

Aid for Trade Series



Evaluating Aid for Trade on the Ground



Lessons from Nepal

By Ratnakar Adhikari, Paras Kharel and Chandan Sapkota
South Asia Watch on Trade, Economics and Environment



International Centre for Trade
and Sustainable Development



Issue Paper No. 23

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADF	Augmented Dickey Fuller
AEC	Agro Enterprise Centre
AfT	Aid for Trade
ASYCUDA	Automated Systems for Customs Data
CB	Capacity Building
CDM	Clean Development Mechanism
CPI	Consumer Price Index
CRS	Creditor Reporting System
DfID	UK Department for International Development
DTIS	Diagnostic Trade Integration Study
EC	European Commission
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance
ENTReC	Enhancing Nepal's Trade-Related Capacity
EU	European Union
FAO	Food and Agriculture Organization
FGD	Focus Group Discussion
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIZ	German International Assistance
GoN	Government of Nepal
IF	Integrated Framework for Trade-Related Technical Assistance
IFC	International Finance Corporation
IT	Information Technology
JITAP	Joint Integrated Trade Assistance Programme
LDCs	Least-Developed Countries
L1RAfTD	Log of one-year lagged value of real AfT disbursement
LRPNPL	Log of Nepal's real GDP
LRWD	Log of real world demand
MDGs	Millennium Development Goals
MEDEP	Micro Enterprise Development Programme
MoAC	Ministry of Agriculture and Cooperatives
MoCS	Ministry of Commerce and Supplies
NEAT	Nepal Economy, Agriculture and Trade
NECTRADE	Nepal Enhanced Capacity for Trade and Development
NGO	Non-governmental Organization
NPR	Nepali Rupee
NTIS	Nepal Trade Integration Study
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of Petroleum-Exporting Countries
PEG	Project Executive Group
PIU	Parallel Implementation Unit

POL	Political risk variable
PP	Phillips-Perron
PPP	Public-Private Partnership
REER	Real Effective Exchange Rate
SC	Steering Committee
SEZ	Special Economic Zone
SPS	Sanitary and Phytosanitary
STDF	Standards and Trade Development Facility
SWAp	Sector-Wide Approach
TBT	Technical Barriers to Trade
TFF	Trade Facilitation Facility
TPR	Trade Policy Review
TRTA	Trade-Related Technical Assistance
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
US	United States
USAID	United States Agency for International Development
VIF	Variance Inflation Factor
WTO	World Trade Organization

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 has embarked on assessing the impact and effectiveness of Aid for Trade in five pilot countries - Malawi, Mauritius, Cambodia, Nepal, and Peru. In order to allow for the comparability of country studies, ICTSD and the South Asia Watch on Trade, Economics and Environment have developed a comprehensive methodological framework for conducting independent evaluation of the effectiveness of AfT at the national level. The methodology proposes a series of qualitative and quantitative indicators to measure critical aspects of the initiative, such as the additionality and predictability of funds, AfT mainstreaming, local ownership of the initiative and donors’ alignment and coordination. These objective indicators are complemented by an impact assessment of AfT projects at the macro level and in a particular sector (e.g. rice in Cambodia) or AfT category (e.g. trade policy and regulations in Nepal and Malawi). While the methodology was developed for the purpose of conducting the five pilot studies, it remains a living document which can be adapted and used by interested organizations as a basis for further studies in other countries or regions.

To conduct each country study, ICTSD followed a bottom-up approach. Local independent researchers used the methodology to conduct the country-specific studies. They worked in close collaboration with policymakers, government agencies, development partners, the private sector and other local stakeholders, collecting information and conducting structured interviews with key national players in the AfT field. Before the completion of the studies, the draft reports were scrutinized through a ‘national consultation’ in each country to share the initial findings with various stakeholders, whose insights were used to finalize the studies. As a last step, the studies underwent a process of peer review by trade and development practitioners and academics at the national as well as international level to verify the findings, while also incorporating their comments and recommendations for the benefit of the studies.

This paper, which was prepared by the South Asia Watch on Trade, Economics and Environment, assesses the effectiveness and impact of AfT in Nepal. This analysis demonstrates that AfT has played a role in enhancing the country's export performance. Notably, AfT-supported capacity building programmes have, in some cases, improved the competitiveness of Nepali exporters and promoted small-scale industries for products such as tea, cardamom and ginger. However, the potential effectiveness of AfT in Nepal is also hampered by various factors, including: low absorptive capacity; limited progress in making AfT projects financially and institutionally sustainable; and the need for more ownership by government agencies and the private sector. Finally, building on the study's findings, the authors provide concrete recommendations to assist Nepal in making AfT programmes more effective in achieving their trade and development goals.

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



Ricardo Meléndez-Ortiz

EXECUTIVE SUMMARY

Since the launch of the Aid for Trade (AfT) initiative during the Sixth Ministerial Conference of the World Trade Organization (WTO) held in Hong Kong in December 2005, commitments as well as disbursements under it have increased at the global level. Compared with the base period (2002-05), the growth rate of AfT commitments was 36 per cent in the recent/post-Hong Kong period (2006-09). Similarly, the growth rate of AfT disbursements was 49 per cent over the same period. The major focus of the AfT initiative has been on addressing the supply-side constraints facing developing countries in general and the least-developed countries (LDCs) in particular, which can be gleaned from the proportion of AfT channelled to economic infrastructure and building productive capacity hovering at 95-97 per cent, both prior to and after the launch of the initiative.

The AfT Task Force constituted by the Director General of the WTO, as mandated by the Hong Kong Ministerial, argues that “additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate”. Despite an elaborate modality for monitoring and evaluation prepared by the Task Force and an emphasis on country-based assessment, the major official platforms/mechanisms being used for the monitoring and evaluation of AfT are at the multilateral level and nothing concrete has been done so far to perform this at the national level.

Realizing the shortcomings of the present monitoring and evaluation systems and the need to complement the global-level monitoring and evaluation with national-level activity, the International Centre for Trade and Sustainable Development (ICTSD) and South Asia Watch on Trade, Economics and Environment (SAWTEE) prepared a common methodological framework for assessing the development effectiveness of AfT on the ground (Adhikari, 2011a). The methodology is currently being applied in six countries, for which studies are at various stages of completion. This report represents the case study conducted in Nepal.

In keeping with the global trend, AfT commitments to Nepal have increased (based on the Organisation for Economic Cooperation and Development’s (OECD) Creditor Reporting System (CRS) database). These commitments are found to be additional. They grew by 42 per cent in the post-Hong Kong period compared to the base period. Annual commitments during 2006-09 averaged USD 246.52 million (at 2008 constant prices). There was a 104 per cent growth in the post-Hong Kong period compared to the base period in commitments in the economic infrastructure category, while, starting from a low base, commitments in the trade policy and regulations category increased almost 20 times. However, commitments in building productive capacity have decreased (by 9 per cent), which is a cause for concern. Nepal has not received any AfT commitments under trade-related adjustment, although the country’s adjustment needs are very high, particularly as a consequence of its ballooning trade deficit.

In contrast to the global trend, AfT disbursements to Nepal fell in the post-Hong Kong period compared to the base period, by close to 15 per cent. Annual disbursements in 2006-09 averaged USD 144.47 million (at 2008 constant prices). There is, therefore, no additionality in disbursement. Notably, disbursement for building productive capacity declined by 41 per cent.

While the variation between commitments and disbursements of AfT (as measured by the ratio of average disbursements to average commitments) has worsened significantly in the post-Hong Kong period, that variation with respect to non-AfT overseas development assistance, mostly covering non-economic sectors, has slipped marginally. Low absorptive capacity is a critical reason behind the mismatch between AfT commitments and disbursements. It appears that the problems related to absorptive capacity for general aid to the economic sectors bedevil AfT too. The reasons behind

low absorptive capacity can be broadly grouped into three categories: human resources related, systemic (internal as well as external) and procedural. While the first category of problems includes the lack of qualified human resources and their level of motivation, systemic problems within the government include political instability and the lack of project banks, which can be “sold” to donors based on their priorities. Similarly, systemic problems on the external front include delays in the disbursement of resources due to procedural delays on the part of donors and donors’ reluctance to directly fund the private sector. Finally, procedural problems include mismatches between fiscal years, delays in procurement due to the excessively bureaucratic provisions in the Procurement Act, and difficulties in the timely allocation of counterpart funds.

Due to the broadness of the definition of AfT employed by the WTO and OECD, even aid remotely related to trade is counted as AfT in OECD figures. Consequently, dedicated AfT flows have been very limited, and mostly in the form of software, despite the huge need for hardware support. Tied aid is particularly a problem with bilateral aid, including in the form of technical assistance. Policymakers and experts call for a narrower, more focused definition of AfT for it to be meaningful. This would also facilitate impact evaluation of AfT interventions, as at present the broadness of definition further complicates the problem of attribution.

Aid for Trade, broadly defined, generally appears to be going to areas identified as priority areas by the government of Nepal (GoN), although the tendency of donors to push their own priorities and agendas - especially at the activity level, if not at the broad, thematic level - remains. The government’s ability to prioritize is also weak. When support is provided in areas identified by the GoN, the design is generally done by donors due to, among others, limited national capacity.

The supply of AfT to Nepal does not appear to be sufficient relative to its needs for such resources. The reasons for the gap are on the supply side as well as on the demand side. On the supply side, donors are not according priority to dedicated AfT. The factors on the demand side are low domestic capacity to design and implement projects, poor ministerial coordination and weak articulation of national needs. The GoN is found lacking in its efforts to ensure that resources are being supplied to the areas of greatest national demand.

There has not been any discernible progress on the sustainability of AfT projects - be it financial, institutional or human resources sustainability - by either the GoN or by donors. The government is significantly and increasingly reliant on foreign aid for AfT sector expenditure. There is little planning or provision for an institutional home for projects such that institutional memory is preserved and the project’s achievements can be sustained. Lack of human resources planning (e.g. to address the problem of the frequent transfer of staff) is hurting sustainability, as is a dearth of technical human resources in some government agencies. The effectiveness of trade-related training and capacity-building workshops has been adversely affected by the frequent changes in staff within the bureaucracy and the right staff not being sent for such training programmes. AfT donors are in general not found to be building the capacity/expertise of local institutions and individuals such that AfT projects could continue even when donor support ceases. Donors have a tendency to impose external consultants rather than build the capacity of local institutions and human resources, which is crucial for sustainability. The rigid organizational structure of government agencies also gets in the way of building local capacity and expertise.

An important aspect of alignment is the extent to which the recipient’s national financial management and procurement systems are used. In Nepal, a hybrid system, combining both donors’ and the GoN’s systems, is generally in place, but donors’ use of their own systems is more prevalent in the case of procurement under grant and technical assistance. A cross section of

stakeholders find fault with the national Procurement Act and call for its revision, pointing out that it is “construction-centred” and stipulates a time-consuming process, which may not be suitable for many AfT projects requiring prompt intervention. Also, donors’ use of parallel programme implementation units (PIUs) for AfT projects is rampant.

Partly due to inadequate national capacity, and partly due to donor predilections to design projects on their own, national ownership in terms of project design remains weak, which reduces AfT effectiveness. The Nepal Trade Integration Strategy (NTIS), formulated with the participation of a cross section of relevant stakeholders, was launched in 2010; it identifies 19 goods and services as priority sectors for export promotion and expansion and charts out strategies for achieving this over the next three to five years. If concrete bankable programmes and projects are developed for the operationalization of the NTIS, the document provides a basis for further alignment of AfT with the GoN’s priorities, although the contents of other related GoN policy/plan documents must also be taken into account.

The GoN’s record on trade mainstreaming, the most vital element to ascertain the level of country ownership, is mixed. Trade has been fully mainstreamed at the plan document level; it was identified as one of the six pillars of development strategy in the Three Year Development Plan 2010/11-2012/13. This is the first plan that has explicitly put focus on trade mainstreaming for achieving development objectives. The formulation process of the NTIS was inclusive: government agencies, the private sector and donors are generally appreciative of the process and the output, especially compared to similar exercises in the past. However, the GoN faces the challenge of addressing concerns, including those of the private sector, over the exclusion of some major products and those identified as priority sectors by other documents, for example in the Trade Policy 2009. More importantly, coordination between the Ministry of Commerce and Supplies (MoCS) and other sectoral ministries leaves much to be desired, despite efforts by the MoCS since the formulation of the NTIS in 2010; and trade is yet to be mainstreamed in other sectoral ministries’ plans, programmes, policies and agendas. The lack of clear delineation of the roles and responsibilities of sectoral ministries for trade policy/strategy implementation is inhibiting trade mainstreaming at the substantive and operational level. Although the government’s engagement with the private sector in mainstreaming trade has increased, the private sector finds the engagement inadequate and not very effective. It says it is consulted mainly for data, information and ideas, both by the GoN and donors, but its suggestions get “filtered down” in the formulation of policies/strategies and development of projects. It complains that its meaningful participation is rarely enlisted during the implementation of AfT projects. However, the private sector, for its part, has been unable to come up with concrete proposals for AfT projects, according to government officials.

The existing institutional arrangements are a challenge to ensuring substantive trade mainstreaming. The Planning and International Trade Division at the MoCS - which is responsible for coordinating the design and implementation of the AfT agenda at the national level and whose chief, a joint secretary, leads the National Implementation Unit of the Enhanced Integrated Framework - is in critical need of an expanded organizational structure to include the mainstreaming function; more (qualified) human resources; a strong research and analysis wing; and lower staff turnover.

Most donors are yet to substantially mainstream trade in planning and implementation of their aid strategies. At least one major donor made a conscious decision to pull out its support for trade in the recent past. There is inadequate sensitization and awareness about AfT among donors at the country level. Donors’ priorities are more on peace, reconstruction and constitution writing, as well as the social sector, rather than on economic issues. However, some donors are beginning to include explicit trade-related components in their programmes and projects.

There is duplication of projects and funding, although donors are trying to avoid this and create synergy, particularly with the launch of the NTIS 2010. Donors tend to copy already successful projects rather than support new ones, and are reluctant to support the development of entire value chains by pooling resources from all concerned agencies. They are very selective in picking the easiest portions of the GoN-identified trade-related needs, with most opting to fund software components. The GoN is also not found to have made concerted efforts to prevent duplication.

On a positive note, the GoN is attempting to bring AfT under a Sector Wide Approach (SWAp) model, and has made moves to create a Trade Trust Fund, as a start. However, to ensure greater transparency in operations, the Fund must evolve into a Trade SWAp proper, akin to that adopted by Cambodia. This model is expected to contribute positively to overall aid effectiveness (including sustainability, alignment and coordination) and also address the definitional issue as the recipient will have to agree that any particular aid project/programme under the dedicated fund is indeed AfT.

Impact assessment was carried out at the micro and macro levels. A case study of the Enhancing Trade-Related Capacity project conducted to get an idea of the effectiveness of the project at the micro level shows that, out of five areas of intervention proposed under the project, it has achieved full success in one area, partial success in three areas, but limited success in one area at the output level. The impact of the project at the outcome level could not be measured because of the extremely broad objectives of the project, the problem of attribution and the absence of counterfactuals. A regression analysis conducted to gauge the impact of AfT at the macro level shows that AfT is positively associated with export performance with a one-year lag. However, in-depth interviews with relevant stakeholders suggest that it would be premature to assess the impact of AfT, especially at the macro level, as it is still in a preliminary stage, or that its impact has not been felt yet, although they do identify a few relative success-story projects.

Given the increasing global attention given to climate change, and its interlinkages with trade, there is a need to establish coherence between these two modes of financing. However, in general, there has been no conscious effort at establishing coherence between AfT and climate finance, either at the donor or recipient level. To determine how to do this efficiently, the GoN needs to conduct comprehensive research.

Aid for Trade commitments by Southern donors (data for which are readily available only from GoN data sources) - mainly China and India - are fluctuating but their share in total AfT commitments has been increasing (during 2003/04-2009/10). The relative importance of AfT in their total aid commitments is also increasing. Their focus has been on infrastructure development. Nepal is yet to fully tap the vast potential for AfT from China and India. However, there is a perception of lack of transparency in Southern donors' aid activities in general.

AfT to Nepal provided by Northern donors (as per the OECD CRS database) is more in grant form, and the share of grants has not only increased in the post-Hong Kong period but is also higher than for global AfT flows. Hence, such aid has been increasingly non-debt-creating in nature. However, AfT provided by Southern donors (as per GoN data sources) is heavily in loan form (with a share of 76 per cent of total AfT commitments made by them during 2005/06-2009/10).

In conclusion, AfT in Nepal has only been partially effective. Taking a cue from other LDCs that have leveraged AfT for their development, and learning from its own successes and failures, the GoN should commit itself to making AfT effective, and donors should contribute to this endeavour in the spirit of the declarations/decisions adopted in Paris, Accra, Hong Kong and Geneva.

1. INTRODUCTION

1.1 Background

The six-and-a-half decade history of development assistance is replete with examples of both successes and failures. While development assistance provided through what is known as the “Marshall Plan” was instrumental in the reconstruction of Europe in the period immediately following World War II, and similar assistance to countries such as Korea, Taiwan, Israel and Egypt provided much-needed support to build strong foundations for their economic transformation, it has not contributed much to the economic development of many other countries. In the case of Nepal, the major country focus of this research, the jury is still out as far as the issue of aid effectiveness is concerned.

The genesis of trade-related technical assistance (TRTA), which is a sub-category of development assistance, can be traced back to the early 1960s, in particular after the formation of the United Nations Conference on Trade and Development (UNCTAD) in 1964, when there were increased calls to address the development dimension of the multilateral trading system. However, the urgency to provide financial assistance to developing countries was felt in the aftermath of the conclusion of the Uruguay Round of trade negotiations, when developing countries were required to undertake a much higher level of commitment than their stage of development could permit, as part of a “single undertaking”.

This was followed by the rhetoric of integrating developing countries, in particular least-developed countries (LDCs), into the multilateral trading system, which presaged the introduction of various TRTA programmes at the multilateral level. Such initiatives include the:

- a) Joint Integrated Trade Assistance Programme (JITAP), which is targeted exclusively at the African countries;
- b) Integrated Framework for Trade-Related Technical Assistance (IF), which exclusively focuses on LDCs and which has now been

upgraded to the Enhanced Integrated Framework (EIF) with a relatively higher amount of funding as well as a dedicated secretariat;

- c) Standards and Trade Development Facility (STDF), which is aimed at building standards-related capacity, in particular those related to the sanitary and phytosanitary (SPS) measures of developing countries, and is coordinated by the World Trade Organization (WTO); and
- d) Trade Facilitation Facility (TFF), which is designed to provide assistance to developing countries to improve their trade facilitation apparatus.

Of these initiatives, Nepal, which is eligible to receive funding from the last three, has received funding from all of them except for the recently announced TFF.

The Aid for Trade (AfT) initiative, launched during the Sixth Ministerial Conference of the WTO held in Hong Kong in December 2005, represents a continuity to the agenda of trade-related development assistance as far as its philosophical underpinning is concerned. However, it is radically different from the previous initiatives both in terms of funding commitments made and areas covered. Since the launch of the initiative, the commitments as well as disbursements under AfT have increased at the global level. If we compare AfT flows during the base period (2002-05) with the figures for the four-year period after the launch of the initiative (2006-09), we find an increase of 36 per cent in AfT commitments. Similarly, the major focus of the AfT initiative has been on addressing the supply-side constraints facing developing countries in general and LDCs in particular, which can be gleaned from the AfT channelled to economic infrastructure and building productive capacity hovering between 95 and 97 per cent, both prior to and after the launch of the initiative (Adhikari, 2011b).

