

Aid for Trade Series



# Evaluating Aid for Trade Effectiveness on the Ground



## A Methodological Framework

By **Ratnakar Adhikari**,  
South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu



International Centre for Trade  
and Sustainable Development



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## LIST OF ABBREVIATIONS AND ACRONYMS

AfT	Aid for Trade
AfTGR	Aid for Trade at a Glance Report
CRS	Creditor Reporting System
EC	European Commission
EIF	Enhanced Integrated Framework
ICTSD	International Centre for Trade and Sustainable Development
IF	Integrated Framework for Trade-Related Technical Assistance
IMF	International Monetary Fund
LDCs	Least Developed Countries
MFN	Most Favoured Nation
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PFM	Public Financial Management
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
SFA	Special Framework of Assistance
SSDC	South-South Development Cooperation
SVEs	Small and Vulnerable Economies
TPR	Trade Policy Review
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TRTA/CB	Trade-Related Technical Assistance/ Capacity Building
UNCEA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

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Table 1: Aspects to measure the effectiveness of AfT

Table 2: Methodology with aspects, elements, indicators and possible sources

## FOREWORD

Since the launch of the Aid for Trade (AfT) initiative in 2005, critical data and analysis have been generated on its implementation through the monitoring process led by the World Trade Organization (WTO) and the Organisation for Economic Cooperation and Development (OECD). Donors have identified and reported their trade-related aid projects more systematically, and partners have strengthened their ownership in designing and implementing AfT programmes. The 2010 call for “case stories”, which resulted in a unique and incredibly rich body of experiences from individual projects, has shed further light on the impact of AfT.

This paper is part of a series of studies that the International Centre for Trade and Sustainable Development (ICTSD) has undertaken to assess the effectiveness and impact of AfT at the country level. In doing so, ICTSD seeks to complement existing monitoring mechanisms by providing a comprehensive and integrated picture of the unique experiences of individual countries in enhancing their capacity to trade. As highlighted in a 2010 communication from the OECD at the WTO Committee on Trade and Development, “The Task Force defined AfT as whatever a partner country considers trade-related. To capture this, the AfT initiative has to go to the local level”. Indeed, experience so far suggests that the effectiveness of AfT in boosting trade-related performance is likely to depend crucially on a large number of country-specific factors, which can only be captured at the national level. Similarly, the need to engage with and strengthen coordination among national government agencies, local donor representatives and the private sector suggests that monitoring and evaluation needs to take place locally and feed into the processes and deliberations that inform national priorities.

As part of this research project, ICTSD, in collaboration with the South Asia Watch on Trade, Economics and Environment (SAWTEE), based in Nepal, have developed a comprehensive methodological framework for conducting country-level assessments of the effectiveness of AfT. This paper by Ratnakar Adhikari, General Secretary at SAWTEE, proposes a series of qualitative and quantitative indicators to measure critical aspects of the initiative, such as the additionality and predictability of funds, trade mainstreaming, local ownership of the initiative and donors’ alignment and coordination. These objective indicators are complemented by an impact assessment of AfT at the macro level and in a particular sector or AfT category.

While the methodology was developed for the purpose of conducting five pilot studies in Nepal, Cambodia, Malawi, Mauritius, and Peru, it can also be used as a basis for further studies in other countries or regions. Indeed, the framework developed in this paper aims to provide organisations interested in conducting country studies with a systematic approach to capture the unique experiences of individual countries in enhancing their trade capacity through AfT. It should be noted that this methodology need not be used as a rigid framework and may be adapted to the individual country situations.

This study should be of use to policymakers, negotiators, development agencies and other stakeholders and I hope you find it a useful contribution to a sensitive, yet critical, discussion.



Ricardo Meléndez-Ortiz  
Chief Executive, ICTSD

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Any errors or omissions are entirely the author's responsibility.



## 1. INTRODUCTION

Since the launch of the Aid for Trade (AfT) initiative, the monitoring process led by the WTO and the OECD has generated critical data and analysis on the initiative's implementation. Donors have identified and reported their trade related aid projects more systematically, and partners have strengthened their ownership in designing and implementing AfT programmes. The continued focus on monitoring has also contributed to keeping the momentum high, as reflected by the substantial increase in financial resources dedicated to the initiative. Finally, the 2010 call for "case stories" which resulted in a rich body of experiences from individual projects, has shed further light on the impact of AfT.

As highlighted in the Aid for Trade in 2008 report produced by the OECD - "The Aid for Trade Task Force defined AfT as whatever a partner country considers trade related. To capture this, the AfT initiative has to go to the local level". In fact, experience so far suggests that the effectiveness of AfT in boosting trade-related performance is likely to depend crucially on a large number of country-specific factors, which can only be captured at the domestic level. In this context, country based assessments - beyond individual projects evaluation - might be needed to provide an integrated picture of different AfT projects, including the extent to which they complement and support each other, and ultimately match the development priority of recipient countries. Similarly, the need

to engage with and strengthen coordination among national government agencies, local donor representatives and the private sector suggests that monitoring and evaluation need to take place locally and feed into the process and deliberations that inform the national prioritisation processes.

As a contribution to this process, this paper seeks to complement existing monitoring mechanisms by proposing a methodological framework to assess the impact and effectiveness of AfT at the country level. The framework developed in this paper aims to provide organisations interested in conducting country studies with a systematic approach to capture the unique experiences of individual countries in enhancing their trade capacity through AfT. It should be noted that this methodology need not be used as a rigid framework and may be adapted to the individual country situations.

The paper is organized as follows. Section 2 provides a brief background of the AfT initiative, with a view to setting out the context in which this study is being conducted. Section 3 presents a narrative on the evolution of AfT initiative since it was launched five years ago, including its achievements and its failings. Section 4 reviews the current approach to monitoring and evaluation of AfT. Section 5 provides a framework to facilitate the independent monitoring and evaluation of AfT at the country level, while Section 6 concludes.

## 2. BACKGROUND

The AfT initiative is the result of three distinct but interrelated developments. First, although developing countries in general, and LDCs in particular, have been able to achieve significant advances on the market access front over the past six decades or so, they have been unable to convert them into market entry. This is predominantly because of the lack of supply-side response, a fact that standard trade theory fails to fully encompass.<sup>1</sup> These countries faced several supply-side constraints, including the inability to increase their production and maintain a surplus for export, as well as, difficulties to supply the global market in a competitive manner because of a lack of, *inter alia*, necessary resources, skills, technologies and infrastructures (see, e.g., Adhikari, 2010a; Ismail, 2008; Page, 2007; Nielson, 2006).<sup>2</sup>

Second, but related to the first, although assistance to developing countries and LDCs to build their trade capacity is not new, the recognition of the growing marginalization of LDCs during the First Ministerial Conference of the WTO, held in Singapore in December 1996, led to a demand for some form of coherent and institutionalized approach to trade-related technical assistance (TRTA). This led to the launch of various technical assistance and capacity building programmes at the multilateral level. 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, in mainstreaming trade in their national development strategies, they failed to address the core trade-related problems facing these countries. While the multitude of problems facing these seemingly uncoordinated and disparate arrangements, as observed by the OECD (2006), are valid in their own right, a lack of sufficient, unconditional, coordinated, predictable and sustainable funding was viewed as a critical problem.<sup>3</sup> This does not mean that all is well on the partner countries' side - the problems of insufficient trade mainstreaming, lack of consultation

and limited absorptive capacity continue to pose formidable challenges for the effective utilization of trade-related assistance (WTO, 2006: 3).

Third, the prospect of further trade liberalisation at the multilateral level, raised concerns among several developing and least developed countries of deindustrialization, loss of revenue or food insecurity resulting from increased competition in their domestic markets, and reduced competitiveness in the global market owing to preference erosion or the withdrawal of agricultural subsidies. When the Doha Round was passing through a turbulent phase there was a growing realization, particularly among the low-income countries and LDCs, that some of them might be net losers from the successful completion of the Round, if it were actually to conclude. Without compensation, they argued, it would not be possible for them to sell the idea of trade liberalization to their constituencies.

Therefore, it was necessary to build confidence among these countries so they could contribute to (or at least not oppose) the discussions and negotiations taking place in the Doha Round (see, e.g., Page, 2007; Nielson, 2006: 323). Developing countries, including LDCs, demanded that they be compensated, in particular for preference erosion losses they expected to suffer from a reduction in most favoured nation (MFN) tariff rates under the Round (WTO, 2002: 3). If we consider a well-governed and relatively liberal international trading system as a global public good, as suggested by Page (2007: 21) and Zedillo (2005), aid to help countries adjust to the potentially negative consequences of multilaterally agreed trade rules makes perfect sense.

Even after the AfT initiative was announced in 2005, there were divergent views on some of the fundamental questions underpinning the initiative. These are aptly summarized by Stiglitz and Charlton (2006: 4) as follows:

- a) Needs: What should be funded?
- b) Instrument: In what form should the money be given?
- c) Institution: Who should manage the transfer?

The Task Force instituted by the Director General of the WTO, as mandated by the Hong Kong Ministerial Declaration, deliberated extensively on these issues, based on the suggestions of and inputs from Members as well as other inter-governmental and civil society organizations. The Task Force, which performed its role with a mandate to deliver a negotiated settlement, made the following recommendations on these three issues:

First, on what should be funded, it divided the potential areas of AfT funding into six categories, ranging from trade-related infrastructure to trade-related adjustment (elaborated below), which more or less matches the traditional categories of official development assistance (ODA), the record of which is maintained by the OECD;

Second, on the issue of what form money should be provided, the Task Force remained silent, thus providing the leeway to donors to provide AfT in the form of grants as well as loans, in line with how development assistance has traditionally been provided/recorded;

Third, on the issue of who should manage the transfer, the Task Force again remained silent, leaving the way for individual donors - bilateral, regional or multilateral - to deliver funds, following their traditional modality of aid delivery.

Therefore, in essence, the Task Force has not proposed any new mechanism for the delivery of AfT, but rather maintained the current

*status quo*.

