

# Increasing the effectiveness of Aid for Trade: the circumstances under which it works best

Yurendra Basnett, Jakob Engel, Jane Kennan,  
Christian Kingombe, Isabella Massa and Dirk  
Willem te Velde

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in preliminary form for discussion  
and critical comment



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## Acronyms

2SLS	Two-stage Least Squares
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AFD	French Agency for Development
AFDB	African Development Bank
AUC	African Union Commission
BMZ	German Federal Ministry for Economic Development Cooperation
CAR	Central African Republic
CES	Constant Elasticity of Substitution
CGE	Computable General Equilibrium
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
CRS	Creditor Reporting System
DAC	Development Assistance Committee
Danida	Danish International Development Agency
EDG	German Investment Corporation
EIF	Enhanced Integrated Framework
ETTG	European Think Tanks Group
DFI	Development Finance Institution
DFID	Department for International Development
DID	Difference-in-difference
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EAP	East Asia and Pacific
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
ESCAP	UN Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GIZ	German International Cooperation
GMM	Generalized Method of Moments
IADB	Inter-American Development Bank
ICT	Information and Communication Technology
ICTSD	International Centre on Trade and Sustainable Development
IFC	International Finance Corporation
IMF	International Monetary Fund
ITC	International Trade Centre
JICA	Japan International Cooperation Agency
KfW	German Development Bank
LAC	Latin America and Caribbean
LDC	Least-developed Country
LIC	Low-income Country
LMIC	Lower-middle-income Country
LSMS	Living Standards Measurement Survey



M&E	Monitoring and Evaluation
MADCT	More Advanced Developing Countries and Territories
MDG	Millennium Development Goal
MDTF	Multi-donor Trust Fund
MENA	Middle East and North Africa
MFA	Ministry of Foreign Affairs
MIC	Middle-income Country
MoF	Ministry of Finance
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PIDA	Programme for Infrastructure Development in Africa
PRSP	Poverty Reduction Strategy Paper
REC	Regional Economic Community
RISP	Regional Integration Strategy for Southern Africa
SAS	South Asia
Sida	Swedish International Development Agency
SMEs	Small and Medium-sized Enterprises
SPS	Sanitary and Phytosanitary
SSA	Sub-Saharan Africa
SWAp	Sector-wide Approach
TMEA	TradeMark East Africa
UAE	United Arab Emirates
UK	United Kingdom
UMIC	Upper-middle-income Country
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNECA	UN Economic Commission for Africa
UNDP	UN Development Programme
UNIDO	UN Industrial Development Organization
US	United States
USAID	US Agency for International Development
WDI	World Development Indicators
WEF	World Economic Forum
WTO	World Trade Organization



## Executive summary

This review paper seeks to assess the impact of Aid for Trade thus far, and what has worked and what the barriers to improving the impact of Aid for Trade are.

Aid for Trade has emerged as an important vehicle for assisting developing countries to improve their trade capacity and to benefit from the expansion of global markets (see Section 2). These improvements are supporting economic growth and job creation, and in doing so also aiding developing countries to move from reliance on aid to using trade as a means to generate higher standards of living.

Aid for Trade investment has increased rapidly in recent years (see Section 3), increasing from \$20.6 billion in 2006 to \$32.1 billion in 2010. It now constitutes about a third of all official development assistance (ODA). While much of the investments originate from traditional donor countries, emerging economies have also increasingly started contributing to global Aid for Trade flows. Aid for Trade investments support recipient countries efforts in 1) trade policy and regulations, 2) trade development, 3) trade-related infrastructure, 4) building productive capacity and 5) trade-related adjustments.

But any optimism on the volume of Aid for Trade flows is punctuated by the ongoing global economic crisis, which is likely to have important implications for trade and development. First, the prolonged recovery of the feeble global economy means world trade is expanding only slowly, which in turn reduces developing countries' opportunity to use trade as a source of growth. Second, the implications of the crisis on advanced economies are already placing a premium on ODA. The crisis is likely to reduce the ability of traditional donors to sustain or increase ODA. As resources shrink, there will be greater competition over competing developmental priorities (e.g. economic, social or environmental). And, in this age of fiscal austerity, it will be important to provide evidence on the impact of Aid for Trade to justify continuation.

The World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD) have evaluated Aid for Trade every two years since 2005. The 2007 report by the OECD and WTO took stock of Aid for Trade and found that investments were increasing. The 2009 report examined how Aid for Trade was being operationalised on the ground, and found a wide diversity of methods employed by donors and recipients in addressing Aid for Trade needs. The 2011 report shows results on Aid for Trade since it was launched in 2005. These reports have been complemented by the findings of studies produced by a number of organisations analysing the impact of Aid for Trade at various levels – global, regional and national.

The empirical literature tends to confirm that Aid for Trade has been effective in raising exports and improving the investment climate (see Section 3). More precisely, Aid for Trade investments in improving trade facilitation and developing trade-related infrastructure have significant positive impacts on recipient countries' exports. For example, empirical assessment indicates that a 10% increase in Aid for Trade investment to trade-related infrastructure leads to an average increase of 2.3% in the developing country's exports to gross domestic product (GDP) ratio. Similarly, a 10% increase in Aid for Trade investment in improving transportation and energy results in a 6.8% increase in manufacturing exports. And Aid for Trade investment in enhancing trade policy and reform significantly lowers the costs of trading in the processed agriculture and primary agriculture sectors. The econometric evidence therefore paints a rather positive picture on the impact of Aid for Trade in economic performance such as exports, GDP or the investment climate. However, the impact of Aid for Trade tends to vary considerably depending on the type of intervention, the income level and geographical region of the recipient country and the sector to which Aid for Trade flows are directed. Table ES1 summarises the findings of a review of the econometric studies.

**Table ES1: Overview of empirical literature findings on aid-for trade effectiveness**

Aid for Trade effectiveness by	
<b>Type of aid flows</b>	<ul style="list-style-type: none"> <li>• Evidence on the effectiveness of different types of Aid for Trade flows is mixed, partly because results are not always comparable as different definitions of specific categories of Aid for Trade are used.</li> <li>• However, there is some evidence that highly targeted aid flows (e.g. trade facilitation) are more effective.</li> <li>• A few studies find that aid to trade-related infrastructure is particularly effective in promoting recipient countries' exports. Evidence on the effectiveness of aid to trade policy and regulations in improving trade-related performance is more mixed.</li> <li>• Evidence on the effectiveness of single export promotion instruments is still scarce.</li> </ul>
<b>Recipient's income level</b>	<ul style="list-style-type: none"> <li>• There is some evidence that certain types of Aid for Trade flows (e.g. aid to infrastructure such as aid flows to transportation) are more effective in LICs, whereas other aid flows, such as those directed to the business sector, are more effective in higher-income countries.</li> <li>• Much more evidence is needed in this area with respect to different types of Aid for Trade (especially aid to trade policy and regulations, aid to trade development and trade facilitation) and different recipient sectors of aid.</li> </ul>
<b>Recipient sector of aid</b>	<ul style="list-style-type: none"> <li>• The impact of Aid for Trade is found to vary among sectors.</li> <li>• Evidence is still mixed and the different sector classification used in the studies prevents comparability of results.</li> </ul>
<b>Geographical regions of recipient country</b>	<ul style="list-style-type: none"> <li>• There is evidence that the same type of Aid for Trade may have varying effects depending on the geographical regions of recipient countries.</li> <li>• It appears that SSA is one of the regions that could benefit the most from Aid for Trade.</li> </ul>

In order to better understand what factors influence the effectiveness of Aid for Trade investment, this paper examines the various stages – from identification of priorities, to design and implementation, to monitoring and evaluation (M&E) (see Table 2). Each of these stages is marked by interaction between donors and recipient countries, which in turn shape effects. In systematically reviewing these various stages, this paper finds the following as **donor/recipient-specific factors in influencing the effectiveness of Aid for Trade**:

- **The present ways of identifying Aid for Trade do not always align with the trade-related binding constraints of the recipient country/region** (see Section 4). In many cases, Aid for Trade needs draw on Ministry of Trade's project list, rather than addressing the country's trade-related binding constraints, or its market and co-ordination failures. The Aid for Trade needs assessment is usually inserted *ex-post* into the national development agenda (in order to anchor validity and legitimacy), rather than the latter being drawn on to inform identification of the former. But it must also be noted that the national development agendas of many low-income countries (LICs) tend to be limited on trade-related issues. Furthermore, while least developed countries (LDCs) benefit from the structured needs assessment process established by the Enhanced Integrated Framework (EIF), LICs not classified as LDCs and lower-middle-income countries (LMICs) do not benefit from the same assessments.
- **The choice of instruments and modalities for delivering Aid for Trade vary** (see Section 5). The paper finds that a wide variety of instruments and modalities are used to deliver Aid for Trade, including loans, grants, pooled funds and trust funds and channelling funds through multilateral institutions. Generally, Aid for Trade is desirable in addressing transnational and regional, rather than national constraints to trade. Blended financing mechanisms and corridor approaches to delivering Aid for Trade are found to be particularly effective.
- **Coordination failures inhibit the design and implementation of Aid for Trade investment programmes** (see Section 6). Coordination failures exist at various levels – inter-donor, intra-donor, between donors and recipients and as part of economic development in recipient countries. For example, there often exist differences of understanding on what constitutes Aid for Trade in a donor's headquarters and in country offices. Similarly, in many instances, there is a breakdown in coordination between donors and recipients on what constitute Aid for Trade priorities and, more seriously, what constitutes Aid for Trade, as opposed to normal ODA.
- **The M&E of Aid for Trade tends to be based on a stretched results chain and the lessons do not feed adequately into the future design of Aid for Trade programmes** (see Section 7).

There exists a desire to relate all Aid for Trade project outcomes to results far beyond the realistically attributable scope of, for example, trade facilitation or trade policy support programmes. M&E is also frequently not carried out in a manner that will enable improvements in ongoing implementation and ensure lesson learning for future projects. There is thus considerable scope to triangulate existing approaches and develop feedback mechanisms between donor-level evaluations of strategies and sector approaches, country evaluations and evaluations of what works at the project level.

In light of the above, this paper argues that **Aid for Trade works best when:**

- **It is targeted at reducing the cost of trading**, for example through investment in infrastructure, improving trade facilitation and strengthening value chains. These should be driven and guided by support to the capacity of institutions that devise trade policies and regulations. Experience shows that investment in infrastructure, trade facilitation and the strengthening of value chains is most effective when it is integrated into and driven by a country's broader trade policy and strategy.
- **It addresses the binding constraint to growth.** This will be largely country-specific and, according to traditional growth diagnostics, can relate to factors that affect the availability of finance of an investment project or factors (e.g. infrastructure, skills, transport costs) that affect returns to an investment.
- **There is effective coordination between donors and recipients** around the design, implementation and monitoring of the Aid for Trade programmes, as well as coordination among different donors, within donor agencies themselves (e.g. between country offices and headquarters), between different ministries within a recipient country government and between recipient governments and their regional trading partners.
- The selection of instruments and modalities for delivering Aid for Trade are **able to address trade-related constraints at the transnational and regional level.** Many Aid for Trade projects are targeted towards improving trade for individual countries, when in fact greater gains can be made by focusing on ensuring greater integration of trade within regions.
- **The M&E of impacts, outcomes and outputs is realistic** (the achievement of objectives can be traced along a feasible results chain), **based on the collection of baseline data, and lessons contribute to the design of future projects.**

Finally, this review concludes with some ideas on a future research agenda, including further work on:

- How Aid for Trade can best be used to work with the private sector through promoting global value chains relevant to development;
- How Aid for Trade can improve agricultural productivity and trade (and hence food security) through the provision of the right type of infrastructure;
- Whether aid to trade facilitation (and, where appropriate, different types of Aid for Trade) can lead to better results for trade, growth and the investment climate;
- Lesson learning from the experiences of the emerging economies, such as China, India, Brazil and South Africa, as well as newly emerging middle-income countries (MICs) like Vietnam.



# 1 Introduction

The consensus among the World Trade Organization (WTO) member states on the need for a more structured and enhanced approach to trade-related development assistance (or Aid for Trade) was formalised at the 2005 Hong Kong Ministerial Conference. Article 57 of the Ministerial Conference's Declaration called for support to developing countries, particularly least-developed countries (LDCs), to expand their trade capacity and benefit from the various multilateral trade agreements. This marked a significant change in the importance of trade within development policy, and since this time we have seen an increase in donor spending on programmes and projects aimed at supporting developing countries' ability to trade. Implicit in this has been an acceptance by donors not only that trade can be an important means of growth and development, but also that, in the absence of substantial supply-side investments and complementary policies, liberalisation on its own is unlikely to benefit all people in all developing countries. In this regard, the Aid for Trade initiative signifies an important normative change among trade and development policymakers (see Hoekman and Prowse, 2005; Page, 2007a).

Since 2007, the WTO and the Organisation for Economic Co-operation and Development (OECD) have carried out three Global Reviews of Aid for Trade (2007, 2009 and 2011), with the next one scheduled for July 2013. The first review focused predominantly on taking stock of Aid for Trade; the second evaluated progress and assessed how Aid for Trade was being operationalised on the ground; and the third was carried out under the theme 'Showing Results' and aimed to demonstrate the impact of Aid for Trade since 2005.

According to some estimates (using the OECD DAC Database), Aid for Trade now makes up one-third of total official development assistance (ODA) and has likely contributed to improving the trade performance of many developing countries.<sup>1</sup> In case stories submitted to the 2011 Aid for Trade Global Review, donors and developing country governments attributed some of the following improvements to Aid for Trade, at least in part:

- In Colombia, the administrative procedures required for certifying origin were cut from an average of 2 to 3 days to 10 minutes.
- In Mozambique, the border-clearing time for goods decreased from 30 days to 2–5 days.
- Aid for Trade financial and technical support increased the rate of road construction in Morocco from 1,000 km annually in 2002 to 2,000 km in 2009.
- In Honduras, the time required to open a new business reduced from 62 days to 20 days between 2005 and 2008.
- Nerica rice exports from Benin tripled between 2007 and 2009.
- Cambodian women entrepreneurs saw their exports increase following the reduction in price for certificates of origin.<sup>2</sup>

There is growing empirical evidence that reduced trade costs have led to welfare gains. However, the effectiveness of Aid for Trade is subject to the choice of instruments, the sectors targeted and the country context, among other factors. For example, donor investments in trade-related infrastructure have, in aggregate, contributed to reducing trade transport costs (Vijil and Wagner, 2010). Evidence on the effectiveness of aid to trade policy and regulations in improving trade-related performance is more mixed, though generally positive (see, e.g., Busse et al., 2011; Calì and te Velde, 2011; Helble et al., 2009). Similarly, the income level of the recipient country influences the impact of Aid for Trade. Studies have found that, in certain sectors, such as transportation and banking services, the effectiveness of aid in terms of export growth diminishes for country groups with higher incomes (Ferro et al., 2011). Moreover, empirical analysis suggests that greater impacts have been achieved in Sub-

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<sup>1</sup> On average, Aid for Trade disbursements to developing countries increased at an annual rate of 12% between 2006 and 2010, from \$20.6 billion to \$32.1 billion. The largest recipients during this five-year time period were lower-middle-income countries (\$49.2 billion), followed by LDCs (\$35.1 billion).

<sup>2</sup> See [www.oecd.org/aidfortrade/casestories.htm](http://www.oecd.org/aidfortrade/casestories.htm) for all 270 case stories submitted to the OECD and WTO.

Saharan Africa. According to econometric studies, trade facilitation efforts in the region could reduce export costs by 1.9% and import costs by 0.7%; in other regions, export costs and import costs, which are lower, would be reduced by an estimated 0.5% and 0.2%, respectively (Ivanic et al., 2006; Portugal-Perez and Wilson, 2010).

This review paper<sup>3</sup> on Aid for Trade aims to identify and provide an overview of the impact of Aid for Trade, what has worked and what some of the barriers are to improving its effectiveness. It studies these issues in terms of three interrelated dimensions: 1) existing econometric/quantitative studies on the impacts of Aid for Trade; 2) what tools are being used to assess the impact of the Aid for Trade interventions and to what extent donors' interventions promote effectiveness; and 3) recipient country experiences of Aid for Trade.

In assessing **when and under what circumstance Aid for Trade works best**, the paper draws on a number of analyses of Aid for Trade as well as country and donor experiences to better understand what enables greater effectiveness and what kind of factors constrain it. It is helpful to disaggregate Aid for Trade into various aspects where barriers to effectiveness emerge, and then examine circumstances that affect outcomes at each level. However, this will provide only an indicative answer, as much depends on the context of Aid for Trade interventions. Nevertheless, given existing analysis on the issue, we can highlight the factors most likely to facilitate improved outcomes. As such, the paper is likely to be most relevant for policymakers and practitioners working on trade and development.

This paper assesses when and what types of Aid for Trade interventions are most effective. The framework entails analysing four key stages: 1) determining Aid for Trade priorities; 2) structuring Aid for Trade delivery; 3) design and implementation of Aid for Trade projects and programmes; and 4) monitoring and evaluation (M&E) of impacts.

It finds that Aid for Trade works best when:

- **It is targeted at reducing the cost of trading**, for example through investment in infrastructure, improving trade facilitation and strengthening value chains. These should be driven and guided by support to the capacity of institutions that devise trade policies and regulations. Experience shows that investment in infrastructure, trade facilitation and the strengthening of value chains is most effective when it is integrated into a country's broader trade policy and strategy.
- **It addresses the binding constraint to growth**. This will be largely country-specific and, according to traditional growth diagnostics, can relate to factors that affect the availability of finance of an investment project or factors (e.g. infrastructure, skills, transport costs) that affect returns to an investment.
- **There is effective coordination between donors and recipients** around the design, implementation and monitoring of the Aid for Trade programmes, as well as coordination among different donors, within donor agencies themselves (e.g. between country offices and headquarters), between different ministries within a recipient country government and between recipient governments and their regional trading partners.
- The selection of instruments and modalities for delivering Aid for Trade are **able to address trade-related constraints at the transnational and regional level**. Many Aid for Trade projects are targeted towards improving trade for individual countries, when in fact greater gains can be made by focusing on ensuring greater integration of trade within regions.
- **The M&E of impacts, outcomes and outputs is realistic** (the achievement of objectives can be traced along a feasible results chain), **based on the collection of baseline data, and lessons contribute to the design of future projects**.

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<sup>3</sup> This review paper contributes to the broader research work programme on Aid for Trade, funded by the Bill & Melinda Gates Foundation.



The review paper is structured in the following manner. Section 2 provides an overview of Aid for Trade as well as presenting the framework that guides the discussion in the paper. Section 3 highlights Aid for Trade flows and the econometric evidence of impact. Section 4 discusses how Aid for Trade needs and priorities are determined. Section 5 looks at the instruments and modalities used to meet Aid for Trade needs. Section 6 discusses how Aid for Trade projects are designed and implemented and Section 7 how Aid for Trade is monitored and evaluated. Section 8, drawing on the analysis in this paper, highlights measures and areas to further improve effectiveness of the Aid for Trade initiative as well as a future research agenda.

## 2 Overview and framework

### 2.1 The evolution of the Aid for Trade initiative

The growing marginalisation of LDCs was a significant topic at the 1997 WTO Ministerial Conference in Singapore, which generated a demand for some form of coherent and institutionalised approach to trade-related technical assistance. This led to the launch of various technical assistance and capacity-building programmes at the bilateral and multilateral level. The Integrated Framework of Trade-related Technical Assistance provided an initial multi-donor approach to Aid for Trade, but has often been dismissed given its small size and limited ability to ensure uptake of the programmes it designed: ‘its trade dimension has been relatively limited’ (Hoekman and Prowse, 2005: 13). Similarly, the International Monetary Fund (IMF) Trade Integration Mechanism, introduced in 2004 to help members meet balance of payments difficulties arising as a result of multilateral trade liberalisation, has been seen as too narrow in scope (Croker, 2011). Operating through existing IMF facilities, it represented an early initiative to address preference erosion as well as other potential budgetary shortfalls caused by higher food import prices (Hoekman and Prowse, 2005).

While such programmes have been useful in raising awareness of WTO issues, building analytical and negotiation skills of trade officials and assisting LDCs in particular to incorporate trade in their national development strategies, they have failed to address the core trade-related problems facing these countries. Most importantly, the lack of sufficient, unconditional, coordinated, predictable and sustainable funding has been a critical problem (Adhikari, 2011a). However, to a large extent, the approach stemmed from the understanding that ‘openness’ in trade, in and of itself, leads to economic growth and therefore development, with historical and contemporary evidence showing the causality between openness and growth employed to buttress these assertions (Dollar, 1992; Dollar and Kraay, 2004; Wolf, 2004). However, this understanding of the role of trade in economic development and accompanying policy approaches has been challenged for, on the one hand, its narrow focus on overly market-oriented trade-related policies that neglect the country-specific impacts of liberalisation, and, on the other, a lack of sufficient linkages with poverty reduction concerns (Chang, 2010; Rodrik, 2007).

A new consensus on trade and economic development has been emerging in recent years. It is now accepted that trade policies centred on openness alone are not sufficient to achieve economic growth and development, and cannot address poverty reduction concerns. Nevertheless, there is frequently a lack of alternatives on what an appropriate trade policy for a developing country should be, particularly as trade-related opportunities and challenges are context specific.<sup>4</sup> Such a shift in the understanding of the relationship between trade, growth and poverty and the approach towards formulating trade policies have, among other things, been influencing the WTO’s Doha Development Round.

The WTO’s Doha Development Round was launched at the Doha Ministerial Conference in 2001 without any mention of Aid for Trade.<sup>5</sup> Developing countries, both during and after the Doha Ministerial Conference, expressed concerns about the ‘development deficit’ in the multilateral trade liberalisation process. It was argued that developing countries would not benefit uniformly from multilateral trade liberalisation. For instance, while net food exporting developing countries would benefit from agricultural liberalisation (i.e. the removal or significant reduction of agricultural subsidies by

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<sup>4</sup> Dani Rodrik summarises this as follows: ‘trade and financial openness are unlikely to lead to economic growth on their own, and may occasionally even backfire, in the absence of a wide range of complementary institutional and governance reforms. This is in sharp contrast to the views expressed in the literature on trade and growth of some 10-15 years ago, in which the assertion was that trade liberalization in particular has an unconditional and strong effect on economic growth on its own--even in the absence of other reforms. Once again, the evidence has rendered the older views untenable’ (Rodrik, 2007: 10).

<sup>5</sup> The Doha Ministerial Declaration mentioned the need for technical assistance for countries to comply with new rules. Article 38 states that ‘technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system’ (WTO, 2001), but committed only to maintaining the existing value of WTO technical assistance, along with supporting coordination with other donors (Page, 2007a).

developed countries), net food importing countries could face increased food prices as a result of this (Gillson et al., 2004).

The inclusion of Aid for Trade in the 2005 Hong Kong Declaration marked a change. While it was initially incorporated in recognition of the fact that those countries whose preferences were being eroded needed adjustment support, Page argues that its inclusion was ‘revolutionary in the acceptance by a consensus [...] of any role for the WTO in aid and of the limitations of trade measures alone’ (Page, 2007a: 1). As such, even when the Aid for Trade initiative was announced in 2005, there were divergent views on some of the fundamental questions underpinning it (Stiglitz and Charlton, 2006), including what should be funded, the form in which funds should be provided and who should manage the transfer. The Hong Kong Declaration left many issues on the operationalisation of Aid for Trade open for the Aid for Trade Taskforce to clarify and provide recommendations on. This Task Force, instituted by the Director General of the WTO, as mandated by the Hong Kong Ministerial Declaration, made the following recommendations on the following three issues (Adhikari, 2011a):

1. It divided the potential areas of Aid for Trade funding into six categories, ranging from trade-related infrastructure to trade-related adjustment.
2. It recognised that Aid for Trade had to be much more regional and global than normal aid programmes, as well as a need for Aid for Trade investment flows to both LDCs and non-LDCs.
3. On the issue of who should manage the transfer, it remained silent, leaving the way for individual donors – bilateral, regional or multilateral – to deliver funds following their traditional modalities of aid delivery.

