

Assessing the effectiveness of Aid for Trade: Lessons from the ground

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The International Centre
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Development



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Outline

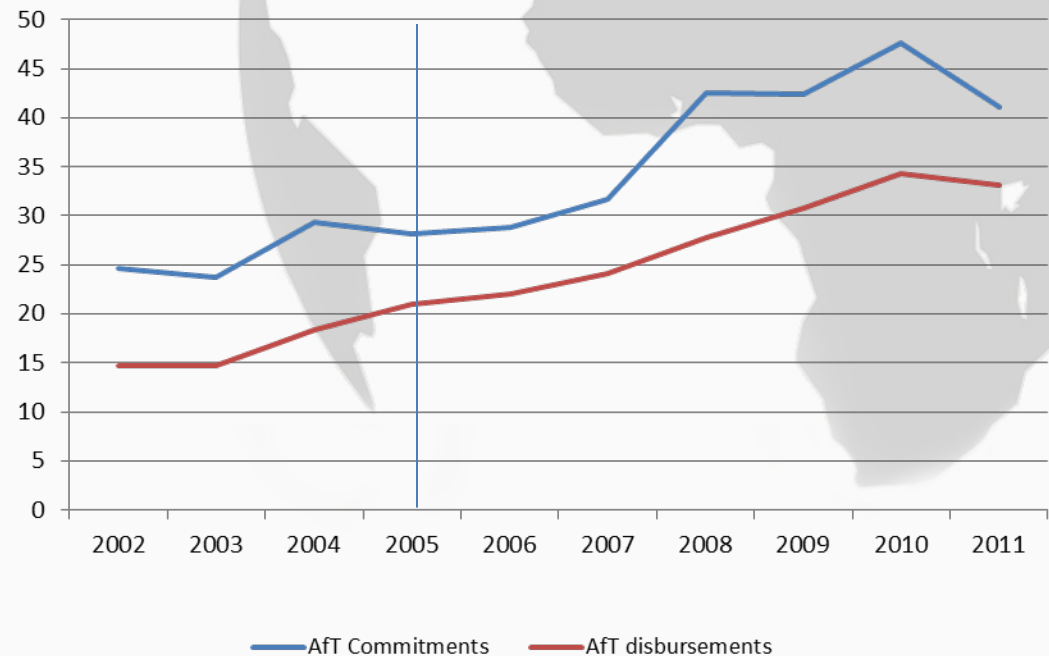


- Background: AfT trends
- Why evaluate Aid for Trade, and how?
- ICTSD project: Methodological issues
- Key findings
- Concluding remarks
- Way forward

AfT trends

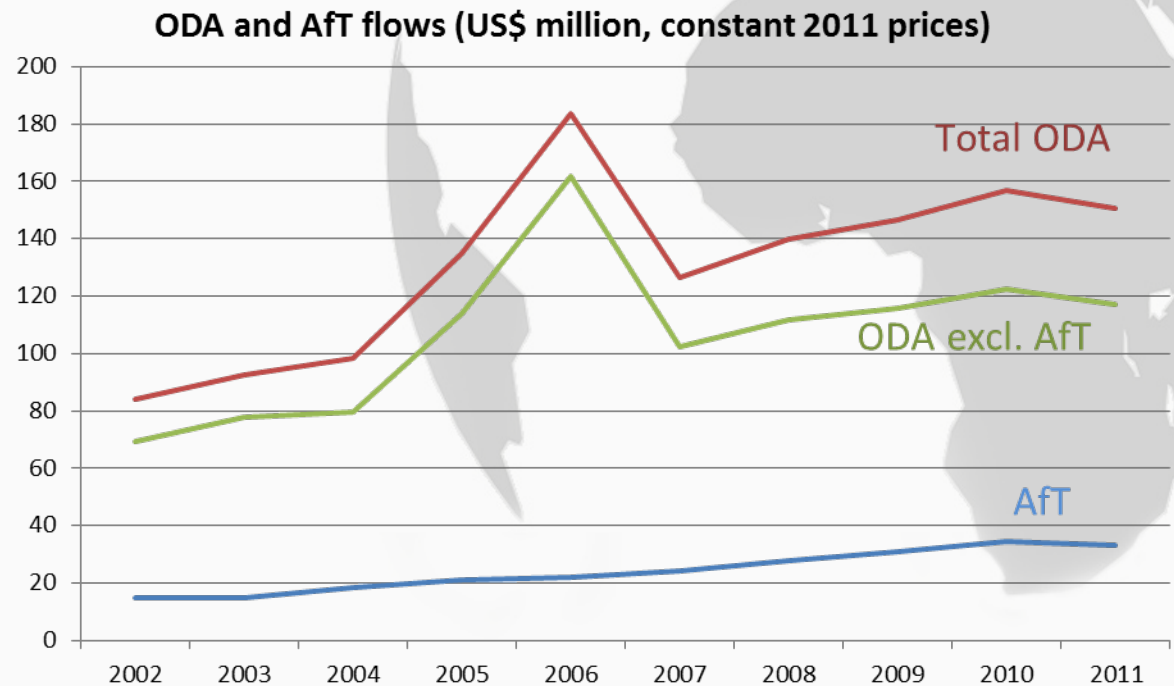
- AfT commitments and flows have generally increased after 2005.
- Growing wedge between disbursements and commitments...
- Decrease in gap in 2011 due to commitments falling faster than disbursements...