However, what the Task Force did emphasize was the need to put in place an effective monitoring and evaluation mechanism to ensure that AfT delivers on its promise. The 2006 Task Force report states:

Monitoring and evaluating progress is essential in building confidence that increased Aid for Trade will be delivered and effectively used. It will also provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda. It is important to emphasize the need for concrete and visible results on the ground (WTO, 2006: 7-8).

While the Task Force seems to have a reasonable degree of clarity on the *raison d'être* of monitoring and evaluation, it does not provide a robust methodological tool to evaluate the effectiveness of AfT. The major elements of its recommendations on monitoring and evaluation include: a global periodic review, reporting by recipient countries as well as donors, and the inclusion of an assessment of AfT in the Trade Policy Reviews (TPRs) of WTO Members. Finally, it may be worth mentioning the Task Force's exhortation that AfT should be guided by the Paris Declaration on Aid Effectiveness and that it is applicable to all parties involved, namely, donors, agencies and beneficiaries (WTO, 2006).

In spite of these mechanisms, several recipient countries have raised concerns over both the effectiveness of AfT, and the way its effectiveness is monitored and evaluated (Adhikari 2011). The stakes are very high - a successful AfT initiative could provide a much-needed spur to the conclusion of the Doha Round and enhance the credibility of the WTO. Particularly worrying is the fact that the reverse is equally true.

### 3. AID FOR TRADE: FIVE YEARS ON...

Although several trade-related technical assistance/capacity building (TRTA/CB) initiatives have been in existence for the past 15 years or so, their contribution to export growth and poverty reduction in developing countries, and particularly LDCs, has remained limited.<sup>4</sup> In this context, the AfT initiative was designed to be well-funded and to tackle the major constraints (*i.e.*, supply-side and competitiveness) facing poorer countries in their quest to integrate themselves into the multilateral trading system. Against this backdrop, it is worth investigating whether AfT has been able to live up to the expectations of its *demandeurs* by analyzing its achievements as well as its failings.

Counting from the date of its formal launch, the AfT initiative will complete six years in 2011. Although it was not until the adoption of the Task Force report that AfT gained true momentum. Therefore, our analysis here is limited to the period from which the Task Force report was submitted in July 2006.

The contours of the Task Force report have been discussed in the literature (see, *e.g.*, Laird, 2007; Page, 2007; Finger, 2008), and we do not see any merit in repeating the same here. This section will rather limit itself to a set of critical issues contained in the report, and which are particularly relevant for the purposes of this paper. The Task Force divided AfT into the following six categories:

1. Trade-related infrastructure (*e.g.*, roads, telecommunications, electricity);
2. Building productive capacity (*e.g.*, enhancing productivity of agriculture, industry, fishery sectors);
3. Trade development (*e.g.*, investment promotion, trade promotion, business services);
4. Trade-related adjustment (*e.g.*, retraining of workers, compensation for retrenched workers);
5. Trade policy and regulations (*e.g.*, training of officials and stakeholders, help in designing policies and complying with trade rules);
6. Other areas (*e.g.*, other needs of the recipient countries that are not included above).<sup>5</sup>

Out of these categories, the first two are directly related to addressing the supply-side constraints faced by developing countries in general and LDCs in particular. A closer look at the AfT figures available from the OECD Creditor Reporting System (CRS) website suggests that these two categories have collectively accounted for between 95 and 97 per cent of the total AfT commitments made between 2002 and 2009 (Adhikari, 2011).

The Task Force also recommended that two major guiding principles should be followed while disbursing and monitoring the flow of AfT. First, the Paris Declaration on Aid Effectiveness should be followed to measure the effectiveness of AfT. The Paris Declaration, as is well known, was agreed in 2005, which defines a number of commitments on the part of donors and partner countries, and a set of indicators to measure progress towards 2010. The Declaration rests on five tenets, that aid is more likely to promote development when:

1. Developing countries exercise leadership over their development policies and plans (ownership);
2. Donors base their support on countries' development strategies and systems (alignment);
3. Donors coordinate their activities and minimise the cost of delivering aid (harmonization);
4. Developing countries and donors orient their activities to achieve the desired results (managing for results);
5. Donors and developing countries are accountable to each other for progress

in managing aid better and in achieving development results (mutual accountability) (OECD, 2008).

The second guiding principle was that the WTO should be responsible for monitoring the flow and effectiveness of AfT. This means that donors would continue to provide resources to developing countries on a bilateral basis, but the WTO would be responsible for overseeing the implementation of the commitments made. In order to fulfil this mandate, the WTO organizes Global Reviews of AfT. Three such reviews have taken place, in 2007, 2009 and 2011.

On the positive side, according to the latest review document, the Aid for Trade at a Glance 2011 report (AfTGR), produced jointly by the OECD and the WTO, AfT commitments reached USD 40 billion in 2009, which represents a 60% increase from the baseline period (2002-05), under four major headings: (a) economic infrastructure, (b) building productive capacity, (c) trade policy and regulations, and (d) trade-related adjustment (OECD/WTO, 2011). The report claims that the above increase is in addition to regular ODA, and was not provided at a cost of the funding provided to social sectors (such as health and education). The AfTGR further stresses that Low Income Countries received almost half of total aid for trade with a greater share of AfT commitments in 2009 going to building productive capacity, economic infrastructure as well as trade policy and regulation.

Another important facet reported in the AfTGR, on the basis of questionnaire-based surveys conducted for the purpose of the report, is that partner countries are increasingly more engaged in AfT, with the mainstreaming of trade in national development plans and strategies taking place at the policy level in almost all partner countries (*Ibid.*: 71). Finally, a recurrent theme discussed in the 2009 and 2011 reports is the rapidly increasing volume of South-South flow of AfT,<sup>6</sup> which is not fully captured by these reports because the data presented are largely based on the reporting of donors belonging to the OECD Development Assistance Committee. However, this is a relatively under-researched area and

very limited concrete data exists on the overall development assistance provided by these countries.<sup>7</sup> Separating aid provided to trade-related activities from these overall development assistance figures would be a huge task in itself, and is certainly beyond the scope of this paper.

Based on the facts and figures presented and the analysis made by the OECD and WTO experts, the 2011 version of the AfTGR suggests that AfT has been effective in many instances, if not all, and that AfT is certainly starting to show results. Moreover, another document produced earlier by the OECD and the WTO titled *Aid for Trade: Is it Working?* asserts:

The Aid-for-Trade Initiative has achieved remarkable progress in a short time: partner countries are increasingly prioritising trade in their development strategies and clarifying their needs by developing operational plans. Donors are improving aid-for-trade delivery and scaling up resources. (OECD and WTO 2010a: 2).

The document also points out that based on the recent evaluations of their AfT programmes, donors consider improved appreciation of the potential role of trade in promoting development, increased understanding and knowledge on trade policy issues and strengthened dialogue/consultation at the national level as the major successes of the programmes (*Ibid.*: 3).

On the negative side, most of the criticisms related to the AfT initiative have focused on the definition, modality, nature of funding, coordination problem and mismatch between commitment and disbursement of AfT.

### 3.1. Broadness of Definition

The first major criticism of AfT is its extremely broad definition, which encompasses everything ranging from trade-related infrastructure to trade-related adjustment. The residual category “other trade-related needs” makes it even broader and blurs the distinction between normal ODA and AfT (Laird, 2007: 16). This could potentially open the floodgate for donors to

include several other categories of ODA under AfT and jack up the figure. Cali (2007: 7), for example, is of the view that there are practical and conceptual difficulties in separating trade-related infrastructure from other infrastructure in the absence of purpose-driven definitions.

For instance, if a road construction takes place through donors' assistance, it could have several positive impacts on the socio-economic condition of the partner country (Finger, 2008: 85). It could potentially connect local markets to the city centre as well as to international markets, but at the same time it could help children attend school and sick people visit hospitals. While the potential contribution of a newly constructed road to enhance international or regional trade cannot be underestimated, it may not be fair to include the entire assistance provided for road construction under AfT (Adhikari, 2010a; see also Finger, 2008). Aldo Caliarì, Director of the Rethinking Bretton Woods Project at the Center of Concern, and J. Michael Finger, who was formerly associated with the World Bank, also present this conundrum in a similar fashion (ICTSD, 2009;<sup>8</sup> Finger, 2008).

### 3.2. AfT Architecture

Several developing countries do not seem particularly pleased with the way the AfT architecture has been designed. They were hoping that some form of dedicated fund would be established at the global level, to which all donors would contribute their resources; and that such a fund would be allocated to developing countries and LDCs based on their AfT needs.<sup>9</sup> Several proposals were floated for the creation of a separate fund for channelling AfT resources. While Zedillo (2005) proposed a temporary AfT fund, Puri (2005) proposed the creation of a USD 1 billion fund for financing infrastructure, competitiveness and adjustment-related projects in LDCs. Similarly, Stiglitz and Charlton (2006), in their report prepared for the Commonwealth Secretariat, proposed the creation of an AfT fund. This latter proposal was also supported by the African Group and LDCs.

In case such a mechanism was not feasible, the United Nations Conference on Trade and Development (UNCTAD) had proposed the establishment of a consolidated mechanism, which would regroup existing separate funding mechanisms to provide a coordinated response to country-specific needs and requests for AfT (Laird, 2007: 15).

However, these recommendations were rejected by the World Bank and the International Monetary Fund (IMF) (2006), which argued that such a new and unproven mechanism would risk skewing priorities to areas where external funding is available (Nielson, 2006). Similarly, several main bilateral donors expressed their strong resistance to creating a new instrument (Marti and Rampa, 2007). By remaining silent on this issue, the Task Force report has *de facto* endorsed the existing mechanism, whereby AfT has to be directly negotiated by partner countries with donors, who are also the providers of regular ODA.