In the short span of time since the launch of the initiative in 2005, resources allocated to Aid for Trade have been growing steadily (from \$20 billion in 2006 to \$32 billion in 2010). Moreover, growth in resources has been resilient in spite of fiscal constraints in donor countries.

## 2.2 How and why can Aid for Trade influence growth and poverty

The empirical literature tends to support the presumption that trade liberalisation reduces poverty in the long run and on average.<sup>6</sup> In theory, for developing countries (which tend to have scarce capital and abundant labour), increased trade allows for a higher return to labour, and in turn an improvement in the income distribution towards wages and the poor (Page, 2007a). This can happen through a number of different transmission channels, including lower prices, increased competition and the creation of economies of scale, new industries and global value chains (McCulloch et al., 2001).

However, the exact implication of trade reforms for poverty reduction will be complex and nuanced (see Bird, 2004). The impact of increased trade (particularly through liberalisation) on growth and poverty will depend on the structure of the economy and whether trade-induced growth occurs in sectors where a large number of the poor are economically active; how much growth translates into job creation and wage increases; whether excess labour can be absorbed; and the extent to which the poor are equipped to take advantage of new job opportunities (see Hallaert and Munro, 2009; Page, 2007a). As such, the aggregate and distributional impact of trade reforms depends significantly on complementary policy choices. For example, if increased government revenue is spent on social programmes aimed at distributing the potential gains from trade more widely, trade reforms are likely to have a greater impact.

In essence, the political economy of liberalisation implies that groups likely to lose from policy changes can, if well organised and influential, block reforms that might benefit the average citizen. Therefore, aid to support those likely to lose from reform – particularly when it helps them benefit from trade – could help ensure the implementation of a policy that is beneficial in aggregate. This rationale also

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<sup>6</sup> See Hallaert and Munro (2009) for an overview of studies examining the impact of trade liberalisation on growth.

holds true at the multilateral level: the Aid for Trade initiative also emerged out of concerns over some countries experiencing net losses from a Doha Round agreement because their trade preferences would be eroded compared with the *status quo ante*. Aid for Trade funds were intended to mitigate those losses and ensure these countries felt they had something to gain from a conclusion of the Doha Round.

In addition to countries fearing preference erosion, Aid for Trade was relevant for countries facing supply-side constraints to improving trade performance.<sup>7</sup> The Commission for Africa (2005), for example, identifies geographical constraints as one of the two root causes of Africa's poor development performance (the other being governance). It points out that these landlocked countries, where more than a quarter of Africa's total population live, face a substantial competitive disadvantage and therefore are much more likely to remain poor.<sup>8</sup> Table 1 describes how Aid for Trade aims to address a number of common market and co-ordination failures.

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<sup>7</sup> The WTO provides the following as the rationale for Aid for Trade (WTO, 2006): 'Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access. Effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries.'

<sup>8</sup> Limao and Venables (2001) argue that the quality of infrastructure is an important determinant of transport costs, and show that poor infrastructure accounts for more than 40% (and up to 60% for landlocked countries) of predicted transport costs.

**Table 1: How Aid for Trade can address different market and governance failures**

Broad source/ area of failure	Examples of failure	Responses: policies and activities	Role for Aid for Trade
<b>Market failures</b>			
Coordination	<ul style="list-style-type: none"> <li>Externalities ignored</li> <li>Linkages not exploited</li> <li>Complementarities not exploited</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building for trade policy to identify linkages and externalities</li> <li>National trade strategy</li> </ul>	Yes, training and institutional development
Developing, adapting and adopting technologies	<ul style="list-style-type: none"> <li>Incomplete and imperfect information</li> <li>Network externalities</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate technology transfer and adoption</li> <li>Support for quality control to meet export standards</li> </ul>	Yes, trade facilitation, assisting coordination with the private sector
Skills formation	Underinvestment in training owing to inability to appropriate externalities	<ul style="list-style-type: none"> <li>Better coordination and/or subsidies for training</li> <li>Strengthen information flows</li> </ul>	<ul style="list-style-type: none"> <li>Mostly not included under Aid for Trade</li> <li>Could be included in trade-related adjustment</li> </ul>
Capital markets – access to finance	<ul style="list-style-type: none"> <li>Difficult access to credit</li> <li>High interest rates</li> </ul>	<ul style="list-style-type: none"> <li>Credit schemes</li> <li>Formal sector subsidy based on improved information about borrowers</li> </ul>	Mostly not included under Aid for Trade
Infrastructure	Lack of good quality infrastructure because lumpy investment gets postponed in uncertain times	<ul style="list-style-type: none"> <li>Provide incentives for public–private partnerships</li> <li>Provide grants in the case of low financial return/high economic return</li> </ul>	Yes, aid to economic infrastructure, better coordination with development finance institutions/private sector
<b>Governance failures</b>			
Regulatory and administrative structure	Burdensome administrative requirements	Streamline administrative procedures and regulation	Yes, Aid for Trade facilitation

Source: Cali and te Velde (2011).

### 2.3 A changing context for Aid-for-Trade

Aid for Trade has become more and more de-linked from the stalled Doha Round negotiations, with trade capacity building becoming a growing priority for development cooperation, aid and, increasingly, private sector finance (UNIDO, 2010a). While the economic need for Aid for Trade in developing countries remains, the global political economy of development has shifted substantially – thereby also changing the operational context of Aid for Trade.

For one, the ongoing global economic crisis means that, in times of fiscal austerity, donors are facing an increasing need to justify large aid flows and show that taxpayer funds are spent effectively and there is ‘value for money’.<sup>9</sup> The ‘results agenda’ has created a new need to demonstrate clearly that interventions are ‘working’ (Cadot et al., 2011). Moreover, according to the latest 2011 Aid for Trade Global Review (OECD/WTO, 2011), roughly half of donors have changed their strategy since 2008, with an increased focus on economic growth and poverty reduction as key goals (a link which, as Section 7 argues, is very difficult to establish).

<sup>9</sup> A recent opinion poll in OECD countries revealed that a large majority of the public favoured cuts in defence and aid spending rather than in other categories of expenditure (Cadot et al., 2011).

For developing countries, the crisis has also made increasingly visible the importance of improving trade performance, and the role Aid for Trade can have in this (Hoekman and Wilson, 2010). For one, Aid for Trade can play a highly significant role in supporting countries to diversify and reduce output volatility – particularly in times of uncertain export demand and fluctuating commodity prices. It can further play an important role in improving productivity by addressing many of the market, coordination and governance failures outlined in Table 1.

Not only has the rise of emerging powers – most notably China, India, South Africa and Brazil, among others – created new export markets, particularly for primary commodities, but also these countries have become Aid for Trade providers. ‘South–South cooperation’ has increased through targeted efforts at cooperation in specific industries, such as China’s engagement in infrastructure or Brazil’s support to agricultural development in many African countries.

The lack of progress in terms of concluding the Doha Round of the WTO has meant that Aid for Trade has increasingly become divorced from progress in the Doha Round, and one of its central rationales – adjustment support for preference erosion – has become secondary. However, given the proliferation of regional and bilateral trade agreements, preferences continue to be eroded and there is a strong – and frequently neglected – role for Aid for Trade in helping countries exploit potential gains from regional integration, alleviate the negative impact of trade diversion from other countries’ free trade agreements (FTAs) and effectively negotiate with numerous partners on a large number of issues at the same time.

Aid for Trade is also increasingly being used to leverage private sector funds. While in the past there was a distinct lack of private sector involvement (Adhikari, 2011a), the role of the private sector as a catalyst for Aid for Trade is likely to grow in the future. Among case stories submitted to the 2011 Aid for Trade Global Review, one of the most common factors in success related to projects that managed to combine public and private investment with technical assistance.<sup>10</sup> Work carried out at the Overseas Development Institute (ODI) on blended finance further underlines this point. Particularly blending schemes (such as the European Union (EU)–Africa Infrastructure Trust Fund) can leverage in up to 15 times the initial investment through other sources of finance (ETTG, 2011). Similarly, development finance institutions (DFIs) can help mobilise additional capital for infrastructure projects, especially private investment (te Velde, 2011).<sup>11</sup>

Linked to the movement away from Doha and the WTO, there is an increasing rationale for a stronger integration of Aid for Trade into other policy priorities, most notably concerns over agriculture, rural incomes, food security and climate finance. These challenges not only require us to rethink our assumptions about Aid for Trade, but also have increased the demand for a better understanding of how to ensure Aid for Trade is effective in achieving its diverse objectives within different country contexts.

## 2.4 Framework for analysis

In assessing when Aid for Trade is most effective, this paper proposes a framework entailing four dimensions within the process of Aid for Trade programming and delivery in which donor and recipient behaviour, as well as the relationship and interaction between donors and recipients, influences the effectiveness of Aid for Trade. As such, the paper suggests examining Aid for Trade sequentially and through a political economy analysis lens. In other words, analysing how the incentives facing different key actors (especially on the donor and recipient side) lead to bottlenecks and opportunities can be a useful methodology for increasing the effectiveness of Aid for Trade.

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<sup>10</sup> These case stories provide a useful collection of seemingly successful Aid for Trade interventions but should not be seen as a representative sample.

<sup>11</sup> Every dollar of CDC investment coincides with \$5 of other investment; every International Finance Corporation (IFC) dollar leverages about \$3 from others; every European Bank for Reconstruction and Development (EBRD) dollar leverages in another \$1.

These four dimensions – covered in greater detail in subsequent sections – are closely linked to the project and programming cycle. At each stage, donors and recipients need to consider key issues so as to improve the likelihood that Aid for Trade will achieve its desired outcomes. Table 2 details some of the key questions arising at each stage. For each of these aspects, the paper examines what the available qualitative and quantitative data suggest about the main barriers to greater effectiveness, what individual country experiences tell us and, finally, how both donors and recipients can address some of these barriers to ensure greater Aid for Trade effectiveness.

These four stages, which can be subdivided into a number of aspects, are:

1. **Determining Aid for Trade priorities**, including the identification of binding constraints to growth, the needs assessment/Diagnostic Trade Integration Study (DTIS) process, the integration of needs into national development plans and how donors respond to trade-related needs through their country or regional programmes;
2. **Structuring Aid for Trade delivery**, examining particularly what we know about the different delivery instruments, bilateral vs. multilateral programmes and the benefits of pooled funds and regional approaches entailing multiple recipients (including Aid for Trade to regional economic communities (RECs) and transport corridors);
3. **The design and implementation of projects and programmes**, focusing on delivery of national and regional Aid for Trade programmes, issues of intra- and inter-donor coordination, integration of country systems, inter-ministerial coordination on the recipient side and the linkages of programmes to the transnational and regional level;
4. **The M&E**, including different methodologies used and how this informs ongoing and future programmes at the global, regional, national and project level.

**Table 2: Framework for examining the effectiveness of Aid for Trade**

Stage	Key processes within stage	Potential barriers to effectiveness
Identifying Aid for Trade priorities	Determining relevance of trade-related constraints in poor development outcomes	<ul style="list-style-type: none"> <li>• Lack of data on the impact of trade-related constraints</li> <li>• Selecting appropriate tools to analyse constraints</li> <li>• Competing priorities in other sectors</li> </ul>
	Prioritising binding constraints to improved trade performance	<ul style="list-style-type: none"> <li>• Limited resources to prioritise among large number of needs</li> <li>• Lack of capacity or agreement on priorities between key actors</li> <li>• Developing shared understanding of overriding concerns</li> <li>• Donors do not fully support plan</li> <li>• Lack of familiarity with country context by experts devising action plans</li> <li>• Frequent lack of consultation of private sector and other non-state actors</li> </ul>
Structuring Aid for Trade delivery	Developing Aid for Trade objectives and strategies	<ul style="list-style-type: none"> <li>• Lack of familiarity among officials with donor's own Aid for Trade strategy and priorities</li> <li>• No linkages between Aid for Trade strategy and related strategies (e.g. agriculture, enterprise development)</li> <li>• Lack of understanding at country level of Aid for Trade as concept and its objectives (and what projects are considered Aid for Trade)</li> </ul>
	Selection of appropriate aid instruments and modalities	<ul style="list-style-type: none"> <li>• Loans create debt sustainability risks</li> <li>• Grants can create moral hazards</li> <li>• While donor pooling improves efficiency it can create uniformity in provision</li> </ul>
	Structuring transnational programmes	<ul style="list-style-type: none"> <li>• Lack of coordination between multiple, regional recipients and/or member states in RECs</li> <li>• RECs frequently lack capacity</li> <li>• Potential conflicts of interest in linkage between Aid for Trade and regional agreements</li> <li>• Lack of donor structures to deliver regional Aid for Trade</li> </ul>
Project/programme design and implementation	Developing programmes that reflect Aid for Trade priorities	<ul style="list-style-type: none"> <li>• Lack of coordination between donor agencies can lead to duplication</li> <li>• Frequently no central recipient focal point or coordination mechanism</li> <li>• Lack of Aid for Trade awareness among donor field offices</li> <li>• Lack of joint planning between donors and recipients</li> </ul>
	Implementation of programmes	<ul style="list-style-type: none"> <li>• Lack of coordination between ministries</li> <li>• Coordination between implementing agents and ministries</li> <li>• Difficulties in responding to changing conditions/shocks</li> <li>• Short tenures of many officials on both sides impact coherence/consistency</li> <li>• Donors frequently mistrust country systems and have tendency towards setting up project implementation units</li> </ul>
M&E (runs parallel to project design and implementation)	Developing a clear results framework	<ul style="list-style-type: none"> <li>• Tendency to set objectives (e.g. Millennium Development Goals (MDGs)) that are beyond scope of project</li> <li>• Results chains are frequently not tested empirically</li> </ul>
	Selection of appropriate indicators	<ul style="list-style-type: none"> <li>• Generally few quantifiable indicators that translate up to national priorities</li> <li>• Lack of clear indicators, especially regarding institutional capacity</li> <li>• Very limited use of sophisticated evaluation methods (owing to cost, risk of negative result, etc.)</li> </ul>
	Impact assessment	<ul style="list-style-type: none"> <li>• Lack of baseline data</li> <li>• Lack of transparency of impact assessment processes</li> <li>• Absence of effective control for other policy variables</li> </ul>
	Ensuring M&E and impact assessment informs ongoing and future projects	<ul style="list-style-type: none"> <li>• High costs of evaluations are seen as deterrent (would cut into programme budget)</li> <li>• Programme managers have few incentives to ensure rigour in evaluations</li> <li>• Barriers to joint monitoring procedures</li> <li>• Few consequences from evaluations and 'on-the-ground studies'</li> <li>• Country-wide evaluations are very expensive and are not necessarily applicable to project level</li> </ul>



### 3 Aid for Trade aggregate inputs, outcomes and impact

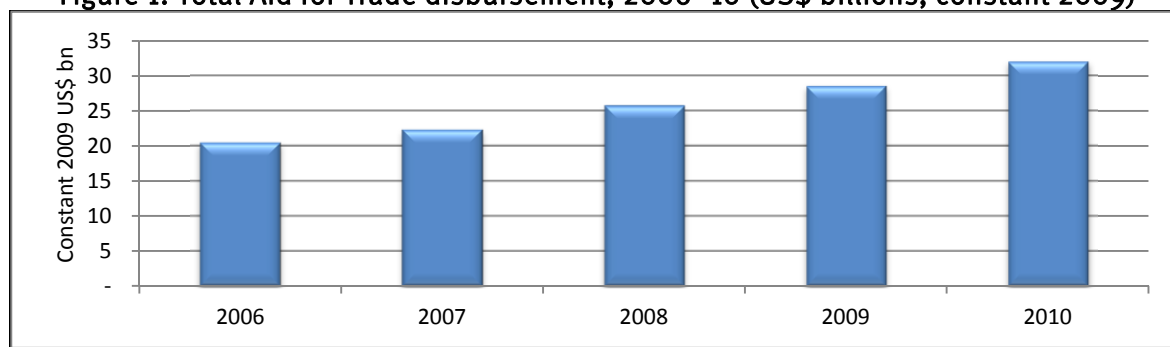
#### 3.1 Aid for Trade flows and trade performance: a summary

The review of Aid for Trade flows shows the following:

- Aid for Trade flows increased from \$20,558 million in 2006 to \$32,086 million in 2010.
- There is an increasing number of non-OECD Aid for Trade donors.
- Large developing countries are the top beneficiaries of Aid for Trade flows.
- By region, Sub-Saharan Africa is the largest regional recipient of Aid for Trade flows.
- By income group, lower-middle-income countries (LMICs) were the largest recipient of Aid for Trade flows between 2006 and 2010.
- By sector, transport and storage were the largest beneficiaries of Aid for Trade investments.

Aid for Trade flows increased significantly from 2006 (when the initiative was first established) to 2010. In 2010, \$32,086 million was disbursed, an increase from \$20,558 million in 2006. On average, Aid for Trade disbursements increased at an annual rate of 12% from 2006 to 2010.

**Figure 1: Total Aid for Trade disbursement, 2006–10 (US\$ billions, constant 2009)**

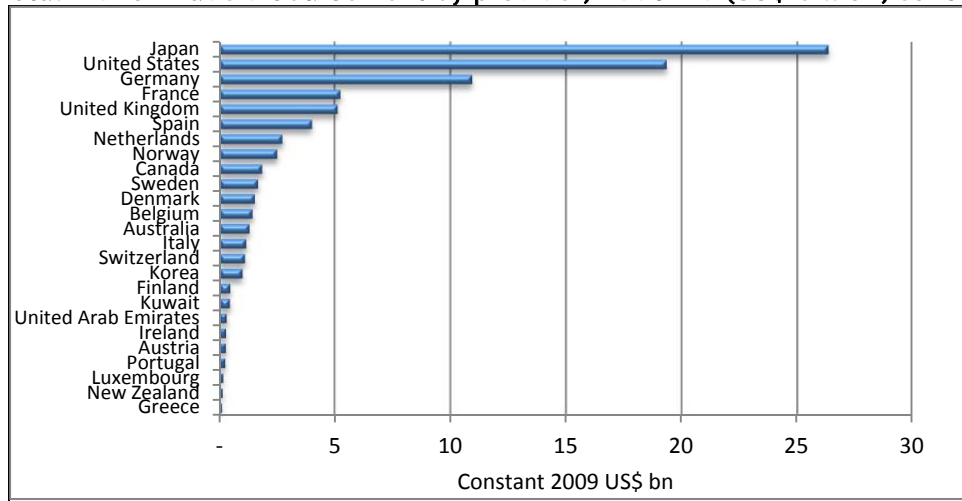


*Source:* Authors' calculation based on OECD DAC Database 2011.

Between 2006 and 2010, Japan (\$26.3 billion), the US (\$19.3 billion), Germany (\$10.9 billion), France (\$5.2 billion) and the UK (\$5.1 billion) were the top five bilateral providers of Aid for Trade. There is an increasing number of non-OECD Aid for Trade donors, such as Kuwait, the United Arab Emirates (UAE) and Korea. In 2010, Kuwait disbursed \$448 million, UAE \$104 million and Korea \$293 million. While there are reports of growing South–South Aid for Trade flows, except for the above, data remain limited. Large developing countries are the top beneficiaries of Aid for Trade. Some of the largest recipients of in 2010 were India (\$2.2 billion), Vietnam (\$1.7 billion), Afghanistan<sup>12</sup> (\$1.7 billion), Indonesia (\$1.1 billion), Egypt (\$890 million), Morocco (\$743 million), Turkey (\$699 million), Ethiopia (\$550 million), China (\$510 million) and Iraq (\$454 million).

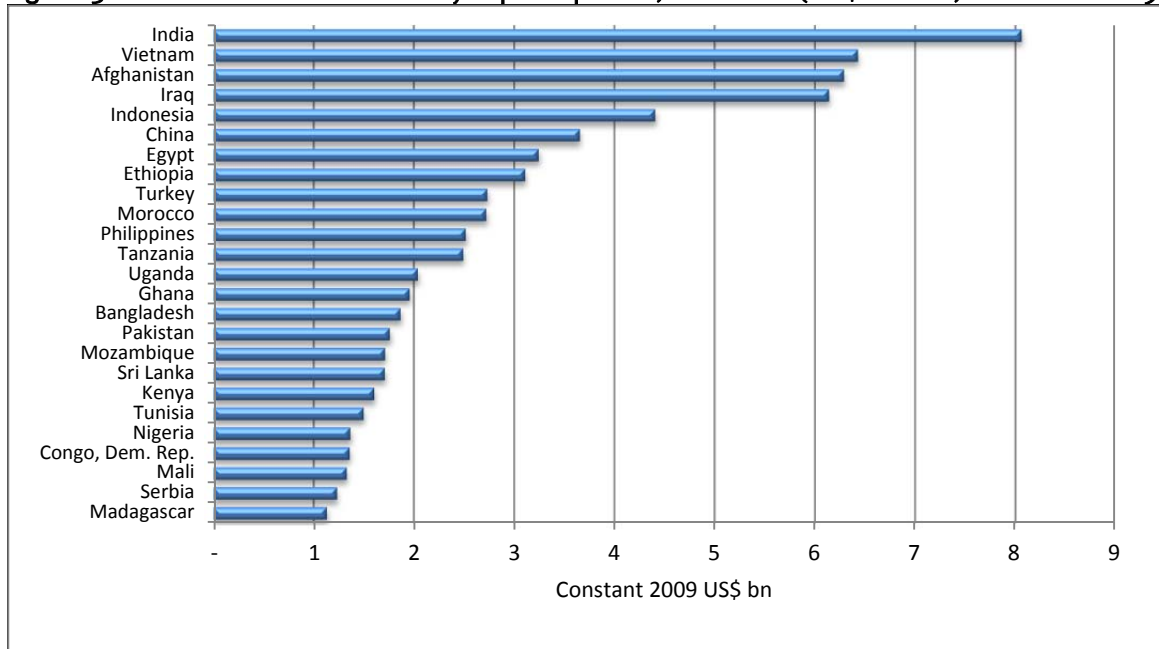
<sup>12</sup> Afghanistan, Iraq and Egypt are likely to have received such large flows for overriding political reasons.

**Figure 2: Total Aid for Trade disbursement by provider, 2006–10 (US\$ billion, constant 2009)**



Source: Authors' calculation based on OECD DAC Database 2011.

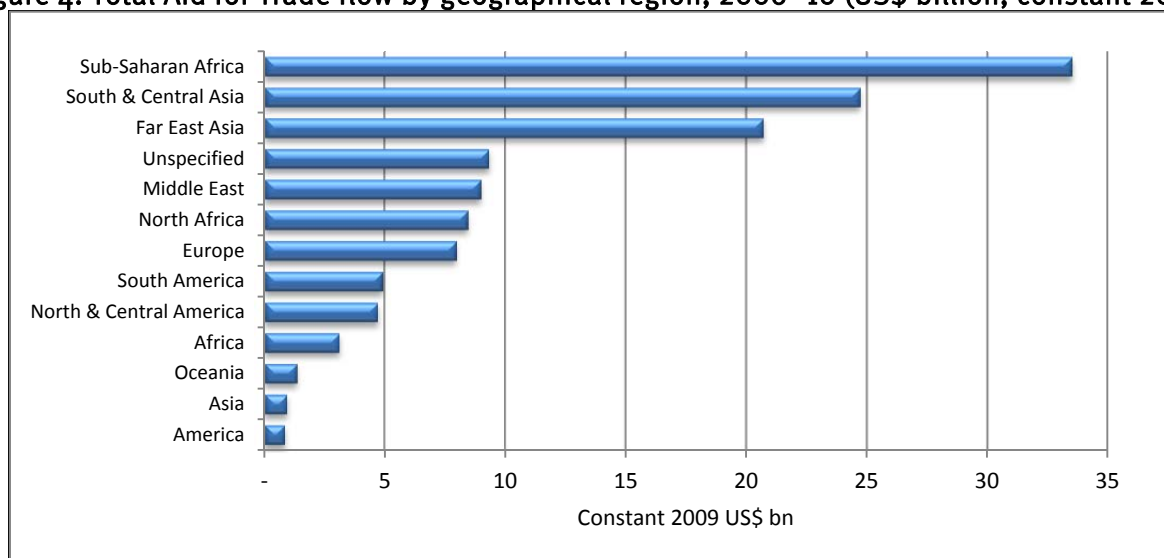
**Figure 3: Total Aid for Trade flow by top recipients, 2006–10 (US\$ billion, constant 2009)**



Source: Authors' calculation based on OECD DAC Database 2011.