Global AfT Commitments and Disbursements
(US\$ million, 2011 constant prices)



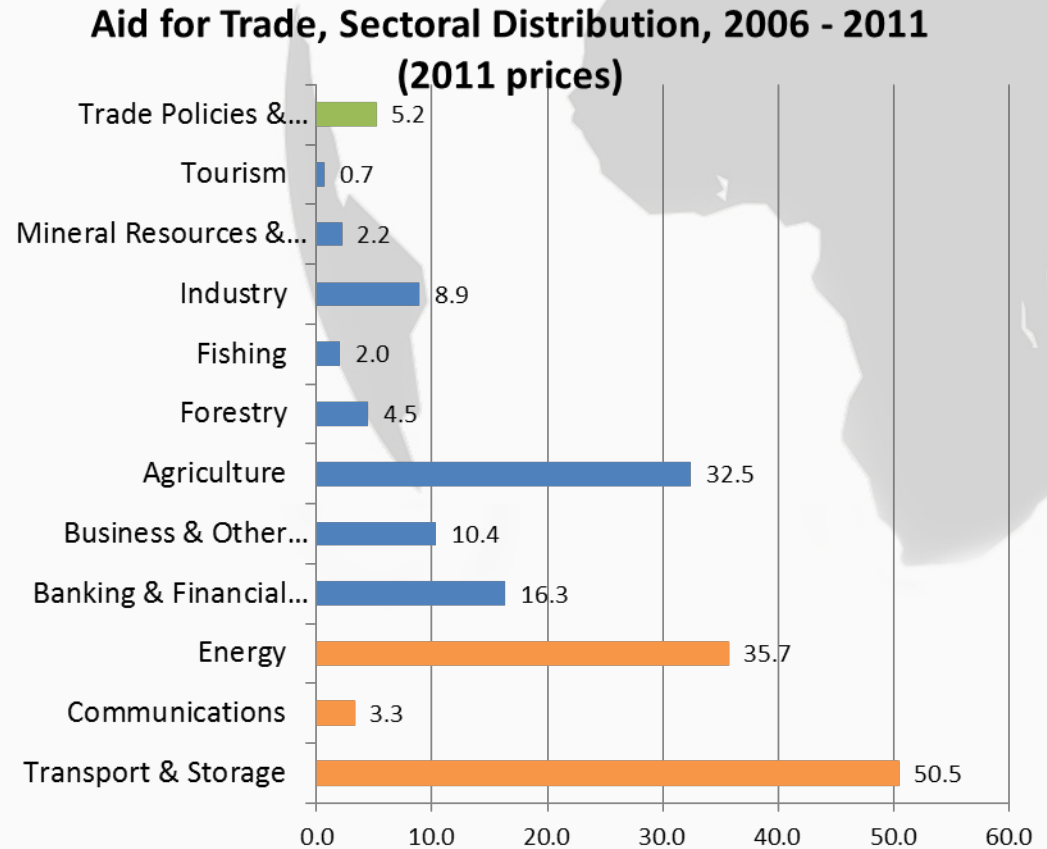
AfT trends/2

- AfT flows increased 58% between 2005 and 2010; ODA 11%; Non-AfT ODA just 3%.
- Share of AfT in total ODA increased steadily from 15.5% to 33%.
- **Is AfT additional?**



AfT trends/3

- 52% of AfT flows channeled to infrastructure
- 45% to building productive capacity
- 3% to TP&R



Why evaluate AfT, and how?

- The need to evaluate AfT is as old as the initiative itself.
 - WTO TF Report (2006) called for “concrete and visible results on the ground” so as to “provide strong incentives to both donors and recipients to advance the Aid for Trade agenda”.
- A number of recent developments have brought M&E into the limelight:
 - Donors facing tightening budget constraints
 - Rise of emerging economies
 - Demand for greater transparency and accountability in developing countries.

Why evaluate AfT, and how?/2



- An increasing body of evidence...but generally mixed results.
 - Third Global Review on AfT (2011): 275 case stories and more than 140 self-assessments by partner countries and donors.
 - Meta-evaluation by OECD (2011) of AfT projects in the transport and storage sector in Ghana and Vietnam.
 - Finding: Trade and trade policy linkages hardly ever feature in evaluations by aid agencies.