It has, therefore, become difficult for the partner countries to segregate AfT and ODA while approaching the donors. "Nothing in the [Task Force] recommendation", writes Smaller (2006: 5), "prevents a donor country from giving out money in whatever way it wants to whomever it wants". Indeed, due to this, donor priorities may be skewed towards other policy objectives which in turn might not be in line with developing countries' and LDCs' priorities.

Although the donors' biases are difficult to fully uncover, an indication of this tendency can be seen from the way that AfT resources are allocated to the major recipients of AfT. For example, India, Turkey and Vietnam, which are major emerging markets as well as Foreign Direct Investment destinations for the developed countries, together received more than USD 7.7 billion worth of AfT in 2008, which represents 21 per cent of the total AfT commitments to developing countries (OECD, 2010). However, AfTGR 2011 stresses that AfT for Low Income Countries in 2009 has increased to nearly 50% of total AfT from 39.5% in 2008, with USD 12 billion for LDCs and USD 7.4 billion for OLICs.

The issue that this level of concentration is problematic was raised by Helen Clark, the Administrator of UNDP, while delivering her speech at the Second Review Meeting of the AfT (Clark 2009) and echoed by the representative of El Salvador at the Fifteenth Session on Aid for Trade of the Committee on Trade and Development (WTO, 2010a). Due to this, some LDCs and low income countries are yet to receive the share of AfT pie they deserve, a fact aptly shown by Karingi and Fabbroni (2009), in the context of Africa. Moreover, this gives rise to suspicion that political and strategic considerations could be the main determinants of foreign aid allocation as was empirically determined by Alesina and Dollar (2000) and it serves to reinforce the hypothesis that trade-related needs have not been the major drivers of AfT allocation (Cali 2007:21).

### 3.3. Nature of Funding

Developing countries have been demanding, since the inception of the idea of AfT, that it should be “non-debt-creating” in nature. Not all donors provide AfT in the form of grants, some of them instead providing it in the form of loans. Developing countries, over-burdened with debt and/or those that have recently come out of the debt trap, largely due to the Highly Indebted Poor Countries initiative, will be hard pressed to overcome this challenge. However, due to the current definition of ODA (including AfT), which includes even concessional loans as grants, if the grant component is at least 25 per cent,<sup>10</sup> loans are bound to fall under AfT.<sup>11</sup> In fact, as noted by Caliri (2007), several donors, notably Japan, made pledges during the Hong Kong Ministerial Conference to provide AfT on a non-grant basis. In this respect, the OECD (nd:2) states:

Overall, loans made up 50 per cent of aid-for-trade flows in 2008. Globally, the proportion of loans has increased as aid for trade has been scaled up. A significant proportion of aid for trade going to economic infrastructure is in the form of concessional loans with an increase from 53 per cent in 2006 to 61 per cent in 2008. Aid for trade going to building

productive capacity has seen less of a change, 35 per cent to 39 per cent.

This is particularly worrisome if the debt-creating nature of AfT financing is seen in the context of the conclusion of the Doha Round. Since, as shown by Santo-Paulino (2007), trade liberalization in developing countries, and particularly LDCs, results in higher import growth rather than export growth, at least in the short to medium term, the trade deficit needs to be financed through aid, for which they may need to resort to debt-creating facility. To the extent that aid is provided in loan form and not utilized to build trade capacity, it increases the likelihood of a debt crisis and exacerbates the problem of securing sustainable means to finance the trade deficit (Santo-Paulino, 2007: 989).

Following repeated requests by trade officials and diplomats participating in AfT discussions and reviews<sup>12</sup>, the WTO and OECD agreed that, “in the next reporting exercise on Aid-for-Trade flows, an in-depth analysis will be included on the use of grant and loans for Aid for Trade” (WTO, 2010b: 3). However, the latest AfTGR only reported grant and loan components of AfT in three tables in the Annex Table 11 through 13 per category, income group and donors (OECD and WTO 2011: 380-3). A real “in-depth analysis” should have, at a bare minimum, included grant and loan components in the country fact sheets. That said, to donors’ credit most AfT provided to the LDCs have been in the form of grant, except for financing large infrastructure projects in countries such as Bangladesh and Ethiopia reflecting the ability of the countries to repay the loan (OECD and WTO 2011: 57).

### 3.4. Coordination

It has been noticed that there is a lack of coordination at different levels of AfT financing. A study conducted by the Overseas Development Institute for the UK Department for International Development and the Government of Sweden asserts that genuine stakeholder engagement improves programme design and local ownership. Engagement between government, the private

sector, donors and producers positively supports AfT interventions. The study also found that this engagement should be carried out throughout the problem identification, design, implementation and evaluation processes (Bird, 2009). However, many AfT programmes take place with very limited coordination amongst stakeholders.

First, there is limited coordination amongst donors. Some areas, such as capacity building, are over funded and there is a huge concentration of donors in these areas, whereas there is limited funding available to meet the genuine trade-related needs of partner countries. For example, Nepal, a South Asian LDC, has been receiving enormous amounts of resources to fund often-duplicative projects on creating awareness on trade issues, WTO-compliance and creating enabling business environment (see, for example, Adhikari, 2010a). Although it needs to upgrade its customs infrastructure - in line with the Customs Modernization Work Plan prepared by the Department of Customs in 2009, in order to reduce the cost of trading across borders - it has not so far received any fresh funding in this area since the inception of the AfT initiative.<sup>13</sup> The funding received so far in this area were provided in the past by the Asian Development Bank, and later by the World Bank, to develop and implement Automated System for Customs Data (ASYCUDA) project for customs automation (Rajkarnikar, 2010; Singh, 2010).

Second, in many circumstances there is also a lack of coordination between donors' headquarters and their field offices. For instance, despite the high relevance that AfT has for many donors, the staff in field offices may not necessarily be aware of these developments since the major decisions on AfT are taken at the headquarters level. Even if they are aware, various political, institutional and individual factors contribute to the field staff paying less than optimal attention to these issues. It is, then, natural for government officials to receive a lukewarm response from field office staff when discussing a proposal to fund a trade-related project.

Third, there is a lack of coordination on the part of partner countries, both between various

ministries and departments of the government and between the government and external stakeholders, particularly the private sector. The first type of problem is especially severe in the case of AfT. It is worrisome that the various mechanisms devised to create better coordination between government agencies and among the other stakeholders have not been functioning as effectively as envisaged.

For example, as reported by Awasthi (2011), based on interviews with senior officials from the Ministry of Finance, Ministry of Industry and Ministry of Commerce and Supplies in Nepal, ministry officials are found to be unaware of where the money that appears as AfT according to the OECD CRS is going. This situation is typical for many AfT recipients, particularly in the LDCs and other low-income countries. However, the problem cannot entirely be ascribed to a lack of inter-ministerial coordination because OECD CRS classification follows a conventional approach to reporting AfT, which has been including support under various categories of what now falls under AfT (such as construction of road, hydroelectric plant or irrigation canal) even before the inception of the idea. It cannot always be presumed that the officials of commerce/trade ministries should be fully abreast of what is included in AfT, especially if they fall outside their functional jurisdiction. However, better coordination among government agencies could at least reduce the confusion.

Besides, given the role of the private sector, both as a beneficiary of AfT as well as a contributor to public-private partnerships, they (as argued by the WTO, UNCTAD and International Trade Centre) should have an equal, if not pre-eminent, role in setting the national agenda (Laird, 2007: 19). However, the role of the private sector in trade policy processes is extremely limited in developing countries in general and LDCs in particular, let alone in AfT processes, because many developing countries and LDCs lack a formal institutionalized mechanism for coordination and consultation with stakeholders (Adhikari *et al.*, 2008).



### 3.5. Gap between Commitment and Disbursement

Finally, there is the problem of gap between commitment and disbursement, which is clearly visible from the AfTGR as well as from the OECD CRS database. It is important to acknowledge that project implementation requires some years and thus disbursement requires additional time. Nevertheless, low disbursement can stifle projects and it is a problem which deserves analysis, although low disbursement itself might not always be a problem nor can it merely be attributed to donors' failure. According to the OECD and WTO (2009: 54), low levels of disbursement could be due to several reasons, all of which are applicable in the context of many developing countries. First, a change of government in a partner country often leads to changes in priorities, and aid funding needs to be reassigned to the priorities of the government of the day, which takes time and could cause less than optimal disbursement in a reported period.

Second, related to donors' procedures, the requirements for the release of donor funds have proven burdensome in some cases. For example, some funds are provided on a

reimbursement basis, which means that the partner country should spend the resources first and then request for the reimbursement of the expenses. Even when the resources are spent in a particular year, it does not get reflected in the disbursement until the money is physically transferred to the partner country, which could take place in the next calendar year.

Third, the delay in disbursement could also be a result of the low level of absorption capacity in partner countries.<sup>14</sup> This has been a major problem, for example, with the African, Caribbean and Pacific countries, which have very low disbursement rates from the European Commission (EC) Special Framework of Assistance (SFA) fund, with SVEs among them showing appallingly low levels of disbursement,<sup>15</sup> primarily due to the administrative problems they face in dealing with the EC procedure (Cali and te Velde, 2009) and the low absorptive capacity of these countries.

Finally, due to differences in the fiscal years adopted by partner countries and donors' reporting periods (typically based on the Gregorian calendar), the amount reflected in the AfTGR, or CRS for that matter, and the figures prepared by partner country governments may not tally.

#### 4. A FRAMEWORK FOR THE EVALUATION OF AFT AT THE COUNTRY LEVEL

Underscoring the salience of monitoring and evaluation, the Task Force report emphasizes the need for concrete and visible results *on the ground*. It also mentions that it is the responsibility of both providers and recipients of AfT resources to report on progress and results. It provides certain indicators for the monitoring and evaluation of progress, and suggests various modalities/platforms to be used to achieve the desired objectives. All said and done, there are essentially three major (official) multilateral platforms/mechanisms being used for the monitoring and evaluation of AfT.

