. The WTO Task Force on AfT recommended that ‘additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate’ (WTO 2006: 1). The flow of funds available to support

**Table 7.1 A description of the ICTSD–SAWTEE methodology**

Aspects	Elements	Indicators
AFT funds trajectory	Additionality	<ul style="list-style-type: none"> <li>• AFT in the recent period is greater than AFT in the base period (2002–05)</li> <li>• Non-AFT ODA in the recent period is greater than non-AFT ODA in the base period</li> <li>• Growth rate of non-AFT ODA in the recent period is greater than or equal to the growth rate of non-AFT ODA in the base period</li> </ul>
	Predictability	<ul style="list-style-type: none"> <li>• Variations between commitments and disbursements over time</li> </ul>
Absorptive capacity	N/A	<ul style="list-style-type: none"> <li>• Extent to which AFT programmes/projects have been completed without any constraints</li> <li>• Capacity of partner country's institutions in utilising available AFT resources to achieve the defined purposes of AFT programmes/projects</li> </ul>
	Mainstreaming of trade	<ul style="list-style-type: none"> <li>• Formal and substantive trade mainstreaming: extent to which trade is mainstreamed in national development plans, sectoral policies, line ministries etc.</li> <li>• Percentage of AFT resources allocated to programmes/projects that are considered priorities by the partner country and designed by the partner country</li> </ul>
Ownership at country level	Stakeholders Co-ordination	<ul style="list-style-type: none"> <li>• Level of co-ordination (formal vs. substantive) between ministries and government agencies, as well as other relevant stakeholders (e.g. private sector and civil society) in formulating and implementing trade policies as well as AFT programmes/projects</li> </ul>
	Donors alignment	<ul style="list-style-type: none"> <li>• Formal and substantive level of alignment at which donor priorities are in line with the partner country's trade and development agenda</li> </ul>
Donors' responses to countries' trade and development needs	Use of country systems	<ul style="list-style-type: none"> <li>• Extent to which donors use public financial management and procurement system of the partner country as well as local human resources</li> <li>• Number of projects implemented by government or through the creation of a parallel implementation unit</li> </ul>

*(continued)*

**Table 7.1 A description of the ICTSD–SAWTEE methodology (continued)**

Aspects	Elements	Indicators
	Impact at macro level	<ul style="list-style-type: none"> <li>• Changes observed in a country's <i>export performance</i> at aggregate level and at the sectoral level through AFT measures</li> <li>• Sector-level <i>productivity</i> changes in relation to AFT programmes/projects</li> <li>• Role of AFT in enhancing inter-sectoral and intra-sectoral <i>exports diversification</i></li> <li>• Effect of AFT in trade policies and regulations as well as in building capacity related to trade amongst government officials (<i>governance</i>)</li> <li>• AFT relationship with establishment of new firms and increases of international traders as well as training/capacity building of private sector stakeholders related to international trade (<i>private sector development</i>)</li> <li>• Allocation of AFT funds towards trade-related <i>infrastructure</i>; reduction in time for the movement of goods and imports/exports procedures</li> <li>• Relevance of the specific programme/project to country's trade and development strategies and priorities</li> <li>• Efficiency in programme/project design and involvement of relevant stakeholders in designing the project</li> <li>• Extent to which programmes/projects are efficiently managed and implemented and involvement of relevant stakeholders in programme/project implementation</li> <li>• Effectiveness of project outputs and outcomes in achieving the expected results</li> <li>• Impact of the programme/project in achieving the expected results</li> </ul>
<b>AFT impact</b>	Impact at project/ programme level (micro-impact)	

Source: Adapted from Adhikari (2011)

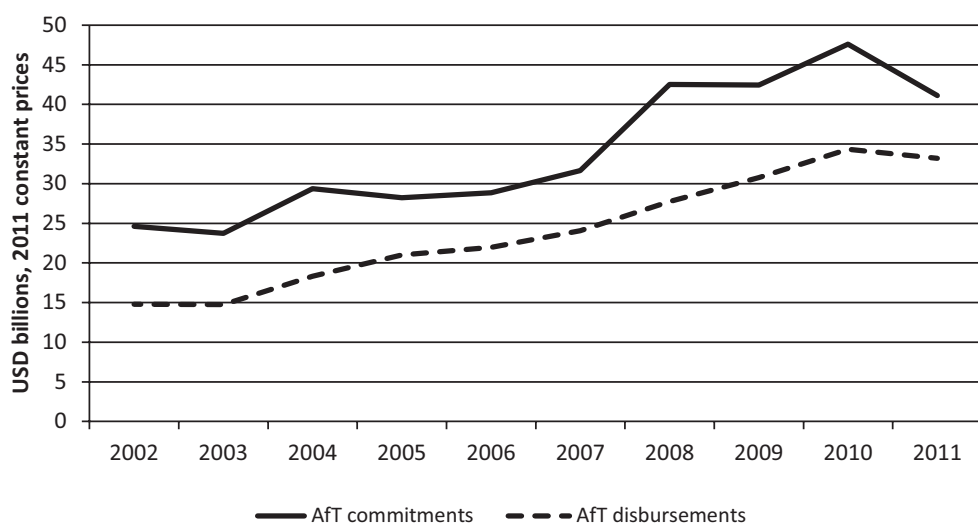
developing countries' trade-related needs seems to suggest that AfT resources have been additional. Total AfT committed resources were up from US\$28 billion in 2005 to US\$41 billion in 2011, representing a 45 per cent increase over this period. Remarkably, commitments have increased faster in recent years – at an average of 7.4 per cent per annum between 2006 and 2011 – than in the base period of 2002–05 when the increase was 5.4 per cent per annum. AfT flows have generally kept pace with committed resources but the wedge between disbursements and commitments has widened since 2007, decreasing only in 2011 when both commitments and disbursements significantly declined as result of the economic crisis (Figure 7.1).

However, additionality means not only that AfT resources have increased, but also that such increase has not diverted resources from aid in other sectors (for instance, social and health) (Adhikari 2011). One way to check for additionality is to compare trends in AfT and non-AfT ODA (i.e. ODA minus AfT). On this count, while AfT flows have increased in recent years, non-AfT ODA has exhibited a fluctuating trend and, in 2011, was almost at the same level as 2005 (about US\$117 billion) (Figure 7.2). Meanwhile, over this period, the share of AfT in total ODA went up from 15.5 per cent to 22 per cent. This could be interpreted to mean that AfT flows were being fed by diverting resources away from ODA in other sectors. If true, this would be a cause for concern for developing countries and could only be justified if spending ODA through AfT is more effective in promoting development.