Why evaluate AfT, and how?/3



- Econometric studies
 - Focus on aggregate-level AfT assessments
 - Regression of exports on AfT, e.g. Ferro et al. (2011); Cali and te Velde (2011); Brenton and von Uexkull (2009)
 - Gravity models, e.g. Portugal-Perez and Wilson (2012); Shepherd and Wilson (2009)
 - CGE models (usually focused on trade facilitation), e.g. Zaki (2010)
 - Difficulties: lack of data, endogeneity, attribution
- Time-consistency problem in M&E (Cadot and de Melo, 2013)
- However, a “culture of rigorous evaluation” emerging

ICTSD project



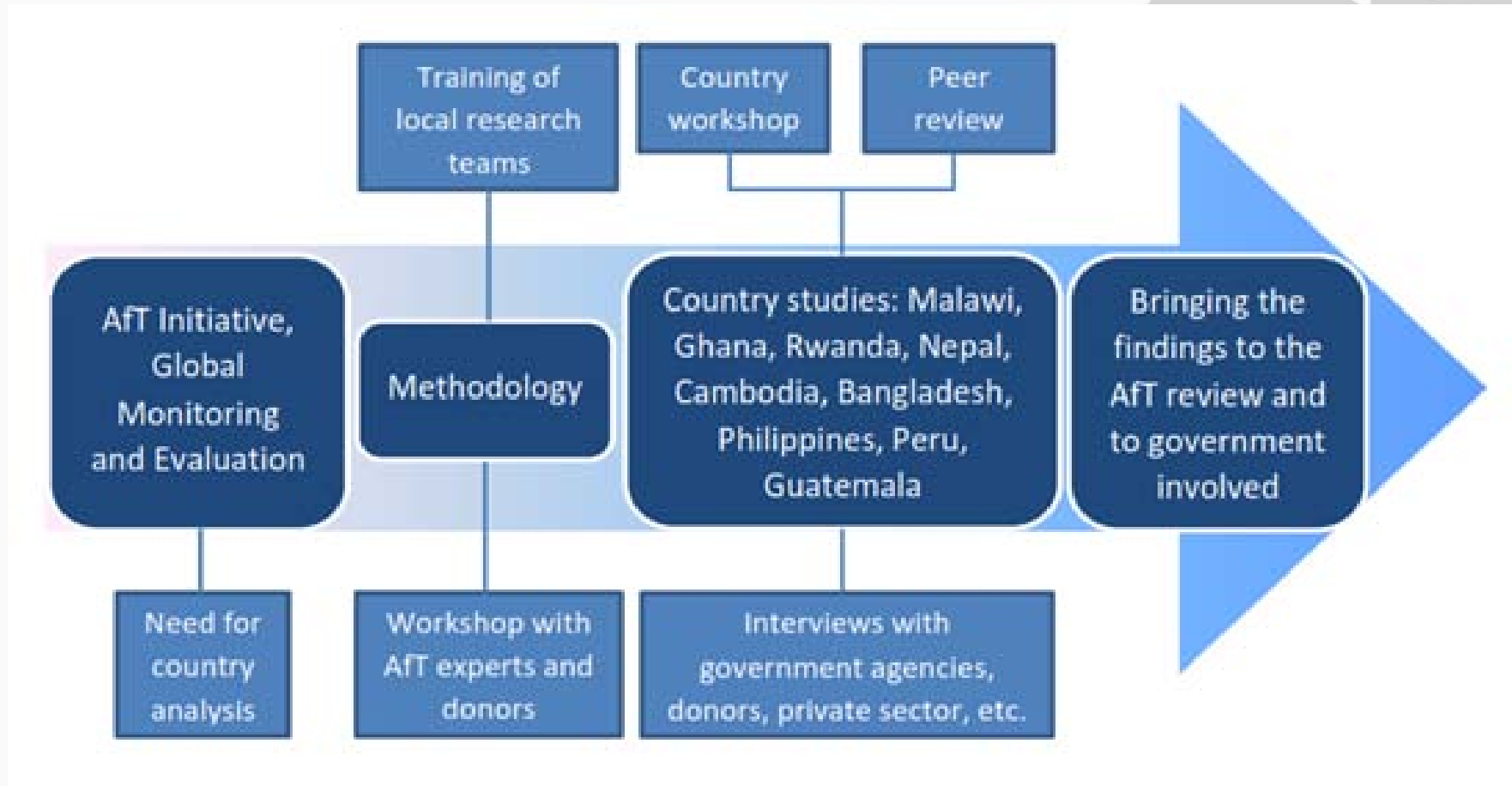
- Started in mid-2010 as a contribution to the OECD/WTO AfT monitoring process.
- ICTSD-SAWTEE methodological framework for conducting independent impact assessment of AfT at the national level.
- Methodology proposes various qualitative and quantitative indicators to measure critical aspects of AfT, based broadly on the Paris principles, including:
 - Ownership and mainstreaming
 - Additionality and predictability
 - Alignment with recipient's strategies
 - Donor coordination
 - Environmental sustainability
 - South-south cooperation