First, the compilation of data on AfT flows by the OECD based on the CRS (albeit with a lag of a little more than a year), analysis of the broad trends in AfT based on questionnaires, the publication of the AfTGR jointly by the OECD and WTO and presentation of the data as well as analysis contained in the report for wider discussion at the AfT Review meetings. In preparation for the Review meetings, regional review meetings are also organized in various developing regions. Besides the information on traditional donors and recipients, limited information on South-South donors was included in the latest report. For the next review, the OECD also intends to include a questionnaire aimed at Regional Economic Communities (WTO, 2010b).

Second, the inclusion of a section on AfT by both donors and partners in their respective Trade Policy Review documents. According to the WTO (2010c) work has been completed on five out of six pilot TPRs (China, Honduras, Malawi, the US, and the joint review of Benin, Burkina Faso and Mali) and the other (Belize) is likely to be completed soon. The document further reports that work is also progressing on integrating an AfT analysis into TPRs for five other non pilot Members (*Ibid.*).

Third, periodic discussions on AfT issues take place at the regular sessions on Aid for Trade within the Trade and Development Committee.

Overall, the WTO, together with the OECD, have made considerable progress in refining the data, conducting analytical work and presenting them in the Global Reviews. However, despite these improvements, the process essentially remains “global” and largely “top-down” in nature.

In this context, the following remarks made by Bernard Hoekman, Director of the International Trade Department at the World Bank, are quite instructive:

A Geneva-based process of annual summaries and scrutiny of aid delivery can only be of limited utility if it does not engage national government agencies, local donor representatives and private sector... The payoffs to such scrutiny will be at the national level, suggesting that monitoring and evaluation needs to take place locally and feed into the process and deliberations that inform the national prioritization processes (Hoekman, 2007: 42).

This view is consistent with the OECD (2006: 15-16), which suggests that both the Local Accountability Pact and Global Review Mechanism are equally important to deliver on the Hong Kong mandate. Similarly, the *Aid for Trade in 2008* report produced by the OECD (2010), suggests:

To really understand what is happening, a local perspective is needed. The WTO Task Force defined aid for trade as whatever a partner country considers trade-related. To capture this, the Aid-for-Trade Initiative has to go to the local level (OECD, 2010: 19).

Likewise, a statement issued by 46 NGOs, to draw attention of the high-level delegates at the first AfT Review meeting in November 2007, emphasizes that there should be “independent monitoring” and that “donor countries or donor-driven bodies should not be leading the monitoring exercise.”<sup>16</sup> Echoing a similar view, Jeune (2009: 7) mentions that AfT needs more

micro-level monitoring and evaluation to be made an effective tool for poverty reduction.

Responding to these calls, the WTO and OECD asked various stakeholders to submit “case stories” with the expectation that such stories would help learn useful lessons, among others, on the outcomes and impacts of AfT (OECD/WTO, 2010). The call for “case stories” which resulted in a unique and incredibly rich body of experiences from individual projects, has shed further light on the effectiveness and impact of AfT. However, such case stories only provide anecdotal evidence or snapshots of a particular programme. While they can provide valuable lessons, they fall short of providing an integrated approach to assess the combined effect of different projects, and the challenges and opportunities faced by both donors and recipient countries at the national level. Moreover, the different methodologies used and the fact that case stories were not systematically produced by independent sources, makes comparison difficult.

At the same time, the literature on the effectiveness of AfT has made a significant contribution to enhancing our understanding of the link between AfT and trade performance, albeit in general terms. These studies have proved valuable resources in indicating the general trends, and to some extent the possible future direction. However, several limitations of these studies have been highlighted in the literature itself, in the form of cautionary remarks. For example, Suwa-Eisenmann and Verdier (2007) are of the view that:

Empirical cross-country literature is a rich source of information and analysis inasmuch as it suggests insights of some complementarities across trade and aid policies. However, it faces several important limitations, which may be overcome by more detailed case study analysis (Suwa-Eisenmann and Verdier, 2007: 503).

A similar remark is made by Cali and te Velde (2009: 4) in their contribution to a Commonwealth Secretariat paper. They argue

that the effectiveness of AfT in boosting trade-related performance is likely to depend crucially on a large number of country-specific factors, which are not captured by cross-country data analysis.

These views are also supported by the United Nations Economic Commission for Africa (UNECA, 2010), which suggests that although existing research points to positive associations between the key parameters of AfT and trade performance, they are essentially preliminary and global in approach, and that any generalization based on such research could be risky. This is probably why UNECA (2010) found the information from country or regional studies would buttress the positive preliminary findings from global/macro studies. Hoekman and Wilson (2010), for their part, remark:

Much of the assessment of AfT to date has been at an aggregated level, focusing on whether trade performance of countries and indicators of trade capacity have improved. What is needed is more detailed analysis of the impact of specific AfT interventions *on the ground*, which in turn will depend on identifying new ways to support long-term investment in micro-level trade cost and outcome data (Hoekman and Wilson, 2010: 11-12, emphasis added).

As a contribution to this process, the following methodological framework seeks to build on existing monitoring mechanisms by proposing a series of indicators to assess the impact and effectiveness of AfT at the country level. In doing so, it will provide an integrated approach to capture the unique experiences of individual countries in enhancing their trade capacity as well as addressing both the quantitative and qualitative aspects of AfT.

The following excerpts from the Task Force report provide the conceptual basis for preparing the methodology:

- “Additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate” (Section C);

- “Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness” (Section F.2);
- “Aid for Trade should be rendered in a coherent manner taking full account, *inter alia*, of the... overall goal of sustainable development” (Section F.2).

Additional bases for the preparation of the methodology are the identification of gaps, as follows:

- Review and assessment of current approaches to the evaluation of AfT as well as studies conducted by academics and practitioners;
- Interviews with stakeholders/experts/practitioners in two South Asian LDCs (Bangladesh and Nepal) as well as Geneva on the rationale, contours, modalities and effectiveness of AfT.<sup>17</sup>

The objectives for the preparation of such a methodology are as follows:

- To prepare benchmarks for monitoring the progress in commitment, disbursement and utilization of AfT resources and evaluating its effectiveness and impact on the ground;
- To collect/collate data/information to help various stakeholders, including donors, partner governments, the private sector and civil society, make informed interventions/decisions on AfT issues;
- To contribute to the regional/global review processes.

What follows are the various aspects which need to be analyzed in order to arrive at an informed conclusion as to whether or not AfT has been effective at the country level. At the same time, we include the justifications for the choice of these various aspects. In order to gauge the efficacy of these aspects in contributing to the effectiveness of the AfT initiative in general, components, indicators and sources of information are finally provided in the matrix in Table 2. The following are the aspects that the methodology proposes, which may be applied for country studies depending on data availability:

**Table 1: Aspects to measure the effectiveness of AfT**

1. AfT Funds Trajectory
2. Ownership
3. Alignment
4. Coordination amongst Donors
5. South - South Cooperation
6. Partner Country Limitations in Absorptive Capacities
7. Coherence with Environmental Sustainability
8. Impact at the Macro Level
9. Impact at the Micro Level (AfT Case Study)

#### 4.1. AfT Funds Trajectory

This aspect is designed to trace the flow and nature of funds that a country is receiving under the AfT initiative. Within this aspect, the issues covered include additionality, predictability and if the nature of funds are in grant or loan form. It is important to note that while AfT funds trajectory is a crucial aspect for assessing AfT effectiveness, it needs to be contextualized with regards to the other aspects as availability of appropriate funding need not necessarily imply a more effective AfT.

##### 4.1.1. Additionality

The additionality of trade-related development assistance has long been at the centre of discussions, particularly in the run up to the Hong Kong Ministerial and beyond. The Task Force has thus underscored the need for additional financing. While the OECD and the WTO have claimed that AfT financing has been additional to what was provided earlier, they provide only aggregate figures on additionality and no methodology for calculating it.<sup>18</sup> Countries such as Afghanistan, India, Iraq, Vietnam, Turkey and Thailand might have received additional funding on account of AfT, but there may be other developing countries that have seen their receipt of AfT decline in the recent period (2006-09). Therefore, what we have to see in the proposed case studies is whether or not there has been *real* additionality at the country level.

Since additionality not only means that AfT resources are additional to what has been received in the past, but also that such resources are not provided at the cost of other aid, it would be extremely difficult to find perfect criteria to judge the additionality of AfT. Therefore, we propose the following four indicators to test the additionality element at a macro level<sup>19</sup>:

- First, for country x, AfT (in absolute figure) in the recent period for which data are available (for instance, the period 2006-09) is greater than AfT in the base period (2002-2005).
- Second, for country x, non-AfT ODA (in absolute figure) in the recent period is greater than non-AfT ODA in the base period.
- Third, for country x, growth rate (in percentage) of non-AfT ODA in the recent period is greater than or equal to the growth rate of non-AfT ODA in the base period.
- Fourth, growth rate of non-AfT ODA (in percentage) in the recent period in country x is greater than or equal to the growth rate of non-AfT ODA at the aggregate (global) level for the entire period for which data are available (i.e., 2002-2009).

While the OECD CRS database itself offers an opportunity to uncover the true picture, we need to go beyond it and look at the country-level figures to see if there has been an additional flow of AfT resources.

##### 4.1.2. Predictability

Predictability is one of the core elements of the Paris Declaration, as well as a major component of the Task Force recommendations. While the OECD/WTO report (2011) provides details of commitment and disbursement, it does not reveal much about the predictability of AfT. Some element of predictability (or lack of it) can be measured from the CRS database itself by comparing variations between commitments and disbursement in a given fiscal year.<sup>20</sup> However, such a comparison is not likely to provide a complete picture.

The extent to which, in the spirit of the Paris Declaration, donors provide reliable, indicative commitments of aid over a multi-year framework, and disburse aid in a timely and predictable fashion according to agreed schedules (OECD, 2008), is an important measure to assess the predictability of funding. Measuring the predictability of ODA, in particular over a multi-year period, has already proven to be difficult - a fact that was clearly illustrated in the latest OECD progress report on aid effectiveness. Attempting to

measure the predictability of an ODA subset, in this case AfT, is therefore likely to be equally challenging, given the amount of detailed information such a task would require.<sup>21</sup>

Therefore, we also consider predictability at the operational level as the touchstone to best assess it. In our view, operational predictability implies the extent to which AfT projects have been completed as initially agreed without any external resource constraints. Projects being withheld or terminated, due to donors changing their priorities or their inability to honour their part of the commitment, are definite signs of the problem, while the reverse is equally true.