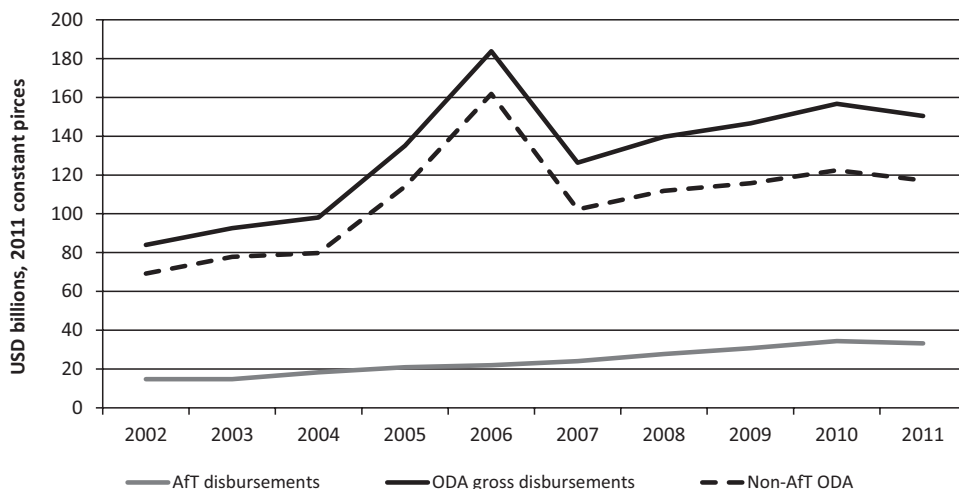
### 7.3.2 AfT to LDCs

It would be particularly worrisome if the decrease in non-AfT ODA had affected the least developed countries (LDCs), given their known vulnerabilities and structural weaknesses. Fortunately, the data do not bear this out: AfT in LDCs appears to have

**Figure 7.1 Global Aid for Trade commitments and disbursements**



Source: OECD Creditor Reporting System (CRS) Database, accessed June 2013

**Figure 7.2 Global Aid for Trade and non-Aid for Trade ODA flows**

Source: OECD CRS Database, and OECD. StatExtracts, accessed June 2013

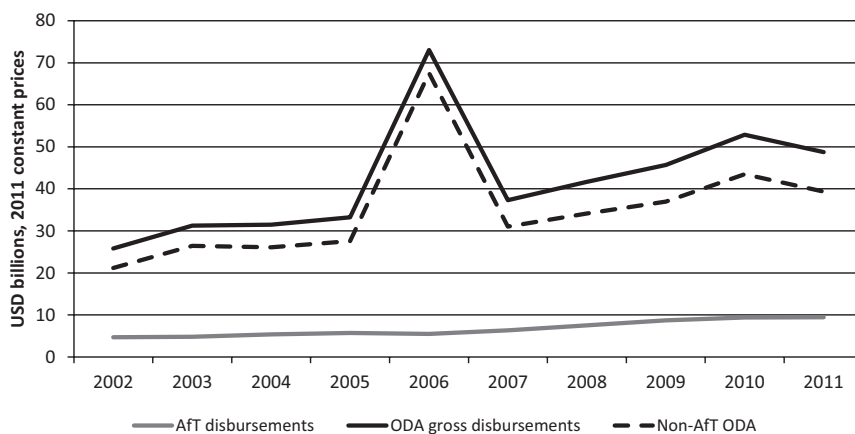
been additional since both AfT and non-AfT ODA have generally increased (Figure 7.3). LDCs' share of AfT has hovered at about 28 per cent in recent years. Of concern is the fact that, in 2011, total ODA flows declined while AfT slightly increased.

A closer inspection of country-specific data shows that AfT flows vary quite significantly among LDCs. Indeed, 20 out of 49 LDCs have attracted 65 per cent of total disbursements. The smallest amounts of funds have been directed to small islands and small LDCs, which by contrast have usually received more AfT per capita than other countries. Moreover, CRS data reveal that some of the poorest LDCs have received very little in per capita terms – typically less than US\$10 over the period 2006–10. Although there is no available benchmark to determine the adequacy of AfT funding, these figures indicate that LDCs have not received a fair share of AfT resources.

### 7.3.3 Other trends

OECD data reveal that, since 2002, the bulk of AfT resources has been channelled for building economic infrastructure and productive capacity. Among the top five AfT recipient countries, four are in Asia and one in Africa. In 2011, Afghanistan was the largest recipient country and received US\$5.8 billion, followed by the Democratic Republic of Congo (US\$4.2 billion), Pakistan (US\$2.6 billion), Vietnam (US\$2.1 billion), and India (US\$2 billion). Ethiopia, Iraq, Mozambique, Tanzania and Kenya complete the list of the top ten recipient countries. In terms of donors, the United States is the main AfT provider, followed by European Union institutions, Germany, United Kingdom, France, Japan, the Netherlands and Sweden.

A significant trend in recent years in the AfT arena is the growing role of emerging economies. These countries are not DAC members, so there is no systemic data and

**Figure 7.3 Aid for Trade and non-Aid for Trade disbursement in LDCs**

Source: OECD CRS Database, and OECD. StatExtracts, accessed February 2013

information about their AfT activities. However, various reports have documented their increasing contributions, which nevertheless remain small in comparison with DAC donors (e.g Kragelund 2010). Emerging donors tend to provide development aid in a different way from traditional donors, focusing more on infrastructure and much less on social sectors.

## 7.4 Insights from country experiences in managing AfT

The effectiveness of AfT in boosting trade-related performance depends crucially on a large number of country-specific factors. This section discusses the experience of eight developing countries with AfT projects/programmes on the ground. Four of them are classified as LDCs: Bangladesh (Said et al. 2011), Cambodia (Siphana et al. 2011), Malawi (Said et al. 2011) and Nepal (Adhikari et al. 2011). Ghana (Danchie et al. 2013), Guatemala (Maul et al. 2012) and the Philippines (Abrenica et al. 2013) are lower middle-income economies, whereas Peru is an upper middle-income economy.

The country experiences indicate that the overall effectiveness and impact of AfT on trade performance has been extremely varied. Not surprisingly, countries that effectively mainstreamed trade in their development strategies, established functional co-ordination mechanisms with both national constituencies and donor agencies, clearly identified their trade-related constraints and used aid to tackle them witnessed a greater and more positive impact through the use of AfT resources.

### 7.4.1 Utilisation of AfT funds

#### *Trajectory of funds*

The positive trend in global AfT disbursements noted in the preceding section is also reflected in the eight country cases. AfT commitments have increased in all countries

since 2006, except the Philippines, where pledges have decreased by 23 per cent in comparison with 2002–05. However, disbursements have increased by 42 per cent in recent years. Disbursements increased in all countries but Bangladesh and Nepal, two of the four LDCs in the sample. This seems to confirm our earlier observation that the disbursement of AfT resources takes place at a slower pace in the world's poorest countries.

In order to determine whether AfT was additional we have to consider not only if AfT resources have increased since the operationalisation of the initiative in 2006, but also if these funds have not diverted resources from other aid sectors (Adhikari 2011). Only in Cambodia and Peru have both AfT and non-AfT resources increased in recent years; therefore we can claim that trade-related development assistance was additional, that is, it did not divert resources from other aid sectors. Instead, in Guatemala and Ghana, while AfT flows increased, non-AfT ODA declined.<sup>4</sup> Therefore, the additional resources available for supporting trade-related needs in these two countries might have come at the expense of other aid sectors.

Any attempt at assessing additionality of AfT resources is hindered by both the way AfT is defined as well as the monitoring framework of international AfT flows, which is mainly based on donors reporting to the OECD. This issue seems to be particularly relevant in light of the limited understanding of AfT issues in aid-recipient countries. In fact, evidence from the eight countries shows that key stakeholders often have a limited knowledge of what AfT means, brings and entails. This was stressed not only by the private sector and civil society, but in some cases, quite surprisingly, by officials within ministries of trade or finance and other line ministries, as well as by local donor agencies. Indeed, this limited understanding of the AfT issue constitutes a key institutional weakness of AfT despite the rise to prominence of the initiative since its inception. As we discuss later, this negatively affects the local ownership of AfT programmes and projects, and hence the effectiveness of the initiative both at local and global levels.