The AfT Task Force constituted by the Director General of the WTO, as mandated by the Hong

Kong Ministerial, is of the view that “additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid-for-Trade mandate” (WTO, 2006: 1). Underscoring the salience of monitoring and evaluation “in building confidence that increased Aid for Trade will be delivered and effectively used”, the Task Force Report proposes an elaborate monitoring and evaluation mechanism. Emphasizing the need to show concrete and visible results on the ground, the Report also calls for “in-depth country-impact evaluation” in order to “build knowledge and facilitate a result-based approach to the delivery” of AfT (WTO, 2006: 8).

1.2 Justification for the Study

Despite an elaborate modality for monitoring and evaluation prepared by the Task Force, only three major multilateral (official) platforms/mechanisms are being used for the monitoring and evaluation of AfT.

The first involves the compilation of data on AfT flows by the Organisation for Economic Cooperation and Development (OECD) based on the Creditor Reporting System (CRS) (albeit with a lag of little more than a year), as well as analysis of the broad trends in AfT based on questionnaires filled out by partner countries, publication of a joint report by the OECD and the WTO titled “Aid for Trade at a Glance”, and presentation of the data as well as analysis contained in the report for wider discussions at the AfT Global Review meetings, which are held at regular intervals. In preparation for the Review meetings, regional review meetings are also organized in various developing regions. Besides the information on traditional donors and recipients, the OECD and WTO have also started to provide information on regional economic communities as well as limited information on South-South donors.

The second is the inclusion of a section on AfT by both donors and partners in their respective trade policy review (TPR) documents. A section on AfT has been included in six pilot TPRs (Belize, China, Honduras, Malawi, the United States (US), and the joint review of Benin, Burkina Faso and Mali). Work is also progressing on integrating an

AfT analysis into the TPRs for five other non-pilot WTO members (WTO 2010). Third, periodic discussions on AfT issues take place at the regular sessions on AfT within the WTO’s Trade and Development Committee.

Besides, there are several studies conducted by academics and practitioners, mostly focusing on cross-country analysis, to gauge the real or potential impacts of AfT on reduction of trade and transaction costs (Suwa-Eisenmann and Verdier, 2007; Cali and te Velde, 2008 and 2009); export performance, including diversification of export portfolios (Brenton and von Uexkull, 2009; Portugal-Pérez and Wilson, 2010; Hoekman and Wilson, 2010); and enhancing productivity and competitiveness (Hoekman and Wilson, 2010). Attempts have also been made to evaluate the balance between supply and demand based on empirical evidence and data. For example, Gamberoni and Newfarmer (2009), in probably the first ever attempt of this nature, find that the supply of AfT has *generally* matched the demand for it (see Adhikari, 2011b, for further details).

Some of these studies have, however, pointed out the shortcomings of their analyses, which are largely based on cross-country data. They have recommended that monitoring and evaluation should be done at the country and/or regional levels to assess the real impact of AfT (see, for example, Suwa-Eisenmann and Verdier, 2007; Cali and te Velde, 2009; and Hoekman and Wilson, 2010). These observations resonate with OECD (2006), Hoekman (2008), OECD (2010), Jeune (2009) and UNECA (2010) - all of which underscore the significance of country-level data, analyses, impact assessments and monitoring (see Adhikari, 2011b).

Following the exhortations for country-based assessments, the OECD and WTO collected country “case stories” for inclusion in the Aid for Trade at a Glance (2011) report. A total of 275 case stories were submitted by partner countries, bilateral and multilateral donor agencies, providers of South-South cooperation and regional economic communities (269 of which were included in the report). The purpose of collecting case stories was to “probe more deeply into the objectives, challenges, and

processes of trade-related assistance so as to better understand the results...” (OECD and WTO, 2011a: 116). Although such stories may help us enhance our understanding of the success and failures of various AfT programmes/projects at the country level, they will only be “scratching the surface” of what appears to be a much more serious problem. Moreover, as acknowledged by the OECD and WTO themselves, the case stories are not a scientific approach to evaluation: the sample reflects selection bias (mostly written by governments, donors or consultants working in the project), and generalizations should be “taken with a grain of salt” (because of omitted variables and attribution problems) (OECD and WTO, 2011a: 116-18).

Realizing the shortcomings of the present monitoring and evaluation systems, the International Centre for Trade and Sustainable Development (ICTSD) and South Asia Watch on Trade, Economics and Environment (SAWTEE) jointly conceived the idea of conducting country case studies in six developing countries. The first step of this exercise was to prepare a common methodological framework (Adhikari 2011a), which was applied by the study in the context of Nepal to gauge the effectiveness of AfT.

1.3 Objectives of the Study

The objectives of the study are:

- To prepare a benchmark for monitoring the progress in commitments, disbursements and utilization of AfT resources and evaluate the effectiveness of AfT in Nepal;
- To quantitatively assess the relationship between AfT and Nepal’s export performance;
- To collect/collate data/information to help various stakeholders, including donors, the recipient government, the private sector and civil society make informed interventions/decisions on AfT issues;
- To prepare a case study based on an evaluation of a project funded through TRTA and/or AfT;
- To contribute to regional/global review processes.

1.4 Methodology

To meet these objectives, the study employs a multi-pronged strategy. It combines secondary information with primary information generated mainly through a stakeholder survey, analyses data using both quantitative and qualitative methods, and also conducts a case study on an AfT project. The methodological framework (based on Adhikari 2011a) is provided in Annex I.¹

For the survey, a total of 50 stakeholders were interviewed to get their views on different aspects of AfT (see Annex II for a list of those interviewed). Stakeholders included government officials, the private sector, experts, civil society representatives, donor agencies and the media. The interviewees were selected on a judgmental/purposive basis, given the specialized subject under study.

Impact assessment at the macro level was conducted through regression analysis and complemented by the opinion of stakeholders. Secondary sources of data and information include academic literature, publications by various government agencies and reports of various projects, and their websites. An internationally accepted data source for overseas development assistance (ODA), the OECD’s CRS, was used for extracting information on AfT. Being fully aware of the significant variations that exist between the CRS and country-level data, the study also makes use of country-based data to the extent possible to analyse various components of AfT effectiveness.

Apart from assessing the impact of AfT at the macro level, an assessment of the impact of an AfT project was conducted. The “case study” assessment is based on four evaluation building blocks (relevance, efficiency, effectiveness, and sustainability of the project) and on the project documents, including its logical framework. Besides, a focus group discussion (FGD) was conducted to elicit views and candid opinions from the stakeholders, which contributed significantly

towards judging the effectiveness of the project (see Annex III for the list of participants in the FGD).

1.5 Structure of the Report

Section 2 discusses the contours and modalities of, and assesses, trade-related development assistance. Section 3 presents some preliminary observations on the AfT initiative. Section 4 presents empirical evidence on the effectiveness of AfT in Nepal in terms of the four pillars discussed in the methodological framework (see Annex I), except for impact. Section 5 discusses the impact of AfT in Nepal. Section 6 presents the summary and conclusions. Section 7 provides recommendations for making AfT effective.

1.6 Limitations of the Study

The study focuses only on Nepal, which offers a unique case. When we analyse the development impact of AfT in any country, particularly the impact of AfT on export growth, which can have significant spin-offs on poverty reduction (Hertel and Winters, 2006), we need to understand the fact that Nepal is a post-conflict “transitional” economy. The data and information used for the study are mostly from 2002-09 - the period during which the country’s export growth was not only low but also volatile. While the period between 2002 and early part of 2006 represents a period of heightened conflict during which export growth suffered a setback, the economy (including the export sector) was also marred in the period between the second half of 2006 and 2009 by various supply-side constraints, including strikes, shutdowns and unfavourable industrial relations. These were in addition to the already high trade

costs resulting from Nepal being landlocked. According to Faye *et al.* (2004), landlocked countries are at a particular disadvantage because they have to depend on the infrastructure, peace and stability, and administrative practices of, and sound cross-border political relations with, the transit country or countries.

Therefore, if a particular AfT project does not produce the desired outcome, we cannot simply conclude that unfavourable outcome is due to a lack of AfT effectiveness, although AfT projects with a regional dimension can potentially help, at least in part, mitigate the problems associated with landlockedness. Moreover, the post-conflict situation, fluid political environment and frequent changes in government mean that certain variables, such as abrupt changes in government priorities and the level of overall absorptive capacity, including the efficiency of utilization of resources, could affect aid effectiveness in general and the effectiveness of AfT in particular. Hence, the results of this study should be used with caution and cannot be generalized for all developing countries and LDCs.

Due to data limitations, the study relies on primary sources of information on a large number of variables and their relationships. Moreover, some of the information required for the study (for example, sustainability of AfT projects, ownership and donor coordination), which cannot be quantified, can only be obtained through qualitative interviews. The study had to rely on interviews with stakeholders who had a moderate to sufficient level of knowledge about the issue. These can be gleaned from a considerable number of “don’t know/can’t say” types of answers, which could not be avoided.

2. TRADE-RELATED TECHNICAL ASSISTANCE: CONTOURS, MODALITIES AND ASSESSMENT

2.1 Background

The philosophical underpinning of TRTA/capacity building (CB) is not radically different from traditional development assistance in general. However, for the purpose of better understanding the philosophy behind these assistances, including, but not limited to AfT, we take a *global public good framework* as the conceptual basis. This framework should be viewed from two distinct but interrelated perspectives.

First, an open trading system does not merely benefit the countries that liberalize trade, but also their trading partners. However, there is a possibility of countries free riding on the market access opportunities provided by other countries, without opening their own markets. To the extent that a multilateral trading system promotes a free, open and non-discriminatory trading order, it is considered a global public good. However, those countries that are wary of the potential adjustment costs of trade liberalization may hold back their trade liberalization efforts, fearing social and political backlashes. If those countries are provided with assistance to take care of adjustment costs, they are more likely to buy into the idea of trade liberalization.

Second, the global public good approach also provides the right framework for striking a balance between global *free* trade and *fair* trade (Saner and Paez, 2006: 484). According to Mendoza and Bahadur (2002), the multilateral trading system does not deliver fair trade because its benefits are largely concentrated in developed countries. Therefore, it is argued that trade-related development assistance should not only be geared towards free trade and increased competition, but also towards developing the competitiveness of developing countries to take advantage of the opportunities offered by an open trading system. If developing countries and LDCs are provided with the means to compete internationally, then such a trading

system can become a global public good (Saner and Paez, 2006: 485).

The history of TRTA/CB, particularly in the areas of production and marketing, can be traced back to 1961, when an explicit recognition of this requirement was made in the Declaration of the General Agreement on Tariffs and Trade (GATT) by Contracting Parties. Later, this issue was more fully articulated in Part IV of the GATT text in 1965 (Ismail, 2008). Article XXXVII.2.b in particular urges the GATT Contracting Parties to help what used to be called “less developed country parties” devise, among others, “concrete measures to develop export potential and to facilitate access to export markets” (WTO, 1999: 471). However, it was only during the eighth round of multilateral trade negotiations known as the Uruguay Round, spanning 1986-1994, when developing countries were required to join all the multilateral trade agreements as a “single undertaking”, that more specific provisions on TRTA/CB were added to the various agreements ostensibly “to assist” developing countries implement their new obligations (see Ismail, 2008).

2.2 A Brief Assessment

Adhikari (2011b), for example, conducts a brief assessment of the various TRTA/CB initiatives,² which were ostensibly created with the objective of helping developing countries in general and the LDCs in particular enhance their trade capacity and eventually integrate their economies better into the multilateral trading system. Basing his analysis on the available literature as well as a field survey conducted in Geneva and the capitals of two South Asian LDCs - Bangladesh (Dhaka) and Nepal (Kathmandu) - he identifies the following major positive contributions made by the initiatives:

- Promoting collaborative work between various organizations working in trade

capacity building and facilitating increased coordination among donor agencies as well as between government and other stakeholders at the national level;

- Development of local human resources to analyse and deal with trade issues;
- Delivering training in a cost effective manner and stimulating training culture;
- Preparation of diagnostic trade integration studies (DTISs) and increased appreciation of trade issues facing the LDCs in particular;
- Quick processing of requests for trade-related funding by some initiatives (e.g. STDF; Trade Integration Mechanism; and TFF).

Despite the positive impact of these initiatives, they have made only a limited contribution to achieving the overall objectives of any TRTA programme,³ which is to help developing countries, in particular LDCs, better integrate their economies into the multilateral trading system. Some of the common criticisms of these initiatives are:

- Unsystematic or incomplete needs assessment;
- Weak project management and project governance structures;
- Fragmented trade-related donor interventions with insufficient synergies to broader development assistance programmes;
- Weak explicit linkage to poverty reduction;
- Insufficient donor coordination and complementarity at the headquarters and field levels;
- Inadequate internal communication and donor expertise on trade-related matters.

2.3 Nepal's Participation in Trade-related Technical Assistance

Although Nepal has been a beneficiary of various versions of TRTA/CB programmes, the first such assistance was received by the government of Nepal (GoN) from UNCTAD in 1997 for a project titled "Nepal's Accession to the WTO". The project, which, among others, entailed studies, consultations with stakeholders, preparation of responses to queries received from WTO members as well as schedules of Nepal's offer, and conducting accession negotiations, was instrumental in leading the process of Nepal's eventual accession to the WTO in April 2004. Once Nepal became a member of the WTO, the United Nations Development Programme (UNDP) provided support to a project titled "Multilateral Trade Integration and Human Development". The project was mainly aimed at helping Nepal comply with the commitments it had made at the time of its accession to the WTO, in particular the implementation of a Legislative Action Plan, which, *inter alia*, entailed the drafting of laws and regulations.

Meanwhile, Nepal officially participated in the IF initiative in 2002-03 and prepared a DTIS titled "Nepal: Trade and Competitiveness Study" under Window 1 of the IF. The study was led by the World Bank, and the report was prepared by a team of foreign experts chosen by the Bank, with some participation of select Nepali experts as well. The study was intended to identify the trade-related opportunities and challenges faced by Nepal as well as to propose an action matrix for utilizing those opportunities and addressing the challenges. The matrix was also supposed to serve as a guideline for the country to seek funding from donors in order to achieve these objectives.

However, due to the lack of ownership of the DTIS, not much could be realized in terms of generating resources and implementing the programme envisaged by the study.

The GoN decided to update the study and produce a fresh document titled “Nepal Trade Integration Strategy (NTIS) 2010”, which was released in June 2010. The NTIS has identified 19 sectors, comprising seven agricultural products, five industrial products and seven services sectors, as having export potential (MoCS, 2010). There is now a discernible and concerted move towards focusing on export expansion of these products.

Nepal also received funding through Window 2 of the IF, the objective of which was to strengthen the government’s capacity to implement its WTO commitments as well as its capacity to coordinate the design of trade priorities and negotiating objectives among stakeholders and policymakers (ENTReC, 2010). After the IF was upgraded to the EIF, Nepal prepared a proposal for EIF Tier I funding.⁴ The EIF Board approved a project proposal titled “Nepal Enhanced Capacity for Trade and Development (NECTRADE)”, reportedly with a budget of USD 1.5 million (of which commitment has been received for USD 900,000), in March 2010. The project is being implemented by the Ministry of Commerce and Supplies (MoCS) to facilitate EIF activities in Nepal, including strengthening the National Implementation Arrangements⁵ created as part of the EIF to enhance Nepal’s ownership of TRTA and maximize the benefits that the country can derive from participation in the multilateral trading system.⁶

Similarly, Nepal is the only LDC from South Asia to have received support from the Standards and Trade Development Facility. Of the 46 projects which have been approved so far under the STDF and listed in the STDF secretariat’s website, Nepal received one worth USD 347,900.⁷ The project, which is supported by the Food and Agriculture Organization (FAO), is aimed at developing and implementing a training programme for government officials to effectively implement SPS measures and related trade obligations. Implemented between April 2008 and July 2010, the project addressed CB priorities identified in the DTIS for Nepal (STDF, 2010). Practical training sessions were delivered in the country for selected mid-level and junior officers responsible for monitoring and enforcing SPS measures based on a training-of-trainers approach. Selected staff also attended more specialized overseas training (ibid.).

Besides, Nepal has either received or is in the process of receiving what is now categorized as AfT from various bilateral donors such as the UK Department for International Development (DfID), the European Commission (EC) and German International Assistance (GIZ), as well as multilateral donors such as the World Bank, Asian Development Bank (ADB) and UNDP, among others (ENTReC, 2010). Table 1 provides an indicative list of programmes/projects which have some or all components devoted to trade issues and are either being implemented or about to be implemented.

Table 1: An indicative list of existing and potential trade-related projects in Nepal

Project	Focus on trade	Donor/ implementing agencies	Total project amount	Time frame
Nepal Economy, Agriculture and Trade (NEAT)	Partial	USAID/ Chemonics	USD 30 million	03/2011-09/2013
Centre for Inclusive Growth	Partial	DfID/Adam Smith Institute	To be confirmed	To be confirmed
Enhanced Integrated Framework, Tier I	Full	EIF secretariat/ MoCS	USD 900,000	01/2011-01/2014
WTO Support Programme	Full	GIZ	EUR 900,000	01/2011-03/2012
Inclusive Development of the Economy Programme (INCLUDE)	Partial	GIZ	EUR 6.5 million	07/2008-12/2011

Table 1: *Continued*

Project	Focus on trade	Donor/ implementing agencies	Total project amount	Time frame
EC-Nepal WTO Assistance Programme	Full	EU/UNIDO/ UNESCAP	EUR 2.197 million	2008-11
Enhancement of sustainable production of Lokta paper	Full	EU	EUR 1.4 million	01/2009-12/2012
Customs Reform Support Programme	Full	ADB	USD 2.5 million	To be confirmed
Customs Reform Support Programme	Full	KOICA	USD 5 million	To be confirmed
Nepal Business Forum	Partial	DfID/IFC	To be confirmed	To be confirmed

Source: Authors' compilation based on MoCS, AfT donor databases and discussion with officials.

This is certainly not an exhaustive list because several other projects, particularly those related to economic infrastructure, promoting value addition in some sectors etc., are not included here. The reason for not including them is that most donors deal directly with the Ministry of Finance while providing support to those categories of project, and MoCS is not kept in the loop, which, in turn, is oblivious of where the AfT resources claimed to have been provided to Nepal are actually going (Awasthi, 2011). In a bid to develop and maintain its own database, MoCS has been repeatedly writing to donors to provide project details. While some donors do oblige, a vast majority of them do not. Now that the MoCS considers NTIS 2010 as the basis for obtaining donor support as well as the framework for coordinating disparate donor activities, the list is likely to be updated regularly.⁸

2.4 Conclusion

This chapter views TRTA/CB from a global public good optic, not least because effective and meaningful integration of LDCs into the multilateral trading system would significantly enhance the contribution that the WTO could make to promote an open, non-discriminatory and fair trading system. These initiatives have been instrumental, among others, in enhancing the understanding of a range of stakeholders on the role trade could play in fostering

economic growth and development, promoting dialogue between and among various actors on trade policy issues, enhancing the negotiating capacity of developing countries, promoting a training culture and addressing standards-related trade barriers.