#### 4.1.3. Grant vs. loan

Some scholars argue that developing countries, particularly in Africa, should finance their development by accessing international commercial lending sources (see, e.g., Moyo 2009). However, given these countries' current credit ratings, the extent to which they could do so is questionable. As we have shown above, one of the demands of developing countries, since the idea of AfT was first floated at the WTO in the run up to the Hong Kong Ministerial Conference, has been that AfT resources should be "non-debt creating" in nature. The LDCs, in particular, view the potential debt-creating nature of AfT with trepidation (WTO, 2006).

The problem is exacerbated by the fact that the present definition of AfT includes, as do other forms of development assistance, concessional lending. Worse still, as noted above, the AfTGR does not include grant and loan components of AfT in country fact sheets. This is particularly important because the data provided by the OECD CRS, which forms the bedrock of the AfTGR, is exclusively based on self-reporting by donors, without any reporting provided by partner countries. In order to generate national-level data, which can then be compared to OECD/WTO data, it is crucial to dig out information from government sources such as finance ministries, commerce ministries or relevant planning authorities

(commission or ministry, as the case may be) at a disaggregated level.

## 4.2. Ownership

Ensuring that "[p]artner countries exercise effective leadership over their development policies, and strategies [sic] and coordinate development actions" (OECD, 2008: 3) is a critical element of addressing the effectiveness of AfT. The fact that strong ownership by partner countries is important for the successful delivery of trade-related assistance has also been well established through previous trade-related development initiatives, such as the IF (now the EIF) in the context of LDCs. The following elements can be used to evaluate the level of ownership:

### 4.2.1. Mainstreaming

Firstly, it is imperative to evaluate the extent to which trade is mainstreamed in the national development plan or PRSP of the partner country, as well as at the sectoral level and local governance structure. There is a need to also highlight if the mainstreaming process is taking place at a formal level alone or if it is being complemented by a substantive process as well. Secondly, mainstreaming can be further assessed at the programme level in ministries, departments, provinces, zones, districts etc. Finally, the presence of EIF/ national Aid for Trade committee/ similar institutions and their function in, as well as influence on the country's development strategy should be identified.

### 4.2.2 Relevance to domestic trade and the development priorities

Another element of ownership can be assessed through the initiatives taken by the partner country in pushing for projects/programmes that are relevant for its domestic trade as well as its development priorities. This can be assessed through the percentage of AfT resources allocated to those projects/programmes which are considered priorities and/or designed by the partner country.

### 5.2.3 National-level coordination/Stakeholder involvement

Since coordination between various governmental agencies (such as the ministries, commissions and departments relating to trade, finance, planning, industry, agriculture, tourism, energy, transportation and communication) which are involved in the implementation of AfT programmes/projects is vitally important, it is necessary to assess the level of such coordination. For example, ownership of a “trade corridor” project by the planning, finance and transport ministries, besides the trade ministry, could result in more favourable AfT outcomes.

Ownership should not be restricted to the partner country’s government’s involvement alone, and coordination with the government agencies is not sufficient to deliver on AfT. As one of the important aims of AfT is to also develop the private sector, the involvement of other stakeholders, while formulating trade policies, will further the ownership at the country level. Thus, this needs to be assessed both at a formal as well as substantive level.

### 4.2.4 Sustainability

Sustainability, as emphasized in the Task Force report, is key to maintain the achievements made through AfT, even after funding dries up. While the issue of predictability, discussed earlier, and sustainability are intimately intertwined, it is also a responsibility of the partner country government to make a commitment to this process, thereby making it an important element of ownership. It has often been the case that various initiatives/projects funded through donor assistance have worked well as long as resources and expertise continue to be provided, but there is no guarantee that they will continue to produce positive outcomes over an extended period of time once the provisions by external sources cease.<sup>22</sup> Since one of the major objectives of AfT is to build productive capacity and enhance the competitiveness of developing countries’ enterprise, sustainability is critical for creating a lasting impact.

While sustainability criteria are in some cases built into a project’s design itself, this is not necessarily the case for all projects. One way, then, to measure sustainability is to find whether or not the recipient country’s government provides sufficient funding to the project after donor funding dries up. Another way is to see whether or not the government has increased its funding of AfT projects, regardless of whether donors support such an initiative or not. Furthermore, the issue of capacity building from the partner country’s end cannot be ignored. Therefore, sustainability criteria also need to be measured through partner country’s commitment to institutional as well as human resource development dedicated to AfT projects.

## 4.3. Alignment

The issue of alignment has not received enough attention in the AfT monitoring and evaluation exercise. However, the OECD’s (2008) premise that aid can be effective only if it is aligned with national development strategies, institutions and procedures is a valid starting point in measuring the alignment aspect of AfT and its role played in AfT effectiveness. Indeed, the Paris Declaration requires donors to “base their overall support - country strategies, policy dialogues and development cooperation programmes - on partners’ national development strategies and periodic reviews of progress in implementing these strategies” (OECD, 2008: 3). Thus, the following elements can be drawn upon to evaluate the level of alignment:

### 4.3.1 Alignment with partner’s development strategies/ priorities

The likelihood of AfT achieving high levels of effectiveness under a scenario where donors are pursuing a developmental agenda separate from that of the partner country is low. It is thus important for donors to align their priorities with the development strategies as well as priorities being pursued by the partner country. Moreover, if AfT is not prioritised

and mainstreamed by the donors as a crucial development aid strategy the likelihood of AfT effectiveness will further be reduced as this possesses the potential of creating a complacent attitude towards AfT initiatives in donor offices. Through formal and substantive assessments, this element of alignment can be measured to highlight the donor's approach to AfT in a particular country.

#### 4.3.2 Use of country systems/parallel implementation structures

For example, having a parallel Project Implementation Unit (PIU), rather than using country systems for project implementation, runs the risk of a project being skewed in favour of the donor's interests, distorting the remuneration structure and impeding efforts to build national capacity for implementing projects. The latter issue is particularly important because it affects the country's absorptive capacity for AfT. The EIF, for example, claims to offer a viable alternative because it provides funding to LDCs to acquire additional capacities through the creation of what is known as a National Implementation Arrangement. Although this model is being successfully adopted and implemented in a number of LDCs, which participate in the EIF process, this or other similar models are far from being implemented for the delivery of AfT in other countries that do not participate in the EIF process.

Similarly, using partner country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's capacity to develop, implement, sustain and account for its policies to its citizens and parliament. Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring (*Ibid.*). This should further be complemented by using partner country's human resources as much as possible through recruitment, appraisal and training as

it contributes to overcoming partner country's capacity shortcomings instead of depending on professionals from donor countries. Therefore, in the context of evaluating the effectiveness of AfT it is necessary to assess the extent to which donors use partner countries' public financial management, procurement systems and local human resources. It is also necessary to identify the number of projects implemented by partner country governments or donors through the creation of a parallel PIU.

#### 4.3.3 Provision of 'Untied aid'

The Paris Declaration advocates that the untying of aid reduces transaction costs and thereby contributes to making aid more effective. This element is equally crucial for the aid given for AfT purposes as it can give the partner country opportunity to invest in development projects as per the country's needs, while at the same time provide the partner country with freedom for procuring the most cost-effective equipment, technology and expertise for AfT projects. Thus, untying of AfT aid has the potential of making AfT more economically efficient and in improving country ownership. This element may be measured through interviews with relevant agencies as well as through the review of conditionalities imposed on the partner countries.

#### 4.3.4 Demand-Supply Gap

Although it must be acknowledged that the supply of AfT resources will never be sufficient to meet the demand from all partner countries, one of their frequent complaints has been the gap between the demand for and supply of assistance. While calculating the supply is a straightforward proposition, it is difficult to determine the demand aspect, not least because there are various perceptions of what constitutes demand for AfT resources. For practical reasons, demand could be measured on the basis of the need identified by partner countries in their planning documents, annual budget and/or Diagnostic Trade Integration Studies (in the case of LDCs), while supply



aspect could be measured through the provision of AfT by various donors for which one could simply refer to OECD CRS. However, it is necessary that these findings be corroborated by interviewing various stakeholders at the country level.

#### 4.4. Donor Coordination

As discussed above, donor coordination, one of the components of aid harmonization, is clearly a matter of concern for the partner countries. While the issue of harmonization may be important at the broader level, what matters in the case of AfT is whether or not donors coordinate their efforts to avoid duplication, which tends to result in cases of lower marginal productivity of aid resources. This issue assumes particular salience when there is a proliferation of donors, with each donor trying to fund the same or similar programmes or projects where the development payoff, according to donors' own assumptions, is the highest, or where there is a strong constituency for supporting a particular programme or project at home. The problem is further compounded by the fact that besides traditional donors, there are now South-South donors, as discussed below, which are becoming equally important players in some partner countries.<sup>23</sup> Given the qualitative nature of investigation, interviews with stakeholders are critical to generate required information to assess this component.

#### 4.5. South-South Cooperation

In the context of the growing salience of South-South Development Cooperation (SSDC), with the aid provided by developing countries having reached almost 15 per cent of traditional (North-South) aid and likely to increase further (see, e.g., Reality of Aid Management Committee 2010), it is equally necessary to analyze the quantity, contours and modalities of the South-South flow of AfT when evaluating the effectiveness of overall AfT. This is particularly important because SSDC, useful as it might be, is not an unmixed

blessing. Adhikari (2010b), for example, identifies the tied nature of funding, a lack of transparency, limited ownership, inadequate monitoring and evaluation, and the non-applicability of the Paris Declaration as the major limitations of SSDC.