While most top recipient countries are located in Asia, the geographical distribution of Aid for Trade shows that Sub-Saharan Africa is the largest regional recipient of Aid for Trade flows. Between 2006 and 2010, Sub-Saharan Africa received \$33.5 billion, followed by South and Central Asia (\$24.7 billion), East Asia (\$20.7 billion), the Middle East (\$9.0 billion) and North Africa (\$8.4 billion).

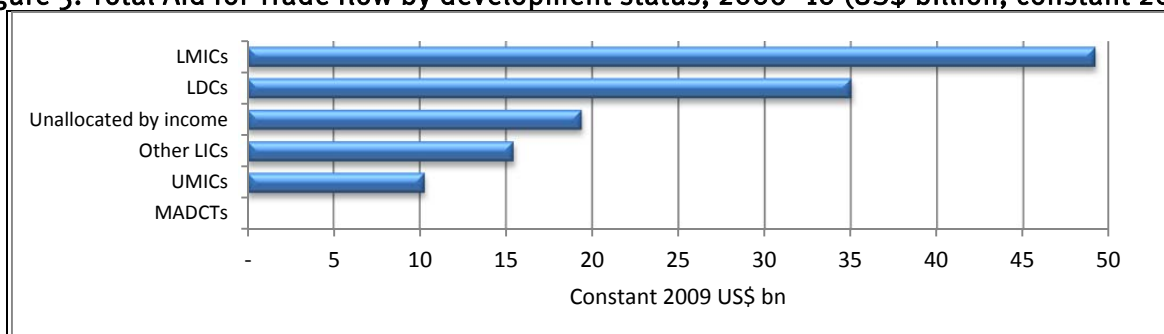
**Figure 4: Total Aid for Trade flow by geographical region, 2006–10 (US\$ billion, constant 2009)**



*Source:* Authors' calculation based on OECD DAC Database 2011

LMICs were the largest recipients of Aid for Trade flows between 2006 and 2010. Between 2006 and 2010, the LMIC group received \$49.2 billion, followed by LDCs, which received \$35.1 billion.

**Figure 5: Total Aid for Trade flow by development status, 2006–10 (US\$ billion, constant 2009)**

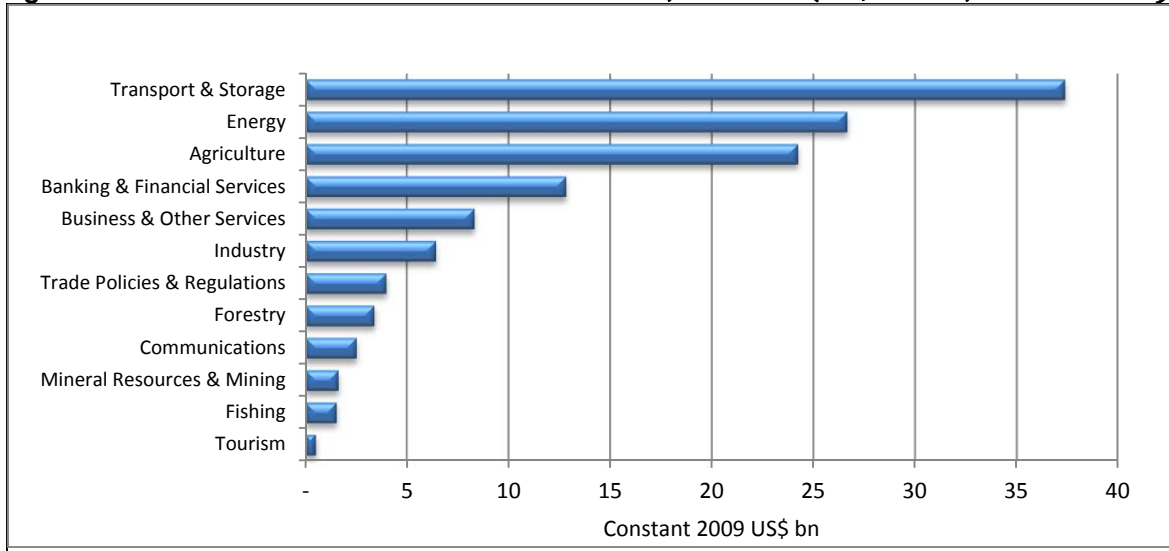


*Note:* LIC = low-income country; UMIC = upper-middle-income country; MADCTs = more advanced developing countries and territories.

*Source:* Authors' calculation based on OECD DAC Database 2011.

The transport and storage sector benefited from the largest Aid for Trade investments, receiving \$37.4 billion between 2006 and 2010. This was followed by energy (\$26.7 billion), agriculture (\$24.2 billion), banking and financial services (\$12.8 billion) and business and other services (\$8.3 billion).

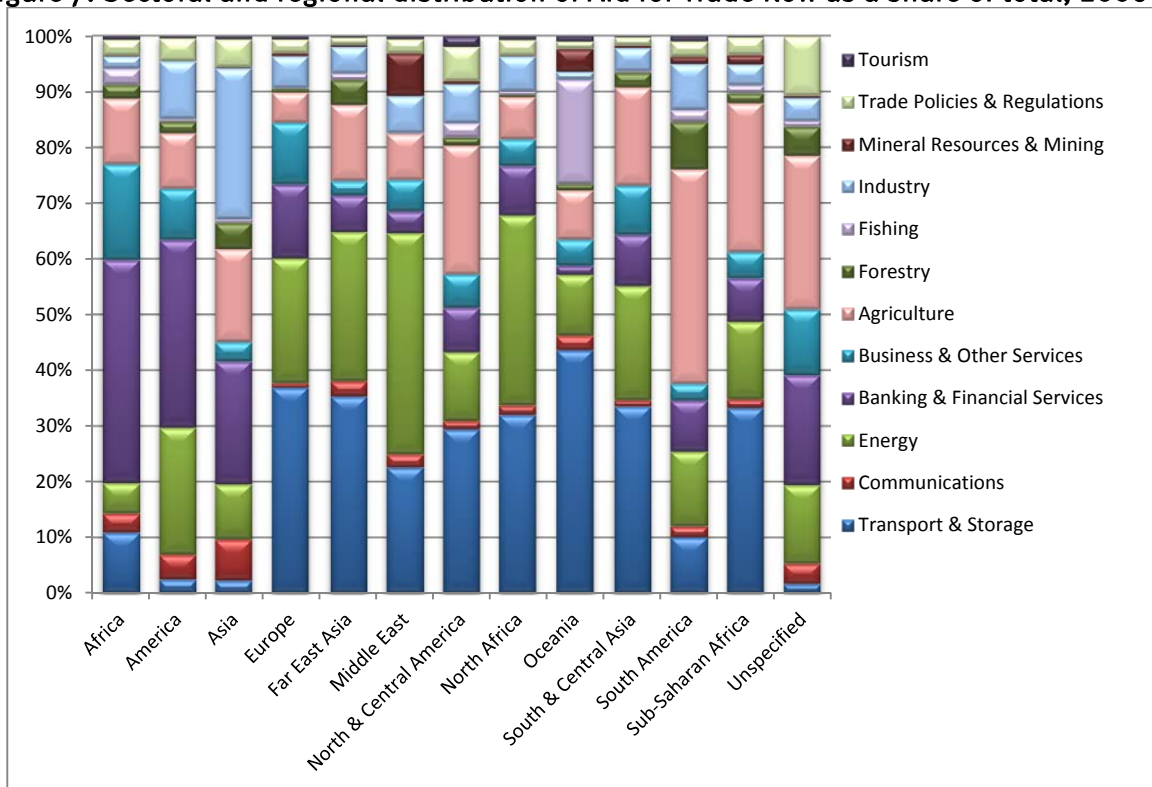
**Figure 6: Sectoral distribution of Aid for Trade flow, 2006–10 (US\$ billion, constant 2009)**



Source: Authors’ calculation based on OECD DAC Database 2011.

Figure 7 shows the sectoral distribution of Aid for Trade flows by different regions between 2006 and 2010. Transport and storage was the largest recipient of Aid for Trade investment across regions, and also in Sub-Saharan Africa with over \$11 billion. Even in Asia (combining data for different sub-regions), transport and storage was the largest recipient of Aid for Trade investment.

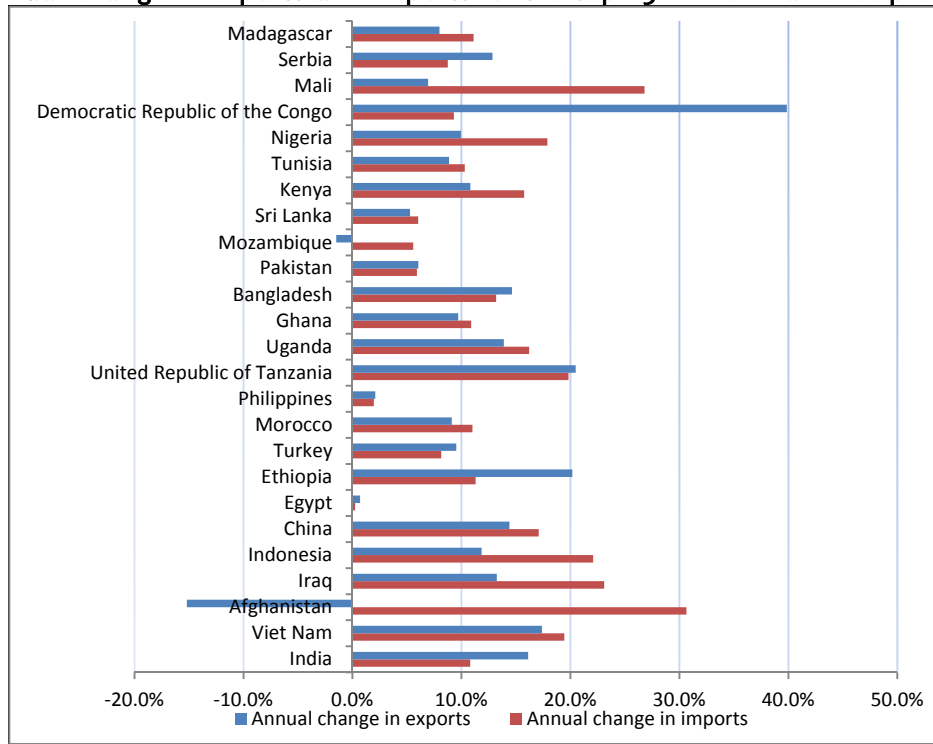
**Figure 7: Sectoral and regional distribution of Aid for Trade flow as a share of total, 2006-10**



Source: Authors’ calculation based on OECD DAC Database 2011.

Data show a positive correlation between Aid for Trade investment and the trade performance of the recipient country. Except for Afghanistan and Mozambique, most top 25 recipients registered positive growth in trade (in both exports and imports). The next section discusses the econometric evidence on the impact of Aid for Trade investment on trade.

**Figure 8: Annual change in exports and imports for the top 25 Aid for Trade recipients, 2006–11**



Source: Author's calculation based on ITC Trade Map.<sup>13</sup>

An examination of the leading indicators on competitiveness and the cost of trading show substantial progress over the past decade. Coinciding with a period of sustained support to trade facilitation, all regions have reduced the cost of trading over the past four years. In some cases, these improvements have been quite dramatic. For example, the lead time to import in Sub-Saharan Africa declined by over eight days (from 45.2 to 36.9 days) between 2006 and 2011.<sup>14</sup>

### 3.2 Impact of Aid for Trade: econometric evidence

The amount of Aid for Trade assistance provided over the past few years is considerable. Aid for Trade is recognised as an important development tool facilitating the integration of developing countries into the global economy through initiatives that expand trade capacity.

Evidence on the impacts of Aid for Trade on trade performance of recipient countries is still scant, however. Indeed, very few studies have provided an empirical assessment of the effectiveness of Aid for Trade, partly because of data limitations. This section reviews these studies; Section 3.2.5 discusses existing findings on actual effects of Aid for Trade in detail. Unlike previous surveys of the Aid for Trade literature (e.g. Hoekman and Wilson, 2010; Suwa-Eisenmann and Verdier, 2007; Vijil and Wagner, 2010), this section focuses on a broader sample of research on the effectiveness of Aid for Trade. It also provides an in-depth analysis of the different empirical methodologies used, highlighting their strengths and weaknesses in terms of econometric techniques and Aid for Trade variables selection, as well as in terms of country and sector coverage. Moreover, the section categorises the literature findings by looking at differences of Aid for Trade impact by type of aid flow, recipient country income level, recipient sector of aid and recipient country geographical region.

<sup>13</sup> For Vietnam, the Democratic Republic of Congo (DRC), Bangladesh and Iraq mirror data are based on partner reported data (mirror data).

<sup>14</sup> Figure based on the World Bank Group's World Development Indicators (WDI).

### 3.2.1 Aid for Trade variables: definition and measurement issues

The concept of Aid for Trade is broad and not easily to define. This (together with data limitations) makes it difficult to measure its impact and effectiveness, and leads researchers to prefer using data-driven definitions rather than looking into Aid for Trade definitional issues. Most of the papers reviewed rely on the following six categories of Aid for Trade, proposed by the WTO Aid for Trade Task Force (WTO, 2006), in order to define the Aid for Trade variable(s) in the quantitative studies:

- **Aid directed to trade policy and regulations**, which includes training of trade officials, analysis of proposals and positions and their impact on national stakeholders, technical and institutional support to facilitate the implementation of trade agreements and compliance with rules and standards;
- **Aid directed to trade development**, such as investment and trade promotion, support in different trade sectors and trade finance, market analysis and development;
- **Aid directed to trade-related infrastructure**, including physical infrastructure to connect domestic and foreign markets;
- **Aid directed to building productive capacity**, meaning investments in industries and specific sectors so that countries are able to diversify production and exports;
- **Aid directed to trade-related adjustment**, which comprises complementary measures absorbing some of the costs linked to tariff reductions or declining terms of trade to make developing countries benefit from trade liberalisation.
- **Aid directed to other trade-related needs.**

However, it is important to note that the degree of aggregation of the above aid flows is heterogeneous across the studies. Some focus on Aid for Trade at an aggregated level; others take into account one or more specific categories of Aid for Trade to shed light on the impact of specific interventions on the ground. A few authors even consider one item from one category or create specific Aid for Trade items aggregating single components of different categories. Busse et al. (2011), for example, started focusing on total Aid for Trade given by the sum of all six categories, then restricted their analysis to one category (aid directed to trade policy and regulations) and Aid for Trade to one item of that category (trade facilitation).

Calì and te Velde (2011), instead, studied the impact of Aid for Trade on trade costs by focusing on the Aid for Trade policy and regulation category and one of its sub-categories (trade facilitation), then examined the impacts of Aid for Trade on recipient countries' exports by taking into account two other categories of Aid for Trade, namely, aid disbursed to economic infrastructure and aid disbursed to productive capacity.

Ivanic et al. (2006) consider an alternative aggregation of aid flows, creating a trade facilitation variable by aggregating a selected number of items from three Aid for Trade categories: aid for infrastructure (e.g. port/road improvements); Aid for Trade development; and Aid for Trade policy (e.g. customs reforms). Helble et al. (2009), on the other hand, look at the effectiveness of trade facilitation by defining the trade facilitation variable in four different ways. First, in a narrow sense, trade facilitation is defined as a subset of the Aid to Trade policy and regulations category. Second, and in a broader sense, trade facilitation is computed as the sum of aid flows from the trade development and economic infrastructure categories. Third, a *hard* trade facilitation variable and a *soft* trade facilitation variable are created by including, respectively, funds directed towards investment into infrastructure projects (e.g. upgrading of ports and construction of new roads) and towards building trade-related institutional capacity (e.g. training of customs officials, streamlining custom procedures, etc.).

Ferro et al. (2011) also use a particular aggregation of aid flows, creating their Aid for Trade variable by combining single items from two different categories (aid to trade-related infrastructure and aid to production capacity) to evaluate the impact of aid to the services sector. Vijil and Wagner (2010),

instead, assess the effectiveness of Aid for Trade in trade performance, directly using two categories as Aid for Trade variables: aid to trade policy and regulations and aid to trade-related infrastructure.

Among all the categories used in the above-mentioned studies, only aid to trade policy and regulations and aid to trade-related infrastructure appear to have received adequate attention. Very few studies look at the effectiveness of Aid for Trade development (Ivanic et al., 2006; Helble et al., 2009) and aid to productive capacity (Calì and te Velde 2011). Moreover, trade facilitation receives considerable attention in the range of studies analysed, albeit with heterogeneous definitions of this variable. In some cases, trade facilitation is identified with the correspondent item within the Aid to Trade policy and regulations category; in others, it is computed as the sum of selected single items spread across the different categories of Aid for Trade. This makes the results of the studies assessing the effectiveness of trade facilitation not easily comparable.

Next to those studies that identify the Aid for Trade variable(s) by referring to the WTO categories, there are research works that assess the effectiveness of Aid for Trade by looking at other factors. Brenton and von Uexkull (2009), Lederman et al. (2010) and Volpe Martincus (2011), for example, refer to export promotion programmes. Gourdon et al. (2011) look at a specific type of export promotion instrument: a matching grant. Finally, Portugal-Perez and Wilson (2010) use factor analysis to create four new indicators of trade facilitation: physical infrastructure; information and communication technology (ICT); border and transport efficiency; and business and regulatory environment.

In terms of sources of Aid for Trade data, most of the studies (i.e. Busse et al., 2011; Calì and te Velde, 2011; Ferro et al., 2011; Helble et al., 2009; Ivanic et al., 2006; Vijil and Wagner, 2010) use the OECD Creditor Reporting System (CRS) database, which has the advantage of providing data for a relatively long time span (from the mid-1970s onwards). Nevertheless, data until 1994 have substantial gaps, most of the quantitative studies relying on the CRS database thus use as a time horizon only a few years in the 2000s, with the exception of Helble et al. (2009) and Ivanic et al. (2006), who use longer time spans. The CRS database has also the advantage to account for both aid commitments and aid disbursements data. Note that most of the studies relying on the CRS database use aid disbursement data (e.g. Busse et al., 2011; Calì and te Velde, 2011; Ferro et al., 2011), with the exception of Vijil and Wagner (2010), who use aid commitments data. Moreover, the CRS database reports data related to several dimensions of Aid for Trade, in particular for Aid for Trade and trade-related adjustment. However, a number of limitations should also be highlighted. First, the CRS database includes only aid flows allocated by countries that are members of the Development Assistance Committee (DAC), thus leaves out funds from key donors such as China and many of the multilateral agencies that provide assistance, particularly on trade policy and regulations (Turner, 2008). Second, it takes into account only flows given on concessional financial terms. Third, OECD data on Aid for Trade are also likely to overestimate the actual volume of Aid for Trade for DAC members since they include projects that may have no objectives related to trade or little potential impact on a country's capacity to trade (ibid.).

Another important source of data used in econometric analyses to track Aid for Trade flows, but to a much lesser extent, is the trade-related technical assistance and trade capacity building database constructed jointly by the OECD and WTO. This database, used by, for example, Brenton and von Uexkull (2009), provides very detailed information but only for the period 2000–6. This may constrain even further the period of analysis compared with the CRS database. Moreover, it covers only two categories of Aid for Trade (trade policy and regulations and trade development), and does not include ODA and non-ODA financing. The reliability of the database has also been questioned, particularly as significant data discrepancies have been found when compared with other datasets (Turner, 2008).

Finally, those studies that investigate the effectiveness of export promotion programmes or instruments (Brenton and von Uexkull, 2009; Gourdon et al., 2011; Lederman et al., 2010; Volpe Martincus, 2011) make use of survey data. Portugal-Perez and Wilson (2010), instead, rely on data sourced from the World Bank's databases (Doing Business and WDI) as well as from the World Economic Forum (WEF) and Transparency International.

### 3.2.2 Country coverage

The studies reviewed vary considerably in terms of country coverage. Several cover more than 100 countries (Calì and te Velde, 2011; Ferro et al., 2011; Helble et al., 2009; Lederman et al., 2010; Portugal-Perez and Wilson, 2010); others cover a rather small sample of countries (e.g. 48 countries in Brenton and von Uexkull 2009) or even only one (e.g. Tunisia in Volpe Martincus, 2011).

A number of studies cover both developed and developing countries (Helble et al., 2009; Lederman et al., 2010; Portugal-Perez and Wilson, 2010) but, given the nature of Aid for Trade, several studies have a specific focus on developing economies (Brenton and von Uexkull, 2009; Busse et al., 2011; Calì and te Velde, 2011; Ferro et al., 2011; Gourdon et al., 2011; Volpe Martincus, 2011).

Moreover, in order to investigate whether there are differences in Aid for Trade effectiveness among groups of countries, some studies aggregate economies into special groups using different criteria. Some classify countries by income level: Ferro et al. (2011) distinguish between LICs, LMICs and UMICs. Other studies, such as Brenton and von Uexkull (2009), look separately at LDCs and non-LDCs, and also compare top 20 aid recipients with the rest of the economies. Moreover, there are studies that look at the impacts of Aid for Trade in different geographical regions. For example, Ivanic et al. (2006) distinguish among seven sub-samples of countries: 1) developed economies; 2) East Asia and Pacific (EAP); 3) Europe and Central Asia (ECA); 4) Latin America and Caribbean (LAC); 5) Middle East and North Africa (MENA); 6) South Asia (SAS); and 7) Sub-Saharan Africa (SSA). In a similar way, Ferro et al. (2011) focus on six developing regions. Portugal-Perez and Wilson (2010) also simulate the trade effects of trade facilitation on six different regions.

Finally, it is worth mentioning that few recent studies have started focusing on Aid for Trade effectiveness looking at countries belonging to only one region. For example, Volpe Martincus (2011) assess the impact of trade promotion in the Latin American region looking at Argentina, Chile, Colombia, Costa Rica, Peru and Uruguay.

### 3.2.3 Sector coverage

Sectoral analyses of Aid for Trade effectiveness are very scant. Indeed, only five out of eleven studies reviewed evaluate the impacts that Aid for Trade may have in terms of improving trade-related performance in particular productive sectors. The majority of these look simultaneously at two or more sectors (Brenton and von Uexkull, 2009; Calì and te Velde, 2011; Ivanic et al., 2006; Portugal-Perez and Wilson, 2010), and only one study focuses on a single sector –the services sector (Ferro et al., 2011).

Among the sectors covered, researchers tend to focus mainly on agriculture and manufacturing, probably because of the availability and frequency of data. The mining and services sectors also gain some attention (e.g. Calì and te Velde, 2011; Portugal-Perez and Wilson, 2010 for mining; Calì and te Velde, 2011; Ferro et al., 2011; Ivanic et al., 2006; Portugal-Perez and Wilson, 2010 for services).

It is also important that only one of the studies reviewed evaluates the impact of aid flows directed to specific sub-sectors. Ferro et al. (2011) look separately at five different dimensions of the services sector: transport, communications, energy, banking/financial services and business services.

This suggests a clear need to expand the scope of existing research to better understand the various degrees of effectiveness that Aid for Trade interventions might achieve in different productive sectors and sub-sectors. Annex 2 summarises the estimation methodologies and technical aspects of the studies reviewed.



### 3.2.4 Estimation approaches

The growing number of econometric studies on Aid for Trade's impact, while not unanimous, does indicate that Aid for Trade has been effective at increasing exports and reducing the costs of trading. A number of econometric techniques are used, with various degrees of sophistication, to assess the effectiveness of Aid for Trade. Although some studies use cross-section analysis, most tend to use variants of panel data, favouring macro rather than micro analysis. In what follows, we provide a quick overview of the econometric models used and their inherent advantages and disadvantages. We also discuss some of the theoretical models used as a basis of a few empirical studies.