Predictability is one of the core elements of the Paris Declaration as well as a key recommendation made by the WTO Task Force on AfT. Predictability can be defined as the extent to which donors provide reliable commitments over a period of time and disburse aid in a timely and predictable fashion (Adhikari 2011: 13–14).

Predictability of AfT funds has emerged as a problem in some of the countries, namely Nepal, Bangladesh and Ghana. In these countries, disbursements have not kept up with commitments. Two main factors seem to have negatively affected AfT predictability. First, changes in donor priorities altered the availability of resources in Cambodia, Nepal, Bangladesh and the Philippines. Second, limited local absorptive capacity has often delayed the release of funds in almost every country, particularly in the LDCs, as further discussed below.

### *Nature of funds*

Remarkably, the bulk of AfT resources is disbursed in the form of grants. Nevertheless, in some countries, loans constitute a large share of disbursed funds. Partly, this can be

explained by the prevalence of loans in financially demanding economic infrastructure projects, as in the cases of Guatemala, Ghana, Peru and – surprisingly, given its LDC status – also Bangladesh. On a positive note, overall AfT does not seem to have contributed to increasing the public debt of recipient countries. An exception to this is Ghana: before 2006, the country's public debt ratio was on a significant declining trend, mainly thanks to the Heavily Indebted Poor Countries (HIPC) Initiative. In recent years, however, this trend has reversed dramatically – in part as a result of AfT loans. In 2002, the ratio of public debt to GDP was at its highest, at 93 per cent, declining to about 42 per cent in 2006–07. Since then, the ratio has been on an increasing trend and almost doubled since the AfT initiative started.

### *Absorptive capacity*

The increased funds generated through the AfT initiative are a welcome development, as they make it possible to tackle some of the existing supply-side constraints hindering developing countries' participation in world trade. Nevertheless, if unmatched with adequate absorptive capacities in recipient countries, it could retard an efficient utilisation of funds, which would limit the impact on the ground. Unfortunately, absorptive capacities remain weak in all the countries analysed. The extent of this problem varies considerably from country to country. For instance, in Peru it does not appear to be a major problem within ministries, whereas regional and local governments are notoriously deficient in AfT management capacity.

Weak absorptive capacity was identified as a key constraint in all LDCs, although Cambodia has done slightly better. In fact, capacity building for trade development has been identified as a key priority by the Government of Cambodia, which has established mechanisms for intra-government policy co-ordination and for consultation among key stakeholders, including the private sector and civil society. The case of Nepal is typical of LDCs. In the Himalayan state, a series of factors – clustered into three broad categories – were identified as reasons for low absorptive capacity: (a) human resource-related factors; (b) systemic factors (internal and external); and (c) procedural factors (Table 7.2). Similarly, in Malawi stakeholders complained that project effectiveness was hindered by a lack of effective knowledge transfer in training activities.

However, these problems are not unique to LDCs. Lack of technical expertise for project implementation, often addressed by recourse to foreign experts, was a key problem in Guatemala. In the Philippines, delays in project implementation were caused by the fact that the implementing agency did not always have the personnel required to implement AfT projects.

## **7.4.2 Ownership at country level: mainstreaming of trade and multi-stakeholder co-ordination**

### *Mainstreaming of trade as a stepping stone for greater effectiveness*

Ensuring that developing countries exercise effective ownership over their trade and development policies and co-ordinate their development actions is a critical

**Table 7.2 Reason for low Aid for Trade absorptive capacity in Nepal**

Cluster I Human resource-related factors	Cluster II Systemic factors	Cluster III Procedural factors
<ul style="list-style-type: none"> <li>• Dearth of qualified human resources</li> <li>• Low capacity of the government for designing projects and implementing them</li> <li>• Poor human resource planning: government's transfer policy, high staff turnover, rewards and penalties not linked to performance, and weak institutional memory. Staff who give more ideas and work more are given more workload without commensurate increase in incentives/motivation</li> <li>• Low motivation of government employees</li> <li>• Leadership problem at the level of project manager/director</li> </ul>	<p><i>Internal</i></p> <ul style="list-style-type: none"> <li>• Lack of project banks</li> <li>• Lack of co-ordination among government agencies and with development partners at the country level</li> <li>• Low priority assigned to trade by government (although, with the launch of NTIS, indications are positive)</li> <li>• Political instability/frequent change in governments and their priorities</li> <li>• Not giving sufficient time to the initial planning phase, resulting in delay in project execution</li> </ul> <p><i>External</i></p> <ul style="list-style-type: none"> <li>• Private sector getting limited direct support to implement AFT projects</li> </ul>	<ul style="list-style-type: none"> <li>• Budgetary cycle (mismatch between fiscal year and donor calendar year)</li> <li>• Delay in procurement due to provisions in the Procurement Act – due either to procedural requirements or to government officials trying to play safe</li> <li>• Difficulty in the timely allocation of counterpart funds</li> </ul>

Source: Adhikari et al. (2011)

element of AfT effectiveness. This is one of the pillars of the Paris Declaration. Local ownership in the context of AfT primarily lies in the recognition of trade as a driver of economic growth, and ultimately of development. This hinges upon in-country awareness and understanding of the cross-cutting nature of trade, and also the ability to translate this awareness into formal plans and substantive processes (trade mainstreaming) so that the aid-receiving country creates an environment conducive to trade in co-operation with donors, the private sector and other stakeholders. Trade mainstreaming represents a crucial step in negotiations with donors, and it helps set the ground for results-based intervention programming. As a result, a key expected outcome of the AfT initiative is to promote awareness of the development potential of trade, where the Enhanced Integrated Framework for trade-related assistance for LDCs should have played a pivotal role.

Indeed, those countries that have mainstreamed trade in a systematic manner seem to be benefiting the most from AfT. The impact has generally been stronger, resulting in increased export capacities. Although exports are determined by numerous factors, AfT has been successful in creating a strong base for export development while providing new opportunities for export diversification. The cases of Cambodia and, to a certain extent, Bangladesh are winning examples where AfT has contributed to boost exports, respectively in the rice and ready garment sectors, through an improved business climate, gains in competitiveness and increases in flow of FDI. This will be further discussed in the section on impact.

Review of national development plans, strategies and projects reveal somewhat divergent levels of trade mainstreaming among countries. On a positive note, trade has been found to be formally mainstreamed in all countries' development plans, either fully or partially. For instance, trade has gradually become part of either national strategic development policies (e.g. the National Strategic Development Plan 2009–13 of Cambodia) or specific trade-oriented policy papers (e.g. *Plan Estratégico Nacional Exportador* of Peru, and Nepal's Trade Integration Strategy 2010).

While trade has been mainstreamed in national development plans, there is still a lack of clear understanding among key stakeholders of how trade objectives can be realised through specific activities at the programme level. In Malawi, for example, in the last few years the Ministry of Agriculture and Food Security has focused on maize production (subsidy for food security) rather than productivity, export diversification and increased incomes. The objective was first to develop productive capacity and then to find markets at a later stage. As a result, some agriculture projects that did mainstream trade had only a limited impact. Given the current large maize surplus, the government is now realising that trade is important and is starting to move beyond simply focusing on food security. Indeed, since 2010, the government has tried to mainstream trade through the Agriculture Sector Wide Approach. Meanwhile, the main road transport corridors in Malawi are being developed with this trade objective in mind, and the energy sector is also increasingly being driven by trade priorities, both in part financed by AfT resources. At the end of 2012, the new administration adopted a National Export Strategy for the period 2013–18 – a first for the country.