While gathering and analyzing data on SSDC is a useful goal, the fact that the CRS does not reflect SSDC, except for that provided by countries such as South Korea and Turkey,<sup>24</sup> makes such data difficult to obtain. To further complicate the matter, major Southern donors do not have central coordinating agencies to manage and monitor development assistance, but rather multiple agencies are responsible for providing funding (Reality of Aid Management Committee, 2010: 15). Therefore, data and information need to be gathered from finance ministries and planning commissions/ministries of the partner countries as well as Southern donor country sources and their embassies in partner countries.

#### 4.6. Limitations in Absorptive Capacities

Although absorptive capacity is widely discussed in the aid effectiveness literature, this issue has found limited mention in the AfT literature. One of the first major studies focusing on the impact of foreign aid on poverty reduction finds that aid is effective in terms of reducing poverty when it is provided in moderate volume, but that its effectiveness drastically reduces when the size of aid exceeds a critical value set by the absorptive capacity of the partner country (Asra *et al.*, 2005). However, the major focus of the literature to date has been on absorptive capacity, which relates to the ability of the partner country to utilize aid resources without impairing its macro-economic stability, especially related to the impact of aid on exchange rates (e.g., Rajan and Subramanian, 2010). We are of the view that a more important issue in the context of AfT is the ability of partner country institutions (whether public, private or otherwise) to utilize funds within the given time period.

There have been instances where partner countries, whether due to limited capacity to comprehend and follow strict formalities imposed by donors,<sup>25</sup> or due to their own capacity deficit,<sup>26</sup> have failed to spend resources in their entirety. The problem is further compounded by an inability to conduct needs assessment, design projects/programmes, monitor and evaluate AfT initiatives as well as pursue an efficient implementation procedure.

#### **4.7. Coherence with Environmental Sustainability**

The coherence of AfT with the other cross-cutting issues identified by the Task Force, such as environmental considerations and the overall goal of sustainable development, has not yet caught the attention of the OECD and WTO. These are issues worth pursuing in their own right. When the discussions around the need to look at trade policy from an environmental sustainability (see, e.g., Newell, 2005) perspective are gathering steam, it is simply not possible to brush them aside when analyzing the impact of AfT. Within the broad rubric of environmental sustainability, the impact of AfT projects on the environment and the search to identify mutual compatibility between the issues of climate financing and AfT, particularly in the areas (such as building the productive capacity of agriculture, and infrastructure) in which there is a considerable overlap between the two, are worth pursuing.<sup>27</sup>

#### **4.8. Impact at the Macro Level**

Impact assessment of AfT is fraught with challenges because of the lack of credible data, attribution problems and, above all, an absence of counterfactuals.

While measuring the effect of an AfT intervention may appear a straightforward proposition, it could provide a misleading picture if we fail to take account of other factors which are simultaneously working alongside AfT

measures. Indeed, any country's development as well as trade performance are affected by several factors, such as policies, institutions, regulations, supply-side constraints, market access barriers, preferential trade schemes and other international market conditions, and international and national economic trends, to name only a few. These factors complicate the impact analysis of development projects, including AfT ones. Moreover, one does not know what would have happened to the seemingly positive outcomes in the absence of AfT programmes. Indeed, in the case of increased exports in the so-called "rising stars", which were doing well even without export promotion schemes, pose difficulties for such studies in ascribing their successes to any such schemes.

Despite these limitations, there are some quantitative techniques available that can help us at least partially measure the impact of AfT interventions by isolating the impact of "other" factors. While AfT has been designed to heighten competitiveness and trade performance for partner countries, at the crux of its conception lies the basic ideal of achieving development through trade. We have thus identified the following elements that overlap these two categories of development and trade in order to assess the full impact of AfT on individual countries. These elements are not meant to be understood in a rigid manner, due to the differences in data availability as well as the unique circumstances of individual countries, and hence may be improvised upon as per the needs of the country setting.

##### **4.8.1 Export Performance**

One of the primary aims of AfT is to increase the export performance of the partner country. Thus, as the first step in assessing the impact, we need to begin by identifying the changes observed in a country's export capability through AfT measures. Secondly, it is also imperative to identify changes in export patterns at the sectoral level to fully understand the impact of AfT on export performance.

#### 4.8.2 Local Productivity

Increasing productivity at the local level is another one of AfT goals. To further understand the relationship between local productivity and AfT measures we should conduct analysis at the sectoral level, for instance in agriculture, industry and services. However, more sectors can be introduced depending on the individual country's experience.

#### 4.8.3 Diversification Levels

The role of diversification becomes crucial, particularly in the LDCs and other low income countries, as it is a precondition to surpass the problems introduced by vulnerabilities. Diversification not only furthers specialization but also opens up new markets for the increasing variety of products being produced. The role of AfT in influencing the diversification levels of a country may be measured at inter-sectoral level or at intra-sectoral levels, as per the country's circumstances.

#### 4.8.4 Governance

Effective governance is vital for development in any country, however the focus of AfT is on developing trade which in turn will induce overall development. Thus, when discussing the issue of governance, with regards to AfT, we need to focus on those governance practices that are directly related to trade. Firstly, improvements in regulations and policies, for example customs regulations and policies, can have a strong impact in reducing transaction costs and facilitating trade. Secondly, capacity building amongst government officials is important so that the right policies are appropriately implemented, further designed and the agenda of increasing trade performance is efficiently pursued. Therefore, to assess the impact of AfT it is crucial to trace the relationship between AfT measures and these aspects of governance.

#### 4.8.5 Private Sector Development

The goal of increasing trade through AfT is also closely connected to private sector

development in a country. A mature private sector plays a strong part in increasing productivity and trade performance as well as generating employment. Therefore, while the ultimate aim of AfT is achieving development through trade, private sector development emerges as an underlying yet indispensable process in reaching this goal. To assess the impact of AfT on private sector development we can look closely at the relationship between AfT measures and the rate at which new firms are being established as well as increases in number of international traders. Furthermore, it is also important to analyse the impact of AfT on private sector accessibility to credit resources and the rate at which such resources are being mobilised. Finally, as capacity problems are rampant in partner countries, AfT measures need to include capacity building mechanisms for not the public sector alone but also for the private sector, hence the relationship between AfT programmes and training/capacity building of stakeholders deserves exploration.

#### 4.8.6 Infrastructural Growth

For produced goods to access markets, it is essential to have a strong infrastructural setup in place. The Task Force recognises this and a large sum of AfT resources is provided for trade related infrastructural projects. Thus, we believe that the impact of AfT in building infrastructure, which simplifies and promotes trading activities, requires special attention. Infrastructural development is not only crucial for furthering domestic connectivity to ports, between industries and sectors, but also at a regional and international level to exploit all possible market opportunities. Particularly in cases where countries are landlocked, regional integration can play an important part in the movement of goods to locations strategic for trading purposes. Primary indicators for assessing infrastructural growth can be, on the one hand, the allocation of funds towards trade related infrastructural projects while on the other, reduction in time for the movement of goods as well as the choice of connectivity routes that AfT projects have

opted for. However, this assessment has to be approached cautiously as reduction in time can be due to changes in customs regulations and trade facilitation initiatives as well.

#### 4.8.7 Human Resource Development/Science, Technology and Innovation

While the AfT measures can provide the initial push towards enhancing trading performance through the numerous projects and programmes, these initiatives can be sustained further only if they are being complemented by appropriate inputs in the form of human capital and technological innovation. Thus, for AfT to be effective in the long run it needs to leave a strong impact on the human resources and scientific capacities of a country, directly or indirectly. The growth of tertiary education, especially in the fields of trade, like accountancy, management studies among others can be seen as an initial indicator. Furthermore, funds allocated to such endeavours through AfT or the government can be another indicator. With regards to science, technology and innovation, the number of patents and the rate at which they are increasing in a country, coupled with funds allocated to research and development activities at the country levels can shed light on the impact of AfT in this field.

### 4.9. Impact at the Micro Level (AfT Case Study)

As a complement to the macro-level analysis of AfT, this methodology proposes conducting micro-level analysis and focus on a given set of projects or programme in a sector or category (for instance rice, or trade facilitation). Both quantitative and qualitative methods of analysis can be used for this purpose. The following are the evaluation building blocks for a micro level analysis<sup>28</sup>:

#### 4.9.1 Background

As a first step of the micro-level analysis, we suggest to review the recent economic and

trade performance of the country emphasizing the sectors and regions covered by the set of AfT projects, the institutions and prevailing policies in the project environment, and external cooperation in the project's realm.

#### 4.9.2 Relevance

In order to assess the relevance of the set of projects we need to check whether or not they have a high priority for the country when it started?

A second question that must be asked: has anything changed in the country's economic policies, which makes the evaluated project less of a priority and might endanger its sustainability?

#### 4.9.3 Efficiency

##### a) *Project design*

How projects are designed is critical for their success, as success and failure can often be traced to the quality of the preparatory work. We can thus analyze the documents that were used to prepare the program. Were lessons learned from former or similar projects taken into account in the design of the programme? Was best international practice in this particular field taken into account (e.g. ITC tools)? How were the stakeholders identified? Were the stakeholders and beneficiaries consulted? Were local initiatives taken on board creating local ownership? Why was a regional and sectoral focus chosen? Why are service providers the most important beneficiaries (training of trainers)? How was the monitoring system designed? Does it include good knowledge on baseline figures? Were project alternatives considered?

##### b) *Governance and Management*

Governance is about the policy direction and the supervision at the political level of the programme. Was the mandate of the steering committee adequate? Was the reporting adequate and did the steering committee intervene when necessary?

As to the management of the projects, we will ask the following questions: was the staffing of the project unit adequate? Did project management design adequate annual business plans and manage its finances properly? How did it monitor the projects? If and when a crisis emerged, did project management react adequately? Were precautions taken to be able to continue coordinating trade-related intervention (e.g., export promotion activities) when the project ended?