However, these initiatives have not contributed significantly to the achievement of the objectives for which they were originally designed. This is because of unsystematic or incomplete needs assessment by donors, weak project management and project governance structures, fragmented donor interventions with insufficient synergies to broader development assistance programmes, a weak explicit linkage to poverty reduction, insufficient donor coordination and complementarity between the headquarters and field levels, and inadequate internal communication and donor expertise on trade-related matters.

In the context of Nepal, which is incidentally the only country in South Asia to have participated in virtually all the initiatives listed above (except for the JITAP, which is not applicable to Asian countries and the TFF, which is a new initiative), TRTA/CB programmes have been quite useful in the software department. The support provided for accession to the WTO, for complying with commitments made at the WTO, including drafting of legislation and regulations, and the two needs assessments studies (DTIS and NTIS) have all made positive

contributions. However, two major missing links that have plagued the TRTA/CB delivery in Nepal are worth highlighting. First, in line with the situation globally, TRTA/CB initiatives have made only a limited contribution, if any, to alleviating the problem of supply-

side constraints facing the country, even in those areas in which the initiatives could have made a considerable dent. Second, except for the select initiatives mentioned above, other TRTA/CB projects have not shown any discernible impact on the ground.

3. AFT INITIATIVE: SOME PRELIMINARY OBSERVATIONS

3.1 Background

The reason we separate the assessment of the AfT initiative from that of the other initiatives discussed above is that we feel AfT is qualitatively different from other initiatives. AfT is considered a unique initiative in the sense that it is presumed to be well-funded and meant to tackle the major constraints (i.e. supply side and competitiveness) facing poor countries in their efforts to integrate themselves into the multilateral trading system (Adhikari, 2011b). The AfT Task Force, which submitted its report to the WTO Director General in July 2006, recommended the following classifications of AfT:

- Trade-related infrastructure (e.g. road, telecommunication, electricity);
- Building productive capacity (e.g. enhancing productivity of agriculture, industry, fishery sectors);
- Trade development (e.g. investment promotion, trade promotion, business services);
- Trade-related adjustment (e.g. retraining of workers, compensation for retrenched workers);
- Trade policy and regulations (e.g. training of officials and stakeholders, help in designing policies and compliance with trade rules);
- Other areas (e.g. other needs of the recipient countries that are not included above).⁹

Based on the data maintained by the OECD's CRS database, AfT commitments have been growing in the period after the launch of the AfT initiative. Adhikari (2011b) points out that most of the AfT-related publications by the OECD and WTO, including the Aid for Trade at a Glance reports, claim that AfT has been

effective in many instances, if not all (see OECD and WTO 2007, 2009 and 2010a).

Likewise, the "Aid for Trade at a Glance 2011: Showing Results" report, released during the Third Global Review of AfT, paints a "positive and vibrant picture of AfT in action" and finds that "a great majority" of the programmes and projects in the case stories reported successes (OECD and WTO, 2011a: 15, 17). Notwithstanding the limitations of the case story approach discussed earlier, the case stories - which are analysed in greater detail in region-specific reports (e.g. WTO *et al.*, 2011) - do provide a snapshot of what is working, what problems are encountered and what lessons can be learned.

According to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), in research using an augmented gravity model, on average across the Asia-Pacific region a USD 1 contribution of AfT results in approximately a USD 67 increase in total exports one year later (see WTO *et al.*, 2011: 22). However, the research cautions that this impressive average return is largely attributed to China, with AfT returns in developing or least developed countries varying widely and typically not exceeding USD 5 (*ibid.*).

3.2 Critique of the AfT Initiative

The positive findings of the contribution made by the AfT initiative should be juxtaposed with the common criticisms of the initiative to make an informed judgement as to its success or otherwise. Most of these criticisms relate to the way the initiative was designed and implemented. While some of them are found in the aid effectiveness literature in general, others are specific to the AfT initiative. Table 2, which is based on Adhikari (2011b), lists these criticisms and provides rationales and justifications for them as well as their implications.

Table 2: Common criticisms of AfT initiatives

Commons criticisms	Rationale/justifications/implications	Basis/sources of information
Broadness of definition	Blurs disction between normal ODA and AfT; raises the issue of real additionality.	Adhikari (2010); ICTSD (2009) Finger (2008); Laird (2007); Cali (2007).
AfT architecture	Provides enormous power to donors to pick and choose the recipients based on their own (mostly commercial and foreign policy) priorities; and leads to concentration of AfT in a few countries.	WTO (2010); Clark (2009); Cali (2007); Smaller (2006).
Debt-creating nature of funding	Debt increasing more rapidly than grants, and loans making up 50 per cent of AfT flows in 2008 raise the problem of debt-sustainability. Utter disregard for the requests of developing countries and LDCs that AfT should be “non-debt creating” in nature.	OECD (2010); Caliari (2008).
Lack of coordination	At donors’ level: duplication of programmes/ projects/resources; low marginal productivity of AfT.	Ministry of Finance (2010a).
	At partner countries’ level: lack of ownership of the programme/projects by stakeholders; difficult to implement agreed commitments and track resources; weakening of negotiating stance.	Awasthi (2011).
Demand-supply gap	AfT is not supplied according to the demands of the recipient, with needy and deserving countries not being able to get the share of the pie they should normally be entitled to.	Karingi and Fabbroni (2009).
Commitment-disbursement gap	Despite considerably high commitment, low level of disbursement...	
	...due to procedural issues such as delayed reimbursement, different fiscal years, different systems of accounting.	OECD and WTO (2009).
	...due to lack of absorptive capacity.	Rajan and Subramanian (2010).
Top-down, Geneva- and Paris-centred monitoring and evaluation process and analysis at the aggregate level	Overestimates the success of the AfT initiative; country-specific information is not available, making it difficult for the stakeholders to find how the initiative is working on the ground and make informed interventions at the national as well as global levels.	UNECA (2010); OECD (2010); Hoekman (2008).

Source: Based on Adhikari (2011b).

Most of the above criticisms relate to the way the AfT initiative is designed and implemented, and the role of donors in shaping and influencing the agenda. 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 TRTA (WTO, 2006: 3). Moreover, there is a perceptible lack of capacity among government officials to conduct needs assessments and prepare proposals, which was revealed during interviews with some government officials and other stakeholders, the details of which can also be found in Adhikari (2011b). Therefore, it would be churlish to put the entire blame on the donors for not supplying AfT as per demands from the partner country or for supporting largely their own (donor-driven) initiatives.

However, it is equally important to note, as discussed by Adhikari (2011b), that there is a discernible North-South divide on the issue of AfT - reminiscent of several other development-related discourses. On the one hand, donors (bilateral as well as multilateral), for example, claim that AfT has been effective and they are not ready to open the discussion on the AfT architecture and definition, both of which could reduce their power to pick and choose their recipients and use AfT as a tool for achieving their commercial and foreign policy objectives. On the other hand, partner countries are suggesting, *inter alia*, that those countries that deserve the most are not receiving the required volume of AfT and that due to

definitional problems it is difficult to track the resources at the national level. However, they are not making any effort to conduct their needs assessment, prepare bankable projects and approach the donors for funding, and not making significant effort to coordinate AfT at the national level.

3.3 Nepal's Participation in the AfT Initiative

The AfT commitments for Nepal have been increasing of late, based on the data available for the period beginning 1995. However, the data for disbursement are available only since 2002. Therefore, much of this study, except for the regression analysis (discussed below), analyses the data for the eight-year period starting in 2002. In the context of Nepal, AfT commitments have been consistently increasing (Table 3). However, Nepal has not received any AfT commitments under trade-related adjustment, although the adjustment needs of the country are very high, particularly because of its ballooning trade deficit in the recent past due to the declining or miniscule growth of exports coupled with swelling of imports, particularly those of food stuffs (see, for example, Sapkota 2010). Nepal's garment exports suffered severely in the aftermath of the phase out of the WTO Agreement on Textiles and Clothing. Note that the adjustment to be provided to net food-importing developing countries due to trade liberalization is one of the justifications for the inclusion of a separate category called "trade-related adjustment" under AfT.

Table 3: Aid for Trade commitments to Nepal, 2002-09 (USD million, constant 2008 prices)

Sector/Year	2002	2003	2004	2005	2006	2007	2008	2009
Economic infrastructure	62.25	122.49	14.86	109.09	138.42	130.31	128.85	230.98
Transport & storage	14.36	4.63	5.32	63.91	73.60	46.60	77.88	134.43
Communications	0.46	2.91	0.79	0.89	0.55	2.77	2.08	0.73
Energy	47.43	114.95	8.75	44.29	64.27	80.94	48.88	95.82
Building productive capacity	59.07	75.81	164.98	85.50	79.13	137.94	67.25	66.74
Banking & financial services	23.56	32.72	92.29	0.45	1.47	0.96	2.47	11.46
Business & other services	0.54	11.75	4.42	3.49	0.75	3.52	11.11	1.66

Table 3: *Continued*

Sector/Year	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture	32.93	23.68	47.29	79.27	75.14	129.63	34.06	28.86
Forestry	0.56	4.48	15.73	0.63	0.08	1.65	18.23	12.64
Fishing	-	-	0.03	0.01	0.30	0.21	0.17	0.05
Industry	1.02	1.94	4.51	0.42	1.01	1.50	0.95	11.92
Mineral resources & mining	-	-	-	-	-	-	-	-
Tourism	0.46	1.24	0.72	1.24	0.38	0.47	0.25	0.15
Trade policies & regulations	0.05	0.06	0.16	0.06	3.07	0.10	1.13	2.15
Trade-related adjustment	-	-	-	-	-	-	-	-
Total AfT	121.37	198.36	180.00	194.65	220.62	268.35	197.23	299.86

Source: OECD CRS.

AfT commitments have been increasing at the global level in the post-Hong Kong Ministerial period. In fact, a comparison of the average growth in AfT between the base period (2002-05) and the post-Hong Kong Ministerial period (2006-09) shows that overall AfT commitments at the global level have increased by 36 per cent. While Nepal has seen its overall AfT commitments increase by 42 per cent in the post-Hong Kong Ministerial period compared to the base period, individual AfT categories vary. For instance, there has been 104 per cent growth in the economic infrastructure category between

the two periods, but the building productive capacity category has actually decreased by 9 per cent. Starting from a low base, the trade policies and regulations category has, however, witnessed a growth of more than 19 times during the corresponding period (Table 4).

However, the disbursement of AfT has not kept pace with the commitments shown above. The variations between commitments and disbursements will be discussed at length as part of the empirical study in Section 4.

Table 4: Global AfT commitments vis-à-vis Nepal, 2002-05 and 2006-09 (USD million, constant 2008 prices)

Sector/Time period	Global (average)			Nepal (average)		
	2002-05	2006-09	Growth (%)	2002-05	2006-09	Growth (%)
Economic infrastructure	12,993.08	18,011.74	39	77.17	157.14	104%
Building productive capacity	11,337.75	15,124.37	33	96.34	87.77	-9%
Trade policies & regulations (incl. trade-related adjustment)	843.03	1,201.78	43	0.08	1.61	1913%
Total AfT	25,173.86	34,343.64	36	173.6	246.52	42%

Source: Authors' calculations based on the OECD CRS database.

3.4 Conclusion

According to OECD and WTO (2009; 2010; 2011a; 2011b), the AfT initiative has achieved remarkable progress in a short time, has been successful on a number of counts and is starting to show results in LDCs. They further credit the AfT initiative with the increased prioritizing of trade in partner countries' development strategies and their clarifying their needs by developing operational plans. At the same time, donors, for their part, are said to be improving AfT delivery and scaling up resources, because of the AfT initiative.

However, such a conclusion ignores the common criticisms of the AfT initiative: its broadness of definition; the AfT architecture giving unwarranted power to donors; the debt-creating

nature of funding; a lack of coordination; the demand-supply gap; the commitment-disbursement gap; and top-down, Geneva- and Paris-centred monitoring and evaluation processes and analysis at the aggregate level. A discernible trend towards a North-South divide reminiscent of other development discourses is visible within the area of AfT as well.

In the context of Nepal, AfT has been growing in the post-Hong Kong period, but there is little discernible impact, if any, on the ground. The chapter advances several plausible reasons for that. The most prominent ones are similar to those highlighted in the global context. Problems also exist at the recipient country level - for example, insufficient trade mainstreaming, lack of consultation and limited absorptive capacity.

4. EMPIRICAL STUDY ON THE EFFECTIVENESS OF AID FOR TRADE

4.1 Introduction

We evaluate the effectiveness of AfT through four principal empirical techniques. First, wherever data are available, either from OECD CRS sources or from national sources, we have analysed these based on the methodology developed for the purpose of this study. Second, for the “impact” analysis, we have made use of data available from various national and international sources to conduct a regression analysis in order to gauge the impact of AfT on Nepal’s exports at the macro level. Third, the impact evaluation is also supplemented by a case study of a real TRTA/AfT project, for which a focus group discussion was conducted as the principal mode of evaluation.¹⁰ Finally, the only mode of investigation that cuts across all the variables we are trying to test is the face-to-face interviews with 50 individuals representing a cross section of stakeholders, carried out using semi-structured questionnaires.

The interviewees were chosen because of the “epistemic privilege” they enjoy and the technique of interviewing them approximates what political scientists and international relation scholars call “elite interviews” (see, for example, Burnham *et al.* 2004). However, we have made certain modifications to the

traditional approach so as to obtain both quantitative and qualitative insights, both of which are important for the purpose of our study. We approached the interviews by posing some general questions followed by more specific ones. Despite taking these precautions, there were several occasions during which we had to prompt the interviewees by explaining the questions before they could actually respond. Even after doing so, we have not been able to completely overcome the “no response” barrier. The sections below combine results from secondary data analysis and information obtained from interviews.

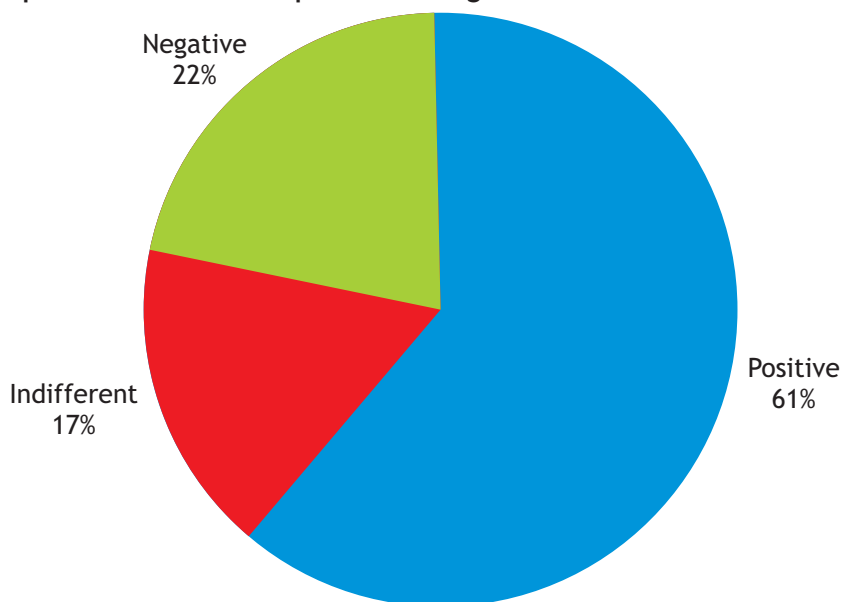
4.2 General Perception

This section presents stakeholders’ attitudes towards development aid and AfT.

4.2.1 Attitude towards development aid

All respondents except donors were asked about their attitude towards development aid in general. Some 61 per cent of them said they had a positive attitude towards development aid (Figure 1). However those who said they had a positive attitude towards development aid or were indifferent towards it were also not satisfied with the present level of aid effectiveness.

Figure 1: Perception towards development aid in general



Source: Survey, 2011.

The major problems identified were:

- Aid is creating a clique of rent-seekers and causing a dependency syndrome;
- There is a lack of accountability, not only of bilateral and multilateral donors but also of I/NGOs;
- There is a lack of transparency in the distribution of funds by donor agencies and the utilization of aid by NGOs;
- Aid is not demand-driven and not going to the target group;
- There is too much focus on the quantity of aid, with little attention to the quality aspect;
- There is a high share of “software”, including technical assistance, in aid, while “hardware” assistance is what is most needed;
- There is little private sector participation in the ODA process;
- National development agencies and NGOs have not been able to explore the potential for mobilizing domestic resources, e.g. from the corporate sector.

4.2.2 Will AfT be different?

Respondents were then asked whether AfT was likely to be different from previous versions of

TRTA/CB initiatives. While it was acknowledged that, conceptually, AfT is different and indeed needed, most of the stakeholders interviewed did not find it likely that AfT would be different at the substantive level from development aid and previous versions of TRTA/CB initiatives, given the experience so far. Some of them view it as “old wine in a new bottle”. An interesting view as to why AfT may not be different was that while the donor community makes commitments related to AfT at the global level, their staff in country offices are not sensitized to the concept of AfT and global commitments related to it. Most respondents were of the view that AfT can only work if it is directed at building supply-side capacity and trade-related infrastructure that is needed to expand trade.

4.3 Additionality

As described in the methodology (see Annex I), there is additionality if four conditions are fulfilled. Here, we subject commitment and disbursement data extracted from the OECD CRS database to the criteria determining additionality, and also attempt to cross check the results using available data from national sources. Survey results on the issue of additionality are presented separately.

The relevant data and calculations (using OECD CRS data) for testing additionality are presented in Table 5.

Table 5: Testing additionality

	2002-05 (average, USD million, constant 2008 prices)	2006-09 (average, USD million, constant 2008 prices)	Growth (%) (Col 3 over Col 2)
Average AfT commitment	173.60	246.52	42.01
Average AfT disbursement	169.38	144.47	-14.71
Average non-AfT ODA commitment	435.40	719.41	65.23
Average non-AfT ODA disbursement	444.97	706.99	58.88

Table 5: *Continued*

	Average annual growth (base period)	Average annual growth (recent period)	Average annual growth (2002-09)
Non-AfT ODA commitment (Nepal)	2.26	42.92	
Non-AfT ODA commitment (global)			8.00
Non-AfT ODA disbursement (Nepal)	3.15	16.78	
Non-AfT ODA disbursement (global)			10.76

Source: Calculations based on the OECD CRS database.

4.3.1 Commitment (based on the OECD CRS database)

Condition 1 is fulfilled, as average AfT has increased from USD 173.6 million in 2002-05 to USD 246.52 million in 2006-09, an increase of 42 per cent.

Condition 2 is fulfilled as average non-AfT ODA has increased from USD 435.40 million to USD 719.41, an increase of 65 per cent.

Condition 3 is fulfilled as non-AfT ODA grew by 42.9 per cent in the recent period, a higher rate than the 2.7 per cent growth in the base period.

Condition 4 is fulfilled as non-AfT ODA grew by 42.9 per cent in the recent period, a higher rate than the 8 per cent growth of global non-AfT ODA commitment in the period 2002-09.

As all four conditions are fulfilled, there has been additionality in commitments.