According to the government, this paradigm shift is intended to serve ‘as a critical component to achieve the millennium development goals [...] by providing a framework and focus on how Malawi may build its productive capacity’. The strategy aims to provide ‘a clearly prioritised and realistic roadmap that Malawi needs in order to develop the productive base of the economy’ (Government of Malawi, United Nations Development Programme 2012). These efforts to align the trade policy with overall development strategy and the Millennium Development Goals should be seen as a positive step in achieving sustainable development through trade. As part of these efforts, the government is now trying to mainstream trade in the Ministry of Agriculture and Food Security, as well as in other line ministries, and to work closely with donors to align aid to this strategy. This is crucial to enhance AfT effectiveness, which so far has been limited in Malawi. Indeed, when aid is part of a sector-wide approach and a programmatic strategy to address major supply-side bottlenecks to trade, it is more likely to be effective.

In this respect, the distinction between formal and substantive mainstreaming of trade is highly relevant. As already observed, all countries have formally mainstreamed trade in their development strategies, in the sense that they have formulated some trade-related objectives and made them part of their development efforts. However, what really matters here is the substantive mainstreaming of trade at the policy level, which occurs, for instance, when trade strategies, policies and actions are clearly determined or when line ministries include trade objectives in their domain, in co-ordination with the trade authority.

The eight countries considered in this analysis recognise trade as one of the drivers of development in their strategies, but out of these only Cambodia, Peru, Ghana and the Philippines are pursuing an approach to trade promotion that can be described as ‘active’. Nevertheless, the level of substantive mainstreaming proved to be a weak point in all of them. For instance, lack of mainstreaming of trade in the different ministries affected by the cross-cutting nature of trade is quite common, as further discussed in the next section. Lack of recognition of trade at operational levels, for instance at project and programme levels, was observed in Ghana, Malawi and Bangladesh, whereas in Peru stakeholders complained about the lack of trade mainstreaming at regional or local administrative levels.

Substantive mainstreaming of trade, however, is a matter of in-country policy evolution, as illustrated by the recent positive developments in Malawi (described above). Likewise, in Nepal, the transition towards greater mainstreaming of trade within the national policy structures occurred gradually: whereas the Diagnostic Trade Integration Study (DTIS) in 2003/04 involved the Ministry of Commerce and Supply (MoCS) only, the Nepal Trade Integration Study (NTIS) of 2010 already tangibly involved all relevant ministries responsible for implementation of the NTIS, under the co-ordination of MoCS. Similarly, Cambodia’s efforts towards fuller-scale trade mainstreaming were embodied in the adoption of the Trade Sector Wide Approach. Along the same lines, the government of Guatemala is now redefining its priorities within AfT in order to link it with its trade and competitiveness policies, with a view to better managing aid and enhancing its effectiveness. Nevertheless, at the

moment there are no clearly defined trade objectives set by the government, and the opportunities offered by AfT are not taken into full consideration by the International Trade Policy Framework (*Política Integrada de Comercio Exterior*).

Therefore, even though much room remains for substantive and effective mainstreaming of trade in many developing countries, particularly in the LDCs and small and vulnerable economies (SVEs) such as Guatemala, evidence from the ground reveals that significant efforts are under way. This is certainly a positive outcome generated through the AfT initiative. In fact, as part of these efforts, many countries have been trying to design AfT strategies aligned with their trade and development policies.

### *Stakeholder co-ordination: in-country dialogue as lever for ownership*

Deficiencies in trade mainstreaming are usually manifested in a lack of co-ordination and stakeholder involvement in both the trade-related needs-identification process and the implementation of trade-related programmes such as AfT. In this sense, co-ordination deficiencies can be classified at two levels.

First, government stakeholders, especially line ministries and other agencies, sometimes advance competing interests or agendas. In Malawi, for instance, ministries behave territorially and defensively in competing for resources. For example, the Ministry of Transport, Public Works and Infrastructure, a key institution in implementing AfT infrastructure projects, does not collaborate with the Ministry of Trade. Consequently, the ministry lacks a thorough understanding of trade needs and priorities, especially in the rail and air sectors. Similarly, in Cambodia the reason behind limited co-operation is a lack of understanding of trade as a cross-cutting issue. Guatemala, however, provides an interesting counter-example: whereas intra-government co-ordination in the field of trade is weak, exporter associations are generally active in promoting national-level co-ordination. This, for instance, has contributed to raising trade as a priority in the textile and clothing policy agenda and, to a certain extent, in agriculture.

Second, and more prominently, in-country policy co-ordination is limited by a truly participatory dialogue comprising all relevant stakeholders. For instance, despite the setting up of national and sectoral working groups and public–private dialogues on issues relating to trade, the Malawian government has failed to adequately engage the private sector in the trade policy process. Co-ordination with the private sector continues to be constrained by the poor level of organisation of producers, particularly in agriculture, which is largely dominated by smallholder producers. In Nepal, policy dialogue with the private sector remains only in consultative contours and has had limited impact on the formulation and implementation of trade policies. In Bangladesh, the donor-driven nature of AfT projects precludes effective in-country co-ordination and stakeholder engagement, even though the government often implements AfT projects. Conversely, a high level of stakeholder consultation and input inclusion into the formulation of trade-related policies has been observed in Peru and Ghana. Nevertheless, in the case of the former the consultation process stumbled at the regional and local levels, and in the latter the views of civil society

were systematically not taken into account and are largely ineffective, as inter-ministerial collaboration and stakeholders' involvement is weak at operational level.

The common denominator in this matter lies in the underdeveloped institutional capacities and structures responsible for managing AfT, and more generally trade policy. It therefore seems crucial that the government exercise effective leadership in co-ordinating the efforts in the framework of national policies. Lessons from Cambodia are particularly instructive:

Political will in Cambodia helped create an environment conducive to trade-induced development (and the country's relatively fast accession to the WTO) and facilitate a truly multi-stakeholder trade and development dialogue, eventually leading to increased productivity in the agriculture sector with a spill-over effect on exports.

(ICTSD 2012: 11)

Similarly, in Peru, one of the reasons for the overall effectiveness and impact of AfT is clearly the strong and active role of the Ministry of Commerce in synchronising and co-ordinating all relevant policies with respect to external trade, and in using AfT resources together with locally generated fiscal resources to implement these policies.

### 7.4.3 Donors' responses to countries' trade and development needs

#### *Donors' alignment*

The Paris Declaration requires donors to align their overall development support 'on partners' national development strategies and periodic reviews of progress in implementing these strategies.' The presence of efficient institutional mechanisms provides the ground for donors' alignment with the trade and development priorities of partner countries. Evidence suggests that, when there is a high degree of alignment between donors and the development agenda of the partner country, the benefits of AfT – and more generally of ODA – are likely to be the greatest. Although this appears an obvious observation, the reality on the ground indicates that this principle remains a problematic one.

Peru constitutes a positive example of donors' alignment. Indeed, aid delivery in this country is in harmony with its trade and development priorities. A key element behind this is that Peru has clearly elaborated its trade and development objectives under the leadership of the Ministry of Commerce. Furthermore, it has identified its supply-side constraints and its needs to strengthen its trade competitiveness, thus creating the conditions that are necessary for the alignment of donors' interventions. Ghana and the Philippines have also done so: a review of donors' co-operation programmes suggests that development assistance in the area of trade is aligned to their trade and development priorities. Even in countries where trade mainstreaming is limited and institutional capacities in managing aid projects are relatively weak, such as Bangladesh, Guatemala, Malawi and Nepal, AfT is generally channelled towards projects and programmes in areas that have been identified as national priorities. In

this sense, we can argue that donors align their aid interventions with countries' trade needs, strategies and policies.