#### *c) Implementation efficiency*

Here we inquire on the way activities were implemented by project management, the domestic and foreign experts, intermediaries, regional export councils and their secretariats and by the members of the export information network. For instance: how was training structured, was well-known good practice in training of experts and enterprises followed? How were these principles applied in the pilot courses with enterprises? What are the views of the beneficiaries about the quality and usefulness of the projects activities?

#### 4.9.4 Effectiveness

This is about presenting outputs and outcomes, following the indicators in the projects expected results and comparing expected and

real results. We also want to re-emphasize here the importance of comparing project outcomes with those of non-participating agencies (counterfactual evidence). Finally, it is also important to look at lessons learned as the part of the recommendations made, which is useful for the replication of the project and similar projects in other countries.

#### 4.9.5 Sustainability/Impact

Here, we want to formulate expectations about the future life of the institutional capacities created through the programme. Are these institutions going to survive the programme? Do they have an adequate funding source and do they get support from public and private stakeholders? We also want to ask the question: Can we assume that the quality of services provided will be maintained in the longer term, by the same or other institutions in the country? Or is there a risk that the services will deteriorate over time because we cannot count on a corps of experts which will stay in these jobs and transfer its skills to newcomers? We also have to ask a more optimistic question: are we at the beginning of a virtuous cycle in the sense that we can count on an autonomous replication of export promotion capacities, migrating to new sectors and new regions, without the need for further external support.

## 5. METHODOLOGY MATRIX

Based on the elements discussed above, the following methodology is presented in a matrix under four broad headings: aspects, elements, indicators, and the source of information (Table 2). However, it is worth noting that these aspects and components are based on the critiques of AfT and its monitoring and evaluation mechanisms discussed above, to the extent they could be addressed by country case studies. For example, we do not see any solution to the problem of the mismatch between developing countries' expectations and the current reality in terms of AfT architecture. It is equally necessary to sound a note of caution: this exercise is not going to solve all

the problems currently facing AfT. However, it is our belief that it is a valuable complement to the various other initiatives, including those of the OECD and WTO, currently underway to monitor and evaluate the effectiveness of AfT.

While the methodological matrix is intended to serve as a template to conduct country-level analysis on the effectiveness and impact of AfT, it may be adapted to the individual country situations depending on the salience of the issue within the country, availability of information and data, and availability and willingness of the respondents to provide information required.

**Table 2: Methodology with aspects, elements, indicators and possible sources**

### Aspect: 1) AfT Funds Trajectory

Elements	Indicators	Source of Information
a) Additionality	<p>If the following four conditions are satisfied, we could ascertain that there has been additionality:</p> <ol style="list-style-type: none"> <li>1. AfT in country x in the recent period (r) is greater than AfT in the base period, i.e., <math>AfTr &gt; AfTb</math></li> <li>2. Non-AfT ODA in country x in the recent period (r) is greater than non-AfT ODA in the base period, i.e., <math>N-AfTODAr &gt; N-AfTODAb</math></li> <li>3. Growth rate of non-AfT ODA in country x in the recent period (r) is greater than or equal to the growth rate of non-AfT ODA in the base period (b), i.e., <math>gN-AfTODAr \geq gN-AfTODAb</math></li> <li>4. Growth rate of non-AfT ODA in country x in the recent period (r) is greater than or equal to the growth rate of non-AfT ODA at the aggregate level (y) for the entire period of 2002-2009, i.e., <math>gN-AfTODArx \geq gN-AfTODAy</math></li> </ol>	<p>OECD CRS</p> <p>Cross-verification with national sources</p>
b) Predictability	<p>Variation between commitment and disbursement in a given fiscal year of the partner country government (Note: since differences in reporting and accounting systems also create gaps in commitment and disbursement, it would be necessary to corroborate the findings with a three-year moving average)</p> <p>Extent to which AfT projects have been completed as initially agreed without any external resource constraints</p>	<p>OECD CRS</p> <p>Interviews with officials from finance and commerce ministries and planning commission/ministry</p>

Elements	Indicators	Source of Information
c) Grant Vs. Loan	<p>Identification of the grant and loan components of AfT</p> <p>Changes in composition of the grant and loan components over time</p>	<p>OECD CRS</p> <p>National Sources/ Finance ministry</p> <p>Survey of government officials, private sector, donors and experts</p>

**Aspect: 2) Ownership**

Elements	Indicator	Source of Information
a) Mainstreaming	<p>Formal vs. substantive mainstreaming</p> <p>Policy-level mainstreaming vs. programme-level mainstreaming (e.g., whether the sectoral ministries have also mainstreamed or not)</p> <p>Presence of National Implementation Unit under the EIF programme in the case of LDCs/ national Aid for Trade committee/ similar institutions - their function and influence in the country</p>	<p>Review of national development strategies/ documents (such as PRSPs or planning documents)</p> <p>OECD/WTO Aid for Trade at a Glance Country Fact Sheet, including detailed questionnaires</p> <p>Interviews with government officials (commerce and sectoral ministries), private sector, country-based donors, experts and civil society</p>
b) Relevance to domestic trade and the development priorities	<p>Percentage of AfT resources allocated to projects/ programmes that were considered as priorities by the partner country and designed by the partner country (e.g., whether the issues covered by AfT fall under the government's higher level of priority; what is the percentage of resources committed by the government; and what is the share of donors' resources)</p>	<p>Publications of planning commission/ ministry, finance ministry</p> <p>Interviews with government officials, private sector, country-based donors and experts</p>
c) National level coordination / stakeholder Involvement	<p>Formal vs. substantive mode of coordination between various governmental agencies (ministries/commissions/departments) responsible for AfT (e.g., trade, finance, planning, industry, agriculture, tourism, energy, transportation and communication)</p> <p>Formal vs. substantive mode of engaging stakeholders in the process of trade policy formulation</p>	<p>Interviews with government officials, private sector, country-based donors and experts</p>

Elements	Indicator	Source of Information
d) Sustainability	<p>Percentage of AfT projects in which sustainability aspects have been taken care of (e.g., percentages of projects funded by government budget after the completion of project)</p> <p>Increase of government expenditure on issues covered by AfT</p> <p>Engagement of local-level institutions and individuals (experts or otherwise) in the project design and implementation as well as commitment to institutional and human resource development</p>	<p>Finance and commerce ministries, PIU</p> <p>Interviews with government officials, country-based donors and project managers of various AfT projects</p>

**Aspect: 3) Alignment**

Elements	Indicator	Source of Information
a) Alignment with partner's development strategies/ priorities	<p>Formal and substantive level at which donor priorities are in line with the partner country's development agenda</p> <p>To what extent has trade been mainstreamed by the donors as a development strategy (particularly at their local offices)</p>	<p>Interviews with government officials, country-based donor officials and experts</p>
b) Use of country systems/ parallel implementation structure	<p>Extent to which donors use public financial management and procurement system of the partner country as well as local human resources recruitment, appraisal and training</p> <p>Number of projects implemented by government or through the creation of a parallel Programme Implementation Unit by donors</p>	<p>Project documents, interviews with government officials, donors and experts</p>
c) Provision of 'Untied Aid'	<p>Assessing the level and kind of conditionalities associated with the aid provided</p>	<p>Interviews with government officials and donors</p> <p>Project documents highlighting the aid conditionalities</p>
d) Demand Supply Gap	<p>The gap between AfT resources demanded by the partner countries and resources actually delivered by the donors</p> <p>Gap = AfT disbursed - AfT demanded (based on needs assessment, where available)</p>	<p>Finance and commerce ministries, planning commission/ministry</p> <p>Interviews with government officials and country-based donors</p>



**Aspect: 4) Donor Coordination**

Elements	Indicator	Source of Information
N/A	To what extent donors coordinate their efforts to avoid duplication and create synergy from the AfT funding - AfT support in which there has been duplication/where donors have been able to establish synergy	Finance/ Commerce ministry  Survey of government officials, private sector, donors and experts

**Aspect: 5) South-South Cooperation**

Elements	Indicator	Source of Information
N/A	Identifying the involvement of South-South donors, their modes of engagement, and the extent to which they fulfil (or are at least on track to fulfilling) at least the basic elements of the Paris Declaration	Finance/Commerce ministry documents  Interviews with government officials, experts and officials of the embassies of the South-South donors

**Aspect: 6) Limitations in Absorptive Capacities**

Elements	Indicator	Source of Information
N/A	To what extent partner country has been able to utilize the AfT resources during the period in which it was intended to be utilized  Limitations in conducting needs assessment, designing projects/programmes, efficiently implementing procedures, monitoring and evaluating AfT initiatives	Study of project documents, including annual reports and/or interviews with project managers, government officials and donors and civil society

**Aspect: 7) Coherence with Environmental Sustainability**

Elements	Indicator	Source of Information
N/A	To what extent AfT initiatives have maintained coherence with environmental sustainability  Identifying real or potential synergy and mutual compatibility between AfT financing and climate-related financing	Study of project documents and/or interviews with donors, project manager, government officials and civil society

**Aspect: 8) Impact at the Macro Level**

Elements	Indicator	Source of Information
a) Export Performance	Links between AfT and export performance at the national level as well as the sectoral level (e.g.: agricultural exports)	AfT/Export statistics from the finance/ commerce/ education/ sector specific ministries etc, export promotion agencies, chambers of commerce
b) Local Productivity	Sectoral level productivity changes and relationship to AfT	Annual progress reports of various ministries and departments
c) Diversification Levels	AfT and its links with inter-sectoral and intra-sectoral changes in diversification	Focus group discussions with exporters, private sector, government officials, country-based donors
d) Governance	Improvements in regulations and policies (e.g.: custom regulations)  Capacity building amongst government officials related to trade	Survey of export promotion agencies, private sector, donors, universities, research institutions, patent offices, experts and civil society
e) Private Sector Development	AfT's relationship with establishment of new firms and increases in international traders  Access to resources and rate of their mobilisation  Training/capacity building of private sector stakeholders	
f) Infrastructure	Allocation towards trade related infrastructural projects  Types of infrastructural projects (road, railways, ports, airports, energy, etc)  Choice of connectivity routes (intercity connections, industrial zones-port connections, rural-urban, etc.)  Reduction in time for movement of goods (keeping in mind the externalities of custom reforms)	
g) Human Resource Development/ Science, Technology and Innovation	Growth in tertiary education, especially related to trade (eg: accountancy, management studies etc.)  Flow of AfT funds towards research and innovation  Increases in the number of patents	

**Aspect: 9) Impact at the Micro Level (AfT Case Study)**

Elements	Indicator	Source of Information
N/A	-Background  -Relevance  -Efficiency  -Effectiveness  -Sustainability/Impact	Study of project documents, including annual reports  Interviews or FGDs with project managers, government officials and donors and civil society

## CONCLUSIONS

This paper discussed the context in which the AfT initiative was launched, highlighting the role of the negotiated settlement - some kind of grand bargain, as some would call it - that led to the launch of the initiative. While the Task Force report adopted in 2006 was a political compromise, it left several issues unattended, which led to various countries and institutions interpreting those issues as per their convenience - sometimes even to the detriment of the overall objective of the initiative.