4.3.2 Disbursement (based on the OECD CRS database)

Condition 1 is not fulfilled, as average AfT decreased from USD 169.38 million to USD 144.47 million, a decrease of 14.7 per cent.

As AfT disbursement has *decreased*, the other criteria become redundant. Nevertheless, with respect to condition 2, we find that non-AfT ODA disbursement increased by almost 59 per cent; with respect to condition 3, the growth rate of non-AfT ODA disbursement was

16.8 per cent in the recent period, a higher rate than the 3.2 per cent in the base period; and with respect to condition 4, the growth of non-AfT ODA disbursement in Nepal during 2006-09, at 16.8 per cent, is higher than the growth of 10.8 per cent in global non-AfT ODA disbursement for the period 2002-09.

Thus, there is no additionality in AfT disbursement.

Therefore, the final verdict based on the OECD CRS data is that there has been *additionality in commitment* but no *additionality in disbursement*.

4.3.3 Analysis using data from national sources

The yearly Source Book published by the Ministry of Finance details sources of financing of programmes and projects that are to be funded, wholly or in part, by foreign aid in the government's budget for a particular fiscal year. From this book, we extracted data for programmes and projects that represent AfT sectors, following as far as possible the OECD's classification of AfT. At the broad level, the Source Book categorizes funding sources as GoN, foreign grants or foreign loans. The donor agencies expected to provide funding are also specified for each programme/project. Just as the expenditures are projected expenditures, so too are the sources of funding. The foreign aid figures in the Source Book are, therefore, commitments for a particular year. These commitments are for budget/programme

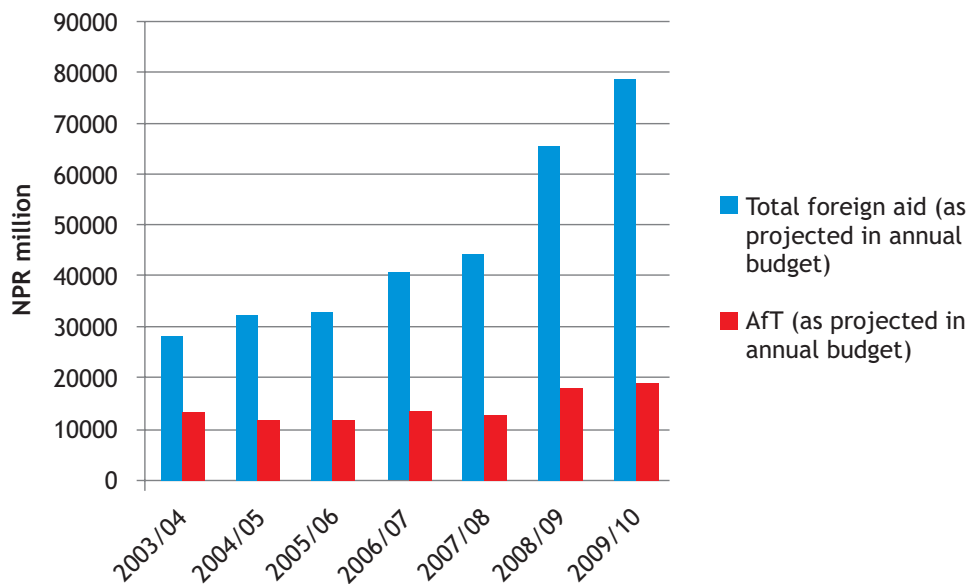
support as they pertain to programmes/projects specified in the annual budget.

The sources of funding of realized/actual expenditures at the programme/project level are not readily publicly available. In terms of using national data, we are therefore confined to using projected financing of projected expenditures. While we do not have readily available data from national sources on AfT disbursement, the available data on projected expenditures for AfT programmes/projects and their financing by sources as reflected in the government's annual budget do yield some valuable information, in terms of the government's and donors' priorities in the AfT sector, the importance of aid in AfT programmes/projects and the relative share of grants and loans in AfT. Data are available for seven years, from 2003/04 to 2009/10. Here, the two-year period 2003/04-2004/05 is taken as the base period, and the five-year period

2005/06-2009/10 as the current period. Where applicable, analysis is conducted in terms of averages for the two periods, to account for the difference in the number of years in the two periods.

Compared to the base period, average AfT commitments have increased by 20 per cent, from NPR 12.8 billion to NPR 15.4 billion (Figure 2), while average non-AfT ODA commitments increased by a much higher 113 per cent. The first two conditions of additionality are fulfilled (as both AfT commitments and non-AfT commitments have increased), suggesting additionality, but due to data constraints it is not appropriate to test the two other conditions with national data. However, AfT commitments as a share of total ODA commitments as projected in the annual budget have been on a continuous decline, from 49 per cent in 2003/04 to 25 per cent in 2009/10.

Figure 2: Total aid vs. AfT (as projected in annual budget)



Source: GoN's Source Book, various issues.

4.3.4 Survey results

The above results on additionality are based on secondary data on AfT, under the broad definition employed by the OECD and WTO. The stakeholder survey gives a rather different picture, mainly because most stakeholders are not satisfied with the broad definition. Only 24 per cent of the stakeholders interviewed

said that Nepal has received a higher amount of AfT since 2005.

In general, the main argument of those with a negative response and those who could not give an answer is that there is no clear-cut demarcation between what constitutes AfT and what does not. There has not been a significant inflow of aid as dedicated AfT. Most

of the AfT shown by OECD data is considered to be a mere repackaging/reallocation of traditional ODA. Most interviews viewed that there has been a limited amount received under the AfT package, and the hardware component is even more limited. While AfT has received the attention of donors at the global level, there is a lack of knowledge/awareness of AfT among the staff in country offices of donor agencies. The word “trade” is used for name’s sake in programmes and projects even if the contribution to trade is limited at best. Such projects pursue other objectives like poverty alleviation, peacebuilding and the empowerment of women. While multilateral agencies were prominent in doing this, now bilateral aid agencies are following suit. For example, the recently launched Nepal Economy, Agriculture and Trade (NEAT) project, funded by the United States Agency for International Development (USAID), has a limited trade component, though it represents an effort on the part of USAID to include explicit trade-related components in its projects. A lack of substantial contributions to trade means that the programmes and projects in question can never achieve the required economies of scale and help achieve export expansion through the enhancement of competitiveness.

There is also the view that unless and until AfT is over and above the commitment by developed countries to increase their ODA to 0.7 per cent of their gross national income, AfT cannot be considered to be additional. Given the broadness of the definition of AfT, there are suggestions that, after the launch of NTIS 2010 - which identifies 19 goods and services as priority areas for export promotion and expansion, and charts a possible course of action for the development of the country’s export sector over the next three to five years - aid received for the implementation of NTIS be considered AfT proper.

There have been increased AfT commitments in the area of customs which are unambiguously aid for trade. After the ADB supported the Automated Systems for Customs Data (ASYCUDA) project from 2007-10 in the Customs Department,

donors’ interest has significantly increased in this area over the last year. ADB, USAID and South Korea have all made commitments to this sector. World Bank assistance is in the pipeline; the International Finance Corporation (IFC) is also showing interest.

The private sector too has not received any dedicated AfT in significant amounts. Whatever aid it has received is largely in the area of technical assistance and capacity building. The Agro Enterprise Centre (AEC) under the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), the apex private sector association, appears to have received the largest amount of ODA in the private sector - a total of USD 3 million between 2006 and 2011 - but the aid is not dedicated AfT. Separately, FNCCI has signed a USD 600,000 grant agreement with the ADB for the development of the agricultural sector in the western region of Nepal (the project entails product identification, market channelization, developing market linkages and capacity building) but here too, the main objective is not trade-related (for example, enhancing export capacity or competitiveness). The private sector is of the opinion that donors do not understand the needs of the private sector and are against a cost-sharing approach, which the private sector prefers. Some donors are accused of imposing their standards on the private sector and preferring to help establish a private sector associations’ office in Kathmandu rather than enhancing supply capacity at the grassroots. Some private sector representatives feel that donors prefer to work with small service providers, bypassing private sector umbrella groups (e.g. FNCCI), because it is easier for donors to push their own agenda with small service providers.

A crucial element of additionality is whether AfT has come at the cost of regular aid to other sectors such as health and education. The survey does not give a clear picture. Most stakeholders (89 per cent) are either unable to provide an answer on this or do not think that whatever AfT Nepal has received has come at the cost of aid to other sectors. This could be because dedicated AfT has not been

substantial and the disbursement of AfT has decreased in the post-Hong Kong period.

Stakeholders were asked whether AfT has come into areas prioritized by the GoN; 41 per cent thought it had, 17 per cent did not think so and 42 per cent were unable to answer the question. The high percentage of respondents failing to provide a concrete answer is because many of them do not think that there has been an increase in dedicated AfT. It is to be noted that, as a GoN official pointed out, because the GoN's plan document is so broad with so many priorities, virtually any aid falls under a government priority.

Donor perception of the government's ability to prioritize varies. While according to GIZ - currently the donor facilitator for the EIF in Nepal - the governments of Germany and Nepal (Ministry of Finance) jointly decide priority areas, the World Bank finds that the GoN does not know its priorities and is of the view that it should first implement general economic reforms to be able to promote the exports of goods and services identified in NTIS 2010.

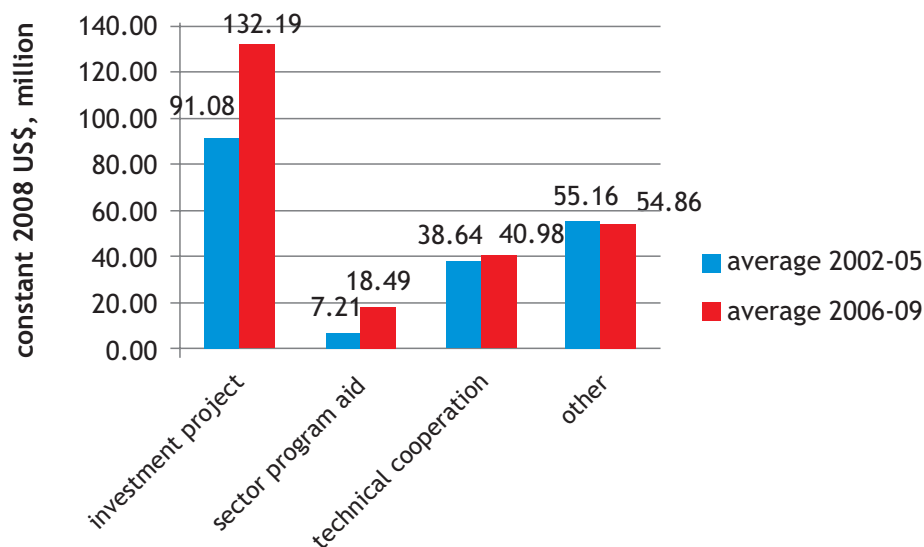
4.4 Nature of AfT

This section discusses the nature of AfT commitments and disbursements received by Nepal in terms of composition (hardware vs. software) and tied elements. The OECD's AfT database (which is part of the CRS database) is the source of the secondary data, which are combined with information from the interviewed stakeholders.

The OECD's AfT database classifies AfT data under the headings of investment projects, sector programme aid, technical cooperation and other.¹¹ The totals of these categories do not add up to the aggregate AfT figure in all cases, however. The total of average commitments in these categories for 2002-05 is 10.6 per cent higher than the aggregate average AfT figure, while there is no discrepancy for the period 2006-09. Likewise, the discrepancy is 11 per cent of disbursement for 2002-05 and 1.2 per cent for 2006-09. This points to the possibility of overlap between the categories.

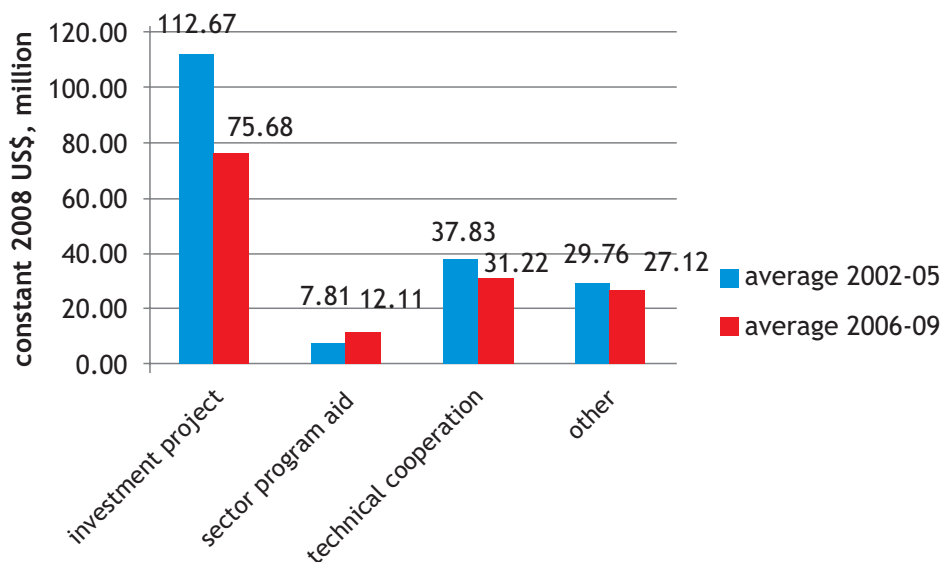
Nonetheless, it is noteworthy that while AfT commitments for investment projects increased substantially, by 45 per cent, disbursement of the same decreased by 32.8 per cent (Figures 3 and 4). On the other hand, both commitments and disbursements of sector programme aid increased substantially (156 per cent and 55 per cent respectively). However, the share of the "other" category remains higher than that of sector programme aid, in both commitments (22 per cent share in 2006-09) and disbursement (18.5 per cent). In terms of utilization (defined as the ratio of disbursements to commitments), it is notable that technical cooperation has the highest utilization rate (76.4 per cent in 2006-09). The most plausible explanation for this is the ease with which technical assistance can be utilized because this mainly entails fielding consultants, mostly from donors' own countries (*à la* Easterly, 2006) and making payments to them.

Figure 3: AfT commitments by type



Source: OECD CRS.

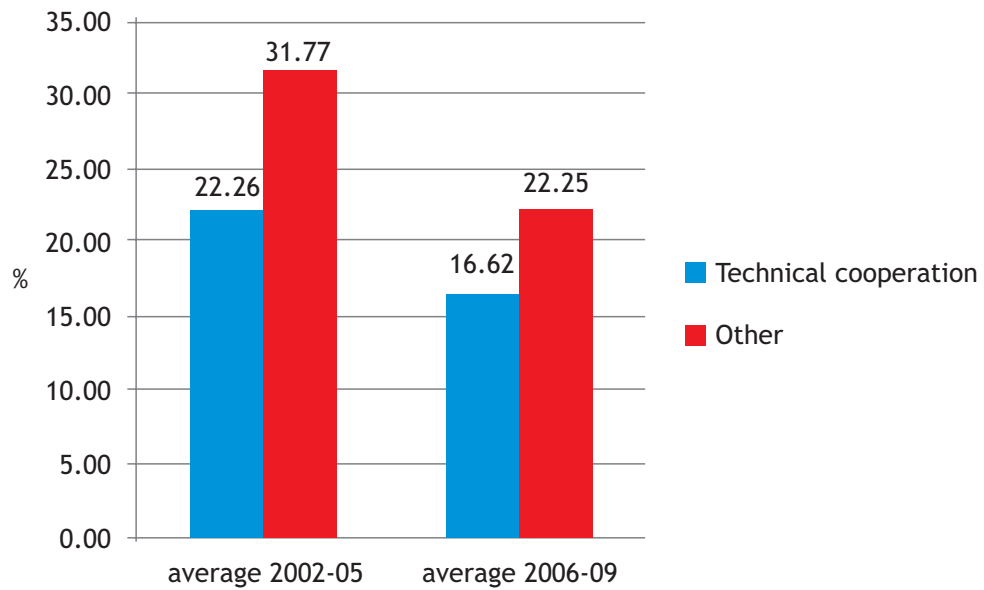
Figure 4: AfT disbursements by type



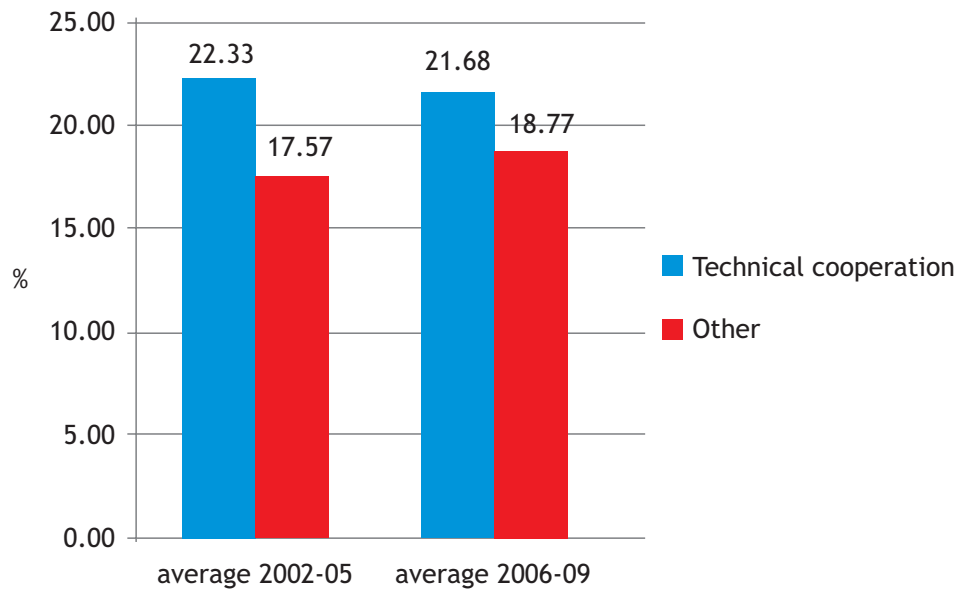
Source: OECD CRS.

The total technical cooperation aid may be higher than what is recorded in the OECD's AfT database because assistance of this kind provided specifically to facilitate the implementation of capital projects is not identified as technical cooperation in statistics of aggregate flows.¹² Thus, noting that the technical cooperation figures may be in the lower bound, we calculate the *minimum* share of technical cooperation in aggregate AfT commitments and disbursements (Figure 5). We also calculate the share of the "other" category for comparative purposes. On average, during 2006-09, technical cooperation accounted for 16.6 per cent of AfT commitments and the

"other" category accounted for 22 per cent. Both these figures are lower than the average for 2002-05. However, the share of technical cooperation in global AfT commitments to all developing countries during 2006-09 was lower than that in Nepal, at 10.3 per cent. On the other hand, during 2006-09, the shares of technical cooperation and "other" in disbursement averaged 21.7 per cent and 18.8 per cent respectively (Figure 6). These shares are not markedly different from those for 2002-05. However, the share of technical cooperation in global AfT disbursements to all developing countries during 2006-09 was lower than that in Nepal, at 13.2 per cent.

Figure 5: Share of technical cooperation in AfT commitments

Source: Calculations based on the OECD CRS database.

Figure 6: Share of technical cooperation in AfT disbursements

Source: Calculations based on the OECD CRS database.