Nevertheless, a careful analysis of AfT indicates that donors' use of country systems to implement projects and programmes is generally limited. In fact, donors have the tendency to use their own structures to implement aid projects. Nepal's donor agencies, for instance, seem to implement AfT through the extensive use of parallel implementation units, with donors largely dominating project design and staff recruitment as well as procurement. Indeed, this is a perennial problem in aid delivery, as donors' legitimate interests (efficient use of resources) and effectiveness principles (use of – often weak – country systems) sometimes clash. Lengthy decision-making and limited national capacity were identified as key obstacles to donors' alignment to Nepal's priorities. Similar reasons were found behind the donor-led design and implementation of projects in Bangladesh, the Philippines, Ghana and Guatemala.

Some countries have taken steps to cope with the limited use of country systems, and more generally with the lack of alignment. Malawi, for instance, banned the use of parallel implementation units, but existing country systems remain weak and this has not contributed to solving the problem. Bangladesh enacted the Public Procurement Act in 2008 and, since then, the use of parallel implementation units has declined. A similar procurement act was also issued in Nepal. In the Philippines, donors have been reported to be keen on helping the country upgrade the quality of its systems and better align their intervention with the country's priorities. For example Japan, the largest donor in the country, has recently commissioned a team to evaluate its assistance programme's consistency with Philippine development strategies and priorities. Similarly, the European Union (EU) has recently assessed the contribution of its development programmes to achieving the country's development objectives. The extensive use of the Sector Wide Approach in Cambodia has also contributed to align donors' support to the country's priorities. As a result, the government implements around 70 per cent of projects directly, and not through specific procurement systems.

### *Donor co-ordination*

Donor co-ordination is a key element of harmonisation and, as such, represents another crucial element of AfT effectiveness. When donors co-ordinate their activities they can jointly contribute to achieve larger developmental outcomes, particularly when the recipient country is involved in the co-ordination mechanism. Moreover, it is more likely to avoid duplication of projects and programmes, especially in those situations where there is a proliferation of donor-funded activities. It is important to stress that effective donor co-ordination depends as much on the interaction among donors as on local information on aid activities, and more generally on trade-related issues. Therefore, the role of recipient institutions is central in facilitating co-ordination of aid interventions. Despite many improvements at both aggregate and local levels, experience from the ground almost invariably revealed important weaknesses in donor co-ordination.

The case of Nepal constitutes a typical example. For instance, the International Finance Corporation (IFC), the UK's Department for International Development (DFID) and the United States Agency for International Development (USAID) have been reported to finance similar projects in the area of improving the business climate without co-ordinating their interventions. Many donors are supporting similar trade activities but are not co-ordinating them, potentially reducing the marginal productivity of aid resources and their impacts. This is because of both a lack of information among donors and a lack of government oversight in preventing such duplication of effort.

On the other hand, numerous efforts aimed at co-ordinating AfT activities exist. The Private Sector Development Programme in Ghana, for instance, has recently been bolstered by the establishment of a pooled fund of donors, also serving as a co-ordination mechanism. Similarly, Cambodia's Trade Development Support Programme, established through a multi-donor technical assistance fund, was intended to create synergies in the area of technical assistance. However, this initiative has had limited success due to its slow implementation.

Ghana's Joint Assistance Strategy and Bangladesh's Joint Cooperation Strategy represent attempts at establishing co-ordination and mutual accountability mechanisms. Co-ordination among donors to Malawi has improved significantly, largely thanks to the Ministry of Finance's Division of Labour Matrix, which aims at avoiding duplication of effort by donors and aid fragmentation; the establishment of Sector Working Groups; the Common Approach to Budget Support; and informal donor discussion forums.

The Philippines have also put in place an efficient mechanism that has contributed in increasing both aid alignment as well as co-ordination among donor agencies. The country has established two institutional platforms for discussion among the government and donor agencies, namely the annual ODA portfolio review led by the National Economic and Development Authority and the Philippine Development Forum. These forums of discussion have been essential to identify cross-cutting implementation problems as well as solutions to tackle them. Indeed, in the forums, both government and development partners are expected to agree and commit to actions to address these problems. A recent output of these continuous dialogues was the adoption of the Harmonized Philippine Bidding Document, which aims to resolve recurring procurement issues and inspire donors to co-operate and use the country's procurement system. Nevertheless, problems of co-ordination still remain. For instance, two major forthcoming technical assistance programmes in the area of trade, one financed by the EU and the other by USAID, have strikingly similar objectives and some of the activities overlap.

#### 7.4.4 From implementation to impact

Although AfT could play a role in boosting a country's exports, its effects are entangled in a complex web of factors bearing on trade. Nevertheless, by using a mix of quantitative indicators and anecdotal evidence, it is possible to identify some of the impacts of AfT – especially at the project level – on the ground. Country experiences indicate that the impact of the initiative on trade performance has been

extremely varied. Not surprisingly, and as would be expected from the Paris principles as endorsed by the WTO Task Force, countries that effectively mainstream trade in their development strategies, establish functional co-ordination mechanisms both with national constituencies and donor agencies, clearly identify their trade-related constraints and use aid to tackle them are more likely to generate impact through the use of AfT resources.

A careful analysis of major AfT projects in Peru suggests that the country can be considered a success story. The positive impact and overall effectiveness of AfT can be attributed to the clear prioritisation of trade objectives in development strategies, the identification of supply-side constraints, and the collaboration between the government and donor agencies. Moreover, the involvement of the private sector, particularly in the needs assessment and planning phase, has contributed to the positive performance of AfT. Various projects have contributed to diversifying exports and increasing value added, particularly in agriculture, but also in the textile and clothing sector. Moreover, trade facilitation and infrastructure projects financed through AfT funds have proved beneficial in improving export competitiveness.

Cambodia can be considered another (rather) positive example. Between 2006 and 2009, a total of US\$304 million of AfT funds was allocated to develop economic infrastructure, such as transport and storage, communication, and energy. One of the most prominent projects in this context was the World Bank's Trade Facilitation Competitiveness Project, which, among other projects, installed an Automated System for Customs Data. Indeed, the impact of these investments appears to be taking shape. According to the World Bank's Doing Business Survey, for instance, the number of days for export procedures went from 43 days in 2002 to 22 days in 2010, with a small reduction registered in export procedure costs. A similar effect is noted for import procedures. The reduction in bureaucracy and cost for import/export procedures is likely to have played an important role in the country's trade performance (Siphana et al. 2011).

At sectoral level, the country has focused on, among other things, enhancing the competitiveness of the agricultural sector. The main objective of most, in not all, agriculture-focused AfT interventions is to shift Cambodia's low value added, subsistence agriculture into a commercialised and diversified sector. Therefore, both government policies and AfT investments have focused 'on improving agricultural productivity and diversification towards higher-value products; the market environment for private, agro-based enterprise growth; and strengthening capacity for competitive agriculture commercialisation' (Siphana et al. 2011: 43). Overall, the impact of these efforts is still minimal and stakeholders believe that local institutions have limited implementation capacity that might negatively affect the sustainability of project outcomes. As already discussed above, the absorptive capacity of the government is generally low, and capacity building for trade development has been identified as a priority for future AfT programmes and projects. Despite these problems, AfT projects have been reported to have contributed to generate some modest productivity gains, as suggested by the recent increase in production of and trade in rice, maize, cassava, fish and small livestock (Siphana et al. 2011: 44).