We then dwelt on the evolution of AfT since its inception five years ago and the achievements made so far in meeting its real objectives. The OECD and WTO claim that AfT flows have been increasing rapidly and have been effective, in most cases if not all, in realizing the intended objectives. The AfT initiative is hailed as a major success in terms of increasing flow of resources, enhancing understanding of the linkage between trade and development, and strengthening national dialogue.

The paper then looked at the following common criticisms of the AfT initiatives. First, due to the broad definition of AfT, it has become possible for the donors to include virtually everything possible within the category of AfT and thus jack up the figures. Second, given the continuation of the *status quo* in terms of the modality of delivery, AfT provides enormous power to donors to pick and choose the recipient countries based on their own commercial and foreign policy objectives, thus depriving the really needy countries from obtaining what they deserve the most. Third, there is a lack of

coordination at four levels - donor-to-donor and donor-to-field-offices at the donor level, and inter-ministerial and with other stakeholders at the partner country level. Finally, there is a problem of huge differences between the amount of AfT committed and actually disbursed in any given year. Although this may not be a serious problem, due to differences in defining the fiscal year and the way disbursements are made, this is an area in which there is considerable room for improvement.

The study finds that there are several lacunae in the delivery of AfT and that the current approach to monitoring and evaluation fails to capture the realities on the ground. Even those studies undertaken by academics and think tanks that are predominantly based on globally available cross-country data fail to capture the real issues facing developing countries. Therefore, the paper proposes a methodology for conducting in-depth case studies in developing countries.

Finally, it should be mentioned that the methodology, which is necessarily evolving in nature and intended to be implemented in developing countries, is just the humble beginning of what could potentially become a much more challenging task when it is actually implemented in the national context. While it goes without saying that this methodology should be adapted to each individual country's context, we remain open to refining and adjusting the methodology based, among others, on the practical insights gained by researchers on the ground, and suggestions from various stakeholders.

## ENDNOTES

- 1 See, e.g., Pandey (2006: 1) who opines: “Trade theories do not sufficiently cogitate whether countries have... supply capabilities to respond to market opportunities”. Similarly, Stiglitz and Charlton (2006: 5), citing the examples of the Everything But Arms (EBA) and African Growth and Opportunity Act (AGOA) initiatives argue that the hope that “market access by itself would spur investment in supply capacity in LDCs” has not turned out to be true in any meaningful degree. This argument is also corroborated by the empirical analysis of Santos-Paulino (2007: 987), who shows that in the case of LDCs the response of exports to trade liberalization has been much lesser compared to other developing countries due to weaknesses in domestic productive capacities and the incomplete development of the domestic market economies.
- 2 These ideas resonate with what the former Secretary General of the UN Kofi Annan said in his response to the European Union’s EBA initiative: “The LDCs have neither surplus of exportable products nor the production capacity to take immediate advantage of new trade opportunities. They will need substantial investment and technical assistance in order to expand their production”. (Financial Times, 5 March 2001). This is also consistent with what the then EU Trade Commissioner, Pascal Lamy stated, months prior to the announcement of the initiative: “Duty-free access alone is not enough to enable the poorest countries to benefit from liberalized trade. We need to help them build their capacity to supply goods of export quality” (European Commission, 2000).
- 3 See, e.g., Pandey (2006: 3).
- 4 See, e.g., Adhikari (2008), Agrawal and Cutura (2004), IOB (2004) and Saner and Paze (2006) for a mix of analyses of the various versions of trade-related development assistance programmes.
- 5 See WTO (2006) for further details.
- 6 Donors such as Brazil, China, India and Saudi Arabia have emerged as the major Southern donors of AfT providing support to other developing countries - both within and outside their respective regions.
- 7 For an estimation of foreign aid provided by emerging South-South donors see The Reality of Aid Management Committee (2010: 5).
- 8 Aid for Trade Review: New Donor Pledges and Grey Areas, <http://ictsd.org/i/news/bridges/54370/> (accessed 10 October 2010).
- 9 Based on personal discussion with Mr. Putusottam Ojha, Secretary, Ministry of Commerce and Supplies, Government of Nepal, 21 May 2010, Nagarkot, Nepal.
- 10 See OECD (nd) for the definition of ODA.
- 11 See *Ibid.*: 2 for OECD’s justification on why loans should be counted as part of AfT.
- 12 See, e.g., interventions made by the delegates from Egypt, reminding of the concerns raised by the African Group on this issue, followed by another intervention by Kenya at the Committee on Trade and Development, Fifth Session on Aid for Trade dated 27 May (WTO, 2010).
- 13 It is learnt that discussions are going on with the Government of Korea to provide support for the Programme, it is yet to be finalized. Based on personal conversation with Mr.

Bishnu Dev Pandey, Deputy Director General, Department of Customs, 22 March 2011, Kathmandu.

- 14 There are two opposing views in the case of South Asian LDCs, particularly Bangladesh and Nepal. Unfortunately, both views are of a “blame shifting” variety. Those who fault donors are of the view that the highly bureaucratic disbursement process of donors is responsible for slow disbursement. They also contend that due to stringent procurement guidelines adopted by their governments at the behest of donors, project implementation gets delayed. If disbursement is tied to the progress of the project, it is bound to be slow. Those who blame the partner countries for delay argue that governments in these countries do not even spend their own development budget on time, let alone the resources provided by donors, which is manifested in the historically low absorption capacity. See Adhikari (2011).
- 15 For example, out of the total SFA allocation for 1990-2005, the average disbursement for four SVEs (St Vincent and the Grenadines, St Lucia, Dominica and Grenada) as of December 2004 was 16.5 per cent. See Cali and te Velde (2009: 4).
- 16 See [http://www.realizingrights.org/pdf/Global\\_Aid\\_for\\_Trade\\_Review\\_Statement\\_Nov\\_07.pdf](http://www.realizingrights.org/pdf/Global_Aid_for_Trade_Review_Statement_Nov_07.pdf) (accessed 10 October 2010).
- 17 For further details see Adhikari (2011).
- 18 See, for example, OECD and WTO (2009).
- 19 The first indicator tests whether AfT has increased in absolute amounts in the recent period. The last three indicators test whether there has been diversion of regular ODA into AfT.
- 20 Since, as discussed above, difference in reporting and accounting systems also create gaps in commitment and disbursement, it would be necessary to corroborate the findings with a three-year moving average.
- 21 These challenges, *inter alia*, are: a) lack of systematic reporting by the partner countries on the level of disbursement; b) limited relevance of the information captured from the DAC Survey on Donors’ Forward Spending Plan to partner countries because of the confidentiality of the information; c) donor’s inability to commit resources beyond their annual budget cycle in some cases; d) bilateral donor’s reluctance to establish the working definition of predictability or to introduce policies and guidelines to improve it. For further details see OECD (2011: 73-76).
- 22 There could be different reasons for this, but empirical evidence tends to suggest that economic and political contexts of the recipient countries in general and poor institutional capacity are responsible for the lack of sustainability of foreign aid funded-projects. See, for example, Bossert (1990) in the context of health projects in Africa and Central America. Another study by Brinkerhoff and Goldsmith (1992), which looks at the sustainability of agriculture and health-related projects, show that a lack of commitment of the elites in recipient countries towards the project, absence of local human capital to provide sustainability to the project, and limited planning horizons are some of the factors responsible for the limited sustainability of the projects.
- 23 See, e.g., Adhikari (2010b) and Reality of Aid Management Committee (2010).

- 24 These countries have submitted their development aid data to the OECD in view of their impending admission to the Development Assistance Committee.
- 25 There are several examples of such difficulty faced by LDCs. As noted by Jopson (2010), “a fund administered by the World Bank to help south Sudan recover from decades of civil war has spent little more than a third of its money, angering western donors who provided most of the capital. By the end of last year, only USD 181m of the USD 524m (EUR 381m, GBP 333m) they had committed to the Multi-Donor Trust Fund (MDTF) had been spent. More than four years into the fund’s six-year lifespan, USD 343m still languishes unused”. In the case of Bangladesh, during an interview with experts conducted by the author in 2009, they mentioned that the “strict procurement rules” prepared by the Government of Bangladesh at the behest of the World Bank are responsible for the delay in spending aid money. See also note 15 above.
- 26 Interview with a donor representative in Nepal, however, reveals a different story. According to him, the Government of Nepal was unable to spend money allocated in the national budget and, therefore, it is churlish to blame the donors’ procurement rules for the inability of the government to spend donors’ money. See note 15 above as well as Adhikari (2011) for further details.
- 27 See Ancharaz and Sultan (2010) and Keane *et. al.* (2009) for further discussion of these linkages.
- 28 This section is a elaboration of a document presented by Matthias Meyer prepared for an ICTSD workshop on AfT monitoring and evaluation in October 2011. For further information see: [ictsd.org/i/events/dialogues/86045/?view=documentation](http://ictsd.org/i/events/dialogues/86045/?view=documentation)

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