As secondary data are not readily available or, where available, are not adequate to provide a clear picture of the nature of AfT received by Nepal - hardware vs. software; programme/budget support or otherwise; the extent of technical assistance; to what extent the aid is tied - stakeholders' views on these aspects were also obtained. The shares of hardware and software AfT could not be quantified from the survey. However, responses indicate that except roads and aviation, where hardware dominates, other AfT is mostly software in nature, despite the critical need for hardware support. During aid negotiations, the MoCS starts with the position that technical assistance should not constitute more than 30 per cent of aid.

According to stakeholders' responses, the mode of support has been both in the form of programme/budget and otherwise, though the shares could not be quantified. Dedicated AfT (as opposed to the broad definition of AfT) has been mostly in the form of software (technical assistance, including training, capacity building and studies). Bilateral AfT is mostly in the form of technical assistance. Multilateral donors tend to provide more support for hardware (e.g. infrastructure) compared to bilateral donors. Tied aid is particularly a problem with bilateral aid, including technical assistance. Bilateral aid tends to be tied to the requirement of having to procure resources (from equipment to human resources) from the donors. When UN agencies approach bilateral donors for funding, they too find aid to be tied at times. Aid received by the private sector is also tied, e.g. compulsion to use foreign consultants, with consultancy fees taking up 25-30 per cent of aid, according to a private sector interviewee; or compulsion to carry out marketing activities only in the donor country. Multilateral AfT is now more directed towards infrastructure than in the past. Overall, multilateral donors seem to be more "honest" on AfT delivery than bilateral donors, according to a GoN official.

Some technical assistance is paid directly by donors, outside government mechanisms, and

hence does not get recorded in the government's Red Book (which details expenditures and their sources). Such donors include both bilateral (e.g. the US) and multilateral (e.g. the EU, ADB and UNDP). One such example is the EC-Nepal WTO Assistance Programme. Aimed at supporting Nepal's compliance with the WTO's agreements on technical barriers to trade (TBT) and SPS measures, it has components of technical assistance as well as hardware support. But consulting services make up about 27 per cent of the total aid of EUR 2.2 million.¹³ Most consultants are from abroad, even when local consultants are available.

Experts and policymakers point out that the tendency of consultancy fees to command a high share of aid has not waned. For example, the cost of using "international experts" was nearly 30 per cent (higher than the allocation for equipment) of the aid budget for the ADB-funded project "Promotion of the trade and transport sectors of Nepal through the introduction of Multimodal Transport, Trade Facilitation, Customs Reform and Modernization, ASYCUDA and ACIS".¹⁴ The grant assistance provided by the German government through the German state-owned bank KfW for the execution of the Mid-Marsyangdi Hydropower Project, which started power generation in April 2009, nearly five years after it was originally expected to be completed with substantial cost overruns, came with several conditionalities, including the appointment of German or European consultancy firms and the purchase of German or European machines and equipment.¹⁵ A German firm was appointed for management consultancy for the second stage of the project under KfW pressure even though its performance in the first stage had not been satisfactory.¹⁶ Such "recycling" of donor resources has not abated, according to stakeholders.

Besides other malaises associated with tied aid, which are well documented (see, for example, Easterly 2006; Easterly and Pfitze, 2008), it has serious implications for project sustainability. When equipment has to be sourced from a particular donor, the replacement of parts

and components could become extremely difficult after the foreign assistance has been terminated. For example, in a Japan-funded water supply project in Bhulke, Palpa district (west Nepal), replacement parts for the water pumps have to be ordered from Japan, which entails not only high costs but also the need for foreign exchange.

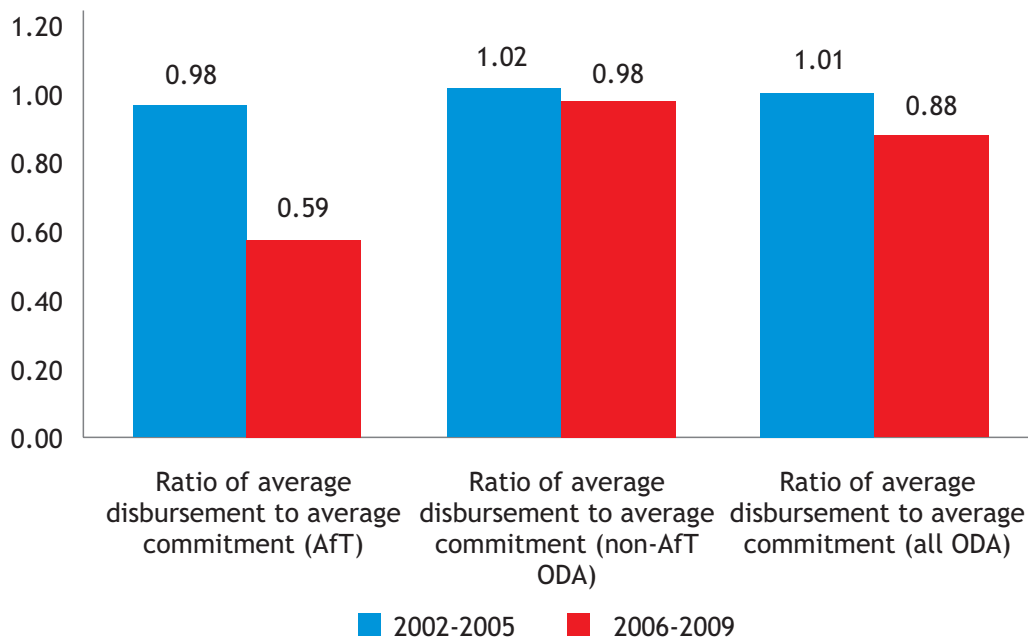
Given the relative success of aid channelled under the sector-wide approach (SWAp), where donors contribute to a basket fund (e.g. in health and education), policymakers, experts and civil society recommend that a SWAp be followed in AfT too. The problem of unwarranted conditionalities is largely obviated under a SWAp. It can potentially contribute to overall aid effectiveness and also address the definitional issue, as the recipient will have to agree that any particular aid project/programme under the dedicated fund is indeed AfT.

4.5 Predictability

This section discusses predictability in AfT in terms of the variation between commitments and disbursement, using the OECD's CRS database as well as drawing on the perceptions/experiences of stakeholders.

The average rate of variation between commitments and disbursement (ratio of average disbursement to commitments) of AfT has declined in the post-Hong Kong period (2006-09) compared to the base period (2002-05), from 98 per cent to 59 per cent (Figure 7). This is in contrast to the average variation of non-AfT ODA only slightly worsening, from 102 per cent to 98 per cent. Overall ODA variation worsened from 101 per cent to 88 per cent. Thus, not only has the utilization rate of AfT declined sharply, but the difference in utilization rates of AfT and non-AfT ODA has also widened between the two periods under consideration.

Figure 7: Variation between disbursement and commitment



Source: Calculations based on the OECD CRS database.

Table 6 shows that the ratio of disbursement to commitments has fallen in all three categories of AfT. While trade policies and regulations have recorded the sharpest decline in the ratio (86 per cent), it should be noted that there was a very high growth in commitments in this area on a very small base. Aid for trade policies and

regulations fall more in the realm of technical cooperation. Of serious concern is the 50 per cent decline in the ratio in the category of economic infrastructure, despite the category registering a 104 per cent increase in commitments, and also the 35 per cent decline in the ratio in the category of building productive capacity.

Table 6: Variation between disbursement and commitment by three AfT categories

	% commitment growth in two periods	% disbursement growth in two periods	Ratio of disbursement to commitments (2002-05)	Ratio of disbursement to commitments (2006-09)	% change in ratio of disbursement to commitments
Economic infrastructure	104	2.72	1.31	0.66	-50
Building productive capacity	-9	-41.17	0.70	0.45	-35
Trade policies & regulations	1913	166.63	1.89	0.26	-86
All	42	-14.71	0.98	0.59	-40

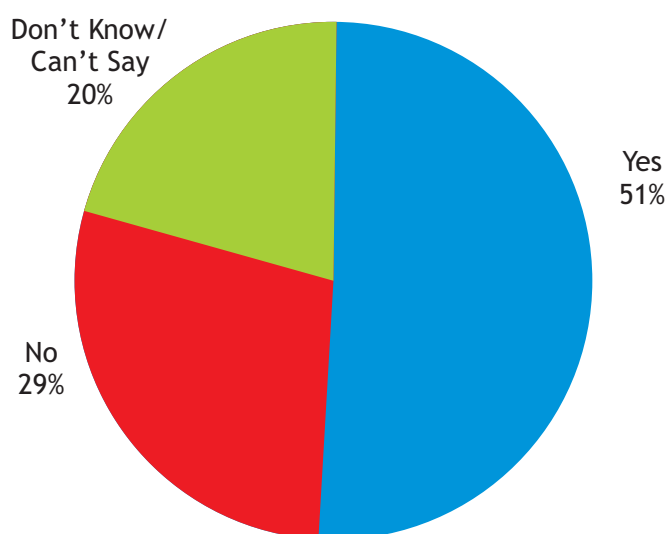
Source: Calculations based on the OECD CRS database.

Some 51 per cent of respondents said there has been variation between commitments and

disbursement (Figure 8).

Figure 8: Variation between commitment and disbursement

Has there been any variation between the commitment made by donors and actual disbursement that takes place?



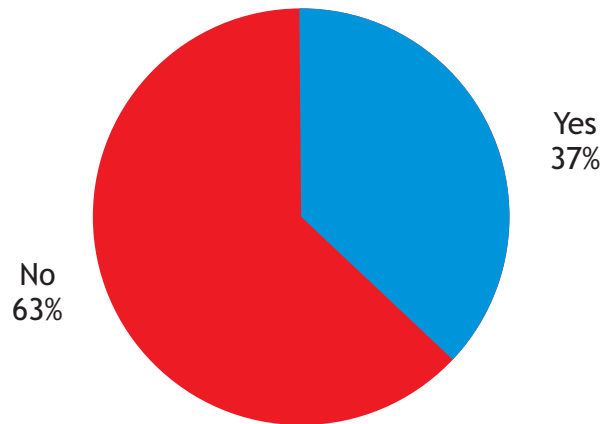
Source: Survey, 2011.

However, only 37 per cent of the relevant respondents said they have faced external resource constraints even after a commitment to

this effect is made by donors while implementing trade-related programmes and projects; the rest said they faced no such constraints (Figure 9).

Figure 9: External resource constraints

Have you encountered external resource constraints, even after a commitment to this effect is made by the donor(s), while implementing trade-related programmes/projects?



Source: Survey, 2011.

There are examples of a lack of predictability in funding. Even large NGO-implemented projects have suffered because of changes in the priorities of donor governments. For example, “a few years back one donor reduced the funding committed to our organization [Rural Reconstruction Nepal] by 50 per cent because resources had to be diverted towards financing Iraq war expenses”, remarked Dr. Arjun Karki. Likewise, UNDP backed out of the role of donor facilitator of the EIF, which can be considered an indication of UNDP’s lack of continued commitment to trade issues, although it did so only after several years of engagement in that capacity.¹⁷

Stakeholders were of the view that while the limited absorptive capacity of the government (to be discussed later) in implementation is a crucial reason for the gap between commitments and disbursement, donors are also seen to be using this as an excuse for not disbursing what they have committed. Under the EIF, pledges amounted to USD 180 million, transfers USD 100 million, and disbursement USD 20 million. Another factor behind low utilization is that procedural difficulties for obtaining reimbursement coupled with political economy and bureaucratic compulsions to “spend” the

allocated budget induce the government to take the “easy route” of transferring funds from other headings into programmes/projects receiving foreign assistance, including grants.¹⁸ Since revenue growth has been robust over the past few years, the GoN found it expedient to use its own money rather than asking donors to release funds or ask for reimbursements. Failure by the government in the submission of financial and audit reports on time, which is a precondition for claiming reimbursements, is also cited as another reason. Revision of activities by the GoN, due to a change in government or shifting/reshuffling of priorities, has also led to some projects being delayed. It was also suggested that since AfT is normally provided within the framework prepared by donors, aid is not disbursed should the receiving country fail to comply with the former’s requirements. For small entrepreneurs who have received foreign aid, the donors’ approaches, working modalities and procedures are “highly bureaucratic”, and the administrative cost high. A clash of priorities between donors and the government is also identified as a reason: although their priorities may be in line at the thematic level when commitments are made, differing priorities at the activity level affect disbursement.

Besides, there is a possibility that differences in the reporting period of the OECD and the “fiscal year” of the GoN partly drive the variation in commitments and disbursement. However, the use of four-year averages (2002-05 and 2006-09) in our analysis while comparing disbursement with commitments should mitigate this problem.

While seeking an explanation for the difference in the disbursement-to-commitment ratios for non-AfT ODA and AfT, one has to note the fact that non-AfT ODA comprises mainly aid for “social infrastructure and services”, where, in areas such as health and education, aid is being channelled under a SWAp. It should also be noted that because of the broadness of definition of AfT employed by the OECD (which is of course based on the report of the WTO Task Force on Aid for Trade), AfT sectors turn out to be proxies for economic sectors. The low disbursement relative to commitments for AfT compared to that for non-AfT ODA, therefore, may be attributed also to the inherent characteristics of the respective sectors that these two types of aid broadly cover. This would imply that domestic absorptive capacity, insofar as it is a constraint, is an issue that has affected economic sectors (e.g. economic infrastructure, building productive capacity) more severely than social sectors in the period 2005-06. This, in turn, suggests that the problems related to absorptive capacity for general aid in economic sectors also bedevil AfT.

However, since the decline in the disbursement-to-commitment ratio for AfT is not just a result of disbursement failing to keep pace with commitments, but also because disbursements have *fallen* even as commitments have *increased*, while both non-AfT ODA commitments and disbursements have increased, note must also be taken of the argument by some experts and policymakers that donors’ focus has been on social sectors and the area of “conflict

and peace”, at the cost of economic sectors, especially since 2006.

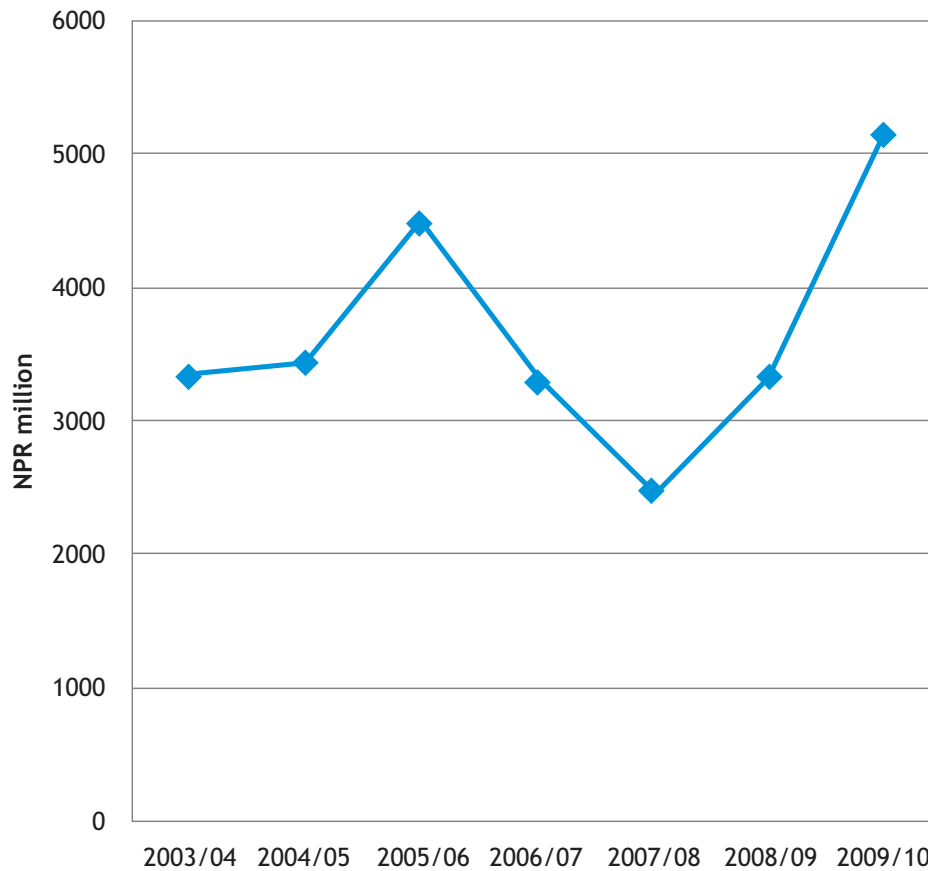
The private sector says it also faces unpredictability in aid flows. In the case of FNCCI, projects have been discontinued after support, pledged to be long-term, ceased. A project on implementing digital certification was cancelled last year.

4.6 Sustainability

In this section, we discuss to what extent the sustainability of AfT projects has been taken care of. As discussed in Section 3, we employ three criteria for this, namely financial, institutional and human resource sustainability. We use the limited secondary data available from national sources and rely heavily on information generated by the interviews with stakeholders.

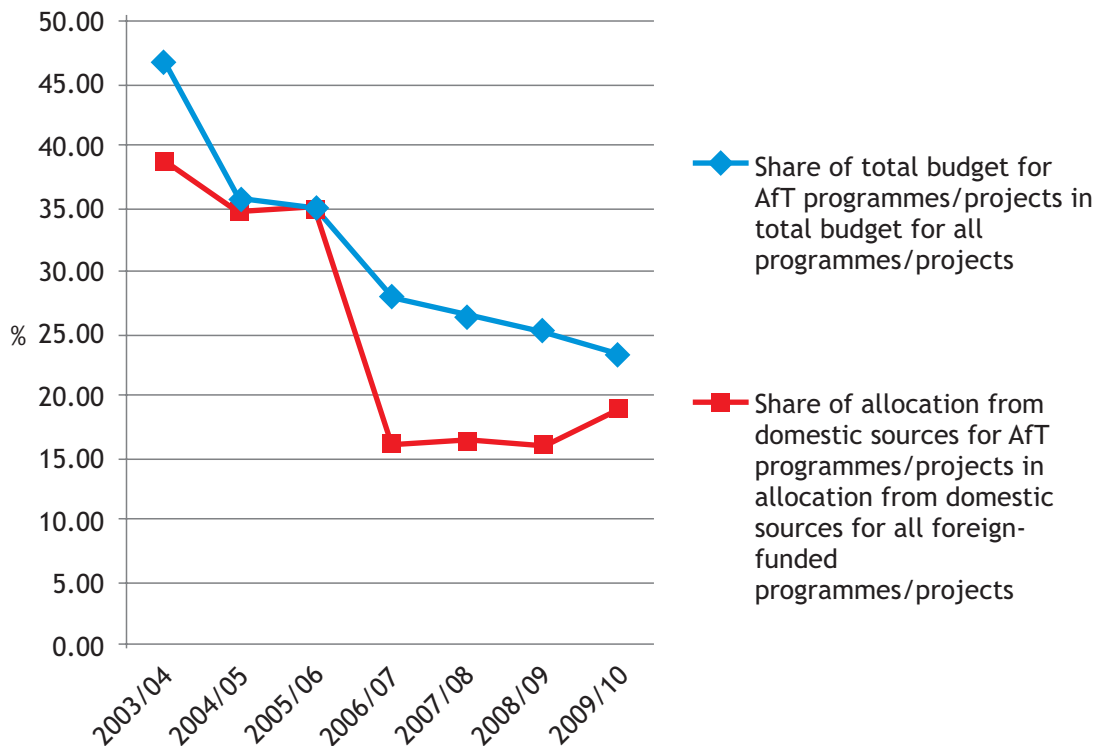
One of the indicators of financial sustainability is the government’s contribution (preferably increasing) to the project, over and above the mandatory counterpart contribution, such that when donors cease to fund the project, the financial sustainability of the project does not get jeopardized. Looking at the Source Book, as in the section on additionality, we find that the GoN’s allocation of funds from domestic sources for AfT projects and programmes, as projected in the annual budget, decreased after 2005/06 before rising in 2008/09 and further in 2009/10, crossing NPR 5 billion (approx. USD 70 million) (Figure 10). However, as a share in the GoN’s projected contribution to all aid-funded programmes/projects, the allocation for AfT programmes/projects has been on a decreasing trend, falling from 35 per cent in 2005/06 to 19 per cent in 2009/10 (Figure 11). This, together with the declining share of AfT in total ODA commitments, has resulted in the annual budget allocation for AfT programmes/projects falling as a share of the total budget allocation for all sectors receiving foreign aid (Figure 11).