#### Gravity models

Ivanic et al. (2006), Helble et al. (2009) and Portugal-Perez and Wilson (2010) use as a theoretical base for their studies the gravity model.<sup>15</sup> This specification has become almost a 'classic' in trade studies. The gravity model facilitates interpretation of econometric results by providing a clear theoretical framework, and its flexibility allows researchers to extend the model by adding new variables and testing new hypotheses. Furthermore, it can be used to study macro and micro scenarios, as well as single period cross-sections or panels. Of course, the usual caveats attached to every theoretical model apply. Ivanic et al. (2006) use a two-step approach. First, they compute an extended gravity model to obtain estimates of the effects that trade-promoting aid might have on transaction costs. They then feed these estimates into a computable general equilibrium (CGE) model to obtain projections of global trade transaction costs and their effects on welfare. This is a strong point, since it uses estimates rather than subjective shocks to obtain projections from the CGE model. However, the accuracy of the projections depends on the accuracy of the estimates obtained through the gravity model.

The precise type of econometric methodology used in Ivanic et al. (2006) to estimate the gravity model specification is not entirely clear, so we can provide only a general description of the weaknesses inherent to this type of model. The first drawback is related to the excessive reliance on dummy variables, which may distort the final outcome. Moreover, the effects that Aid for Trade flows might have on trade performance or economic growth are not immediate, and it takes time for full influence. For this reason, when including Aid for Trade variables, most empirical studies use varying periods' lagged values of Aid for Trade. Finally, endogeneity remains a major concern.

Helble et al. (2009) extend the traditional gravity model to accommodate Aid for Trade facilitation flows. The estimation methodology is a fixed-effects panel data study, and they use four main components. The first addresses the relationship between Aid for Trade facilitation and trade flows. The second assesses this relationship across various country groups to highlight possible different effects among countries. The third studies the lagged effects of aid. The last component investigates how the relationship between Aid for Trade facilitation and trade might vary with the type of aid flow. The fixed-effects panel data methodology is widely used, although it does not satisfactorily address endogeneity issues and possible biases owing to zero values within the sample. That said, the authors' decision to analyse the impact of Aid for Trade facilitation in different groups of countries, taking into account different types of aid flows, provides useful insights, and helps address the extreme heterogeneity (in terms of both type of countries and aid flows) that often characterises trade studies.

Portugal-Perez and Wilson (2010) also use an extended gravity model to study the effects of a series of trade facilitation indicators. Their methodology is a two-stage Heckman selection model. This allows

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<sup>15</sup>The basic classical gravity model of trade is given by the benchmark log-linearised econometric specification:

$$\ln(EXP_{ijt}) = \alpha_0 + \alpha_1 \ln(GDP_{it}) + \alpha_2 \ln(GDP_{jt}) + \alpha_3 \ln(POP_{it}) + \alpha_4 \ln(POP_{jt}) + \alpha_5 \ln(DIST_{ij}) + \varepsilon_{ijt}$$

where *i* stands for the source exporting country, *j* for the target importing country and *t* for the time period.  $\varepsilon_{ijt}$  is a normally distributed idiosyncratic error term, with mean 0 and variance  $\sigma_2^2$ . The dependent variable  $EXP_{ijt}$  represents the export flows from country *i* to country *j* at time *t*. Among the explanatory variables,  $GDP_{it}$  and  $GDP_{jt}$  measure the gross domestic product (GDP) of country *i* and *j* in period *t*, respectively. The population is given by  $POP_{it}$  and  $POP_{jt}$  for each of the two countries. The distance between the exporting and importing country is given by  $DIST_{ij}$ , which represents trade costs or market frictions.

correcting for selection and is particularly useful to deal with the excessive number of zeros that characterise the gravity model specifications, as well as the scarcity or incompleteness of Aid for Trade data. The study also uses Tobit and Poisson regressions to check the robustness of results. To address possible endogeneity/causality problems, the authors use the lags of their trade facilitation indicators. This is a valid alternative, although the inclusion of lagged variables implies a reduction of the overall sample used in the regression analysis. Indeed, the more the lags the smaller the sample becomes.

### Control groups

Another branch of the empirical literature studying the effectiveness of Aid for Trade has focused mainly on difference-in-difference (DID) estimations.<sup>16</sup> These types of models are used traditionally in public health to determine if a particular treatment or medicine is effective or not. In its simplest version, the model observes two groups of individuals (countries or firms) over two or more time periods (weeks, months or years). The two groups must share similar characteristics with the difference that one receives the prescribed treatment or policy (in our case Aid for Trade) while the other continues business as usual. This model is particularly attractive, since it allows for isolating better any potential effects that Aid for Trade might have on a particular exporting sector or group of countries.

Brenton and von Uexkull (2009) use a DID model to estimate the impacts that export development programmes might have on export performance. To obtain their estimates, the authors use fixed-effects regressions with a series of dummy variables that represent the inclusion or absence of export development programmes in a particular country. As discussed earlier, excessive zeros in trade samples can affect the outcome. The authors are aware of this and use also a Poisson fixed-effects estimator to check the robustness of their results, which allows for better predictions. However, little is done to address endogeneity problems, and the authors omit the use of alternative control variables that would reinforce the credibility of any result.

Summarising, DID models are a good alternative to traditional gravity models, but the use of econometric techniques to estimate them should be more thorough and take care not to neglect potential causality/endogeneity issues.

### Miscellaneous

In addition to the research mentioned above, the literature also offers a series of studies analysing linear relationships between Aid for Trade and other variables of interest. These studies rely more on the robustness of standard econometric techniques rather than theoretical trade models. This is acceptable, even though the interpretation or justification of the estimates is more burdensome.

Busse et al. (2011) use fixed-effects panel data estimations to study the effects of Aid for Trade and trade facilitation on the costs of trading. The authors also take care to differentiate between LDCs and Non-LDCs. This approach facilitates the identification of significant differences among countries or groups of countries. Overall, the estimation technique is fairly standard and the usual limitations apply. Endogeneity cannot be addressed unless instrument variables are introduced.

Ferro et al. (2011) follow a different approach and propose a new framework to study Aid for Trade effectiveness. They reverse traditional specifications, use aid as the dependent variable and try to explain changes in aid flows through a series of dummies that identify specific business sectors, rule of law, country stability and others. This approach seems promising, and should be taken into account in future research. With respect to the econometric technique used to estimate this specification, the authors apply a standard Ordinary Least Squares (OLS). They do, however, address to some extent causality issues by replacing the dependent variable with other previously independent variables. Nevertheless, the estimation is on the weak side and alternative techniques are available.

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<sup>16</sup> The simplest DID specification is as follows:  $y_{it} = \beta_0 + \beta_1 X_i + \beta_2 T_t + \beta_3 X_i * T_t + \varepsilon_{it}$ , where  $X_i$  is a dummy variable that takes the value of 1 if the individual/firm/country is in the treatment (in our case the treatment is Aid for Trade) group, and 0 if it is in the control group.  $T_t$  is a dummy that takes the value of 1 during the post-treatment period and zero before the treatment period. The interaction term between  $X_i$  and  $T_t$  ( $\beta_3$ ) corresponds to our DID outcome.

Vijil and Wagner (2010) derive an equation that explains total value of exports of a country using a classic symmetric constant elasticity of substitution (CES) function.<sup>17</sup> Then they introduce aid-related variables to explain changes in export values. Using this relationship, they proceed to log-linearise it and then to estimate it using OLS and a Two-stage Least Squares (2SLS). This approach is simple and neat, and allows the researcher a theoretical background that facilitates the interpretation of the results. Moreover, the use of OLS followed by 2SLS provides a good robustness test and addresses endogeneity problems satisfactorily. The drawbacks of this model are that it fails to take into account possible fixed effects and to deal with zero values in the sample.

Calì and te Velde (2011) also use a CES utility function to derive their trade specification. The novelty of their approach relies on the fact that they divide Aid for Trade into four main categories: 1) Aid for Trade facilitation; 2) Aid for Trade policy and regulation; 3) aid to economic infrastructure; and 4) aid to productive capacity. This classification allows better disentangling of aid effects on specific sectors or areas. The estimation technique used is a Generalized Method of Moments (GMM). This technique is particularly robust; it addresses endogeneity issues and allows for more efficient estimation of big samples. Drawbacks remain in the excessive number of zeros within Aid for Trade samples and the choice of adequate instrumental variables for the GMM regressions. The technique is also sensitive to the sample size. If the sample is relatively small, results should be taken with caution.

Volpe Martincus (2011) studies the impact of export promotion programmes in six Latin American countries. He employs a DID and matching-DID methodology, whose advantages and disadvantages of we discussed above. However, this study is innovative in the sense that it pursues a micro-based approach. It uses national firm-level data and controls for differences in trends among firms. This is a good alternative for future Aid for Trade studies.

Finally, Gourdon et al. (2011) also use the DID methodology to study the effects of specific export promotion instruments focusing on Tunisian firms. A single-country approach allows better understanding of Aid for Trade, since it avoids biases resulting from other countries. However, such studies need enough data over time to provide better insights into the effects that Aid for Trade could have. A particular feature of this article is that it covers both service firms and manufacturing firms, providing a clear comparison of the varying effects that Aid for Trade might have on both.

Overall, empirical studies on the effectiveness of Aid for Trade have applied a number of econometric techniques (see also Annex 2), each with its own advantages and disadvantages. Therefore, the researcher should ponder well before choosing the model that best suits a particular sample. Regardless of the econometric technique, other important issues are the definition of the Aid for Trade variable(s) being used and the type of sub-samples or groups of countries analysed. Considering Aid for Trade as a dummy variable or measuring it by monetary amounts makes a difference when deciding what methodology to use. Furthermore, analysing regions, groups of countries or productive sectors separately might make more sense than aggregating different Aid for Trade flows into one single variable. Indeed, the heterogeneity among countries and sectors makes it difficult to isolate Aid for Trade effects when studied in an aggregate manner.

### 3.2.5 Empirical findings on Aid for Trade effectiveness

Taken together, the existing empirical literature tends to confirm that Aid-for-Trade can be effective at both the macro and the micro level. Nevertheless, its impacts may vary considerably depending on a number of factors, as we analyse below.

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<sup>17</sup> A normal CES utility function is:  $U_j = \left[ \sum_i^R n_i x_{ij}^{\frac{\sigma-1}{\sigma}} \right]^{\frac{\sigma}{\sigma-1}}$ ,  $\sigma > 1$ , where  $\sigma$  is the elasticity of substitution between products,  $n_i$  represents a set of varieties produced in country  $i$  and  $x_{ij}$  would be country  $j$ 's consumption of a variety from  $n_i$ .

### **Type of Aid for Trade flow**

A number of quantitative studies suggest that alternative types of Aid for Trade may have different impacts at the macro level on trade-related performance and growth. Ivanic et al. (2006), for example, study the role of three categories of trade promoting aid (aid for infrastructure, Aid for Trade development and Aid for Trade policy) as well as trade facilitation to reduce trade transaction costs of recipient countries and to generate trade welfare gains. While taken together the three categories of aid are found to reduce worldwide trade costs by 0.2% and to generate a total welfare gain of \$18.5 billion, empirical evidence suggests that not all types of Aid for Trade have the same impact. Indeed, the authors find that aid directed to trade policy is the most effective in lowering trade costs of the importer and exporter; trade facilitation is also found to have a significant and large impact on the trade costs of the exporter. Moreover, in terms of welfare impacts, it is found that trade facilitation is the type of Aid for Trade that generates the highest welfare gain (\$24.8 billion). The return to trade facilitation aid is also found to be the greatest among the types of Aid for Trade considered.

In a similar way, Busse et al. (2011) empirically examine the impact of total Aid for Trade, aid directed to trade policy and regulations and trade facilitation on trade costs in developing countries as well as on the time of trading. Their results show that Aid for Trade is both statistically and economically significant in reducing the costs of trading, but the impact depends on the particular aid category. Indeed, highly targeted aid such as aid spent on trade policy and regulations, and particularly on trade facilitation, is more effective than total Aid for Trade. Evidence on the effectiveness of Aid for Trade in reducing the time of trading is less robust, but there is still some evidence that aid directed to trade policy and regulations has a significant (though small) effect in terms of shrinking the time of trading.

Helble et al. (2009) empirically assess the relationship between different categories of Aid for Trade and trade performance of recipient countries. They find that a 1% increase in assistance directed to trade facilitation could generate an increase in global trade of about \$415 million. However, one aid category, that is, aid directed to trade policy and regulations, appears to have a particularly high impact on recipient countries' exports. Indeed, it is found that a 1% increase in Aid for Trade policy and regulations could generate an increase in global trade of about \$818 million.

Another interesting study assessing the relationship between different categories of Aid for Trade and recipient countries' exports is that by Cali and te Velde (2011). Its results show that Aid for Trade has an overall positive and significant impact on exports. However, this effect is entirely driven by aid to economic infrastructure; aid to productive capacity has no significant impact on exports. Cali and te Velde also investigate the impact of different types of Aid for Trade on trading costs and time of trading. They find that Aid for Trade investments aimed at improving trade facilitation reduce import and export costs as well as time of trading. On the other hand, evidence on the impact of aid to trade policy and regulations on the costs of trading is more mixed.

Vijil and Wagner (2010) highlight the importance of aid to trade-related infrastructure (proxied by aid to economic infrastructure) in fostering recipient countries' exports. The results of their empirical assessment indicate that a 10% increase in aid to infrastructure commitments leads to an average increase of the exports to GDP ratio for a developing country of 2.34%. On the other hand, aid directed to trade policy and regulations turns out to have a limited impact on developing countries' exports.

Next to these studies looking at the impacts of different types of Aid for Trade, there are very few studies focusing on the effectiveness of specific instruments for delivering Aid for Trade. Among the studies reviewed, only Gourdon et al. (2011) in their firm-level study try to fill this gap, by examining the effectiveness of a single, well-defined export promotion instrument: an export promotion matching grant, as opposed to a mix of instruments. Their results suggest that recipients of the matching grant have experienced significantly better export growth (in terms of volumes, products and destinations) than non-recipients. This is particularly true in the case of first-time exporters, that is, firms that started exporting after receiving the grant and services firms.

### **Recipient country's income level**

The empirical evidence on whether the effectiveness of Aid for Trade changes depending on the level of income of recipient countries is still very limited, and deserves further investigation. Among the very few studies dealing with this issue, it is worth mentioning that by Ferro et al. (2011), which examines the impact of Aid for Trade in five service sectors by distinguishing between LICs, LMICs and UMICs. The results show that in certain sectors, such as transportation and banking services, the effectiveness of aid in terms of export growth diminishes for higher-income country groups. Indeed, the impact of aid to transportation and banking services is found to be positive and significant for LICs and LMICs, but it turns negative and significant in the case of UMICs. On the other hand, the effectiveness of aid to sectors such as energy and business services increases with the income level of the group of recipient countries.

These findings are to some extent in line with those reported in the study by Portugal-Perez and Wilson (2010), according to which the marginal effect of infrastructure improvement on exports is decreasing in income. However, while findings on the effectiveness of aid to the ICT sector in different income groups of countries is mixed in the study by Ferro et al. (2011), Portugal-Perez and Wilson (2010) clearly show that the impact of ICT on exports is increasingly important for richer countries.

In this context, it is also important to mention the results of the empirical assessment by Busse et al. (2011), which distinguishes between LDC and non-LDC, since low income is one of the criteria used to identify LDCs. Busse et al. find that none of the types of Aid for Trade considered are effective in reducing the costs of trading in LDCs, whereas all the variables are highly significant in the non-LDC sub-sample, with the exception of the total Aid for Trade variable. As the authors suggest, this unexpected result might owe to absorption capacity constraints in LDCs, but also to the fact that in the sample the amounts of aid flows directed to LDCs are too low to show any impact on trading costs.

### **Recipient sector of aid**

Some studies suggest that Aid for Trade may have a bigger impact on specific sectors. Indeed, sector analysis shows some interesting differences. For example, Brenton and von Uexkull (2009) (in line with Cali and te Velde, 2011) find that export development programmes tend to have a higher impact in sectors that already have strong export performance. However, they suggest this may not necessarily be the result of Aid for Trade, since the good performance of these sectors would have made them a success anyway.

Portugal-Perez and Wilson (2010), instead, find evidence that trade facilitation (as measured by the physical infrastructure indicator) has a greater impact in the fuels and the ores and metal sectors compared with the textiles and manufactures sectors. Aid to ICT appears to be effective in the fuels sector but has a negative and significant impact in the ores and metals sector. On the other hand, Ferro et al. (2011) suggest that aid to the transportation and energy sectors is the most effective in boosting exports. According to their baseline estimates, a 10% increase in aid to transportation and energy is associated with a 2% and 6.8% increase in manufacturing exports, respectively, compared with a mere 0.3% increase from aid to the ICT sector.

Finally, Ivanic et al. (2006) find that aid to trade policy can significantly lower costs of trading in the processed agriculture and primary agriculture sectors. Aid to infrastructure and Aid for Trade development seem instead to be particularly effective in the primary non-agriculture sector.

### **Geographical regions of recipient country**

Existing empirical evidence suggests that the same type of Aid for Trade may have varying effects depending on the geographical regions to which the aid flows are directed. Ivanic et al. (2006), for example, show that Asia sees the highest welfare gain from Aid for Trade facilitation, followed by SSA. Moreover, they find that, among all developing regions, SSA is the one that could benefit the most from Aid for Trade facilitation in terms of costs of trading reductions. Indeed, in the region, trade facilitation is estimated to reduce export costs by 1.9% and import costs by 0.7%, whereas in other regions, such as LAC, the reduction in export costs and import costs is estimated to be just 0.5% and 0.2%,

respectively. This result is consistent with the findings of Calì and te Velde (2011), according to which Aid for Trade facilitation has a larger cost-reducing impact in SSA than in the entire sample of developing countries.

Other relevant findings are those in Ferro et al. (2011) and Portugal-Perez and Wilson (2010). The former find that aid to the services sector has different impacts across developing regions. Aid to business appears to have a positive effect on exports in LAC and MENA, but a negative impact in SAS. On the other hand, aid to banking displays a negative relation with exports in LAC as well as in MENA, but has a positive impact on exports in SAS. These results suggest that regions with a high percentage of UMICs (e.g. LAC and MENA) benefit more from aid to business than regions with several LICs and LMICs (e.g. SAS). However, the latter gain the most from aid to banking. On the other hand, Portugal-Perez and Wilson (2010) find that aid to infrastructure produces much more significant trade gains in SSA compared with other regions, especially SAS. Table 3 summarises the main findings of the empirical studies reviewed.

**Table 3: Overview of empirical literature findings on aid-for trade effectiveness**

<b>Aid for Trade effectiveness by</b>	
<b>Type of aid flows</b>	<ul style="list-style-type: none"> <li>• Evidence on the effectiveness of different types of Aid for Trade flows is mixed, partly because results are not always comparable as different definitions of specific categories of Aid for Trade are used.</li> <li>• However, there is some evidence that highly targeted aid flows (e.g. trade facilitation) are more effective.</li> <li>• A few studies find that aid to trade-related infrastructure is particularly effective in promoting recipient countries' exports. Evidence on the effectiveness of aid to trade policy and regulations in improving trade-related performance is more mixed.</li> <li>• Evidence on the effectiveness of single export promotion instruments is still scarce.</li> </ul>
<b>Recipient's income level</b>	<ul style="list-style-type: none"> <li>• There is some evidence that certain types of Aid for Trade flows (e.g. aid to infrastructure such as aid flows to transportation) are more effective in LICs, whereas other aid flows, such as those directed to the business sector, are more effective in higher-income countries.</li> <li>• Much more evidence is needed in this area with respect to different types of Aid for Trade (especially aid to trade policy and regulations, aid to trade development and trade facilitation) and different recipient sectors of aid.</li> </ul>
<b>Recipient sector of aid</b>	<ul style="list-style-type: none"> <li>• The impact of Aid for Trade is found to vary among sectors.</li> <li>• Evidence is still mixed and the different sector classification used in the studies prevents comparability of results.</li> </ul>
<b>Geographical regions of recipient country</b>	<ul style="list-style-type: none"> <li>• There is evidence that the same type of Aid for Trade may have varying effects depending on the geographical regions of recipient countries.</li> <li>• It appears that SSA is one of the regions that could benefit the most from Aid for Trade.</li> </ul>

### 3.3 Summary

This review of empirical studies on the effectiveness of aid for trade shows that several econometric techniques with different degrees of sophistication have been used to assess the impact of Aid for Trade on trade and other economic performance in recipient countries, favouring analysis at the macro rather than the micro level. These methodologies include gravity model specifications, DID estimations, panel data estimations, OLS, 2SLS and GMM, among others. Each technique has its own advantages and disadvantages, and hence it is difficult to identify the best approach to employ; an approach should be chosen depending on the characteristics of the sample used.

Most of the studies reviewed assess the effectiveness of Aid for Trade at an aggregated level: very few focus on the impact of specific Aid for Trade interventions or instruments. Among the different categories of Aid for Trade, researchers have focused mainly on aid to trade policy and regulations and aid to trade-related infrastructure; aid for trade development and aid to productive capacity have received very limited attention. On the other hand, among the components of the different categories of Aid for Trade, only trade facilitation seems to have received some consideration, even though various definitions of this variable have been used.

In terms of country coverage, the existing research appears to be very heterogeneous. Some studies cover several developed and developing countries, whereas others focus on a small sample of economies or even on only one country. Differences across countries by income level and geographical region have been analysed to some extent. Very few studies have tried to assess differences in Aid for Trade effectiveness by productive sector (or sub-sector); those that have favour the agriculture and manufacturing sectors, and to a lesser extent the mining and services sectors.

Availability of data remains an important issue in conducting empirical studies on the effectiveness of Aid for Trade. The majority of studies rely on the OECD's detailed CRS database, which has significant gaps in the years prior to 1994. Moreover, it includes only aid flows allocated by countries that are members of the DAC – thus leaving out funds from key donors such as China – and takes into account only flows given on concessional financial terms. The CRS database is also likely to overestimate the actual volume of Aid for Trade for DAC members, since it does not disaggregate the trade component of projects that have trade and non-trade objectives. Hence, the development of improved databases on Aid for Trade is needed.

The empirical literature tends to confirm that Aid for Trade can be effective at both the macro and the micro level. However, its impacts may vary considerably depending on the type of Aid for Trade intervention, the income level and geographical region of the recipient country and the sector to which Aid for Trade flows are directed.

These findings have important policy implications. Indeed, the empirical evidence suggests that highly targeted Aid for Trade flows may be particularly effective in enhancing trade performance. More precisely, trade facilitation and aid to trade-related infrastructure are found to have significant positive impacts on recipient countries' exports. Moreover, among the different types of Aid for Trade flows, lower-income economies appear to benefit especially from aid to trade-related infrastructure. Finally, SSA is one of the regions that could benefit the most from Aid for Trade, implying that greater efforts should be directed towards this region.

In summary, the review of the existing econometric research on the effectiveness of Aid for Trade shows four key issues that need to be addressed:

- Evidence on the impact of specific Aid for Trade interventions or instruments is limited.
- Differences in Aid for Trade effectiveness by productive sector have been taken into account to only a limited extent.

- Evidence on the actual effects of Aid for Trade at the micro level is scant.
- Databases on Aid for Trade need to be improved.

The literature survey also highlights that:

- Aid for Trade tends to be positive and economically relevant.
- The impact of Aid for Trade is different depending on the type of intervention, the income level and geographical region of the recipient country and the sector to which Aid for Trade flows are directed.

In light of the above, for future research it is worth analysing further the impact of different Aid for Trade instruments as well as investigating the sectors to which Aid for Trade flows should be directed to be more effective. Moreover, empirical analysis is required on how different country characteristics, such as institutional quality and different donor strategies, affect the effectiveness of Aid for Trade. More studies on the effectiveness of Aid for Trade at the micro level are also needed.



## 4 How are Aid for Trade priorities determined?

### 4.1 Identifying Aid for Trade needs

The prioritising of Aid for Trade interventions is usually carried out through a needs assessment process that examines the most binding constraints countries face to participating more actively in trade. This process and its translation into Aid for Trade programming is a central determinant of the effectiveness of Aid for Trade. The means to do it can vary, and can include an extensive stakeholder consultation process, efforts to address the most binding constraints to trade and/or deliberate attempts to mitigate the impacts of preference erosion.<sup>18</sup> These are in turn intended to provide guidance for integrating trade into national development plans (NDPs) or poverty reduction strategy papers (PRSPs). This section examines how and by whom needs are identified, and to what extent this results in the mainstreaming of trade in NDPs/PRSPs.