Cambodia was particularly successful in the design and delivery of the Rice Export Policy, which may be credited with the increase in rice yields from 1.8 tons per hectare in 1998 to 2.8 in 2010. As a result, Cambodia is now self-sufficient in rice and produces a 2 million-ton exportable surplus. Indeed, the country has been able to break 'the vicious cycle in which insufficient investment in the agriculture, water, and rural development sectors were attributed to the lack of strategies and policy, and when these were produced, tangible actions fell short due to a lack of implementation capacity' (Siphana et al. 2011: 56). Clearly, these positive results cannot be attributed to AfT projects alone. The government has in fact created policy conditions conducive to investment. However, the key message for the AfT debate is that the right emphasis on a clearly formulated development strategy (Rice Export Policy) has created the necessary conditions for improving aid effectiveness in Cambodia, thanks also to the co-operation between the government and the private sector.

At the project and programme level, some positive outcomes through AfT have been observed in all countries. For example, in Bangladesh, AfT projects in the ready garment sector have been useful to address some critical areas such as capacity building of workers and fulfilment of compliance requirements, which in turn have improved the sector's competitiveness. In the Philippines, technical assistance and capacity-building programmes financed by both the EU and the USA have generated concrete gains in reducing trade barriers, lowering transaction costs, eliminating restrictive rules on business processes and direct investment, and strengthening regulations. A European project on technical assistance on sanitary and phytosanitary measures has resulted in boosting food exports to the EU by almost 15 per cent annually between 2003 and 2008. However, the impact was uneven across products: for example, fisheries exports increased whereas exports of coconut products declined. In Ghana, the Northern Rural Growth Program, with projects financed by a mix of donors, has shown some modest gains. The programme, aimed at addressing some of Ghana's key national development priorities with a focus on improving income through production in country's poorest regions, has benefited from a highly participatory, consultative and demand-driven process, by involving the private sector, civil society, and local and regional authorities. However, for lack of absorptive capacity, the programme has not been effective in achieving the majority of its short-term targets and is not likely to meet its medium- and long-term objectives, particularly because the programme does not have a substantive focus on tackling existing capacity constraints.

In Nepal, the Enhancing Nepal's Trade Related Capacity project (ENTReC), established as a long-running partnership between the United Nations Development Programme and the government, has shown some success in achieving some of its objectives, such as increasing the competitiveness of Nepali exporters, creating a more empowered and engaged private sector and creating a more favourable investment environment. This was possible mainly because the project was designed consistently with the country's trade policy. Nevertheless, a partial lack of ownership due to limited human capacity has prevented some of the project's deliverables from being fully achieved, which has limited its overall impact.

Similarly, the Joint Integrated Technical Assistance Programme in Malawi was successful in achieving a number of planned outcomes – particularly in building awareness about the functioning of the multilateral trading system – thanks to its focus on training and capacity building. Nevertheless, these results have been short-term, as the project has not created those institutional capacities among local stakeholders that could last beyond the project's lifetime.

Overall, the impact of AfT in Malawi 'is close to negligible with respect to [the country'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 et al. 2012: 47). Indeed, a lack of local ownership (manifested mainly among line ministries and the private sector), weak absorptive capacity, and poor alignment and co-ordination have meant that, while overall exports were growing, the relationship with AfT remained weak. In particular, a fundamental disconnect between AfT and the private sector in most areas of economic activity was manifested not only in Malawi but also in Guatemala, Ghana and Bangladesh.

In conclusion, one of the major lessons learned from developments on the ground is that AfT should be viewed not as a separate development effort, but rather in conjunction with the development in other sectors outside trade-related capacity building, including social ones. This is even more urgent in LDCs and SVEs, where human and institutional capacity development is a prerequisite for adequate AfT demand formulation, planning and subsequently the effective management and implementation of AfT projects.

## 7.5 Conclusion and the way forward

This chapter presented new evidence on AfT effectiveness on the ground compiled from case studies of eight developing countries, including four LDCs. The assessment of the AfT projects is undertaken at the national level but several of the country cases include narratives of specific projects. The methodology used is based on the Paris principles of aid effectiveness, but is innovative in several ways. Besides providing quantitative and qualitative indicators for monitoring various aspects of a project, our approach assumes that the additionality and predictability of aid flows are also a critical component of AfT effectiveness.

Evaluations of development assistance projects and programmes have always proved elusive, and AfT is no exception. Perhaps, in AfT's case, the challenges have been even bigger: data limitations, the absence of clear benchmarks and the high cost of evaluations relative to the size of projects have often placed rigorous evaluations of AfT on the back burner. The country-level studies on which this chapter is based overcome several of these constraints by applying a workable methodology; by collecting primary data to complement secondary sources of information; and by balancing the need for quantitative evidence with the convenience and added value of qualitative data. This, however, comes at a cost. There is no objective way of aggregating the various indicators into a summary statistic that could say whether aid in a given country has, on the whole, been effective or not. We generally refrain from

making such conclusions and prefer to highlight the conditions under which AfT is likely to deliver results.

Table 7.A1 summarises the main findings across countries and selected indicators. Overall, our findings are not radically different from what has emerged from the more general aid effectiveness debate. In short, AfT is likely to be effective when the host country has the appropriate institutions and human resources to utilise aid; when the aid programme enjoys broad local ownership, including political ownership; and when donor objectives are aligned with local priorities. To these, we shall add that, specifically for AfT flows, it is crucial that these be additional and predictable, and not just a diversion from existing ODA resources.

The evidence gathered from in the eight countries has several implications for the AfT initiative. First, AfT projects must address local capacity constraints and institutional weaknesses in their very design, and, more generally, the initiative should tackle problems related to additionality and misalignment. As the donor community calls for AfT to deliver results, it must share responsibility with partner countries to see to it that AfT brings value for money.

In this respect, the growing focus on AfT project evaluation may be counterproductive, as it could divert dwindling resources from more pressing needs. In most of the countries considered in the ICTSD case studies, and especially in the LDCs, the conditions that make AfT effective are often absent. Significantly, most of these conditions are host country-specific (such as lack of absorptive capacity, low degree of trade mainstreaming, lack of stakeholder co-ordination and involvement) and are independent of the way the AfT business is conducted. It might therefore be more efficient for the donor community to devote greater effort to tackling the key determinants of success of AfT – notably, local capacity constraints and supply-side constraints – rather than investing more resources in AfT evaluations.

As donors come under tightening budget constraints, there is a growing need to strengthen recipient countries' ability to effectively manage AfT resources. This may result in not only better use of limited resources but also improved development impacts. Enhancing partners' capacity to benefit from AfT, in turn, requires that effective institutional arrangements be set up at the domestic level for stakeholder participation and interagency co-ordination, supported by appropriate legal frameworks.<sup>5</sup> As highlighted above, most countries have not yet elaborated a national definition of AfT; nor have they established clear AfT strategies, incorporating results-based management practices, to allocate resources and assess impacts. Supporting them in this endeavour might have more impact than simply trying to improve the design and delivery of individual AfT projects.