Figure 10: GoN allocation from domestic sources for AfT projects/programmes (as projected in annual budget)



Source: GoN's Source Book, various issues.

Figure 11: Budget allocation for AfT programmes/projects (as projected in annual budget)

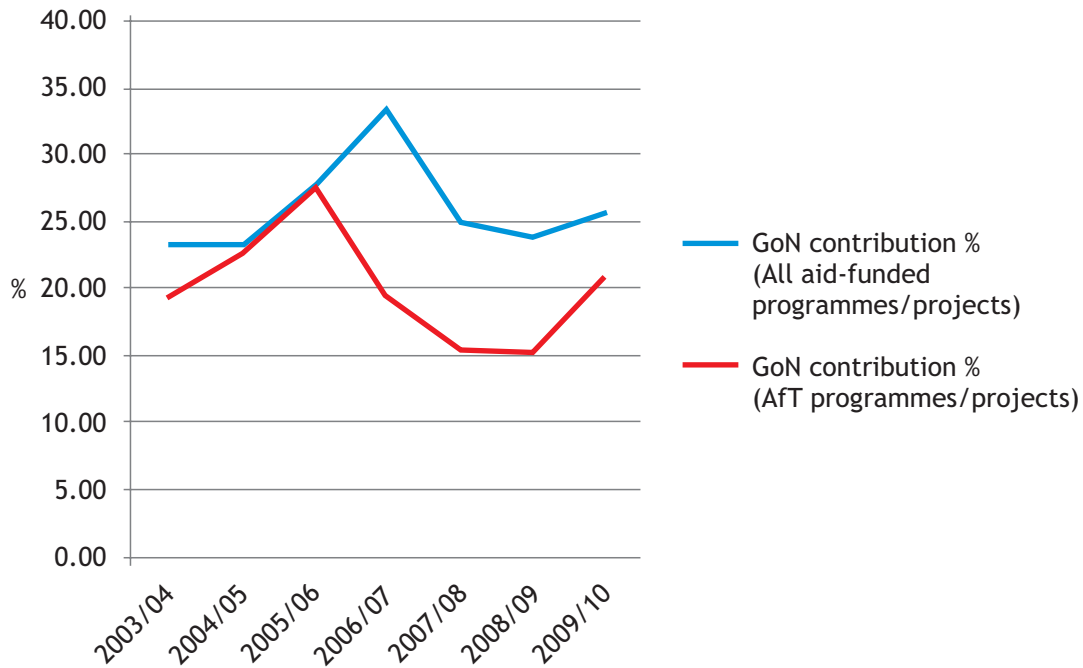


Source: Calculations based on GoN's Source Book, various issues.

The average budget allocated for AfT programmes/projects increased by 18 per cent during 2005/06-2009/10 compared to 2003/04-2004/05, as opposed to the 81.6 per cent increase in total budget allocation for all foreign

aid-funded programmes/projects. The projected share of GoN funds in AfT programmes/projects has been consistently less than the projected share of GoN funds in overall aid-funded programmes/projects (Figure 12).

Figure 12: GoN's relative contribution to aid-funded programmes/projects (as projected in annual budget)



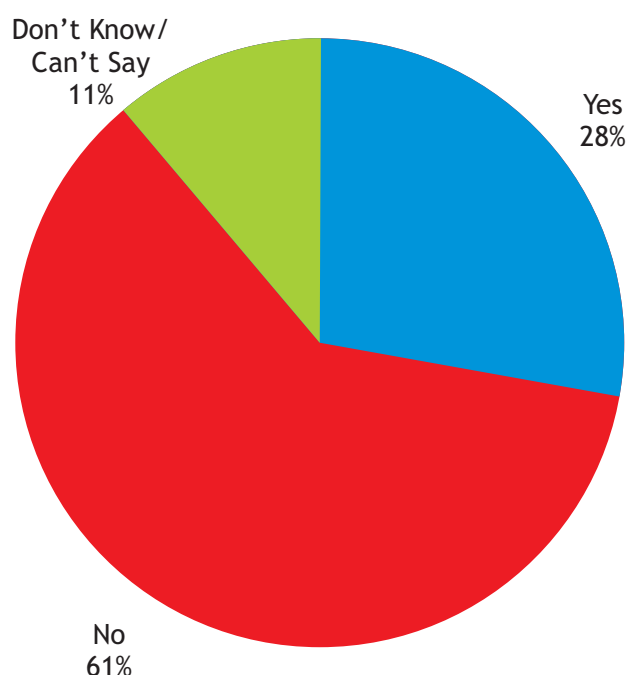
Source: Calculations based on GoN's Source Book, various issues.

This shows that the government is significantly and increasingly reliant on foreign aid for AfT sector expenditure, which is a cause for concern.

The majority of stakeholders interviewed (61 per cent) are of the view that the government has not taken care of the sustainability aspect in the implementation of AfT projects (Figure 13).

Figure 13: Stakeholders' perception of government efforts at sustainability

Are there any projects funded through AfT funding, where sustainability aspect has been taken care of by the government?



Source: Survey, 2011.

Those who said the government has increased funding on programmes and projects covered by the AfT initiative and those who said that is not the case were almost evenly divided (39 per cent vs. 36 per cent), while 25 per cent could not provide an answer. In 2010/11, the GoN allocated NPR 30 million (about USD 0.4 million) for the implementation of NTIS. This is a dedicated allocation by the government for enhancing trade and represents its commitment to successfully implementing NTIS, but the amount is very low relative to the needs by any account. Thus, GoN's planned annual expenditures and the prospective sources of financing them show that both AfT commitments and internal resource allocation for AfT programmes and projects have substantially lagged behind commitments and allocation for overall aid-funded programmes and projects.

Financial sustainability appears to differ from case to case, but the general view is that the sustainability aspect has not been taken into account. The Roads Board Nepal has a dedicated fund for road operations and

maintenance, which is gradually being scaled up. As of now, it is for routine repairs and maintenance. The plan is to channel funds for all operations and maintenance through the Roads Board. While the share of donor support in roads used to be about 60 per cent, it has come down to 40 per cent. In roads, matching funds for repairs and maintenance is increasing. On the other hand, in agriculture, government funding for donor-supported programmes is very low. In infrastructure projects, the financial sustainability aspect is largely taken care of. But there are exceptions. For instance, the Enhancing Nepal's Trade-Related Capacity (ENTReC) project installed CCTV cameras at some customs points. After the project was over, the cameras were not working. This would not have happened had the government (particularly the Department of Customs) set aside some resources for their maintenance.

A task force led by a joint secretary at the MoCS who heads the ministry's Planning and International Trade Division has been formed for working out the modalities of a proposed Trade Trust Fund, which is aimed at pooling/

consolidating AfT resources *à la* the SWAp adopted in health and education funding. Such a fund has been felt necessary to ensure sustainability, ownership and transparency. The ENTReC project sponsored the visit of Nepali trade officials to Cambodia in 2008 to study the effectiveness of the Trade SWAp there so that a similar model could be replicated in Nepal. Donors, who used to be wary of the proposal for a Trade Trust Fund, are now at least listening to it, according to GoN officials.

There is a view even among some high-ranking GoN officials that the psychology among their peers to treat grants lightly leads to accepting foreign grants without taking care of the sustainability aspect. However, the foreign aid coordination division at the Ministry of Finance now asks ministries to prepare “exit plans” for aid-supported projects. A general view that emerged from the survey is that the issue of sustainability should be addressed in the foreign aid policy itself.

The institutional sustainability of the project/programme/initiative is also, in part, influenced by donors’ policies and practices. According to GIZ, the GoN is trying to ensure sustainability within its means, particularly in the areas supported by GIZ. This is because GIZ designs the project this way and builds the sustainability aspect into the joint project design phase itself. An innovative approach to institutional sustainability is provided by the ENTReC project. The MoCS made an in-kind contribution by providing office space to the project. Before the project was terminated (albeit after two rounds of extensions), the MoCS managed to secure EIF funding for the NECTRADE project, for which the government continues to provide office space. While the physical proximity of the project to the ministry is necessarily a mixed bag, it has definitely helped in the institutional sustainability of the project, which continues to carry out some of the activities of ENTReC.

A lack of human resource planning also hurts sustainability. In the Department of Customs, reforms are basically information technology

(IT) based and the IT staff are from outside the revenue group and hence more liable to be transferred. To ensure the sustainability of customs-related projects, it was suggested that projects be linked with national academic institutions (for example, the Nepal Engineering College, which is under a public-funded university). In the Department of Customs, a dearth of technical human resources is more of a problem than financial resources. It has not been able to fill the positions of IT Director and Officer. Incentives need to be provided to IT people to join the department. Such incentives can potentially be given through AfT projects.

AfT donors are not in general found to be building the capacity/expertise of local institutions and individuals such that AfT projects could continue even when donor support ceases. Some 47 per cent of respondents think that donors are not doing so while 33 per cent say they are. Those who say donors are building local capacity/expertise, however, do not feel that it is adequate. The MoCS is stressing the need to involve local think tanks in AfT projects rather than foreign expertise.

It is the view of civil society members that donors have a strong tendency to impose external consultants rather than build the capacity of local institutions and human resources, which is crucial for sustainability. As a noted civil society activist, Dr. Arjun Karki, remarked: “Donors *bring* capacity; they *do not build* capacity”.

However, according to GIZ, it works mainly with the help of national experts. While hiring national experts is the number one priority, it hires international experts only when there is no local expertise available. Even when international consultants are hired, it says it links them with national counterparts so that the latter’s capacity can also be built.

The MoCS takes the stand that local-level expertise should be used. If hiring foreign consultants is unavoidable, it proposes that they be stationed in Nepal (two such technical assistance projects are in the pipeline). The foreign aid coordination division of the

Finance Ministry has made it mandatory for line ministries to specify the percentage of programme expenditure allocated for consultants and consultancy; the reasons why the employees at the ministry are not able to do the work proposed for consultants; and why Nepali consultants cannot do the work proposed for foreign consultants.

Within the government as well as civil society, there are views that sometimes it helps to have outside consultants/experts because they have specific knowledge on some issues that domestic experts lack. The rigid organizational structure of government agencies also gets in the way of building local capacity and expertise. However, donors' commitment to building local capacity remains questionable in the light of instances such as not providing training of trainers and providing training only when government agencies demand the former. Donors argue that there has been an emphasis on it through trade-related training and workshops. However, their effectiveness has been adversely affected by the frequent change in staff in the bureaucracy and the problem of the right staff not being sent for such training programmes.

The private sector view is that mainstreaming the private sector in donor strategy will help sustainability. If projects become commercially viable, the private sector will take care of them even if the government/donors do not ask them to do so. It believes that if there were strong ownership in the private sector, it would provide sustainability to the programmes/projects no matter how they were conceived and initiated. Micro entrepreneurs, supported by the Micro Enterprise Development Programme (MEDEP), have formed the Federation of Nepal Micro Entrepreneurs Association and are working on that front even after external assistance ceased.

In the private sector, even if donors do not provide local capacity building components under a particular project, there are instances of the recipient trying to ensure it by approaching

other donors. For example, in one of the projects supported by the ADB and implemented by the AEC, there was a very limited capacity building component. The AEC mobilized resources for capacity building support from the Netherlands Development Organization with minimal use of international experts. Similarly, AEC has received technical capacity building support from the FAO by engaging local experts. But there is also a view in the private sector that donors consider "reporting" to be more important than "outcome" and hence hire foreign consultants. There are complaints that donors use their own expertise to the extent possible, and seem less interested in changing their style of functioning.

4.7 Effectiveness

In this section, we discuss three of the four aspects of effectiveness - ownership/mainstreaming, alignment and duplication/coordination - leaving assessment of impact for the next chapter.

4.7.1 Ownership/mainstreaming

This section is based largely on the information obtained through the in-depth interviews, besides a review of the country assessment strategies of major donors, focusing on the mainstreaming of trade by the GoN as well as donors.

Mainstreaming trade, which is considered the most vital element to ascertain the level of country ownership, involves a systematic promotion of mutually reinforcing policy actions across government departments and agencies, thus helping to create synergies in support of agreed development goals through trade. It entails coordination, formulation and implementation of trade-supporting plans and policies by all concerned ministries. In this regard, the MoCS cannot be the only government body looking after this issue. For instance, to promote the trade of agricultural goods, the Ministry of Agriculture and Cooperatives (MoAC) has to play a vital role in increasing surplus production and also closely

coordinate with the MoCS to facilitate exports via the most cost-effective channels.

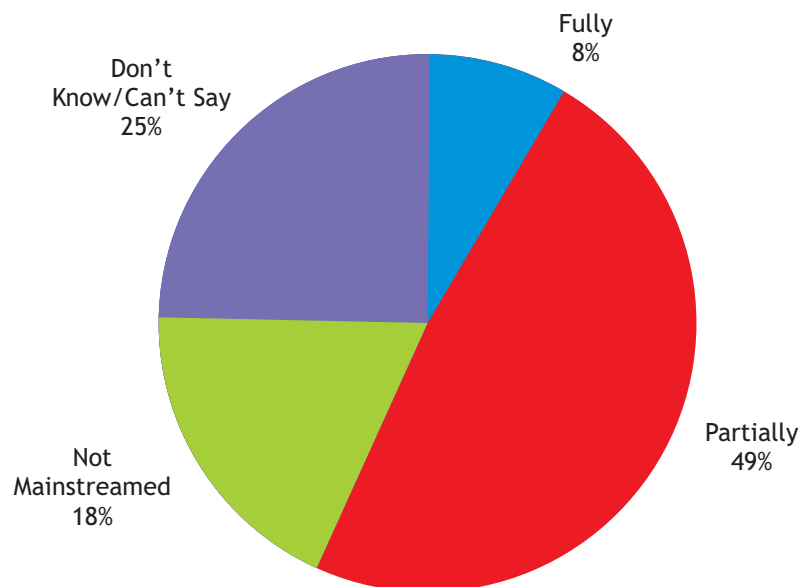
The respondents generally agreed that trade mainstreaming in national development plans helps the country achieve its development objectives. It is acknowledged that trade mainstreaming has taken place in a formal sense. Trade has been identified as one of the six pillars of development strategy for the realization of broad-based economic growth in the Three-Year Development Plan 2011-13. This is the first plan to focus on trade mainstreaming for achieving development objectives. Export trade is one of the priority sectors in the Plan. It takes the NTIS as the guiding document in its working policy related to trade. The GoN has allocated funds for the implementation of NTIS in the budget for fiscal year 2010/11, as noted above. However, respondents generally felt that coordination between other sectoral ministries and the MoCS leaves much to be desired, despite efforts by the MoCS since the formulation of NTIS 2010, and that trade is yet to be mainstreamed in other sectoral ministries' plans, programmes, policies and agendas. The Technical Committees, chaired by the secretary of the relevant ministries and created as part of the EIF's National Implementation Arrangements, are yet to be activated. The Technical Committees are responsible for prioritizing and developing projects.

Meanwhile, some respondents argued that mainstreaming trade would be difficult given existing institutional arrangements. The Planning and International Trade Division at the MoCS has a committed joint secretary who heads the National Implementation Unit created as part of the EIF's National Implementation Arrangements, but he and his small team lack the resources (technical, financial and human resources) to discharge their responsibilities effectively. He needs back-up support, which is lacking due to a shortage of qualified human resources. It was suggested that the organizational structure of the division be expanded, more staff¹⁹ hired and the frequent transfer of staff minimized,¹⁹ so as to enable the division to effectively discharge its responsibilities, including trade mainstreaming. The roles and responsibilities of the inter-ministerial coordination officer as provided for under the National Implementation Unit structure should be clearly defined to make inter-ministerial coordination effective. Moreover, the government needs to provide staff incentives, such as the opportunity to move up the vertical ladder.

Among the entire survey respondents, nearly half felt that the GoN has only partially mainstreamed trade in the national development strategy at the substantive level, while only 8 per cent said the GoN had done so fully (Figure 14).

Figure 14: Substantive mainstreaming

To what extent government of Nepal has mainstreamed trade in the national development strategy at the substantive level?



Source: Survey, 2011.

Of late, there has been some progress in mainstreaming trade. For instance, while the DTIS of 2003/04 was owned by the MoCS only, NTIS 2010 is owned by all relevant/line ministries - at least going by their involvement in its formulation. For example, the customs-related issues in NTIS 2010 are based on the customs department's four-year action plan; the MoAC was consulted while outlining priority agricultural products in NTIS 2010. Importantly, the implementation modality has changed. The line ministries are responsible for the implementation while the MoCS coordinates, facilitates and oversees the entire process. One of the roles of the National Implementation Unit is to facilitate intra-governmental coordination. That said, so far success has been limited, as government departments tend to protect their turf, according to experts outside the government. Part of the problem appears to be the lack of clearly delineated roles and responsibilities of line ministries for NTIS implementation. For effective trade mainstreaming at the sectoral level and accelerated implementation of NTIS 2010, trade focal points (or Trade SWAp focal points) are needed in the line agencies. An option in this regard is to upgrade the existing WTO focal points in the Ministry of Industry, MoAC, Ministry of Tourism, Ministry of Finance, Ministry of Agriculture, Ministry of Law and National

Planning Commission into trade focal points (or Trade SWAp focal points).

Not all relevant line ministries are represented in the EIF National Steering Committee, headed by the chief secretary, GoN. One of the roles of the Committee is to perform a coordination role to establish understanding between the government, the private sector and donor agencies. Notably, the National Steering Committee excludes the Ministry of Energy, the Ministry of Education, the Ministry of Health and the Ministry of Labour, although hydroelectricity, education and health have been identified as services sectors with export potential. The involvement of the ministries not directly represented in the Steering Committee is supposed to take place through the Technical Committees, and the sub-committees under them. On a positive note, however, the sensitization of officials, including aid-related officials, is taking place.