For LDCs, this has become more formalised through the DTIS of the Enhanced Integrated Framework (EIF) process. A DTIS is generally led by a trade expert who assesses all trade-related economic sectors in order to determine the most pressing constraints. Prioritised recommendations are provided in the DTIS action matrix. A national workshop, to which national, regional and international stakeholders are usually invited, validates the studies as well as the action matrix. However, the extent to which such workshops are more of a formality, or rather allow stakeholders to influence results and final conclusions, generally varies. Moreover, the extent to which the attendees actually represent the interests of the broader population, rather than of their specific interest group, is questionable.

Clearly earmarked external support, such as that of the EIF process to identify and articulate trade-related constraints, is limited to LDCs. Non-LDCs conduct such assessments on their own or in partnership with donors, and structured external support for needs assessments (such as that available for LDCs through the EIF system) is frequently not widely available.<sup>19</sup> While the DTIS process for articulating Aid for Trade needs is far from ideal (see the following sub-sections), it does provide a predictable process for articulating an approximated hierarchy of Aid for Trade needs. In its absence, how well Aid for Trade needs are articulated is often determined by the availability and enthusiasm of officials and policy advisors in the recipient country's Ministry of Trade.

### 4.2 Determining binding constraints and Aid for Trade priorities

Once Aid for Trade needs are analysed and examined, these have to be translated into priorities. The establishment of a hierarchy of needs can inform the allocation of Aid for Trade resources.

In the EIF process, the DTIS contains an action matrix that outlines the hierarchy of longitudinal needs, actors responsible for them, actions needed to address them and the monitoring process and timelines. Furthermore, the EIF process establishes an institutional mechanism to guide the setting and addressing of identified Aid for Trade priorities. These include an EIF steering committee composed of key line ministries, donors and other non-state actors, a donor coordinator, usually one of the large bilateral donors responsible for coordinating donor–recipient interactions and an EIF focal person, usually from the Ministry of Trade, responsible for the day-to-day management of the EIF process. These actors play an important role in translating the articulation of needs into priorities and actions as well as in mobilising resources around these priorities.<sup>20</sup>

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<sup>18</sup> Hallaert and Munro (2009) provide an overview of different diagnostic tools.

<sup>19</sup> For the European Commission (EC) assessment for of Aid-for-Trade in non-LDCs, see [http://ec.europa.eu/europeaid/indtwhat/development-policies/intervention-areas/trade/aid-for-trade\\_en.htm](http://ec.europa.eu/europeaid/indtwhat/development-policies/intervention-areas/trade/aid-for-trade_en.htm)

<sup>20</sup> See <http://www.enhancedif.org>

In non-EIF needs assessment processes, the translation of needs into priorities and actions is intended to happen within the broader parameters of policy dialogues conducted around national development plans and agendas. LICs not classified as LDCs and middle-income countries (MICs) that do not receive the support provided by the EIF process could face institutional difficulties and capacity constraints in translating Aid for Trade needs into priorities. Consequently, trade-related needs tend to remain dispersed across NDPs. While needs assessments may highlight the major barriers to trade integration in less developed countries and point to the most pressing constraints, they often do not provide information about which interventions work and which do not, and which interventions are most cost effective (Cadot et al., 2011). Thus, they frequently provide limited guidance as to what kinds of interventions are most needed to alleviate trade-related constraints, and which are likely to be most effective given the respective country context.<sup>21</sup>

In some countries, the needs assessment process is seen as just a project of the Ministry of Trade and donors, one that does not incorporate the crosscutting significance of these constraints for other ministries. As such, it ends up lacking the necessary cross-governmental prioritisations, and action matrices end up not being followed up on, either by the governments or by donors. This failure to follow up, Hallaert and Munro argue, ‘can be attributed, at least in part, to the structure of the template and the process that is more conducive to the identification of overall needs rather than the identification of the binding constraints’ (Hallaert and Munro, 2009: 21).

The coordination and recognition of Aid for Trade needs and strategies within developing countries and between donors and recipients remains an area for concern, as pointed out in recipient country responses to the WTO/OECD Global Review 2011 survey.<sup>22</sup> First, trade needs to be present in the national development agenda. Here, the issue is one of coordination within the country, in relation to the different line ministries, the private sector, civil society and the research community. Second, when trade is mainstreamed into the national development agenda, it provides a necessary though not sufficient condition for donors to respond and prioritise this in their programming. As a result, while the majority of countries increasingly recognise the crucial role of trade for growth and development, according to surveys carried out for the most recent Global Review, strategies frequently ‘lack operational objectives and action plans’ (OECD/WTO, 2011: 32). Moreover, if trade is not prioritised in national plans, donors are unlikely to focus on this as a priority (Adhikari, 2011b).

Thus, Aid for Trade needs can best be addressed when trade issues are mainstreamed into the national development agenda, with the linkages between trade and the rest of the economy comprehensively analysed and articulated, the weakest links within the export economy identified and strategies devised to address these. In many developing countries, trade is increasingly incorporated into the national development agenda as a lever for growth and a prerequisite for poverty reduction. However, there are differences in the degree and scope to which trade is mainstreamed into plans and strategy documents, including the extent to which actual quantitative targets and implementation plans are set out that go beyond the very general rhetoric of mainstreaming; in many developing countries, trade remains of secondary importance and is mentioned merely passively in national plans.

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21 Needs assessments can also be hindered by the lack of context-specific knowledge of the team or individuals carrying them out. In the past, they were often conducted primarily by external consultants with limited familiarity with the country they were working in, and who did not necessarily have a full awareness of the feasibility of different interventions. Moreover, they may not have had an incentive to follow up to ensure a prioritised integration of these constraints. As a result, effective solutions and a prioritised ranking of constraints to assess the feasibility of addressing these within the national political economy were frequently absent.

22 Note that all responses to the survey can be found at [www.oecd.org/aidfortrade/self-assessments.html](http://www.oecd.org/aidfortrade/self-assessments.html). Any calculations cited here are made by the authors on the basis of these responses.

### 4.3 Mainstreaming of Aid for Trade priorities

Increasingly, the results of Aid for Trade needs assessments are also being integrated into NDPs and PRSPs. For example, a UN Development Programme (UNDP) study found that 85% of PRSPs included a trade component at the time, whereas only 25% had this in 2000 (UNDP, 2011). In surveys carried out for the 2009 Global Review, 96% of recipients claimed that trade had been partly or fully mainstreamed into development strategies (Hallaert, 2012).<sup>23</sup>

The EIF process supports the mainstreaming of the DTIS into national development plans and agendas. Support is provided through both technical assistance and financial resources to address some of the key priorities. The objective of such support, including the institutional setup for managing EIF in-country processes, is to facilitate the mainstreaming of trade into NDPs. Experience in many LDCs suggests that mainstreaming trade into national development plans and agendas frequently occurs as long as there is a ‘push’ from Geneva. Once handed over to in-country processes and actors, the enthusiasm tends to dissipate. Even the donors return to their original set of development priorities, providing only occasional lip service to trade issues.

A recent report by UNDP (2011) titled ‘Trade and Human Development. A Practical Guide to Mainstreaming Trade’ highlights a number of challenges in mainstreaming trade in the planning, policymaking and implementation process. These include the following: 1) limited capacity to conduct trade policy analysis in lead trade agencies and key stakeholder groups has implications for the quality of policymaking, including trade negotiations; 2) human, financial, technical and management constraints affect implementation capacity; 3) administration is fragmented and inter-ministerial action and policy coordination are difficult to organise; and 4) there is narrow involvement of the private sector, civil society and other stakeholders in trade policy formulation, as well as poor accountability in trade negotiations and the implementation of trade-related reforms.

UNDP further outlines that, although donor support to trade capacity development is a prominent and growing feature in mainstreaming trade, the frequent lack of mutual accountability of government and development partners remains a major concern (this is discussed further in the following sections). The report argues that good practices such as sound analysis of trade opportunities, strategic interventions, inclusive stakeholder engagement and coordinated action are critical to mainstreaming trade in development planning, policies and activities (UNDP, 2011).<sup>24</sup>

In many cases, particularly in LDCs, trade policies are either absent or muted or exist parallel to the national development agenda. When trade is mentioned in the national development agenda, it is often limited to ‘improving performance’ and does not accompany associated policies and strategies to achieve such goals. Furthermore, trade is not proactively leveraged as an integral component in achieving border developmental outcomes. For instance, about 57% of sample<sup>25</sup> respondents to the WTO/OECD Survey 2011 stated that ‘trade was a key priority and the plan included trade-related priorities and implementation activities’. But a sizeable number of respondents (38%) stated that ‘trade was mentioned but the plan did not include operation objectives and action plans’. For example, while Malawi’s NDP reflects trade objectives for 10 key policy area, Said et al. argue that ‘trade does not appear to be mainstreamed in a substantive manner’ and ‘donors believe that trade has not been mainstreamed at the programme level and no link has been made between the [Aid for Trade] agenda and the development agenda’ (Said et al., 2011: 23).

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<sup>23</sup> However, more independent assessments at the time were much more sceptical of how effectively this had been achieved. Hallaert particularly points to the IMF’s Joint Staff Advisory Notes as well as concerns voiced at the same time by the UN Conference on Trade and Development (UNCTAD) that ‘only a minority of country-level plans include trade-related policies’ (UNCTAD, 2009, in Hallaert, 2012: 11).

<sup>24</sup> The report recommends the following for improving trade mainstreaming efforts: 1) policy processes – enhance understanding and awareness on how trade can contribute to the broader good and raise the profile of trade in national policy discussions; and 2) Institutional arrangements – trade mainstreaming works best when appropriate institutional frameworks are in place, which are action and results oriented (UNDP, 2011).

<sup>25</sup> These are based on the responses of top 10 Aid for Trade recipients plus 8 LDCs that are not among the top 10 recipients.

A commonly cited counter-example is Cambodia's experience of integrating its trade reforms and Aid for Trade needs into its national development strategies through its trade sector-wide approach (SWAp). The SWAp is divided into three pillars: 1) crosscutting reforms (such as investment promotion, customs or legal reforms); 2) sector-specific reforms (value chain analysis, tourism, rice, fisheries); and 3) capacity development (related to improving the capacity of the Ministry of Commerce and line ministries, as well as facilitating public-private partnerships). The effectiveness of Cambodia's mainstreaming efforts have been attributed to strong government leadership, a movement away from projects towards the SWAp model, generous funding through a multi-donor trust fund (MDTF), coordinated donor support and private sector involvement (Haddad, 2009). Bird et al. argue, that – while still being 'a work in progress' – the country's SWAp can be seen as an 'integrated framework for pro-poor Aid-for-Trade' (Bird et al., 2009: 15). Central to this was building support within government. Throughout the process, the Ministry of Commerce engaged line ministries through Trade SWAp working groups (ibid.). Particularly important was the prime minister's explicit support.

Aid for Trade can be integral to addressing trade-related constraints but, as outlined above, there are numerous barriers both to determining the relevance and nature of these and to prioritising them. However, substantial investments in needs assessments frequently do not translate into the actual direction of programming, as donors often support projects that may not address the most binding constraints to trade. Therefore, Aid for Trade is likely to be most effective if constraints are identified through a thorough analysis and data collection process, and context-appropriate interventions are prioritised and costed. A government-led consultation and negotiation process including the private sector and donors should determine a clear implementation and financing strategy that is integrated into the NDP and contains measurable targets and a clear lead agency or ministry.

## 5 What are the impacts of different Aid for Trade instruments and modalities?

Recent years have seen a substantial increase in Aid for Trade commitments and a great diversity in approaches. Given the absence of a separate Aid for Trade fund (beyond the EIF), funding arrangements are negotiated directly between donors and recipients. This has resulted in broad coverage of likely Aid for Trade needs, but has also meant that some areas are undersupplied and that consistency has often been missing for recipients. Recent movement towards more pooling of funds, more transnational and corridor approaches to Aid for Trade and a greater focus on effectiveness is likely to have helped address some of these concerns.

In some areas, the priorities emphasised by the Aid for Trade Task Force, in particular its focus on regional interventions, reinforce the importance of the deficiencies identified in existing trade capacity programmes (see OECD, 2006). Support to institutions that improve capacity to trade and to infrastructure and other measures to build countries' ability to trade are needed at regional or global level as well as at country level, but the country-based approach of most bilateral aid programmes has meant problems in garnering support to multi-country projects. This can include regional facilities, such as ports, or bilateral arrangements, such as a road from a landlocked country to a port in another country (UNIDO, 2010a).

### 5.1 Traditional instruments: loans and grants

The World Bank is the largest provider of loans, contributing 47% of total flows in the loans category (\$23.6 billion) following a 115% increase in 2009. The African Development Bank (AfDB) has increased its loans six-fold to reach \$6.6 billion, 13% of the total. The Inter-American Development Bank (IADB) has also increased its available financing. Increases have been concentrated in three sectors: \$10 billion more than in 2008 goes to banking and financial services, loans to the energy sector have increased by \$7.7 billion and \$5 billion more has gone to transport and storage (OECD/WTO, 2011). Collectively, Japan and the World Bank provide almost 60% of all Aid for Trade concessional loans. France, Spain and Germany also provide more in loans than grants, as does Korea.

Grants and loans each have particular benefits (see Gavas et al., 2011).<sup>26</sup> For example, whereas grants allow for the funding of projects with positive externalities that are not financially viable and do not create a debt sustainability risk, they can lead to moral hazard, as this may be seen to be rewarding ineffective or inefficient policies. Loans can be flexible to specific project needs and can provide a larger volume of funding, but they are more complex and can also lead to an increased and potentially unsustainable debt burden. In terms of their trade-distorting effects, there tends to be little significant difference between grant and loan ODA (Clay et al., 2009).

According to the most recent Aid for Trade review (OECD/WTO, 2011), increases in total Aid for Trade commitments have also resulted in a shift towards grants, especially to LDCs and for projects aiming to build productive trading capacity. However, in 2009 there were substantial increases in other official flows (i.e. non-grants) in areas related to trade. Overall flows totalled \$50.5 billion, an increase of \$26.7 billion (112%) on 2008. MICs received 91% of all trade-related concessional loans.

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<sup>26</sup> While exceeding the scope of this paper, blending mechanisms, (i.e. adding grants to loans) aim to achieve a number of objectives, including the need to increase the volume of development finance in a context of constrained resources.

## 5.2 Pooling Aid for Trade, trust funds and the channelling of funds through multilaterals

There is also an increased focus by some (especially European) donors on pooling Aid for Trade funds through trust funds or multilateral agencies. Donor commitments to multilaterals have increased rapidly. Multilateral Aid for Trade grew substantially between 2005 and 2009, with Germany and the UK followed by Japan as the biggest contributors (see Figure 2). Multilateral flows have increased by almost \$6 billion to almost \$17 billion, and now represent 42% of Aid for Trade flows, up from 28% in 2008 (OECD/WTO, 2011). At the same time, total commitments from bilateral donors have declined by almost 20%. However,

- Trust funds can be country specific, regional (e.g. the EU–Africa Infrastructure Trust Fund, which absorbed some €400 million for regional infrastructure; Gavas et al., 2011) or global in scope. They can finance a large variety of activities that can be administered by the trustee or the recipient, or through partnerships.
- Single donor trust funds are usually earmarked for a specific purpose or recipient, and are therefore reported as bilateral aid.
- MDTFs may be considered as core funding to the multilateral agency if there is no earmarking and, in particular, if they are programmatic in nature.

The pooling of funds creates economies of scale, and helps avoid risks of fragmentation and donors spreading themselves too thinly.<sup>27</sup> However, there have been general (i.e. non-trade-specific) concerns about donor pooling through multilateral agencies. In the independent evaluation of Finnish Aid for Trade (Bird et al., 2011), concerns are raised about the fact that many projects are initiated and managed at the headquarters of Geneva-based trade and development organisations, thereby mitigating country ownership.

One pooled fund dedicated to Aid for Trade, the EIF, was launched in 2008 and began operations in January 2009, with the M&E framework finalised in May 2009. Funding of the EIF is channelled through the multilateral EIF Trust Fund and bilateral/regional donors. According to the EIF, its current funding stands at approximately \$100 million with total pledges of \$182 million to be disbursed over a five-year period.<sup>28</sup> The EIF faced difficulties in its early period, with plans not translating fully into operations, including an insufficient focus on trade outcomes and a lack of country-level outcomes and related performance indicators, as well as a perceived need to strengthen the link between financing and priorities in a more systematic fashion (Turner, 2011). This is acknowledged in the most recent Global Review. Numerous case stories and country self-assessments<sup>29</sup> point to ‘difficulties in establishing functioning institutional mechanisms, on-off engagement by donors during this early period and limited buy-in by some stakeholders at the launch’, which ‘left the process open to criticism as administratively cumbersome and slow’ (OECD/WTO, 2011: 73).

Small donors in particular, for whom trade is a new priority, are increasingly channelling funding through multilateral donors. Finland, Ireland, Korea, New Zealand, Norway, Sweden and Switzerland are all increasing the amount of aid they give in this way, and other countries mention that these are important mechanisms. The EC has adopted a strategy for Aid for Trade, and 13 of the EU members (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK) explicitly mention this as an influence on their activities (UNIDO, 2010b).

<sup>27</sup> The evaluation finds that ‘a more strategic approach to identifying and planning Aid-for-Trade interventions might be called for: rationalise the number of projects and programmes and scale up resources towards larger-scale programming’ (Bird et al., 2011: 64).

<sup>28</sup> [www.enhancedif.org/EN%20web%20pages/About%20the%20EIF/The\\_Trust\\_Fund.htm](http://www.enhancedif.org/EN%20web%20pages/About%20the%20EIF/The_Trust_Fund.htm)

<sup>29</sup> EIF processes in Ethiopia, Malawi, Niger and Zambia were initially criticised as inefficient and slow in their administration for these reasons.

### 5.3 Regional Aid for Trade

There is also an increased focus on regional approaches. A total of \$7 billion has been committed to multi-country programmes (i.e. global and regional), more than triple the amount allocated during the 2002–5 baseline period. Both global and regional programmes have reached around \$3.5 billion and their combined share in total Aid for Trade has doubled, from roughly 9% in 2002–5 to 18% in 2009.

Regional Aid for Trade, particularly in the context of the EU–African, Caribbean and Pacific (ACP) Economic Partnership Agreement (EPA) negotiations, has been an area where pooled funding has been most apparent. Parallel to these negotiations (and to respond to the ACP countries' growing Aid for Trade needs), the EU (i.e. EC and EU member states) has set in motion a process to promote integration efforts in ACP regions through regional Aid for Trade packages. These aim to provide coordinated, more effective and increased EU financial support to its regional integration agendas within ACP regions, to respond to the needs and priorities imposed on the ACP countries and regions, including the implementation of EPAs agreed on or being negotiated between the EU and ACP regions (EC, 2009).

However, support to RECs is not uncomplicated, and it is worth bearing in mind that, with regard particularly to issues related directly to policy, there may be clear or even just implicit conflicts of interest between, for example, EU (or EU member state) support to policy and regulation projects in ACP countries, and simultaneous negotiations on the EPAs.

An analysis of the Aid for Trade package to the Economic Community of West African States (ECOWAS) finds that capacity-building efforts have not been very successful and that donors have struggled to harmonise support (Turner and Tracy, 2011). Further, the implementation of European Development Fund (EDF) programmes has been hampered by a lack of national-level support, coordination and communication for regional-level priorities. Moreover, the integration of aid with the negotiation of trade agreements creates the potential for conflicts of interest, as the perception of aid being tied to negotiation outcomes is hard to avoid if the donor is also one of the parties to the trade negotiation.

A slightly different approach to pooled funding is provided by the multi-donor programme TradeMark East Africa (TMEA), a parallel funding structure to the East African Community (EAC) that supports increased trade and cooperation in the region. TMEA was started in 2009 by the UK, Denmark, Canada, Belgium and the Netherlands as a large-scale delivery platform for strategic support to the EAC. It also includes a country programme for each of the EAC's members, and the programmes' horizontal and vertical funding streams mean they can accept funds earmarked by country or regional level – arguably allowing for greater donor cooperation and harmonisation (Turner and Tracy, 2011).

### 5.4 Corridor approaches

Trade corridors allow countries to cooperate on overcoming physical barriers to trade flows. Aid for Trade helps to coordinate action and focus on the most binding constraints around a corridor. Overcoming these physical barriers can be very expensive, which provides further motivation to cooperate at a regional level. It is estimated that \$200 billion-worth of imports and exports per year moves along key international trade corridors, which have a combined length of little more than 10,000 km (Gwilliam et al., 2011). In Central Africa, two road and rail corridors dominate regional transport, linking the port of Douala in Cameroon with Chad (serving cotton and oil exports) and the Central African Republic (CAR) (serving logging exports). In West Africa, there are several potential gateways (in Benin, Côte d'Ivoire, Ghana, Guinea, Senegal and Togo), serving the landlocked countries of Burkina Faso, Mali and Niger.

In East Africa, 80% of trade flows originate or terminate outside the region. Mombasa is the main port of the region, handling more than 13 million tonnes of freight per year and serving not only Kenya and Uganda but also Burundi, DRC and Rwanda through the northern corridor. The central corridor from Dar

es Salaam also serves the DRC, as well as being an alternative for Zambia. In Southern Africa, there are four significant trade routes. The main route, the north–south corridor from Durban, serves as an intra-regional trade route linking Zambia, the south-eastern DRC and western Malawi with Botswana, Zimbabwe and South Africa. Alternate routes through Beira, Walvis Bay and Dar es Salaam, although closer to parts of the region, suffer relative to the north–south corridor from Durban, because of the latter’s superior road infrastructure, better port equipment and lower maritime rates (Gwilliam, 2011).

Moreover, the main results from a recent study by Sequeira (2011) suggest that, even when accounting for distance, perishability and shipment urgency, expected bribes are a strong predictor of the choice of port. For example, 46% of South African firms in the sample that are located in regions where overland costs to the port of Maputo are 57% lower still follow the long way around to Durban in order to avoid higher bribe payments. Of these, 75% are shipping perishable cargo and 74% urgent cargo.

Burundi, Rwanda and Tanzania have agreed to pool their resources in order to finance the construction of a regional railway network crossing all three countries. The new network, the first railway to operate in Burundi and Rwanda, will be linked to East Africa’s Central Corridor railway, which leads all the way to the Indian Ocean port of Dar es Salaam (Muwanga, 2009). This railway network is expected to reduce trade costs in East Africa substantially once completed (UNCTAD, 2009).

**Table 4: Overview of Africa’s key transport corridors for international trade**

Corridor	Length (km)	Roads in good condition (%)	Trade density (US\$ m/km)	Implicit speed (km/hour)	Freight tariff (US\$/tonne-km)
Western	2,050	72	8.2	6.0	0.08
Central	3,280	49	4.2	6.1	0.13
Eastern	2,845	82	5.7	8.1	0.07
Southern	5,000	100	27.9	11.6	0.05

*Note:* Implicit speed includes time spent stationary at ports, border crossing and other stops.

*Source:* Adapted from Teravaninthorn and Raballand (2008) by Gwilliam (2011).

Currently, around 70% of the main trade corridors are in good condition, and donors are increasingly channelling resources to infrastructure improvements along these strategic routes. But there is also recognition that it will take more than good infrastructure to make these corridors function effectively. Neighbouring countries have increasingly organised themselves into corridor associations to address the non-physical barriers to transit, with a particular focus on cutting lengthy delays (between 10 and 30 hours at border crossings and ports) by creating one-stop integrated frontier posts and improving ports and customs administration (Gwilliam, 2011).

The North–South Corridor in Africa provides an example of a large-scale programme packaged in a ‘donor-friendly manner’ and has since received large-scale support (Makhan, 2011). The AfDB’s 2011–15 Regional Integration Strategy for Southern Africa (RISP) supports the region’s integration efforts. In terms of strategic thrust, it conforms to the two pillars of the AfDB’s Regional Integration Strategy, namely, regional infrastructure and capacity building in support of infrastructure interventions. On regional infrastructure, AfDB will focus on the areas of transport, energy and ICT, anchored in the corridor approach. In the area of capacity building, it will support the Tripartite Arrangement in developing the FTA Road Map, and will assist countries and RECs in strengthening their capacities to design, coordinate and monitor infrastructure programmes (AfDB, 2011a).