ICTSD project/2



- Indicators complemented by impact assessment of AfT at micro and macro levels.
- Micro-level assessment can be by sector (e.g. rice in Cambodia, shrimp in Bangladesh) or project (e.g. trade facilitation in Peru and Philippines; trade-related capacity building in Malawi and Nepal).
- 8 countries covered:
 - LDCs: Bangladesh, Cambodia, Malawi, Nepal
 - Other: Ghana, Guatemala, Peru, Philippines
- Selection based on geographical balance, income level, presence of AfT projects, capacity.

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Key findings

Caveats



- Definition: What constitutes AfT?
 - Task Force defined AfT as “whatever a partner country considers trade-related”. Therefore, no common definition of AfT.
 - Ex-post reporting highlights potential mismatch between what donors record as AfT and what recipients consider as AfT.
 - Difficult to differentiate AfT projects from the ODA bundle when AfT projects (i) are not presented or implemented as AfT *per se*, or (ii) span across several sectors.
- Measurement of impact
 - Difficulty of isolating substantive effects of AfT on trade performance.
 - Regression analysis fraught with endogeneity issues.

Key findings



- Lack of information on AfT projects
 - Example: Ghana
 - Over 50% of trade officials ignorant about AfT projects or of the concept of AfT
 - Partly due to definition problems
 - Poor information flow among line ministries/ implementing agencies

Key findings/2



- Overall, AfT resources have **not** been additional.
 - Only in 2 (Cambodia, Peru) of the 6 countries, AfT disbursements were found to be additional.
 - Strong association between:
 - Additionality and predictability of AfT funding
 - Additionality and overall effectiveness of AfT

Key findings/3



- Absorptive/human capacity – significant barrier to effective utilization of AfT funding
 - Especially in LDCs... but also in MICs (Guatemala, Peru).
 - Yet diverse experiences, e.g., Cambodia v. Nepal.
- *Key message:* AfT projects must address local capacity constraints in their design.

Key findings/4



- Local ownership – a long-standing mantra of aid effectiveness
 - Confirmed by country case studies.
 - Local ownership entails (i) involvement of all relevant stakeholders and (ii) political ownership.
- Mainstreaming of trade – a prerequisite for AfT effectiveness
 - e.g., Cambodia adopted Trade SWAp with the explicit view of “consolidating the ownership of AfT”.
- On the whole, strong correlation between (political) ownership and sustainability
- AfT must address institutional weaknesses that limit local

ownership.

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Key findings/5



- Strong evidence of mismatch between donors' agenda and recipients' priorities in the area of AfT
- AfT projects generally supply (donor)-driven...
- And use parallel donor structures rather than national systems.
 - Donors dominate project design, staff recruitment and procurement.
 - This approach perpetuates dependence on donor expertise.

Key findings/6



- Donor coordination still a problem...despite existence of mechanisms to avoid duplication.
 - Nepal: NTIS – a notable exception
- ‘Emerging donors’ perceived as more effective...but they operate outside of DAC principles/Paris Declaration
- AfT not ‘green’ enough: environment impacts of AfT projects often ignored in project design.

Key findings/7

- On a Likert-type scale, the key constraints to AfT effectiveness can be ranked in decreasing order of importance as follows:
 - Lack of absorptive capacity
 - Limited use of country systems (or inefficient/unreliable systems)
 - Low degree of trade mainstreaming
 - Lack of stakeholder involvement/coordination
 - Lack of additionality in AfT funding
 - Low predictability of AfT disbursements
 - Misalignment of donor objectives with host-country priorities
 - Lack of donor coordination

Specific
to host
countries

Concluding remarks



- Growing evidence that Aid for Trade works...when the right conditions are present.
- But for Aid for Trade to make the desired impact, the initiative must address its own shortcomings:
 - More transparent definition!
 - Additional and predictable resources
 - Address absorptive capacity constraints
 - Address institutional weaknesses that limit local ownership,
 - Better aligned with recipient's priorities...
 - Any lessons from emerging countries' approach to aid?

Way forward



- Recent and likely future developments suggest that the AfT initiative will grow bigger in size and branch out in several new directions, rather than being scaled back:
 - Increased interest on GVCs and what they mean for the AfT initiative
 - A Trade Facilitation Agreement at Bali?
 - Operationalization of the LDC Services Waiver
- Do these developments point to the need for an institutional AfT mechanism that could bring all AfT operations under one roof?

Thank you!

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