There is clearly a need for the MoCS to make further efforts to take other ministries into confidence. The MoAC, for example, does not feel that consultations on matters regarding trade promotion and mainstreaming are adequate. As noted above, there was participation of the MoAC to some extent in the formulation of NTIS 2010. Also, during trade negotiations the MoAC

is contacted for relevant inputs and suggestions. However, there have been instances when decisions were taken without consultation with MoAC. For example, it was not consulted when the MoCS agreed to scrap the agricultural reform fee on agricultural products imported from India, even though as per Nepal's commitment at the time of its WTO accession, it would have to be phased out by the end of 2012.

Lately, the government's engagement with the private sector in mainstreaming trade has increased. Their inputs are actively sought before formulating policies related to trade promotion. For instance, the private sector (especially the FNCCI) was actively involved during the preparation of NTIS 2010. Furthermore, the draft IT Policy 2006 was written by the Computer Association of Nepal. The government has allocated funds for some activities initiated by the AEC at the FNCCI. Also, budget has been allocated for a quarantine-testing project identified by the private sector and for establishing a cadmium-testing facility in partnership with the private sector. The public-private partnership (PPP) model is also picking up, but on a very limited scale. It has been successful to some extent in the tourism sector. Similarly, the Roads Board, primarily under the Ministry of Physical Planning and Works, functions along the lines of a PPP approach. The Ministry has created a forum for contractors, and several committees such as the construction business implementation committee and construction business development council (under the chairmanship of the minister), but effective partnership has not been achieved.

Despite these efforts, the private sector finds the engagement inadequate and ineffective. For instance, the Cardamom Development Board, a government entity established to promote cardamom production and exports, is not linked with the private sector association of the same sector. The government stands accused of taking the private sector as a means to achieve its consultation objective only, which is largely limited to policy dialogue. When the private sector's comments and suggestions on policies and legislation are sought, it is given limited time to respond.

The private sector thinks it is provided only a ceremonial role in most of the committees formed by the government on matters related to trade policy. It says it is consulted mainly for data, information and ideas, but its suggestions are not taken on board in the implementation phase. While FNCCI was extensively consulted in the formulation of NTIS 2010, some commodity organizations believe the consultation process was not adequate. When suggestions are taken on board, they are "filtered through the bureaucratic process". A lack of inter-departmental coordination in the government is affecting the implementation of suggestions from the private sector. The private sector wants NTIS 2010 to be implemented through a PPP model.

The private sector too is not without fault. As argued by some government officials and independent experts, it should become more specific and develop the ability to convince the government on what it really wants. It is itself uncooperative with other stakeholders, and is at times non-transparent. Even when researchers seek information from them to make informed analyses, they are reluctant to provide required information.

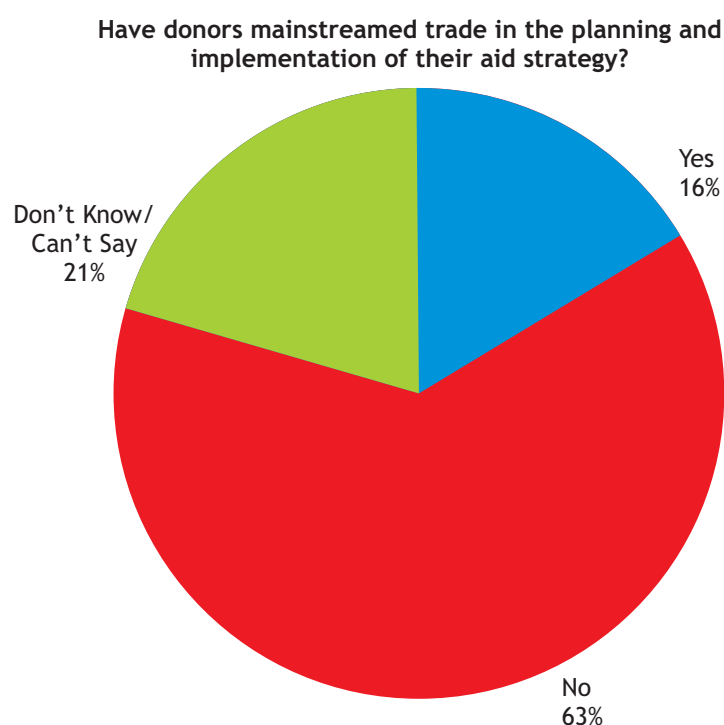
While it is generally agreed that the government is making efforts to mainstream trade in the national development strategy, the overwhelming view is that donors have yet to mainstream trade in planning and implementation of their aid strategy. "Now it is the donors' turn to put trade into their aid strategy," says one government official. According to GoN officials, there is inadequate sensitization and awareness about AfT among donors at the country level. Whatever aid is being provided for trade is as a token and not as part of a sustained effort to promote trade. According to an expert, most donors do not even understand what AfT means. The Embassy of Japan in Nepal, for example, says that it can provide AfT only to promote the idea of "one village one product", its pet project. Senior-level staff at the World Bank's Nepal country office, while being interviewed for this study, expressed ignorance about the AfT initiative.

Expanding trade with Nepal is not a priority of donors, because Nepal is not India, China or Vietnam, where donors have substantial trade interests, said one expert, explaining why donors do not mainstream trade in their assistance strategies for Nepal. In Nepal, donors' priorities are shifting towards peace, reconstruction and constitution writing rather than hardcore economic issues. They remain focused on the Millennium Development Goals (MDGs) and

the social sector, while trade receives only peripheral attention.

The private sector considers donors' insistence on the involvement of the sector to be a fad. It says donors seek its opinions but do not involve it substantially in project formulation and implementation. The survey results show that 63 per cent of the respondents felt that donors have not mainstreamed trade in the planning and implementation of their aid strategy (Figure 15).

Figure 15: Mainstreaming of trade in donors' aid strategy



Source: Survey, 2011.

This perception is supported by the fact that most of the donors do not categorically state trade as their main focus/priority area in their country strategy papers. The World Bank's Country Assistance Strategy 2004-07 emphasized "broad-based economic growth" with Poverty Reduction Strategy-based and outcome-focused strategies. Trade is mentioned in the strategy by combining it with private investment and employment opportunities strategies. Specifically, it targeted "increased institutional capacity for trade policy

formulation/implementation". On the other hand, in the World Bank's Interim Strategy Note for Nepal 2007, more emphasis is laid on peacebuilding initiatives and preserving previous reform programmes rather than trade. In its latest Interim Strategy Note for Nepal (July 2009-June 2011), peacebuilding again takes the front seat while trade facilitation is mentioned as a part of the IFC's work to support projects that have a "positive foreign exchange impact" such as tourism, airlines and agribusiness.

The ADB's Country Strategy and Programme (2005-09) focused on "fostering an inclusive development process" with support for four main measures: conflict assessment, participatory processes, mainstreaming inclusion, and transparency and accountability. Under the good governance initiative, it emphasized regional cooperation, supporting the restoration of Nepal as a traditional trade corridor, and promoting trade and investment facilitation.

The EU appears to be the only donor that lays priority on trade in its assistance to Nepal. In its Country Strategy Paper 2007-13, the EU has categorically mentioned "trade facilitation and promotion of trade and economic activities" as one of the three priority sectors for assistance. It has promised assistance for trade and export diversification, capacity building and economic cooperation, focusing on small and medium enterprises via trade facilitation, and improving rural livelihood opportunities with a focus on trade. The largely EU-funded EC-Nepal WTO Assistance Programme (2008-11) - whose aim is to enhance Nepal's capacity to meet international SPS and TBT standards - has been one of the largest dedicated AfT projects received by Nepal.

Among bilateral donors, GIZ has mainstreamed trade in its assistance programmes in Nepal. DfID's Country Business Plan 2009-12 does not focus explicitly on trade as its main objectives, as it emphasizes more on achieving MDGs and supporting the peace process in post-conflict Nepal. DfID has provided some AfT to Nepal but not to the extent one would have liked to see given its commitment to trade issues at the headquarters level, where it has a trade policy unit.²⁰ USAID's Country Strategy Assistance Nepal 2009-13 does not mention trade *per se* as one of its five priority goals but envisions increasing exports in selected sectors with the assistance of the private sector. However, the launch of the NEAT project, despite its limited trade component, represents an effort by USAID towards mainstreaming trade. The project supports, among others, the implementation of NTIS 2010. Its planned activities include, *inter alia*, building the negotiating capacity

of government officials; the creation and enhancement of an analytical wing at the MoCS; customs reforms and modernization (which includes software support as well as hardware like internet protocol cameras); and encouraging competitiveness and exports, through a value chain approach in selected agricultural commodities, including those identified in NTIS 2010 (e.g. lentils, ginger and tea).

The Japan International Cooperation Agency's "Country Study for Japan's Official Development Assistance to the Kingdom of Nepal: Beyond Poverty and Conflict (2003)" - which gives an idea as to Japan's assistance strategy for Nepal - does not focus on trade issues. On the other hand, the Finnish government has an Aid for Trade Action Plan (2008-11) at the global level and a new one will replace it this year. Although there has been increased focus on AfT in Finland, its embassy in Nepal has just started to introduce it as an explicit component. It has provided USD 50,000 for NTIS 2010 preparation. It plans to provide dedicated AfT in 2011-12. Encouragingly, after the unveiling of NTIS 2010, donors have shown an interest in supporting trade-related projects and are trying to incorporate trade promotion in their assistance packages.

4.8 Alignment

This section discusses the extent and nature of alignment of AfT with national priorities and mechanisms. It is based largely on the in-depth interviews conducted.

Although there are extreme views that AfT is entirely donor driven like foreign aid in general, the majority view of the stakeholders interviewed is that AfT is generally going to projects and programmes prioritized by the GoN at the broad level, although priorities could clash at the activity level. However, every donor prepares its country assistance strategy, even when the GoN has its own strategy. Earlier this year, donors collectively came up with the Nepal Peace and Development Strategy even after the GoN had prepared the budget and the Three-Year Development Plan. Some argue that this is a violation of the spirit of

the Accra Agenda for Action. The negotiating skills of GoN officials are critical to ensuring the alignment of country assistance strategies with the priorities of the GoN.

Some donors are said to be urging that they be allowed to fund activities outside NTIS 2010 even as the MoCS insists that NTIS 2010 not be bypassed. Still, with the launch of NTIS 2010, it will now be easier to figure out whether AfT is in line with government priorities or not. At the very least, NTIS 2010 - notwithstanding its limitations with regard to product coverage and horizontal/cross-cutting issues - can be taken as a working document for AfT negotiations as far as aid meant for particular (or a group of) products is concerned. But there are difficulties; for example, donors want to see a link between the goods and services identified by NTIS 2010 and their own priorities and mandates (like poverty reduction). There is, therefore, a need to unpack the NTIS by developing concrete programmes/projects for operationalizing its action matrix. Steps towards this have recently been initiated by the MoCS, for example, by putting out a call for expressions of interest for developing and implementing projects related to NTIS 2010.

At times, even if donors are willing to provide support in the areas identified by the GoN, they are unable to do so because of the weak and lengthy decision-making processes and limited capacity of GoN officials. In addition, when support is provided in areas identified by the GoN, designing is often undertaken by donors due to limited national capacity.

With regard to financial management and procurement mechanisms, a hybrid system, combining both donors' and the GoN's systems, is generally in place. Donors' use of their own systems is more prevalent in the case of procurement under grants and technical assistance. A GoN official pointed out that in overall ODA, in 2008, only 59 per cent of projects followed Nepal's national procurement system and only 68 per cent of projects followed the national public financial management system. Meanwhile, where the private sector is involved in specific trade-

related projects, it finds the procedural requirements of the donors cumbersome and bureaucratic, as noted above.

In 2008, 106 of some 376 aid-funded projects were implemented through parallel implementation units (PIUs). GoN officials say the PIU mode of implementation is rampant among AfT projects too. Among the existing AfT projects, the USAID-supported NEAT Project and the EU-funded EC-Nepal WTO Assistance Programme are being implemented through PIUs. Likewise, the ENTReC project (2006-10) was essentially implemented through a PIU because donors took the lead in project design, staff recruitment and procurement, although its office was located in the MoCS. Generally, while the donors' own system is used in technical assistance projects, the GoN's established system is used for programme and budgetary support. Some experts and policymakers pointed out that most UN agencies are creating their own PIUs. Excluding private sector respondents, 45 per cent of the respondents said that donors use their own PIUs to implement AfT projects.

The donors have made efforts to follow the spirit of the new Procurement Act. However, in terms of financial management systems a mixed practice is being followed, although after the Paris Declaration donors appear more conscious about the need to following domestic systems. Regarding GIZ, the EIF donor facilitator in Nepal, although its own procurement system and financial management system is followed, the design, steering and monitoring takes place with full participation of the GoN, ensuring a high level of transparency. Bilateral donors have their reasons for using their own systems. A reason often cited for them using their own procurement systems and/or financial management systems is that the aid comes from their taxpayers' money and donors have to be answerable to their own citizens as well. Another is the bureaucratic hurdles and delays involved in following the national system. In some projects (for example, under the AEC), both the donors' standard format and the GoN rules have to be followed, causing extra administrative work.

Low capacity and lethargy on the GoN officials' part are also responsible for this, according to a government official with an experience in aid matters, besides the donors' own predilection for implementation through PIUs. There is a tendency among some donors to implement projects through companies/firms from their countries, while claiming that they themselves are not directly implementing the programme. For example, USAID awarded the contract for implementing the NEAT project to Chemonics, an international development consulting company founded and based in the US.

Projects implemented through PIUs are not reflected in the government's Red Book. For instance, because the recently launched NEAT project is being implemented by a US-based company, as noted above, it is probably not going to make it into the Red Book. Likewise, the EC-Nepal WTO Assistance Programme is implemented by the United Nations Industrial Development Organization, Vienna, and UNESCAP, Bangkok and is not mentioned in the Red Book. According to Mr. Prachanda Man Shrestha, a trade and tourism expert, a project for tourism development in Nepal supported by the EU and implemented by the Netherlands Development Organization is not reflected in the Red Book. It is difficult to keep track of projects implemented through PIUs. Similarly, money coming from international NGOs is difficult to track. Some of them are creating a dual identity, by registering at the local level as well.

The national Procurement Act is identified as a problem by a cross section of stakeholders. According to one expert, "1001 legal questions can be raised" for any procurement made under the Act. Even honest and well-meaning bureaucrats are reluctant to go ahead with procurement involving relatively large amounts for fear of being wrongly implicated. The

Act is "construction-centred" and stipulates a time-consuming process, which may not be suitable for many AfT projects requiring prompt intervention.

A view that emerged from the interviews was that the GoN has given extra latitude to certain donors (e.g. India and the US) in aid activities. For example, India is allowed to bypass the government system to provide assistance worth up to NPR 50 million. This is setting a bad precedent. Even when donors implement the project on their own, they create a steering committee to show that they are careful not to bypass the GoN's systems. However, that is only for the sake of appearances. For example, the Ministry of Industry and the MoCS are in the steering committee of the EC-Nepal WTO Assistance Programme, which is executed by foreign agencies. One expert says that the present law in the US does not allow USAID to provide money directly to the government, thereby making a mockery of the Paris Declaration on Aid Effectiveness.

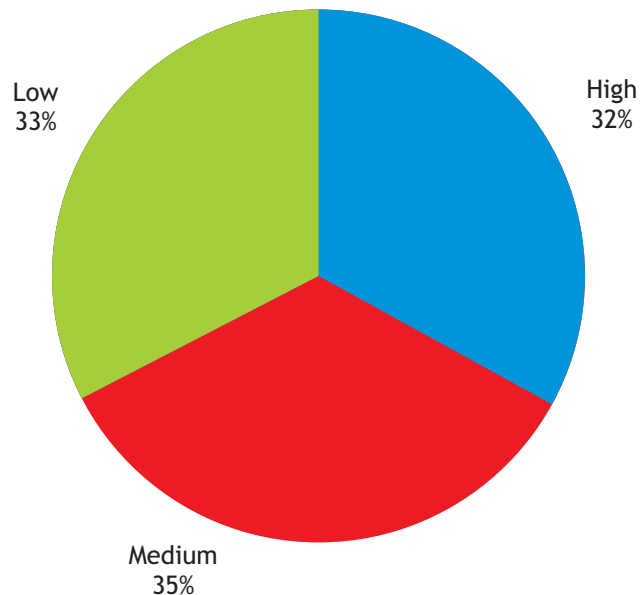
4.9 Duplication/Donor Coordination

This section assesses the level of duplication of AfT projects and the level of donor coordination in their AfT activities.

While duplication of projects and funding in sectors is perceived as being widespread (see Figure 16), donors are trying to avoid it. But donors are extremely reluctant to support the development of entire value chain by pooling in resources from all the concerned agencies, according to most non-donor respondents. Improving business climate and/or creating enabling business environment have been two of the main themes in which there is maximum duplication (IFC, DfID and USAID are involved in the same or similar activities).

Figure 16: Duplication among donors

What is the level of duplication, if at all, among the donors in the given category of programme/project falling under AfT?



Source: Survey, 2011.

The conjecture that there is relatively high level of duplication among donors is also vindicated by AfT case story prepared for the GoN by an expert from GIZ, which finds 70 per cent of the stakeholders it surveyed viewing that coordination among donors is “insufficient” (Bachmann 2011).

Meanwhile, donors appear very selective in picking up the easiest portions of NTIS 2010. Most pick up software components. “If hardware part is not picked up by any donor, how will trade capacity be enhanced?” asked one interviewee. Worse, donors tend to copy already successful projects rather than support new ones. AfT is likely to be more effective if donors fund new products/activities/sectors instead of pushing resources into the already successful ones.

Many donors are supporting the same kind of activities and are not coordinating among themselves. This is due to lack of information among donors and/or simply because the GoN is not vigilant enough to prevent donors from duplicating efforts. For instance, several donors are involved in promoting export of honey for quite some time now but, according to some respondents from the GoN, their results are

not visible on the ground. Similarly, a group of donors is working in the area of technical and vocational education and training with similar objectives, but the outcome is not visible. Also, a few donors are using the same kind of leaflets and information to promote tea, leading to duplication of information. Furthermore, in the IT sector, donors are assisting the same projects, mostly in rural telecom and data centres. Apart from the donors’ interests, this is also happening due to confusion over jurisdiction among GoN agencies working in the promotion of the IT sector. Several government agencies (ministry and a high level information and communication commission) all want to work in the same field/project. In some cases, when the private sector identifies duplication, donors are said to justify it by citing their own models and concepts.

There are some efforts at coordination by donors, however. Some 43 per cent of the respondents feel that donors have been able to establish synergy - albeit inadequate - between the projects funded under AfT. An example of donor effort to avoid duplication is the case of the development agencies of Finland, Swiss and Denmark having created a cumulative fund to avoid duplication and to support forestry

projects (forest conservation, livelihoods and forest enterprises), although not all of these can be considered to be AfT projects. After the unveiling of NTIS 2010 and with GIZ as donor facilitator, donors are attempting to coordinate their AfT activities for NTIS 2010 implementation. GIZ, for example, has created a web-based communication platform and increased information dissemination based on suggestions from the MoCS, which is expected to evolve as a coordination platform. Bilateral donors appear to be encouraged by NTIS 2010 formulation and in particular the MoCS' effort to create an action matrix where the responsibilities of various donors are clearly delineated. They feel that NTIS 2010 has provided a firm basis for donors' coordination.