During the North–South Corridor Aid for Trade Conference in Lusaka in April 2009, AfDB committed \$600 million over four years to support activities on the corridor. For the 2008 to 2010 period, it earmarked investment in the North–South Corridor to the order of \$380 million, and it also recently approved the Blantyre–Zomba road (\$37.5 million) and the Nacala road corridor (\$181 million). The UK also supports trade facilitation in East and Southern Africa, including in implementing the African North–South Corridor (UNIDO, 2010b).

The EAC is implementing several regional initiatives, including the sustainable development of the Lake Victoria Basin, the Lake Victoria Transport Project, the Joint Concessioneering of Railroads, the East Africa



Power Master Plan, the East Africa Submarine System, the East Africa Infrastructure Master Plan and joint tourism marketing and the standardisation of hotels. Other initiatives include the African Union Commission/New Partnership for Africa's Development (AUC/NEPAD) African Action Plan launched in 2009. This provides a harmonised framework for continental infrastructure development and the Programme for Infrastructure Development in Africa (PIDA). Another major initiative is the development corridor approach, which has been adopted by the EAC and the Common Market for Eastern and Southern Africa (COMESA) as well as their member states (AfDB, 2011c).

AfDB (2011c) highlights that a number of development partners are active in regional integration in Eastern Africa: the Asian Development Bank (ADB), the World Bank, the EC, the UK Department for International Development (DFID), the Japan International Cooperation Agency (JICA), the Canadian International Development Agency (CIDA), TMEA, the US Agency for International Development (USAID), Norway, Denmark, Germany and the Netherlands. However, there is no systematic donor coordination mechanism. For instance, DFID coordinates the North–South Corridor Initiative; TMEA the Trade and Trade Facilitation Initiative; and the EC the Horn of Africa Initiative. The EC Horn of Africa Initiative Conference on Inter-governmental Authority on Development and the Tripartite Infrastructure, held in October 2010, underscored a more systematic coordination mechanism to avoid duplication of efforts.

Central Africa is the only region bordering all other regions of the continent. This strategic position potentiates it as a trade crossroads and a privileged transit zone along trans-African corridors. In this regard, the construction of surface infrastructure (roads and railways) between countries will boost trade and enhance physical and economic integration within and outside the region (AfDB, 2011a).

However, there are number of problems associated with evaluating the impact of a corridor approach for Aid for Trade investments. First, baseline data are limited. For example, with the exception of trucking data generated in Raballand et al., (2009) and Macchi and Sequeira (2009), none of the major development micro datasets – namely, the Living Standards Measurement Survey (LSMS), Doing Business and the World Bank's Enterprise Surveys – currently collect adequate data on transport costs or transport prices at the firm and household level. Data on railway and port tariffs are also difficult to obtain, even for the main regional transport corridors in SSA. Second, it is difficult to build association between investment in infrastructure and its implications for trade performance, given the complex interplay of political, economic, social and environmental constraints (Kingombe, 2010; Robinson and Torvik, 2005). As a result, factors that affect outcomes are likely to differ between treatment and comparison regions. Most observational studies will therefore struggle with establishing clear causation (see Kingombe, 2011). Third, the catchment area of different types of infrastructural projects is difficult to define, owing to spill-over and network effects. It is also challenging to define the right unit of analysis for different types of investment (Cadot et al., 2011; Kingombe, 2010).

## 5.5 Integration of the private sector

International trade is normally an activity of private sector actors, ultimately to satisfy the desires of final consumers and relying on the economic interests of producers, intermediaries and buyers. Numerous case stories in the most recent Global Review (OECD/WTO, 2011) focus on governments developing private sector trading capacity. Similarly, a large number of stories highlight how Aid for Trade programmes that help companies meet international standards (e.g. sanitary and phytosanitary (SPS), labour standards and private standards) allow these to integrate into global value chains and significantly increase export volumes. That said, the role of the private sector in trade policy processes is extremely limited in developing countries in general and LDCs in particular, in part because these countries frequently lack a formal institutionalised mechanism for coordination and consultation with stakeholders (Adhikari, 2011b). Other likely reasons include the relative insignificance of these in countries in the eyes of multinational corporations and commodity purchasers.

The private sector has an important role to play in identifying the barriers traders face and monitoring whether aid programmes actually remove these. While some of these barriers will need action on trade policy and legal frameworks, and therefore aid programmes targeting the public sector, barriers, for example in transport, standards and accreditation, require aid that provides direct help to private sector organisations (UNIDO, 2010a). Looking ahead at Aid for Trade priority areas in future, Hoekman and Wilson (2010: 3) call for the ‘creation of a new aid for trade public-private partnership’ to leverage the dynamism in the private sector for strengthening trade capacity in the countries that most need it’.

## 6 Challenges and opportunities in Aid for Trade project design and implementation

### 6.1 What is Aid for Trade used for?

The 270 case stories submitted for the Global Review are indicative of the diversity of experiences in implementing Aid for Trade projects around the world. While bilateral and multilateral donors submitted most of these, developing country governments presented a large number. As recognised in *Aid-for-Trade at a Glance* (WTO/OECD, 2011), the process, which imposed little guidance on content, ended up mostly with a ‘beauty contest’ (Hallaert, 2012: 11). While these success stories may not provide an accurate sample of Aid for Trade projects, they do offer an overview of what is likely to have been effective (though in the absence of a counterfactual this of course cannot be taken as a given). Stories were disaggregated into six categories, as follows:

**Lowering trade costs through trade facilitation:** projects in this category particularly examined the integration of infrastructure and trade facilitation programmes; customs reforms and logistics management programmes; and corridor programmes to expedite border crossings. Some of the main successes claimed include:

- A 12% increase in customs revenue with the daily number declarations assessed by officials increasing by 130% in Cameroon following customs reforms;
- A 25% increase in tax revenue from 2009 to 2010 after reforms to the Burundi Revenue Office;
- Following customs reforms in Ethiopia, increases in recorded import transactions by about 190% and in export transactions by 200%; customs revenues increased by 51%.

At the **regional level**, Aid for Trade corridor projects also claimed successes, including a reduction in border clearing time for commercial trucks from five to one to two days and from two hours to one hour for passenger coaches at the Zimbabwe–Zambia border, as well as the elimination of transshipment licences for 500 trucks now licensed to cross the southeast corridor between Vietnam, Laos and Thailand.

**Investing in infrastructure to spur trade:** this includes investments in hard infrastructure, such as ports, power and electricity supply and roads. Rate of return assessments indicate that investments in these areas would be highly trade generating. Case stories point to improvements in Fiji’s King Wharf to increase the load-bearing capacity, thereby allowing 8 container moves per hour instead of the 5.2 recorded in 1998. A case story on the Kyrgyz Republic points to the rehabilitation of 226 km of roads and improvements in customs procedures; this has enabled (or at least coincided with) a 25% increase in road traffic and a 160% increase in exports to Kazakhstan.

**Policy reforms to promote trade:** Aid for Trade is seen as facilitating growth following policy reforms, both through support to complementary policies and by mitigating risks of macro problems that cause policy reversals, in addition to supporting adjustment, helping integrate trade into national development strategies and improving standards for products and labour.

Improvements attributed to trade-related reforms in case stories include a five-fold increase in foreign direct investment (FDI) between 2002 and 2007 in Mauritius, the creation of a commercial court to speed up the timing of commercial dispute resolution in Ghana and the contribution of SPS capacity-building activities in sanitary regulation in Central America to over \$100 million in exports to the US from Central America.

**Building government capacities to enhance trade:** while notoriously hard to quantify, numerous case stories mention activities to improve trade policy design or capacity to negotiate or to implement complex regulations (such as for intellectual property rights).

**Undertaking proactive industry-specific policies:** several case stories focus on the role of Aid for Trade in improving export capacity by providing assistance on production techniques, helping meet standards, upgrading quality, providing market information, improving value chains and promoting diversification. Successes include the additional employment of over 40,000 families through the creation of an essential oil industry in Burundi, the planting of 6,000 ha of new sugar cane in Fiji and the streamlining of value chains to reduce costs for cocoa farmers in Indonesia, contributing to a 20% increase in income.

**Leveraging the private sector:** Aid for Trade case stories also point to support to productive capacities, for example through trade finance provision, export promotion programmes, small and medium-sized enterprise (SME) support programmes and programmes to benefit female entrepreneurs. The Trade Finance Reactivation programme, started following the onset of the financial crisis, has formed a network of 72 issuing banks in 19 Latin American countries, supporting trade transactions worth \$1 billion; 73% of support is focused on SMEs.

## 6.2 Are priorities reflected in programming?

In assessing the case stories, the WTO/OECD claimed that a number of factors have been most significant in ensuring success:

- National ownership, and active involvement and sponsorship by the national government;
- Active participation and involvement of stakeholders in preparing and implementing projects and mobilising private sector support to sustain improvements;
- Inter-ministerial coordination and cooperation;
- Ensuring adequate and reliable funding (including timely disbursements);
- Frequent feedback loops between governments and stakeholders, including the development of coalitions to ensure close coordination;
- Integrating investment and technical assistance into project support.

While at a global level and in aggregate there is some evidence that Aid for Trade seems largely to be reaching the countries facing the biggest barriers to trade (Gamberoni and Newfarmer, 2009), the assumption that Aid for Trade supply matches demand is increasingly contested. Karingi and Fabberoni (2009: 83) find very large disparities in Aid for Trade per capita in Africa, as well as high volatility. Moreover, they find a ‘very low level of correlation between potential demand and supply’ of Aid for Trade in per capita terms for the first year (2006) after the base period (2002–5). More importantly, the fact that supply may be aligned with demand globally does not mean the most critical projects are in fact being implemented at the national level, and attention to this may neglect the fact that high-demand countries are frequently not those capable of absorbing large amounts of assistance

Thus, while broadly speaking at least some donors provide most trade-related needs, and there is a breadth of Aid for Trade support (see UNIDO, 2010a; 2010b), it is not clear that this is being matched with recipient needs. This can be attributed to a number of coordination failures, within donor agencies and among donors, within recipient governments and between recipient governments and donors.

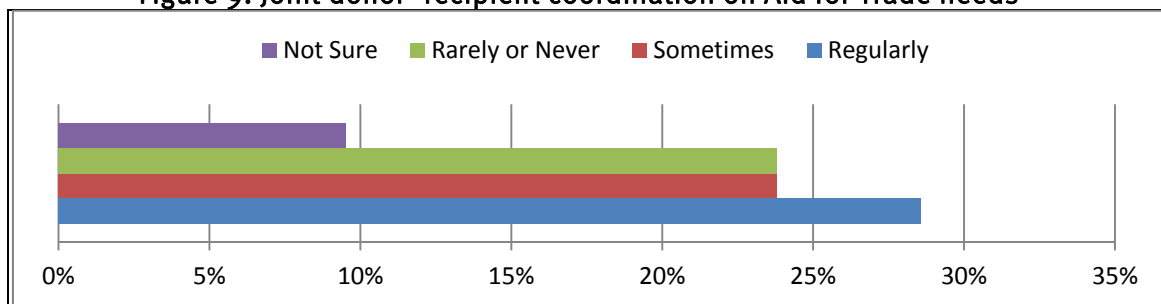
**Donor–recipient coordination:** many countries face considerable difficulties developing bankable projects and programmes based on identified needs (UNECA, 2011). While there has been increased alignment between the needs of recipients and investments by donors, according to the most recent Global Review, only 60% of countries report better alignment on national trade policies since 2009 and there is still frequently a lack of a cooperation (OECD/WTO, 2011). This is mirrored in a recent case

study on Nepal (Adhikari et al., 2011): while Aid for Trade tends to be going to priority areas, donors still tend to push their own priorities and agendas, especially at the activity level. This owes in part to weak prioritisation capacity, and donors' preferences for designing projects on their own.

Despite the increased integration of trade into NDPs and the growing number of needs assessments (especially through the EIF), projects are often not aligned with country priorities. Donors tend to have their separate areas of focus, with very little aid provided through sector-wide trade plans. While donors claim to be improving their alignment around national plans (and recipients tend to agree), this is frequently not the situation on the ground. Particularly the proliferation of parallel implementation units creates an additional burden for governments and weakens government capacity by siphoning off competent officials. In Cambodia, the lack of alignment with country systems is said to owe to 'donors' preference for using their own templates/formats; and perceptions from donors that government systems are still underdeveloped and lack credibility and full accountability' (Sok et al., 2011: xi). In many ways, this is a chicken and egg problem: Global Review surveys indicate that donors feel that structures are too weak for effective alignment, whereas numerous recipient countries 'point explicitly or implicitly to the problem of donors having specific interests in certain sectors that do not necessarily coincide with government priorities' (WTO/OECD, 2011: 81).

A total of 29% of developing country respondents to the WTO/OECD Global Survey 2011 stated that they coordinated regularly with donors on Aid for Trade needs. However, 48% of respondents had limited such coordination, and 24% coordinated sometimes and another 24% rarely or never.

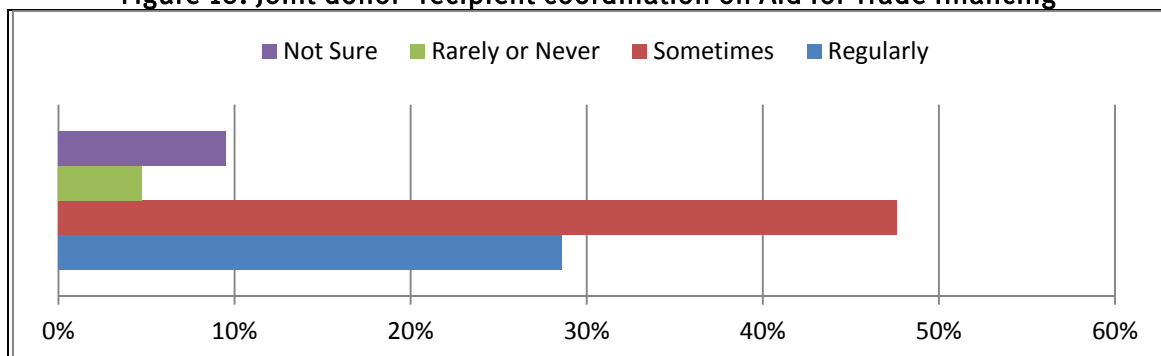
**Figure 9: Joint donor–recipient coordination on Aid for Trade needs<sup>30</sup>**



Source: Authors' calculation based on WTO/OECD (2011).

About 48% of respondents to the Global Survey 2011 stated that they sometimes coordinated with Aid for Trade donors on financing of Aid for Trade programmes and projects, and 29% stated that they coordinated regularly.

**Figure 10: Joint donor–recipient coordination on Aid for Trade financing**



Source: Authors' calculation based on WTO/OECD (2011).

Donors in Namibia indicated the following as lacking in the national Aid for Trade process (Basnett, 2011):

<sup>30</sup> These are based on responses of the top 10 Aid for Trade recipients plus 8 LDCs that are not among the top 10 recipients.

- There exists limited dialogue between the government and donors on trade issues broadly and on Aid for Trade issues specifically.
- Namibia lacks an effective and operational national Aid for Trade coordination process. The National Aid for Trade Committee, established for the purpose of coordination, remains inactive.
- There is a lack of a comprehensive trade and development study to inform trade-related needs and strategy. As a consequence, it is difficult to comprehensively identify and quantify trade-related development needs.
- There are limited joint operations and harmonisation among donors in Aid for Trade assistance.

This is further complicated by the frequent absence of consistent and predictable funding. The Global Review finds that late disbursements often have detrimental effects on a country's budget, with only 10–15% of respondents reporting having no problems accessing their Aid for Trade allocations. A further problem in this regard is the presence of conditionality – for example when a change in the political system leads to the suspension of projects (as reported by Lebanon).

**Intra-donor coordination:** the coordination between donor headquarters and in-country field offices is frequently mediocre. Even if the donor at headquarters level attaches tremendous significance to trade, staff in field offices may not necessarily be aware of these developments.

These problems are most apparent in the difficulties experienced between head offices in capitals and country-level offices in terms of aligning behind a shared strategy. The Australian respondent in the Aid for Trade self-assessment survey stated that ‘there is still very little understanding of [the objectives of Aid for Trade] on the ground, particularly among those that manage and deliver development assistance’. Analysis of Aid for Trade in Malawi finds that, even within local donor offices, there is a general lack of in-country awareness of what Aid for Trade is (Said et al., 2011). Similarly, an evaluation of Finnish Aid-for-Trade finds that ‘Aid-for-Trade thinking’ is not mainstreamed across programmes; ‘many projects tagged as Aid-for-Trade are not considered as such by [Ministry for Foreign Affairs] staff in embassies or project implementers’ (Bird et al., 2011: 4). This is also seen to be the case in an assessment of Aid for Trade programming in Zambia, where ‘operationalization has remained to a large extent a headquarter exercise’ (Makhan, 2011: 4). This is not surprising, given the breadth of projects covered and the divisions involved in delivering a donor country's Aid for Trade strategy (if it has one). However, it does complicate efforts at ensuring coherence.

Similarly, within donor agencies, there is likely to be constant competition between different areas of potential support – whether in trade or in other areas of economic and social policy.<sup>31</sup> Donor agencies are frequently not as well coordinated in their assistance programmes, as they expect recipients to be through the PRSP process and as a result long-term predictable and sustained Aid for Trade programmes are more the exception than the norm.

**Inter-donor coordination:** while donor coordination is improving according to some assessments, case stories demonstrate a lack of coordination between donors. While in Zambia there has been a relatively effective consultation process through the development of a National Working Group on Trade, and donors have moved towards aligning or at least coordinating work, this has frequently been limited to the smaller bilateral donors (Makhan, 2011). In Cambodia, Sok et al. (2011: xi) argue that ‘coordination is better today than a decade ago. However, most donors stressed that coordination is still a major problem’ owing to ‘the prevalence of multiple uncoordinated donor-driven projects’.

The situation described in ICTSD Aid for Trade case studies on Malawi and Nepal is not much different.<sup>32</sup> This is despite an increased alignment in priorities among donors: EU member states are

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<sup>31</sup> This also holds true in Malawi, where donors frequently do not make linkages between private sector development, skills training and Aid for Trade (Said et al., 2011).

<sup>32</sup> The International Centre on Trade and Sustainable Development (ICTSD), at the time of writing, was in the process of carrying out a series of case studies on ‘Aid for Trade on the Ground’. The completed case studies for Malawi, Nepal and

supposed to have aligned their strategies with the EU's Aid for Trade strategy and in turn should have developed similar priorities on how to support trade in developing countries. However, this frequently does not filter down to individual project and programmatic support at country level. Frequently, the level of donor coordination varies substantially, depending also on the main trade advisors in the country and their relationship with other donor officials and their recipient country counterparts. However, there are few clear structures in place to facilitate the development of donor coordination groups.

In the case of Denmark's provision of Aid for Trade, the experience has been that, while there is a strong need for good coordination at the regional level, it has proven very difficult to find out how to support REC secretariats, because of, for example, their low absorption capacity as well as the weak mandate of their member states. The Danish International Development Agency (Danida) is still in the process of trying to find new ways of collaborating with like-minded donors, such as DFID, through the TMEA initiative. One coordination challenge experienced is the difficulty associated with the coordination of Denmark's own position when it comes to regional programmes, for example among the three Danish embassies within the EAC region.<sup>33</sup> Thus, even among different actors within donor countries, there are frequent problems surrounding the coordination and effective implementation of Aid for Trade. Multi-donor trade support, such as that provided through DFID, Danida, Belgium, Sweden and the Netherlands to TradeMark East Africa, is exceedingly rare, and the provision of direct budget support, or widespread donor alignment behind sector-wide plans for trade, is rare.

**Inter-ministerial coordination:** there are also numerous challenges in coordinating inter-governmentally on the recipient side in order to ensure policy coherence, manage crosscutting issues and integrate trade agreements and policies into legislation. Trade ministries are frequently not well linked to other government departments and agencies, and also often have a relatively low standing and budgetary allocation compared with other ministries. Despite the impact of trade policy on numerous other areas of economic and social development, mainstreaming trade as a policy area (and not just as a section in the NDP) is progressing slowly, and in some cases backsliding. This lack of inter-ministerial coordination and leadership by the Ministry of Commerce, Trade and Industry is particularly visible in Zambia (Markham, 2011): budgetary means and human resources are not being shifted towards trade to respond to crosscutting policy linkages, and a mushrooming of trade sub-committees and working groups dealing with specific sectors has gradually overstretched ministry capacities.

Moreover, there is frequently little trade expertise outside of trade ministries, and even representatives in Geneva – for countries that have these – are often not closely linked in to policy processes and must operate as independent agents. Typical of this is the view of line ministries in Cambodia that, unlike during pre-WTO accession days, when trade was perceived as an overarching national agenda, 'trade is the responsibility of the Ministry of Commerce alone, while their own work only marginally contributes to trade development' (Sok et al., 2011).

**Challenges of regional Aid for Trade:** many of the aforementioned issues relating to inadequate coordination and principal agent problems are exacerbated at the regional level (see Turner and Tracy, 2011). While Aid for Trade funding is increasingly supporting regional projects and RECs, this creates a number of potential problems. First, RECs have very limited means of ensuring cooperation from member states, and moreover are frequently plagued by substantial capacity constraints. Many RECs also suffer from a legitimacy deficit among their members, who worry not only about the loss of competencies but also that the strengthening of regional organisations is mostly donor driven and funded or driven by those member states that have the most to gain. This combination of insufficient ownership of regional-level programmes at national level, weak accountability mechanisms between RECs and partners states, inadequate capacity of regional organisations for monitoring and

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Cambodia were available to the authors. Given their pertinence to an analysis of Aid for Trade implementation, they are referred to repeatedly throughout this and other sections.

<sup>33</sup> Personal communication with Jytte Blatt Laursen, Senior Economic advisor/Africa Department, Danish Royal Ministry of Foreign Affairs, 6 March.

coordination of regional-level commitments and lack of political will or capacity for implementation is making the effective implementation of ambitious regional Aid for Trade programmes illusory.<sup>34</sup> Finally, there are few effective private sector and civil society interest organisations that operate regionally.

A central concern implicit in all the coordination problems outlined above is their impact on the sustainability of Aid for Trade. The aforementioned case study on Malawi argues that donor' incentives to focus on short-term results and strong disbursement data (i.e. achieving an outcome by any means and not developing local capacity to achieve it) mean that there is no serious focus on investments in human capacity. Central to this is reluctance among many donors to rely on government systems, and of recipients to move towards sector-wide planning. Cambodia, which pioneered the use of SWAs,<sup>35</sup> nonetheless faces a situation where projects are not aligned with the country system as donors prefer to use their own formats and still perceive government systems as underdeveloped and lacking in credibility and full accountability (Sok et al., 2011). In Nepal, there has been a general reliance on donor systems, which the ministry is aiming to counter by bring Aid for Trade under a SWAp model and creating a Trade Trust Fund.

### 6.3 Gaps in Aid for Trade provision

#### Box 1: How to make Aid for Trade effective

Developing country respondents to the WTO/OECD Global Survey 2011 stated the following on how to improve the implementation and effectiveness of Aid for Trade:

##### 6.3.1

- 21% wanted more extensive use of budget support or trade SWAs.
- 19% wanted greater say in the design of Aid for Trade interventions.
- 17% wanted stronger donor focus on capacity development.
- 8% wanted better predictability of Aid for Trade funding.
- 8% wanted more frequent joint donor–partner implementation efforts.
- 6% wanted more regular joint donor implementation actions.
- 5% wanted more systematic use of joint donor–partner M&E.
- 2% wanted more harmonised reporting requirements.
- 14% did not respond (see Figure 11).

*Source:* Based on WTO/OECD (2011).