This chapter also reveals that there is limited co-ordination among relevant ministries and government agencies on the way AfT programmes are designed and implemented. The private sector is generally poorly involved in the AfT process and in-country donor agencies do not always co-ordinate their activities among themselves and with national stakeholders. All these factors tend to affect local ownership, aid effectiveness and, ultimately, development outcomes regardless of the quality of the AfT projects.

These are the critical areas where greater effort should be directed in the future as the AfT initiative comes under increasing pressure to show results.

Overcoming these constraints is not an impossible task. Taken individually, many of the countries surveyed have tried to address them with different degrees of success. Beyond the eight countries covered in this chapter, there is a growing wealth of experience and creative solutions among recipient countries, particularly those that have been successful at making the most out of limited aid resources. As we move to the next AfT Global Review, identifying best practices in managing AfT, based on experiences so far, and sharing them among recipient countries might be one of the most efficient way to improve the use of AfT resources and ultimately increase development impacts. Such South–South exchange of experiences should become part of a continuous learning process involving not only recipient countries but also traditional and emerging donors.

## Annex

Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
AfT funds trajectory	No: AfT commitments increased since 2006, but disbursements not.	Yes: AfT funds additional, not resulting in diversion of resources from other ODA sectors	Partial: AfT commitments and disbursements increased, as well as non-AfT ODA disbursements. However, non-AfT ODA commitments decreased	Partial: AfT funds increased on the whole, but non-AfT ODA resources decreased in 2009–2012 compared with 2006–08	Partial: AfT and non-AfT ODA increased, but at a lower rate than in the past	No: non-AfT ODA and AfT commitments increased, but AfT disbursements declined. Nevertheless, no diversion of resources from other ODA sectors	Yes: AfT funds additional, not resulting in diversion of resources from social sectors	No: AfT commitments decreased since 2006, but disbursements increased. The opposite is observed for non-AfT ODA: commitments increased, although at a lower growth rate, whereas disbursements decreased
Additionality	Non-AfT ODA increased, both for commitments and disbursements, but commitments grew slower than in the past. No diversion of resources resulting from AfT							

(continued)

**Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology (continued)**

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Predictability	No: great variance in the AFT disbursements/commitments ratio (utilisation rate), which declined in comparison with the baseline period; delays in initiation and implementation of AFT projects	Yes: overall, AFT has been predictable, although the disbursement of funds still needs improvements. Donors admit that changes in their priorities sometimes affect availability of resources	No: decline in the AFT commitments ratio since 2006. AFT funds are generally less predictable than aid to other sectors; this is mostly driven by limited predictability in AFT to economic infrastructure	Partial: in general, AFT disbursements follow donors' commitments, but limited absorptive capacity sometimes delays project implementation and release of funds	Yes: data and stakeholders' views suggest that AFT has generally been fairly predictable	No: the utilisation rate of AFT commitments declined since 2006. Moreover, untimely disbursements of funds. Low predictability is due to both changes in donors' priorities as well as limited absorptive capacity	Yes: disbursements follow commitments, except for occasional administrative hurdles/inconvenience	Yes: disbursements follow commitments. No widening gap has been observed. Local stakeholders confirm that programmes and projects are, in general, implemented in a timely fashion
Absorptive capacity	Poor absorptive capacity, which negatively affects the utilisation rate of AFT (disbursements/commitments ratio)	Poor absorptive capacity, but trade capacity-building programmes provided to relevant institutions have slightly addressed this problem	Poor absorptive capacity largely due to weak institutional capacity of trade-related Ghanaian institutions	Poor absorptive capacity. Lack of human resources, inadequate economic incentives and changes in policies and strategies cause a high turnover of qualified staff in Guatemalan institutions, which reduces institutional capacity and know-how	Poor absorptive capacity of local stakeholders, resulting in significant delays in project implementation. AFT projects do not address this issue, resulting in limited aid effectiveness. However, some evidence of improvement in certain areas	Poor absorptive capacity, manifested in low utilisation of commitments and delays in disbursements. The utilisation rate of AFT worsened in recent years, and the gap between the utilisation rate of AFT and non-AFT ODA has widened	Good absorptive capacity. However, limited capacity at regional and local level	Poor absorptive capacity manifested by the fact that implementing agencies often do not have the required personnel, infrastructure and resources to co-finance the implementation of projects. This delays project implementation, or causes the cancellation or reduction in the scope of some activities

*(continued)*

**Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology (continued)**

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines	
Ownership at country level	Partial: trade is mainstreamed in national development plans and in some sectoral policies. However, trade is not adequately mainstreamed in line ministries and at project and programme levels	Partial: trade fully mainstreamed at formal level (National Strategic Development Plan 2009–13), but not substantially mainstreamed to all relevant ministries. Awareness of the role of trade needs to be enhanced	Partial: trade is mainstreamed in national development strategies. Sectoral policies prioritise the role of trade; however, in some cases there is a lack of implementation. The understanding of trade issues is limited at project and programme levels	Poor: trade is poorly mainstreamed in current national development strategies, but the government is now starting to prioritise trade	Poor: partial mainstreaming at formal level in the national development plans, but limited understanding and ownership of trade at sectoral and programme level. However, some evidence of recent improvements	Partial: trade mainstreamed at formal level, but not at substantive level. Little co-ordination between the Ministry of Commerce and line ministries to promote trade	Partial: almost fully mainstreamed at national level, but limited mainstreaming at regional and local levels	Partial: trade has been fully mainstreamed into national policies and programmes, but implementation of trade policies sometimes constitutes a problem, as for instance in the reform of customs	
Mainstreaming of trade									
Stakeholder co-ordination	Poor: inter-ministerial co-ordination in implementing trade policies and AFT programmes is weak; scope for involvement of non-governmental stakeholders is narrow	Good: stakeholders involved in the formulation of trade policies; Trade SWAp roadmaps developed through stakeholder consultations. Co-ordinating role of the Steering Committee for Trade Development	Poor: ministerial co-ordination and stakeholder co-ordination is high at formal level (National Development Planning Commission); three platforms for cross-ministerial/inter-sectoral collaboration), but it is largely ineffective as	Poor: weak co-ordination at inter-ministerial level (competing interests and priorities) although lower-level authorities substitute for this (e.g. AGROEXPORT)	Poor: different ministry priorities results in competition for ODA resources. Limited co-ordination and fragmented approach to aid at local level. Private sector only marginally involved in trade policy dialogue.	Poor: the formulation of the Trade Integration Study and other trade policy documents is inclusive, but private sector's views have limited effects in policy formulation	Partial: the Ministry of Commerce implements and co-ordinates trade strategies and actions, including AFT. Involvement of stakeholders in trade discussions, particularly the business sector. However, participation of regional and	Partial: creation of the Philippine Development Forum as a venue for dialogue among government agencies, donors, business groups, NGOs, members of Congress and academia to co-ordinate aid activities and generate additional commitments.	