Despite the breadth of Aid for Trade currently being provided, it is useful to think where donors could add value moving ahead. Drawing on the analysis from the UN Industrial Development Organization (UNIDO) Guide on Aid-for-Trade, there is still substantial scope for focusing on neglected areas. In the realm of market information, there is currently very little information for recipients on importing into donors' own markets, including meeting the rules of donors' own preferences or trading arrangements as well as meeting standards for non-agricultural trade. Moreover, while there is a great deal of support for preparing for multilateral negotiations, there is a lack of support to developing countries to identify or adjust to the impact on them of trading arrangements among other countries.

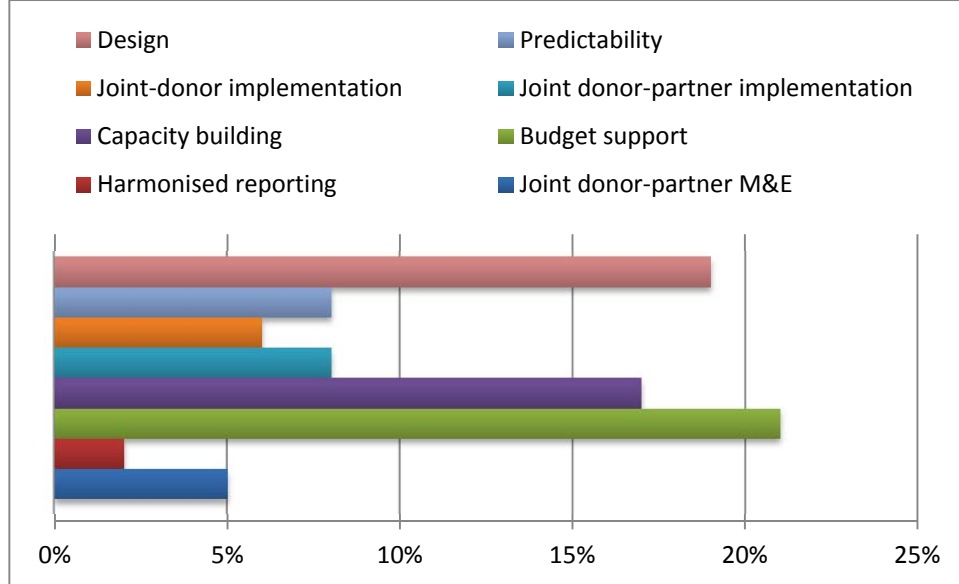
<sup>34</sup> This is supported by analysis of both ECOWAS and the EAC (Turner and Tracy, 2011), as well as COMESA (Markham, 2011). In the case of ECOWAS, capacity-building efforts have not been very successful and donors have struggled to coordinate and harmonise support. In the implementation of large-scale EDF programmes, there has been a perceived lack of national-level coordination and communication for regional-level priorities, an insufficient mandate or guidance for national delegations and a lack of ECOWAS leadership. For the EAC, the lack of a legal mandate to enforce the implementation of regional legislation at the national level has meant there is no operational or enforcement mechanism to ensure this takes place. Thus, 'currently integration of regional level legislation at the national level is done according to the "good will" of the national governments' (ibid.: 13). In the case of COMESA, the fragmentation in decision making between the national and regional dimension is problematic, with a widespread perceived lack of legitimacy by COMESA among member states, and national governments unwilling to delegate sovereignty to a regional authority. Incidentally, many of these problems, Markham (2011) argues, also apply to the EU, where member states lack a common operational framework and bilateral agendas still determine development cooperation programmes; bilateral projects often have little or no regional components.

<sup>35</sup> Also see [http://ec.europa.eu/europeaid/what/development-policies/intervention-areas/trade/aid-for-trade\\_en.htm](http://ec.europa.eu/europeaid/what/development-policies/intervention-areas/trade/aid-for-trade_en.htm)



Hoekman and Wilson (2010) argue for a greater role of the G-20 in Aid for Trade, including in supporting regional cooperation and integration through capacity building (including a focus on the political economy of regional integration); and a greater focus on exploiting private sector knowledge – for example through a Global Trade Facilitation Partnership comprising a network of logistics companies and international agencies working on trade and transport.

**Figure 11: How to improve the implementation and effectiveness of Aid for Trade<sup>36</sup>**



Source: Authors calculation based on WTO/OECD (2011).

<sup>36</sup> These are based on responses of the top 10 Aid for Trade recipients plus 8 LDCs that are not among the top 10 recipients.

## 7 How is Aid for Trade monitored and evaluated?

### 7.1 Responding to pressure to show results

There has been growing interest in finding better ways to monitor and evaluate Aid for Trade in order to improve its impact. This is carried out at several levels: globally, nationally and at the project level. But there is not much at the regional level, and this remains an important recommendation of the WTO Task Force on Aid for Trade. There are a number of challenges to conducting robust M&E of Aid for Trade, and in turn determining what has been effective. These are gradually being addressed through a number of new and innovative approaches.

Determining better ways of monitoring and evaluating the effectiveness of Aid for Trade has been a central policy concern since the start of the Aid for Trade initiative. The recommendations of the Task Force saw the strengthening of M&E as ‘essential in building confidence that increased Aid-for-Trade will be delivered and effectively used’ (WTO, 2006: 3). The Task Force further emphasised the ‘need for concrete and visible results on the ground’ (ibid.). Towards this end, it determined three main methods of monitoring Aid for Trade:

- Reporting on funds (through the OECD CRS);
- Aid for Trade assessments in the WTO Trade Policy Reviews;<sup>37</sup> and
- The biannual Global Review process, to assess progress based on reports of Aid for Trade activities, progress and impact.

These structures have provided a global monitoring process, and have aggregated a great deal of information on the increasing role of trade as a tool for development in the eyes of both donors and recipients. However, on many levels, there remains a lack of clarity on whether Aid for Trade is achieving its objectives,<sup>38</sup> and whether growing funds are being used effectively. While the difficulties of attributing outcomes to development interventions is part and parcel of the world of development cooperation more broadly, given the substantial increase in Aid for Trade funding in recent years there is increasing pressure among donors to demonstrate more visible results<sup>39</sup> and use more modern methods to assess impact.<sup>40</sup>

This coincides with a general emphasis on showing impact in the context of growing scepticism about aid effectiveness (see, e.g., Easterly, 2006; Moyo, 2009) and an ongoing economic crisis that is putting pressure on development budgets. Recognising this dynamic, the most recent WTO/OECD Global Review took the theme of ‘Showing Results’.<sup>41</sup>

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37 Analyses of Aid for Trade in Trade Policy Reviews have been conducted for the following recipients: Belize, China, DRC, Honduras and Malawi, plus a joint one for Benin, Burkina Faso and Mali. The trade performance of the US, as a donor, has also been examined.

38 The objectives of Aid for Trade identified by the Task Force were to enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the MDGs; to help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more; to help facilitate, implement and adjust to trade reform and liberalisation; to assist regional integration; to assist smooth integration into the global trading system; and to assist in implementation of trade agreements (WTO, 2006).

39 The UK’s survey response, for example, stated that ‘in 2010 the UK enhanced its approach to aid for trade with a stronger focus on driving results – both through programme planning and improving monitoring and evaluation techniques’.

40 The World Bank survey, for example, stated that ‘the field still relies excessively on outdated methods compared to other fields of development work. An energetic push for the adoption of impact evaluation techniques and their mainstreaming in project design is needed.’

41 This has been particularly pronounced in countries that have recently changed from a centre-left to a centre-right government. The UK’s 2010/11 Global Review survey response, for example, stated that ‘In 2010 the UK enhanced its approach

The effectiveness of Aid for Trade can be monitored and evaluated at a number of levels (see Hoekman and Wilson, 2010):

- Globally, that is, is Aid for Trade associated with improved trade and development outcomes and are funds going to where they are most needed?
- Nationally, that is, are Aid for Trade programmes and strategies effective in achieving their objectives (e.g. expanding trade and reducing poverty) and are general principles of aid effectiveness (most notably those set out in the Paris Declaration) being followed?
- Are projects achieving their stated goal (simple evaluation), and would outcomes be different in the absence of interventions (impact evaluation)?

Monitoring at the global level is, as discussed earlier, being carried out most visibly through the WTO/OECD Global Reviews. This has shown that, over the years, global Aid for Trade funds have increased. The self-assessment surveys carried out by donors and recipients suggest that donors believe their Aid for Trade is becoming more effective according to some indicators of aid effectiveness; to a certain extent, this corresponds with the views of (public) recipient surveys. The growing numbers of econometric studies examining the effectiveness of Aid for Trade (see Section 3) show that it is likely to be reducing the costs of trade and improving export outcomes.

Moreover, numerous countries have carried out independent Aid for Trade portfolio or strategy evaluations in recent years.<sup>42</sup> These include:

- An external evaluation by the Swedish International Development Agency (Sida) of its trade-related assistance (Goppers and Lindahl, 2009);
- A thematic evaluation by the Finnish Ministry of Foreign Affairs of its Aid for Trade strategy (Bird et al., 2011).
- Recently carried out or planned (according to questionnaires filled out for the Global Review) strategy evaluations by other countries, including Norway, Japan and Singapore;
- A review of the progress of the EU and its member states in implementing the EU Aid for Trade Strategy as part of the EC's 'Accountability Report on Financing for Development'. Much like the WTO/OECD Global Review process, this draws on the OECD's CRS, responses to questionnaires sent to 89 EU delegations in developing countries and the responses of EU member states to the OECD/WTO questionnaire;
- A cross-country evaluation recently carried out by USAID to estimate the impact, through a rate-of-return analysis, of its trade capacity building between 2002 and 2006;
- A recent assessment by the World Bank of the role of trade in Country Assistance Strategies;
- Recent independent evaluations of Aid for Trade technical assistance providers, including ICTSD and the International Trade Centre (ITC), focusing on the effectiveness of their Aid for Trade.

Finally, and following standard practices, most Aid for Trade projects include some form of evaluation at the end, generally following standard evaluation procedures. The rigour with which these are planned and carried out – as the next section discusses – varies substantially. However, the DAC

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to aid for trade with a stronger focus on driving results – both through programme planning and improving monitoring and evaluation techniques'.

<sup>42</sup> Even before the launch of the Aid for Trade initiative, donors had been carrying out thematic and portfolio evaluations on their trade-related assistance. An overview by the OECD (2006) of evaluations carried out by the EC, USAID, DFID, the Ministry of Foreign Affairs of the Netherlands, the World Bank, UNCTAD, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) and the Integrated Framework found that half of the reviewed evaluations noted that, generally, trade-related assistance had increased partner country understanding of the importance of trade for growth and poverty reduction, raised awareness and knowledge of trade policy matters and strengthened national dialogue on these issues. Common weaknesses in donor programmes included unsystematic or incomplete needs assessments; weak project management and project governance structures; insufficient synergies with broader development assistance programmes; and insufficient donor coordination.

Evaluation Resource Centre<sup>43</sup> provides an overview of evaluations disaggregated by donor, sector (including trade) and country of focus.<sup>44</sup>

While not a lot of work has been carried out so far, according to the Global Review 86% of donors monitor their own projects and many are working to enhance systems, because they are under strict domestic demand to show results when it comes to ODA in general (particularly through the Paris Declaration). Most country reports indicate a general need for well-trained staff and appropriate resources, including access to reliable statistics and analysis. During the implementation stage, regular monitoring of progress helps pinpoint and deal with problems as they arise. The evaluation stage is dedicated to determining the degree of achievement of results, lessons learnt and the extent to which good practices have been followed.

## 7.2 Challenges in M&E

Many projects and plans have both mid-term and final evaluations. Ideally, mid-term evaluations should allow those involved in implementation to refine their approaches during implementation. Similarly, final evaluations should inform future programming. However, evaluations may be burdened by unreasonably high expectations. They should ensure accountability, help us learn what works and what does not, provide guidance on the sequencing of interventions, help improve design and implementation, help recipients identify priorities and strategies and enable the use of micro-level results to demonstrate impact (Hynes, 2011). Three (interlinked) challenges complicate M&E of Aid for Trade projects and programmes:

**Attribution of impacts within a coherent results chain:** the shared goals of Aid for Trade, according to the OECD and WTO monitoring framework, are to enhance capacity to trade (at the outcome level) and improve trade performance and reduce poverty (at the impact level). Many Aid for Trade programmes and projects are designed around similar broad goals.<sup>45</sup> But at the project level, even attributing trade outcomes to the intervention is difficult, and plausibly linking these to the MDGs is close to impossible. There have been significant efforts to understand the potential impact of Aid for Trade on poverty. However, in many cases, project and programme designs fail to adequately measure and evaluate the actual impact on poor and excluded groups. This creates what Langham and Scott have called an ‘emergent normativity-outcomes gap between Aid-for-Trade discourse and its tangible implications for “the poor”’ (Langan and Scott, 2011: 23).

The Aid for Trade at a Glance report argues that, ‘for most DAC donors, attributing trade outcomes and impacts to aid-for-trade programmes and projects presents the biggest challenge’ (OECD/WTO, 2011: 174).<sup>46</sup> Australia in its self-assessment response, for example, stated that ‘there is still very little understanding of this on the ground, particularly among those that manage and deliver development

43 See [www.oecd.org/pages/0,3417,en\\_35038640\\_35039563\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/pages/0,3417,en_35038640_35039563_1_1_1_1_1,00.html)

44 Other resources collating project-level M&E tools include the websites of the World Bank’s Independent Evaluation Group, the multilateral development bank-run Evaluation Cooperation Group, UNDP’s Evaluation Resource Centre and the Network of Networks for Impact Evaluation (comprising many of the above).

45 Both DFID and the EC (along with others such as the World Bank) highlight the importance of understanding the poverty impact of their work and designing projects and programmes that maximise the impact on poverty reduction. For instance, both DFID and the EU have developed Aid for Trade strategies that emphasise the pro-poor impact of Aid-for-Trade. DFID’s Aid for Trade strategy states that ‘a central purpose of Aid for Trade is to assist the poorest countries, and particular groups of the poor, to reap these benefits’ (DFID, 2008: 17), while the EU Aid for Trade strategy (EU, 2009) includes a pillar on ‘Enhancing the pro-poor focus and quality of EU Aid-for-Trade’. The EU also notes that ‘in response to partner countries’ own trade-related priorities, in the context of poverty reduction strategies, it will help facilitate, implement and adjust to trade reform and liberalization paying specific attention to their impact on poverty reduction’ (EU, 2009: 7). The authors thank Liz Turner (Saana Consulting Ltd.) for drawing their attention to this.

46 This difficulty is not new: even prior to the launch of the Aid for Trade initiative, there was a substantial scaling-up of trade-related assistance following the start of the Doha Round in 2001. An initial analysis of trade-related assistance evaluations found a lack of measurable objectives and indicators in programme documents, as well as difficulty in attributing results (OECD, 2006).

assistance. The concept of Aid-for-Trade is an especially difficult challenge, not helped by the fact that there is no consistent definition of it, and the cross-cutting nature of Aid-for-Trade makes attribution to it of successful outcomes a very uncertain exercise.’ This difficulty is also recognised in the recent evaluation of Sida Aid for Trade. The evaluators write: ‘causal linkages between what the Sida projects are delivering and reduced poverty continues to be based on a series of assumptions. These results chains have not been tested empirically’ (Goppers and Lindhal, 2009: 10).

While trade programmes are becoming increasingly realistic about what Aid for Trade can accomplish in terms of trade performance and competitiveness, there is still a desire to relate all project outcomes to results far beyond the realistically attributable scope of a trade facilitation or trade policy support programme (such as the MDGs). A meta-evaluation of 162 evaluations of Aid for Trade projects carried out in two countries (Ghana and Vietnam) and two sectors (transport and storage) supports this: evaluations tend to rely on general concepts, such as gender or poverty reduction, rather than trade shares or income distribution, and the majority of evaluations of Aid for Trade operations do not say much about trade. This is mirrored in the slight divergence between what bilateral donors see as the objectives of Aid for Trade that have gained most in importance (poverty reduction and growth, followed by regional integration) and the areas that have become most important for recipients (competitiveness, followed by regional integration and poverty reduction).

### Box 2: Key sources for conducting quantitative assessment

The World Bank has developed indicators that provide useful metrics to monitor progress in many Aid for Trade areas. For instance, improvements in border modernisation and trade facilitation can be assessed partly through better **Logistics Performance Index** scores. Reductions in non-tariff barriers to trade can be monitored through its services trade restrictiveness and Non-tariff Measures databases. Competitiveness outcomes can be monitored through transaction-level databases developed with customs administrations.

**The World Trade Indicators** is a user-friendly and accessible interactive online database launched in June 2008 that is designed to benchmark a country’s trade policy and institutions. It helps policymakers, advisors and analysts identify the main border and behind-the-border constraints to trade integration. The database allows quick comparison across countries and time for **305 indicators** developed by UNCTAD, ITC, the World Bank and the WTO.

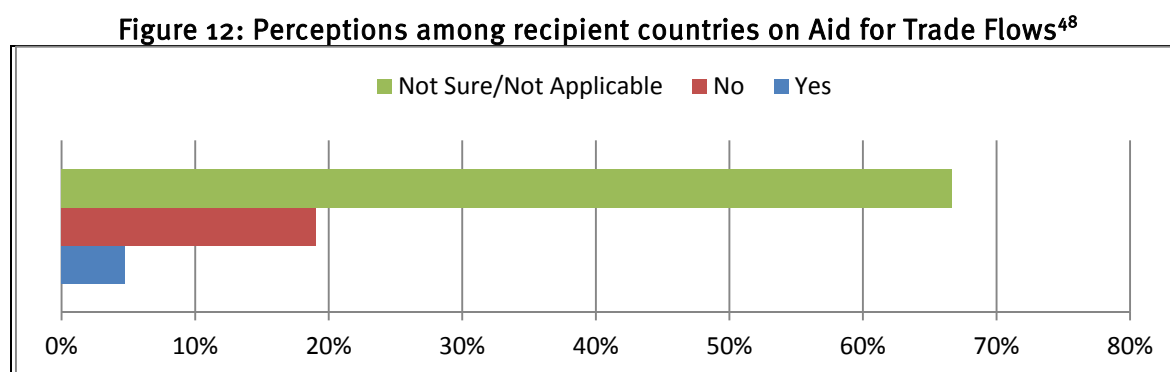
The **Doing Business** database offers a collection of quantitative indicators representative of a country’s business regulatory environments in 181 countries. The quantitative indicators cover the regulatory framework of key stages in the life of a business, including dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The ADB has launched the **Asia Regional Information Center**, which reflects trends of regional integration, countries’ openness to international trade, investment and financial markets.

**Quantifying results:** a second related challenge pertains to the frequent lack of appropriate and/or quantifiable indicators. Selecting indicators inevitably involves a trade-off between breadth and identification (Cadot et al., 2011), and there are two overriding challenges in this case. First, and related to the issue of attribution, indicators are selected that relate only indirectly (or via a very complex results chain) to the actual project or programme. The EIF’s M&E framework (EIF, 2011) includes some indicators that could plausibly be attributed to EIF projects (LDC members that have completed the WTO accession process, percentage share of non-oil trade from LDCs), but also some that are likely to be beyond this (poverty headcount, GDP growth, Gini coefficient). This is acknowledged in the ‘Risks and Assumptions’ column (‘it is recognised that the EIF may contribute towards progress on the context indicators but that direct attribution at this level cannot be established’) (EIF, 2011: 99), but it does beg the question as to how useful these indicators are in determining the effectiveness of the EIF.

Many projects, particularly relating to capacity building, do not lend themselves easily to quantifying outcomes, given a lack of baseline data or applicable indicators. Therefore, often, if quantitative results are used at all, they are at the input level (number of officials attending training course). This also comes out clearly in the case stories submitted for the Global Review, which contain few, if any, quantitative benchmark indicators of performance in either number of outputs or outcomes measured against baselines. Only 44% of the case stories have *any* quantitative output measure, and only 22% have any quantitative indicator of outcomes or impacts (Cadot and Newfarmer, 2011). This is in part a problem in the design of the project and its results framework; however, in many cases, a set of useful

indicators with baseline data quite simply does not exist. However, there is increasing pressure among donors to demonstrate quantifiable results, going beyond qualitative summaries.<sup>47</sup>

There are also concerns as to what is reported as Aid for Trade by the OECD database and what countries perceive to have received as Aid for Trade. For instance, there is a disagreement as to what accounts for Aid for Trade. Figure 12 from the WTO/OECD Global Survey highlights these confusions. Only 5% of respondents stated that the OECD profile accurately reflected the quantity of Aid for Trade they received in 2006 and 2007; 19% stated that it did not; and 67% were not sure.



Source: Authors' calculation based on WTO/OECD (2011).

Many developing countries state that Aid for Trade disbursements are malleable to double accounting by donors. The differences in perception relate more to the following:

- It is difficult to isolate what is, for example, an infrastructure investment and what is Aid for Trade. Donors may view the two as the same, while recipients disagree.
- Much of the problem arises from lack of coordination and clarity between donors and recipients at the point of disbursement of general ODA and Aid for Trade.
- This is compounded by a lack of Aid for Trade strategies in many developing countries. As a result, while disbursements are done *ex-ante*, M&E done *ex-post* can become misaligned if Aid for Trade needs are not well articulated and if there is a lack of coordination mechanisms.
- Inter-ministerial coordination failures exacerbate the confusions. For example, the Global Survey is likely to have been filled in by trade officials, who may not necessarily be aware of 'donor–recipient' discussion at the Ministry of Finance. Hence, lack of internal coordination in developing countries can also confound what is general ODA and what is Aid for Trade.

These confusions can undermine the focus and momentum behind Aid for Trade and are difficult to overcome as long as strong incentives remain to over-report Aid for Trade in the reporting process

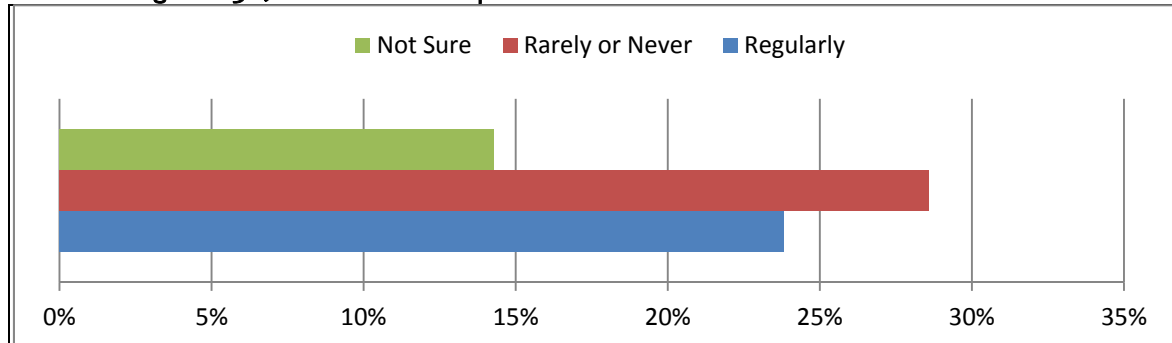
**Robustness of M&E procedures:** the rigour and robustness of monitoring and evaluating Aid for Trade projects frequently leaves much to be desired. A review carried out by Cadot et al. (2011) of 85 recent World Bank projects revealed that only 5 included rigorous evaluation components, and all of these were according to quite simple before/after processes, with little triangulation of results or more in-depth investigation of the causal role of the interventions. This is also the case for many of the Global Review case stories: very few focus on potential other explanatory variables beyond the intervention. The aforementioned meta-evaluation of transport and storage projects in Ghana and Vietnam supports this concern over weak evaluation procedures (Delpeuch et al., 2011). Evaluators rarely incorporate any relevant time dimension in their assessments and therefore little *ex-ante* economic analysis is undertaken.

<sup>47</sup> To quote the UK's Global Review self-assessment questionnaire: 'It would be helpful to have more programmes more consistently designed to deliver specific, quantifiable outputs and outcomes. [...] Process-oriented programmes may still be justifiable but with explicit, quantifiable and qualitative targets that clarify what improved capacity means.'

<sup>48</sup> These are based on responses of the top 10 Aid for Trade recipients plus 8 LDCs that are not among the top 10 recipients.

This is also a lack of donor–recipient coordination on M&E of Aid for Trade programmes. For instance, in the WTO/OECD 2011 Survey, 29% of respondents stated that they rarely or never coordinated with donors on M&E and 24% stated they regularly did. But when asked if they themselves monitored donor-supported trade-related programmes, 52% said they regularly did, 14% said nearly always and 19% said rarely or never.

**Figure 13: Joint donor–recipient coordination of Aid for Trade on M&E<sup>49</sup>**



Source: Authors' calculation based on WTO/OECD (2011).

This also holds true for many strategy or portfolio evaluations carried out by donors. The Aid for Trade Global Review (and the EU annual member state self-assessment) relies primarily on subjective self-evaluation, the monitoring of inputs and a review of case stories subject to selection biases in order to determine whether the effectiveness of Aid for Trade is improving. Where more rigorous evaluations are conducted (such as the USAID portfolio evaluation), the rate of return is calculated based on evaluations primarily carried out by programme managers themselves and/or frequently lacking objectively verifiable indicators. Few countries are investing the necessary resources to carry out independent evaluations of their Aid for Trade strategies or portfolios and few, if any, independent evaluations of the resources going into regional Aid for Trade and to support RECs have been conducted.

### Box 3: Germany's initiative for independent evaluation

Germany is actively supporting an increased results-oriented delivery of Aid for Trade. This applies particularly to the processes for managing for development results, evaluation and indicator formulation within the framework of the OECD and the WTO. The goal is to orient results chains towards poverty reduction and to develop indicators and evaluation methods in order to increase mutual accountability. The important goal of mutual accountability between donors and partner country governments in the area of Aid for Trade is supported by Germany's involvement in developing and implementing the OECD's Aid for Trade monitoring framework and the EU's Aid for Trade monitoring reporting practices.

GIZ (German International Cooperation), for example, publishes not only important corporate documents (e.g. annual reports, annual financial statements, organisation charts and conceptual and strategy papers), but also relevant project-specific documents and data (e.g. short project descriptions and evaluation reports).

A sample of BMZ (Federal Ministry for Economic Development Cooperation) programmes is evaluated in-depth by internal bodies and subject to independent *ex-post* evaluations every year. In January 2012, a new Independent Evaluation Institute for German development cooperation and its implementing agencies was founded; this will become fully operational soon.

Source: GIZ response to the authors' questionnaire.

Assessing the impact of Aid for Trade is fraught with challenges because of the lack of credible data, attribution problems and, above all, an absence of counterfactuals. Moreover, M&E is frequently not carried out in a manner that would facilitate achieving one of the main objectives: enabling improvements in ongoing implementation and ensuring lesson learning for future projects. This is not only because there is a lack of interest on the part of the recipient, but also generally because ministry officials are already overburdened by other responsibilities (UNECA, 2011).<sup>50</sup> It does not help that

<sup>49</sup> These are based on responses of the top 10 Aid for Trade recipients plus 8 LDCs that are not among the top 10 recipients.

<sup>50</sup> Also, personal communication with Emmanuel Viaud Chargé des sujets 'commerce et développement', Bureau politique agricole extérieure, commerce et développement – Multicom 2 Sous-Direction Politique commerciale et investissement – Service des affaires multilatérales et du développement and Jean-rené Cuzon, AFD, 20 March 2012.

evaluations are frequently carried out by programme managers themselves primarily as an afterthought to the project, with little pressure to make them accessible to others to inform future design.

The linkage between individual projects and broader country trade and development strategies is frequently missing. Despite all the work that is invested in assessing needs, and mainstreaming trade into development plans, the role of many Aid for Trade projects in contributing to national trade priorities tends not be central to evaluations. There is thus considerable scope to triangulate existing approaches and develop feedback mechanisms between donor-level evaluations of strategies and sector approaches, country evaluations and evaluations of what works at the project level. While these problems are common to the M&E processes of aid projects in many areas of development cooperation, particularly for trade-related assistance, there has often been a notable lack of rigour that is now being addressed only gradually.



## 8 What lessons have we learned from past experiences?

This paper has sought to inform the discussion on how to improve the effectiveness of Aid for Trade, and in particular the 2013 Global Aid for Trade Review. It has discussed what has worked and in what conditions as well as what needs to be done to further improve the effectiveness of Aid for Trade.

The paper has reviewed the econometric evidence on the impact of Aid for Trade, and has highlighted that Aid for Trade tends to be positive and economically relevant for a number of measures of economic performance such as trade, growth and the investment climate. However, it also notes that the impact of Aid for Trade depends on the type of intervention, the income level and geographical region of the recipient country and the sector to which Aid for Trade flows are directed.

Further lessons of this paper include the following:

- There is a clear under-provision of some trade-related assistance. More effective alignment of needs – as expressed in DTISs – with the existing supply of Aid for Trade, as well as a gradual recognition by donors that certain areas (especially in the area of trade in services) have been underprovided, may facilitate a more effective means of ensuring trade-related needs are met.
- The frequent policy incoherence in donor countries needs to be addressed more clearly. This pertains not only to the frequent lack of ‘Aid for Trade awareness’ in country offices, but also, especially, to considering the trade agenda of the donor countries themselves.
- It may be worth considering a stronger role for independent agencies and/or multilateral donors in providing advice on sensitive issues. For example, bilateral donors should use multilateral channels to supporting trade policy when negotiating a trade agreement with a country. Bilateral donors could more actively consider programmes that promote imports from developing countries to the donor country itself.
- There is a need to more vigorously support improvements in trade policy capacity. But it is concerning that donor concerns about capacity constraints and inadequate government systems have led to increased parallel implementation units and reluctance to move towards budget support.
- Given the cross-border nature of trade policy, there is a strong economic rationale for strengthening regional institutions that address coordination failures as well as investing more in transnational corridor approaches. However, this frequently requires extensive cooperation across borders, and the role of RECs in this process needs to be considered carefully. Many lack the institutional capacity, legitimacy from member states and the ability to absorb large-scale funds. Hence, Aid for Trade support at the regional level will need to assess on a region-by-region basis how best to strengthen regional trade, in a manner that does not presuppose the same model throughout.
- While an overriding objective of Aid for Trade is to contribute to economic development, at this stage many projects do not clearly map out the channels through which this change is to happen. Therefore, providing clearer, measurable intermediate outcomes to interventions, the achievement of which can be evaluated (e.g. port clearance time and costs, incidence of illegal activity for trade facilitation interventions), and final outcomes to which these plausibly have contributed (trade volumes, customs revenue) would go some way towards addressing concerns about attribution. This would require a substantial investment in ensuring robust baseline data as well as a greater focus on integrating (and funding) M&E throughout the project cycle.
- Currently, there is a feeling among many recipients that M&E is being driven by accountability frameworks in OECD countries, which makes joint monitoring ineffective. While moving towards joint M&E is important, there is a need to ensure that M&E requirements do not overburden already overstretched national administrations and RECs, which should benefit from appropriate assistance so as to be able to face the requirements and costs of M&E processes.
- Given many donors’ uncertainty about how to better quantify the results of interventions, it might be helpful to work on further developing indicators and datasets at the micro level that

provide useful outcome-level data for projects. Moving towards a culture of greater independence in evaluation, in which evaluators are not necessarily incentivised to provide favourable assessments, will contribute to more robust evaluations (see Box 3). Moreover, results and experiences should feed into the learning, design and planning processes.

- The current WTO/OECD Global Review process has been important in creating a shared and accessible base of knowledge on Aid for Trade flows and, to a lesser extent, impact, as well as convening actors from around the world to discuss these issues. However, the self-assessment surveys do not sufficiently improve our understanding. The questions are highly subjective and very few questions allow for easy cross-country comparisons. What the surveys do provide is an opportunity to understand how recipients view their engagement. This should feed into donor country plans and approaches to Aid for Trade. Furthermore, it is essential to develop a questionnaire that does not change every two years, in order to be able to assess consistently whether the effectiveness of Aid for Trade is improving.
- Finally, some critical gaps in knowledge on Aid for Trade remain, meaning further research is necessary to better inform policies. Some of the following areas could help close the knowledge gap and improve the Aid for Trade initiative.
  - How Aid for Trade can best be used to work with the private sector through promoting global value chains relevant to development;
  - How Aid for Trade can improve agricultural production and trade (and hence food security) through the provision of the right type of infrastructure;
  - Whether aid to trade facilitation (and, where appropriate, different types of Aid for Trade) can lead to results for trade, growth and the investment climate, based on new econometric research that also aims to account for host country conditions.

There is also a need to learn from the experience of the emerging economies, such as China, India, Brazil and South Africa, as well as newly emerging MICs like Vietnam. In particular, we should look at what strategies and policies these countries have used and how they have supported these in 1) providing trade infrastructure; 2) integrating themselves into the global value chain and promoting the private sector in exports and imports; and 3) improving trade facilitation.

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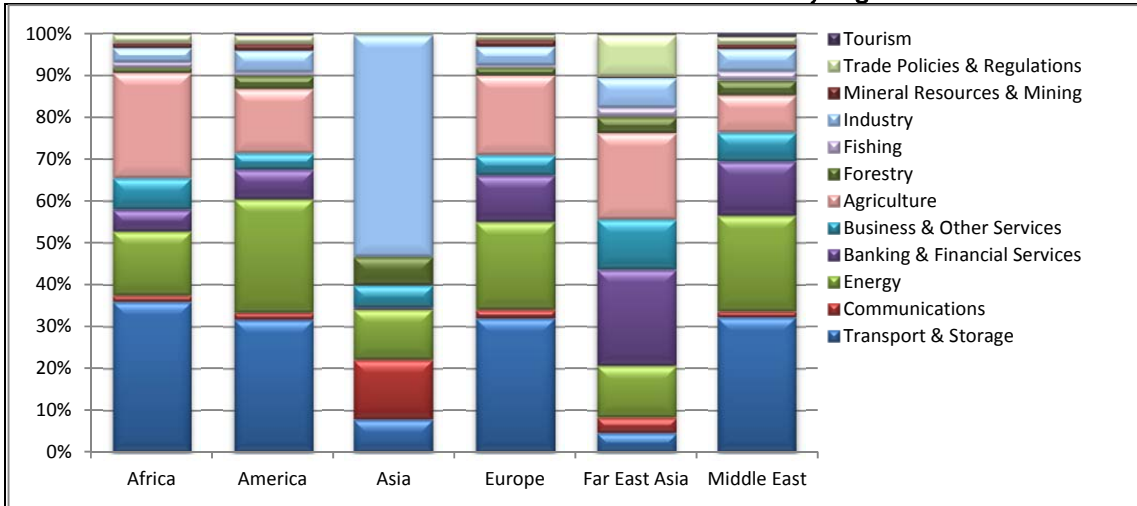
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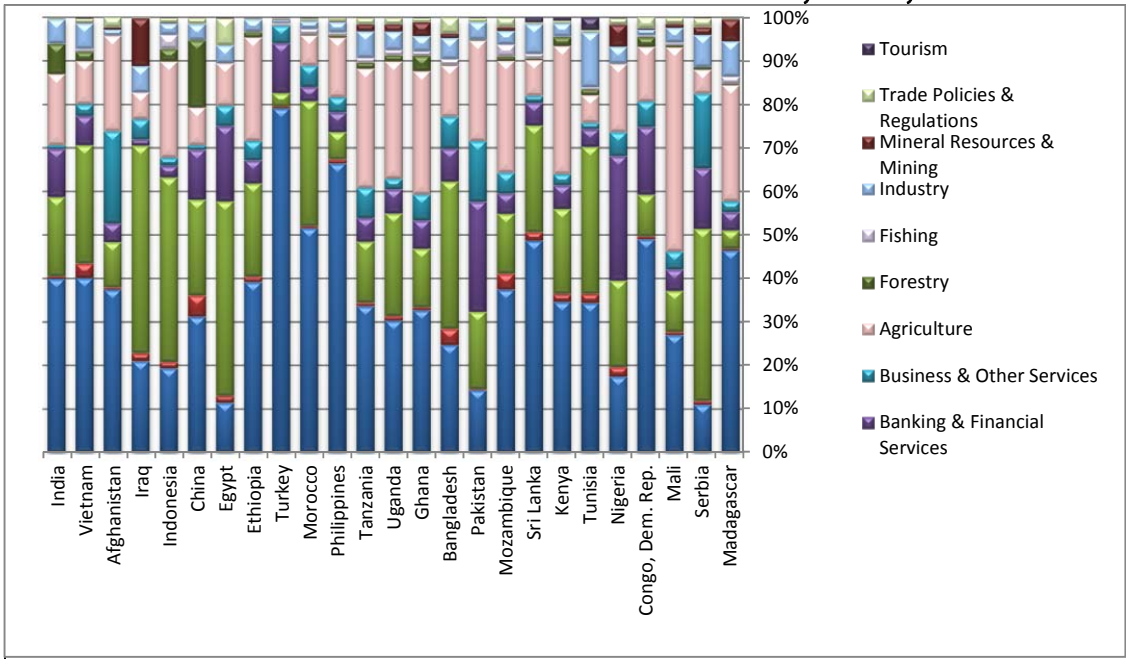
## Annex 1: Data on Aid for Trade flows

Sectoral distribution of Aid for Trade inflows by region



Source: Authors calculations based on OECD CRS Database.

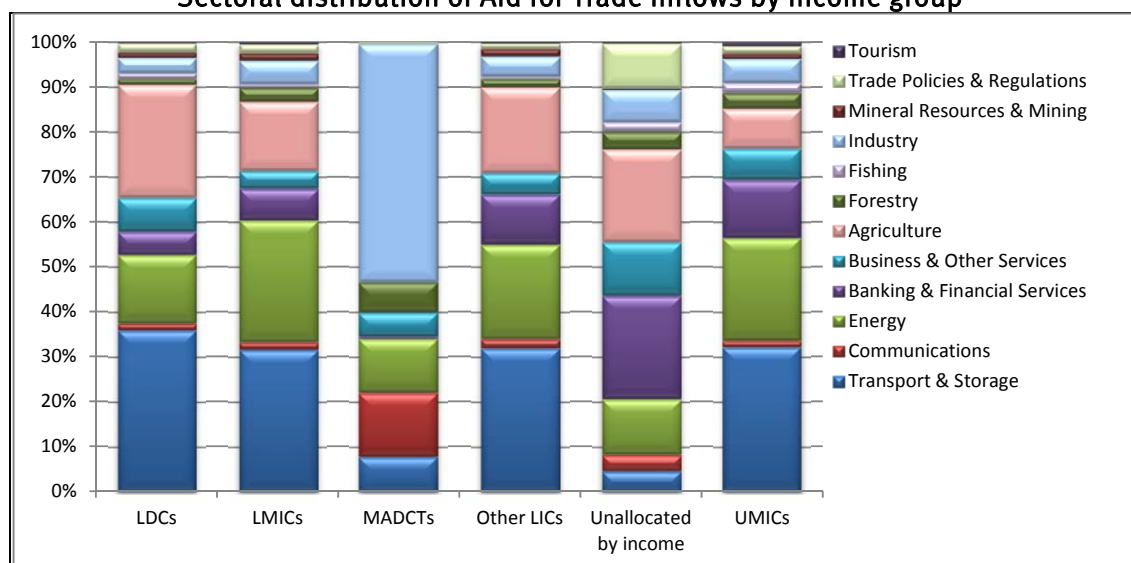
Sectoral distribution of Aid for Trade inflows by country



Source: Authors' calculations based on OECD CRS Database.



### Sectoral distribution of Aid for Trade inflows by income group



Source: Authors' calculations based on OECD CRS Database.

### Aid for Trade-related ODA disbursements per capita 2006–10 (US\$ constant 2009)

Rank	Country	Amount	Rank	Country	Amount
1	St. Helena	15,732.7	2	Niue	6,592.7
3	Tokelau	6,331.7	4	Montserrat	5,758.7
5	Nauru	3,271.5	6	Tuvalu	2,540.4
7	Palau	1,941.1	8	Anguilla	1,233.1
9	Wallis & Futuna	1,073.3	10	Dominica	1,038.5
11	Cape Verde	876.8	12	Mayotte	795.3
13	Vanuatu	651.9	14	Tonga	570.9
15	Micronesia, Fed. States	474.5	16	St. Vincent & Grenadines	431.1
17	Kiribati	429.9	18	Samoa	428.0
19	Marshall Islands	393.8	20	St. Lucia	376.3
21	Cook Islands	356.1	22	Seychelles	297.6
23	Bhutan	290.0	24	Suriname	284.3
25	St. Kitts-Nevis	238.4	26	Armenia	229.1
27	Guyana	220.5	28	Afghanistan	210.8
29	Georgia	207.6	30	Iraq	205.9
31	Montenegro	188.4	32	Sao Tome & Principe	183.2
33	Solomon Islands	182.3	34	Maldives	179.3
35	Albania	177.2	36	Mongolia	173.9
37	Nicaragua	147.3	38	Grenada	147.1
39	Tunisia	146.6	40	West Bank & Gaza Strip	144.8
41	Mauritania	142.4	42	Belize	137.3
43	Bosnia-Herzegovina	136.7	44	Timor-Leste	135.0
45	Antigua and Barbuda	130.2	46	Serbia	125.7
47	Djibouti	122.0	48	Jordan	118.4
49	Guinea-Bissau	104.2	50	Gabon	102.3
51	Laos	101.7	52	Oman	98.3
53	Jamaica	97.1	54	Namibia	96.5
55	Senegal	96.2	56	Bolivia	93.1
57	Mali	92.3	58	Morocco	87.0
59	Benin	86.3	60	Liberia	85.1
61	Ghana	84.3	62	Sri Lanka	83.8
63	Lebanon	82.4	64	Honduras	77.8

Rank	Country	Amount	Rank	Country	Amount
65	Mozambique	76.9	66	Macedonia, FYR	75.7
67	Vietnam	74.9	68	Kosovo	72.6
69	Barbados	71.4	70	Papua New Guinea	70.1
71	Gambia	69.4	72	Burkina Faso	68.8
73	Sierra Leone	68.1	74	Rwanda	67.3
75	Moldova	67.2	76	Costa Rica	65.9
77	Uganda	65.2	78	Haiti	64.7
79	El Salvador	63.4	80	Tanzania	59.0
81	Madagascar	58.1	82	Kyrgyz Republic	57.9
83	Tajikistan	56.4	84	Zambia	55.8
85	Burundi	54.1	86	Cambodia	52.7
87	Swaziland	51.3	88	Azerbaijan	47.2
89	Mauritius	46.6	90	Fiji	46.0
91	Malawi	44.3	92	Croatia	42.4
93	Botswana	42.3	94	Lesotho	42.1
95	Kenya	41.8	96	Egypt	41.5
97	Central African Rep.	40.2	98	Ethiopia	39.2
99	Turkey	38.6	100	Cameroon	37.9
101	Paraguay	37.5	102	Congo, Rep.	35.6
103	Comoros	35.4	104	Cote d'Ivoire	35.2
105	Niger	33.6	106	Togo	29.2
107	Peru	29.2	108	Philippines	28.0
109	Kazakhstan	27.1	110	Nepal	27.0
111	Dominican Republic	26.7	112	Guinea	26.3
113	Chad	24.4	114	Yemen	23.5
115	Malaysia	22.5	116	Ukraine	22.4
117	Congo, Dem. Rep.	21.8	118	Eritrea	20.5
119	Indonesia	18.8	120	Sudan	17.8
121	Ecuador	17.4	122	Chile	17.4
123	Uruguay	16.8	124	Guatemala	16.7
125	South Africa	16.7	126	Syria	16.1
127	Colombia	15.8	128	Algeria	15.3
129	Panama	14.2	130	Zimbabwe	13.1
131	Thailand	13.0	132	Bangladesh	12.9
133	Libya	12.6	134	Angola	12.4
135	Uzbekistan	11.7	136	Pakistan	10.5
137	Nigeria	9.1	138	Cuba	7.5
139	Trinidad and Tobago	7.1	140	Somalia	7.0
141	India	6.8	142	Belarus	5.0
143	Argentina	4.7	144	Brazil	4.5
145	Equatorial Guinea	3.6	146	China	2.8
147	Myanmar	2.6	148	Turkmenistan	2.3
149	Mexico	1.5	150	Korea, Dem. Rep.	1.3
151	Turks and Caicos Islands	0.6	152	Venezuela	0.4
153	Iran	0.2	154	Saudi Arabia	0.2

Source: OECD CRS Database.

## Annex 2: Summary of estimation methodologies and technical aspects of econometric studies

	<b>Aid for Trade variable(s)</b>	<b>Aid for Trade data sources</b>	<b>Econometric technique(s)</b>	<b>Country coverage</b>	<b>Time horizon</b>	<b>Sector coverage</b>
Busse et al. (2011)	1. Total Aid for Trade 2. Aid for Trade policy and regulations 3. Aid for Trade facilitation	OECD CRS database, aid disbursements	Panel data (fixed effects)	99 developing countries (including 33 LDCs)  Countries grouped into LDCs and non-LDCs: top 20 recipients and others	2004–9	
Calì and te Velde (2010)	1. Aid for Trade facilitation 2. Aid for Trade policy and regulation 3. Aid to economic infrastructure 4. Aid to productive capacity	OECD CRS database, aid disbursements	Panel data (GMM)	130 developing countries	2005–9	Agriculture (including forestry and fishing); manufacturing; mining; tourism
Brenton and von Uexkull (2009)	Product specific export development programmes	OECD/WTO Doha Development Agenda trade capacity building database and data received from German Development Cooperation (GTZ) on technical assistance projects	DID, fixed-effects Poisson	48 developing countries	1975–2005	Agriculture; manufacturing
Ferro et al. (2011)	Aid targeting service sectors	OECD CRS database, aid disbursements	OLS	132 developing countries  Countries grouped by income and geographical regions	2002–8	5 service sectors: transportation; ICT; energy; banking/financial services; business services
Gourdon et al. (2011)	A single export promotion instrument (matching grant)	Official Registry of Firms in Tunisia and firm-level survey data	DID	1 developing country (Tunisia)	2004 and 2008	


	<b>Aid for Trade variable(s)</b>	<b>Aid for Trade data sources</b>	<b>Econometric technique(s)</b>	<b>Country coverage</b>	<b>Time horizon</b>	<b>Sector coverage</b>
Helble et al. (2009)	8.1.11. Aid for Trade policy and regulation 2. Aid for Trade development and economic infrastructure 3. <i>Hard</i> trade facilitation 4. <i>Soft</i> trade facilitation	OECD CRS database	Fixed-effects panel data (gravity model)	172 developed and developing countries	1990–2005	n.a.
Ivanic et al. (2006)	1. Aid to infrastructure 2. Aid for Trade development 3. Aid for Trade policy 4. Trade facilitation	OECD CRS database	Gravity model, CGE	Nearly all individual countries aggregated into the 90 regions of Version 6 of the Global Trade Analysis Project model  Countries grouped into 7 regional sub-samples: developed countries; EAP; ECA; LAC; MNA; SAS; and SSA	1988–2004	Primary agriculture; primary non-agriculture; processed agriculture; manufactures; advanced manufactures; services
Lederman et al. (2010)	EPAs	Survey data	OLS, 2SLS, Heckman correction	103 developing and developed countries	2000–4	n.a.
Portugal-Perez and Wilson (2010)	4 trade facilitation indicators constructed using factor analysis: 1. Physical infrastructure 2. ICT 3. Border and transport efficiency 4. Business and regulatory environment	20 primary indicators collected from Doing Business, WDI, WEF, Transparency International	2-stage Heckman selection model (gravity model), Tobit and Poisson regressions	101 developed and developing countries  Countries grouped into different developing regions	2004–7	8.1.2 Fuels; ores and metals; manufactures; textiles

	<b>Aid for Trade variable(s)</b>	<b>Aid for Trade data sources</b>	<b>Econometric technique(s)</b>	<b>Country coverage</b>	<b>Time horizon</b>	<b>Sector coverage</b>
Vijil and Wagner (2010)	1. Aid for Trade policy and regulation 2. Aid to economic infrastructure	8.1.3 OECD CRS database, aid commitments	OLS and 2SLS	n.a.	2002–8	n.a.
Volpe Martincus (2011)	Export promotion programmes	National customs agencies	DID	6 LAC developing countries	2002–7	

*Source:* Authors' elaboration on different sources.







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