*(continued)*

**Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology (continued)**

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
			inter-ministerial collaboration and stakeholder involvement is weak at operational level. Moreover, limited involvement of civil society		Despite recent improvement, lack of understanding of Aft, precluding effective utilisation of funds		local stakeholders at policy-making level very limited	However, limited focus on trade issues
Donors' responses to countries' trade and development needs	Partial: Aft, and more generally ODA, almost fully aligned with national priorities. Joint Cooperation Strategy between the government and 18 donors intended to further strengthen donors' alignment. However, most projects conceived and formulated by donors, while the government is mainly responsible for implementation	Partial: Aft projects are often not aligned with countries' priorities though the channelling of Aft funds to support Trade-Sector Wide Approach has partially contributed to align donor interventions	Good: donors programmes aligned with Ghana's trade and development agenda and national priorities	Poor: limited Aft alignment is mainly due to lack of countries' priorities in the area of trade. However, each donor defines its intervention with the government through a strategic planning. However, the lack of a broader and long-term view makes Aft largely ineffective	Partial: Aft overall aligned with country's two main priorities: food security and infrastructure. However, lack of long-term approach to local human capacity development, which is a key priority for the country	Partial: Aft is generally going to programmes prioritised by the government at the broad level, although activities sometimes clash at programme/project level	Good: clear strategy for trade capacity building and leadership of Ministry of Commerce crucial in pairing country's and donors' priorities	Good: donors generally align their programmes with country's priorities
Donor alignment with countries' priorities								

(continued)

Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology (continued)

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Use of country systems	Poor: limited use of country systems, but reduction in the use of parallel project implementation units since 2005	Partial: limited use of country systems, but many projects implemented through direct budget support to government bodies; generally, though, donors feel that government structures lack credibility and accountability	Poor: the large majority of AIT (and ODA) is provided through non-budget support and implemented through the creation of parallel implementation units, despite recent improvements in national systems	Poor: donors tend to use their own implementation units, especially for AIT projects, mainly because implementation capacities are weak in local institutions	Poor: limited use of country systems. Extensive use of parallel implementation units, but recent limitations on their use	Poor: donors tend to use their own implementation systems. Local systems are often regarded as inefficient and bureaucratic	Poor: donors prefer not to use national systems of procurement as they are considered rigid and not efficient enough	Poor: limited use of country systems while implementing projects. Some donors even require that implementation agency set up a parallel implementation unit independent from existing organisations
Use of country systems	Poor overall, but some progress in improving co-ordination of aid activities through local consultative groups, which have fostered dialogue between the government and donors. This aims to promote interaction and transparency on donor's activities. However, donors prefer to co-ordinate their interventions	Poor, but various interventions to avoid duplication of aids and create synergy to co-ordinate trade-related technical assistance programmes (e.g. Trade Development Support Programme)	Good level of co-ordination, facilitated by effective mechanisms such as the Multi-Donor Budget Support. However, co-ordination appears less strong for AIT activities that for non-AIT ODA. Co-ordination between local donor offices and their headquarters is limited on trade-related issues	Poor: mechanisms for donors co-ordination exist (e.g. the group of the 13 largest donors, the 'G13') and have improved in recent years but co-ordination of AIT activities is limited. The lack of co-ordination is mainly due to internal factors such as the lack of an AIT strategy, limited mainstreaming of trade, and weak capacities	Good: donor co-ordination has improved in recent years, largely thanks to the Ministry of Finance's division of Labour Matrix, the establishment of sector working groups, the adoption of the common approach to budget support and informal donor discussion forums. However, limited	Poor: duplication of projects and funding exists, but donors are trying to reduce these inefficiencies, particularly after the launch of Nepal Trade Integration Study.	Good: donors have put in place both formal and informal co-ordination mechanisms. Overall, donor co-ordination improved in recent years. However, some cases of duplication of activities highlight that co-ordination among donors and with the government needs to improve	Good: establishment of institutional mechanisms to facilitate donors co-ordination and government–donor co-ordination
Donors co-ordination								

*(continued)*

**Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology (continued)**

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
	among themselves because these structures are considered inefficient			of institutions dealing with trade	co-ordination for trade policy and regulation activities			
AfT impact	Statistically insignificant relationship between AfT and export performance	Reduction in bureaucracy and cost for import/export procedures, which have enhanced trade performance, but difficult to clearly isolate the impacts of AfT. Modest impact in increasing production and diversifying exports, mainly in agriculture	Despite the recent increase in exports, Ghana's exports are still highly concentrated and low-value added. Some degree of diversification towards non-traditional exports. However, this modest performance cannot be attributed to AfT	Modest gains at project/programme level: diversification of products; increased competitiveness in the textile and clothing sector and for some small and medium enterprises. However, the lack of an integrated approach to trade (and AfT) has limited the overall impact of aid, which has not been channelled in addressing some of the key supply-side bottlenecks	AfT impact is close to negligible in terms of trade deficit and export growth because of fragmented approach to aid not channelled to key export constraints	AfT is positively associated with export growth. Modest impact of AfT is visible in the upgrading of infrastructure, building of core network roads, export growth and diversification (for example ginger and cardamom)	AfT impact is 'marginal' in relation to the overall positive macroeconomic and export development of recent years, resulting primarily from sound national policies. Positive impact at project level resulting, for instance, in diversification towards non-traditional agriculture exports and private sector development	Poor export performance of the country in terms of export growth and diversification, which has negatively affected AfT impact. In general, AfT has had a modest impact on Philippine trade mainly because it has poorly addressed the country's key supply-side constraints (weak institutional capacity, poor infrastructure etc.)
Impact at macro level								

*(continued)*

**Table A7.1 Summary of findings by key indicators of the ICSTD–SAWTEE methodology (continued)**

Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
AfT projects in the ready-made garments sector have addressed some critical aspects such as capacity building of workers and compliance with standards requirements. Overall, they have contributed to improve sector competitiveness	Positive impacts of AfT in the rice sector: visible improvement in productive capacity; increase in production and exports; positive spillovers to agriculture at large	Modest gains through the Northern Rural Growth Program. The programme addresses some of Ghana's key national development priorities (regional development focus). The programme has benefited from a highly participatory, consultative and demand-driven process. However, lack of absorptive capacity has limited its impacts, as many of projects' expected outcomes have not been achieved	The rural economic development capacity-building programme (PDER) has been partly successful in terms of increasing production and exports (mainly of vegetables, fruits and coffee) and in creating a business mentality. However, delays in implementation often due to weak implementation capacity	The Joint Integrated Technical Assistance Programme has had limited short-term impact only – particularly in building awareness of the functioning of the multilateral trading system – mainly due to its inability to assume a holistic approach to long-term capacity development	The Enhancing Nepal's Trade-Related Capacity Project has contributed to increasing exporters competitiveness, creating a more empowered and engaged private sector, and creating a more favourable investment environment. However, weak human capacities have limited the overall impact of the projects	Major projects on trade facilitation have had a positive impact and have contributed to facilitate imports/exports procedures. Strong ownership of the government in driving custom reforms and facilitating trade. However, challenges in co-ordinating the various institutions involved	Some impact of AfT in supporting Philippine customs reform efforts. However, the impact is limited, mainly due to the complex dynamics of corruption and patronage system existing in the customs sector

Impact at project/programme level (micro-impact)

## Notes

- 1 South Asia Watch on Trade, Economics and Environment is a non-governmental organisation (NGO) based in Kathmandu, Nepal.
- 2 Recommendations of the Task Force on Aid for Trade, Fifth draft, 24 July 2006, p. 7.
- 3 See also Basnett et al. (2012).
- 4 In the case of Ghana, non-AfT ODA commitments decreased in recent years if compared with the 2002–05 period, whereas non-AfT ODA disbursements increased.
- 5 In this context, the OECD's ongoing work on Managing Aid for Trade and Development Results is worth mentioning. This programme has generated case studies for Colombia, Ghana, Rwanda, Vietnam and the Solomon Islands.

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