4.10 Coherence

One of the objectives of this section is to analyse whether the GoN has been following a coherent approach to financing trade-related initiatives/programmes/projects/activities in the face of disparate mechanisms/modalities available at its disposal. Let us take the example of the proposal for the establishment of a special economic zone (SEZ), which has been on the table for more than a decade now. Suppose the government decides to build the SEZ as planned; it is now incumbent on the government to mobilize resources. It can, for example, acquire the land for building the SEZ through an upfront payment of compensation to the respective landowners. Then it could approach multilateral donors for AfT funding for the construction of basic infrastructure, including roads, water and sanitation, while approaching another donor (multilateral or bilateral traditional donor) to provide support for the construction of a hydroelectricity project under a climate financing mechanism for supplying renewable energy to the SEZ. The government could then approach South-South donors for the construction of factory spaces and buildings, and leave the construction and operation of incubators of start-up companies to public-private partnerships.

At the same time, the AfT Task Force takes up the issue of coherence in a different light.

According to its report, AfT "should be rendered in a coherent manner taking full account, inter alia, of the gender perspective and of the overall goal of sustainable development" (WTO, 2006: 3). Since combining our objectives with the AfT Task Force Report was deemed a huge enterprise and the methodological framework, which guides this research, had also taken the recommendations of the AfT Task Force as the point of departure, we follow an eclectic approach here by picking up one point each from our objective and the Task Force mandate. Moreover, we realize that since the GoN has not prepared a consistent and coherent fundraising strategy for any initiative/project/programme that could potentially cover all the areas/actors mentioned above in our example, our task was made doubly difficult. Therefore, based on the methodology prepared, we picked climate finance within the broad rubric of sustainable development based on the Task Force Report, and South-South cooperation from our original objective. We begin with the analysis of climate financing.

4.10.1 Climate finance

In general, there has been no conscious effort to establish coherence between AfT and climate finance, either at the donor level or at the recipient level. However, there is near unanimous recognition of the need to create synergy between these two modes of financing, which have overlaps and can complement each other. To determine how to do this efficiently, comprehensive research is needed. Unfortunately, the EIF's National Implementation Arrangements do not involve the Ministry of Environment, which coordinates climate finance.

Most of the respondents felt that climate change adaptation and mitigation funding should be in the form of grants rather than loans because Nepal is not primarily responsible for climate change. Furthermore, climate finance must be additional, over and above aid for the realization of MDGs and the 0.7 per cent pledge of developed countries. The demand that climate finance be additional has been reiterated in the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020.

Nepal has the potential to benefit from carbon trading under the Clean Development Mechanism (CDM). Biogas projects have already been linked to CDM. However, benefits have been minimal because of the dearth of baseline information; complex methodologies for calculating benefits for which domestic expertise is not available; and area-specific nature of these projects. The CDM board has decided that countries that have less than 10 registered CDM projects will receive support. This provides a window of opportunity to address the difficulties, including lack of domestic expertise, faced while registering projects with CDM.

So far, the major climate finance Nepal has received since 2005 is USD 1.25 million for the preparation of the National Adaptation Programme of Action, for whose implementation more aid is in the pipeline. But the aid that is due for this implementation is about 10 per cent of the minimum requirement of USD 1 billion.

There is potential to leverage climate finance for the development of hydroelectricity, which is also one of the services sectors identified by NTIS 2010. At the same time, it is possible to link hydropower projects to the CDM.

Regarding donors, most of them have not explicitly linked trade with climate change in Nepal. For instance, while the Finnish government takes AfT as a cross cutting issue and links it with climate finance at the global level, it is yet to do so in the case of Nepal.

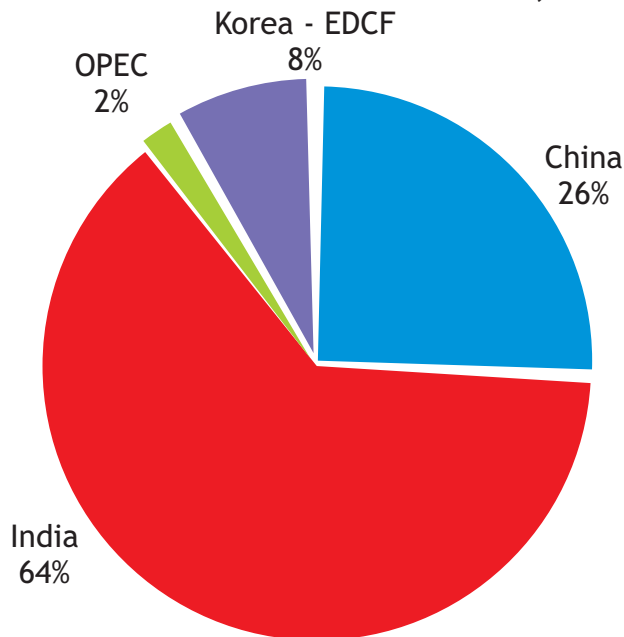
4.10.2 South-South donors

Disaggregating AfT commitments as projected in the GoN's annual budget (employing the definition used by the OECD but using data from the GoN's Source Book), we see that China, India, the Organization of the Petroleum Exporting Countries (OPEC) Fund, and the Republic of Korea are the leading South-South donors providing AfT to Nepal (Table 7). Two immediate neighbours of Nepal, namely China and India, have consistently provided regular AfT, while support from the other two leading South-South donors (OPEC and Korea) is not regular. India's AfT support to Nepal has been steadily increasing in the recent period barring a reduction witnessed in 2008/09, which was in part compensated for by an increased flow of AfT resources from China. Of the total AfT commitments received by Nepal from 2003/04 to 2009/10, India accounted for nearly two-thirds and China over a quarter (Figure 17).

Table 7: South-South AfT commitments to Nepal, 2003/04-2009/10 (NPR million, as projected in annual budget)

Year	China	India	OPEC	Korea - EDCF ²¹	Total
2003/04	20	530	0	0	550
2004/05	10	215	50	0	275
2005/06	10	109	80	0	198
2006/07	440	1,972	0	0	2,412
2007/08	100	2017	175	0	2,292
2008/09	1,085	400	0	0	1,485
2009/10	2,112	4,039	0	1,232	7,388
Total	3,782	9,281	305	1,232	14,600

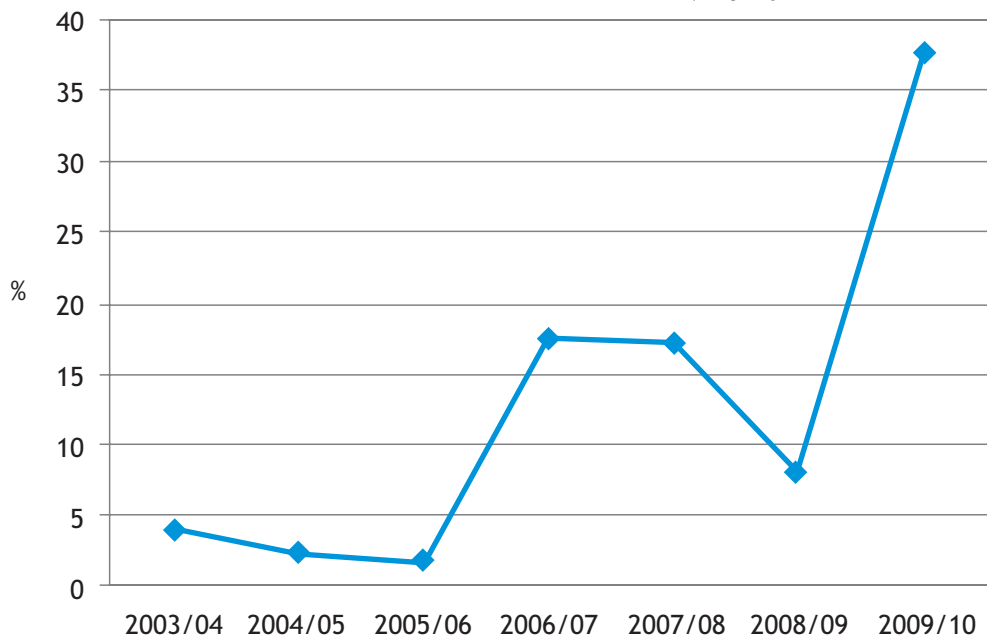
Source: Calculations based on GoN's Source Book, various issues.

Figure 17: Share in South-South cumulative AfT commitments, 2003/04-2009/10

Source: Calculations based on GoN's Source Book, various issues.

Total South-South AfT has been fluctuating, both in terms of absolute volume and as a percentage of total AfT commitments from all donors, with a sharp increase in 2009/10 (Table 7 and Figure 18). The share of South-South AfT commitments in total AfT commitments has increased from 4 per cent in 2003/04 to 38 per cent in 2009/10.

Also, South-South AfT commitments have increased at a faster rate than South-South overall aid commitments. This indicates that the relative importance of AfT in South-South aid to Nepal has been increasing and that South-South donors have emerged as increasingly important providers of AfT to Nepal.

Figure 18: Share of South-South AfT in total AfT commitments (as projected in annual budget)

Source: Calculations based on GoN's Source Book, various issues.

South-South donors have been providing AfT almost exclusively in the area of infrastructure development. India has been supporting customs reform, information and communications technology development, and road construction. For example, India's Export-Import Bank has provided loans of around USD 50-55 million for the upgrading of roads. Also, China's Export-Import bank is providing concessional loans for the construction of roads, bridges and hydroelectricity projects. China has committed support for the construction of an inland container depot near Tatopani, the most important customs point on the Nepal-China border. Among other donors, discussions are taking place with South Korea to provide a USD 5 million grant for customs reform, and the OPEC Fund is providing a USD 15 million loan at 6.5 per cent interest rate for the upgrade of Gautam Buddha Airport in West Nepal.

Although South-South donors are providing AfT to Nepal, over half the respondents were not aware of it. However, some respondents from the concerned government bodies and private sector said that the major South-South donors in Nepal are India and China. They regard Nepal as not having been able to tap the vast possibilities of AfT from China and India.

There is a perception that Southern donors are being guided more by geopolitical interests and concerns for regional stability than by the economic imperatives of the recipient country. Only 20 per cent of the respondents were of the view that the support provided by Southern donors is in line with Nepal's trade and development priorities, with the rest disagreeing or not having knowledge about it. According to respondents who think such support is generally in line with Nepal's trade and development priorities, they regard South-South AfT for infrastructure as being particularly in line with national priorities. According to a GoN official, the micro projects supported by India are largely driven by local demand.

Some of the emerging donors are perceived to be less transparent and more conservative, and not adhering to the Paris Declaration on Aid Effectiveness. Only 17 per cent of the respondents felt that South-South donors have been adhering to the basic tenets of the Paris Declaration. Some respondents argued that as the Accra Agenda for Action is an international commitment, the Paris Declaration should be adhered to by Southern donors too.

A major complaint consistently made by national stakeholders is over the practice of aid being provided directly via the embassies of India and China, bypassing government mechanisms. India is allowed to do so for assistance up to NPR 50 million. Stakeholders are of the view that the government should be informed about the aid activities of the South-South donors and agreement sought from the authorities concerned. Some opine that if donors are providing resources to some communities/stakeholders without the knowledge of the government, it could be construed as espionage. Also, most of the aid from India and China is tied. For instance, in the aid for road construction and upgrading, materials and equipment and at times even human resources have to be brought in from the donor countries.

4.11 Other Relevant Issues

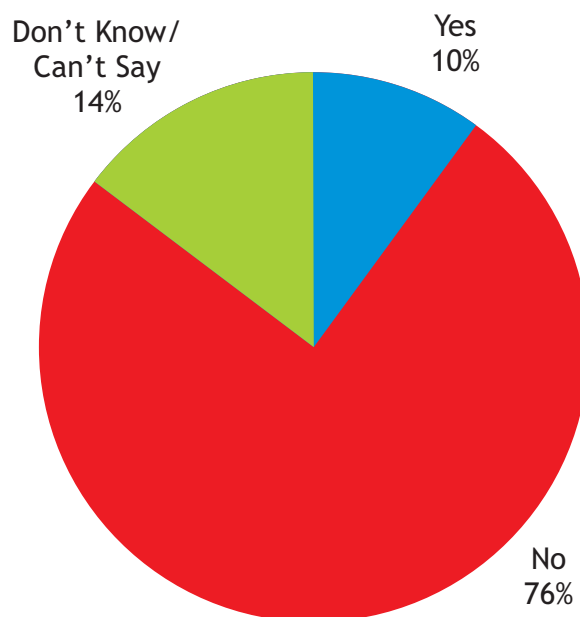
This section discusses three other relevant issues separately: the demand-supply gap in AfT; the composition of AfT in terms of grants and loans; and Nepal's absorptive capacity.

4.11.1 Demand-supply gap

An overwhelming majority of respondents thought that Nepal is not being supplied with AfT in adequate amounts to meet its demand for such resources (Figure 19).

Figure 19: Perception on demand-supply gap

Do you think Nepal is being supplied with AfT to meet its demand for such resources?



Source: Survey, 2011.

Comparing the share of AfT in the total sector allocable ODA commitments received by Nepal with the same for LDCs as a whole and the South and Central Asia region, we find that the share is lower for Nepal (the average for 2008-09 is 30.8 per cent for Nepal vs. 32.6 per cent for LDCs and 39.6 per cent for South and Central Asia). In terms of AfT commitments per capita in 2009, Nepal received USD 10 compared to USD 51 received by Afghanistan, USD 13 by Lao PDR and USD 6 by Bangladesh (although Bangladesh received 41.7 per cent of its sector allocable ODA commitments in the form of AfT).²²

The reasons for this gap are on the supply as well as the demand side. On the supply side, donors are not providing dedicated AfT as per demand and are more interested in MDGs and peacebuilding. The factors on the demand side are low domestic capacity to design and implement projects, poor inter-ministerial coordination and weak articulation of national needs. The GoN is yet to estimate the resources required for implementing NTIS 2010. Some of the respondents were of the view that the government may not be doing enough to ensure that resources are being supplied to the areas of greatest national

demand. For example, the ADB conducted a feasibility study in 2008 of the proposed “fast-track” road linking Kathmandu, the capital city, with the southern plains bordering India, estimating the cost at USD 1 billion. Aid for the construction of this road, which is projected to substantially reduce transport time - which will help reduce the high lead-time, partly a result of landlockedness - has not been mobilized. As noted previously, Nepal has not received AfT-related adjustment despite the need for it. This is in large part due to the inability of the government to effectively articulate its need for it when negotiating with donors.

4.11.2 Grant vs. loan

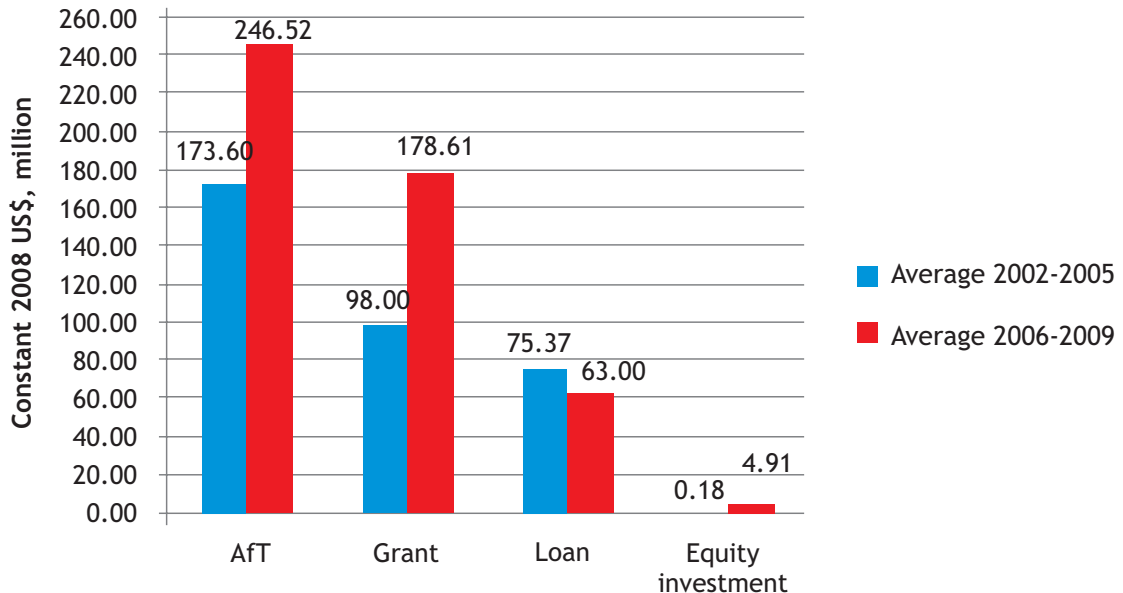
Here, we discuss the composition of commitments and disbursement in separate sections, mainly relying on the OECD CRS database but also using GoN data sources for South-South AfT. This is followed by a separate discussion comparing the utilization (ratio of disbursement to commitments) of AfT in grant form with that of AfT in loan form. The last section presents qualitative information obtained from in-depth interviews with stakeholders.

Commitment

The increase in average AfT commitments by 42 per cent in the post-Hong Kong period compared to the base period was driven by an 82 per cent increase in grant commitments,

which offset a 16.4 per cent decline in loan commitments (Figure 20). Average equity investment commitments increased by 2,585 per cent, but from a very small base, and such commitments were made only in one year.

Figure 20: AfT as grants, loans and equity investment

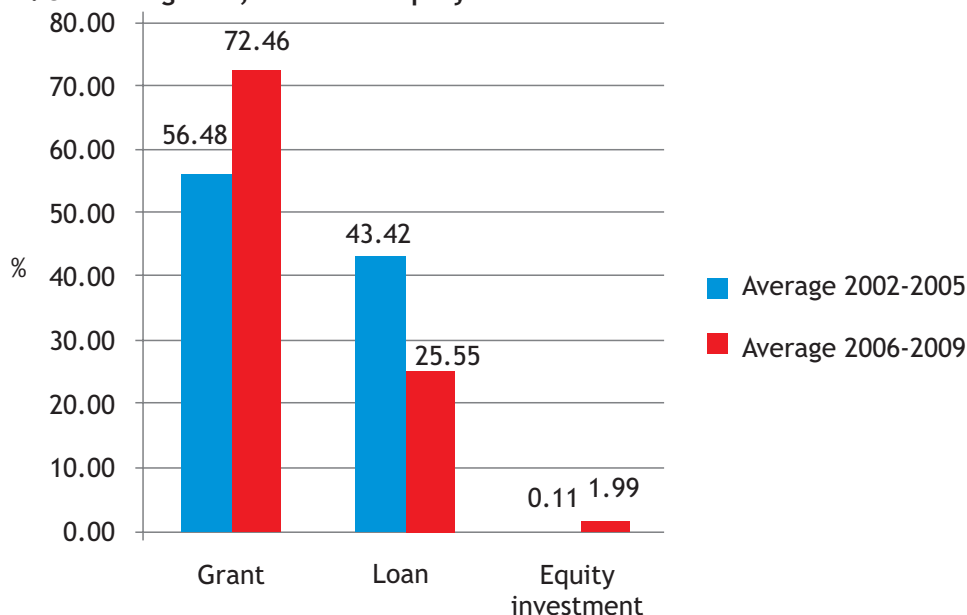


Source: OECD CRS.

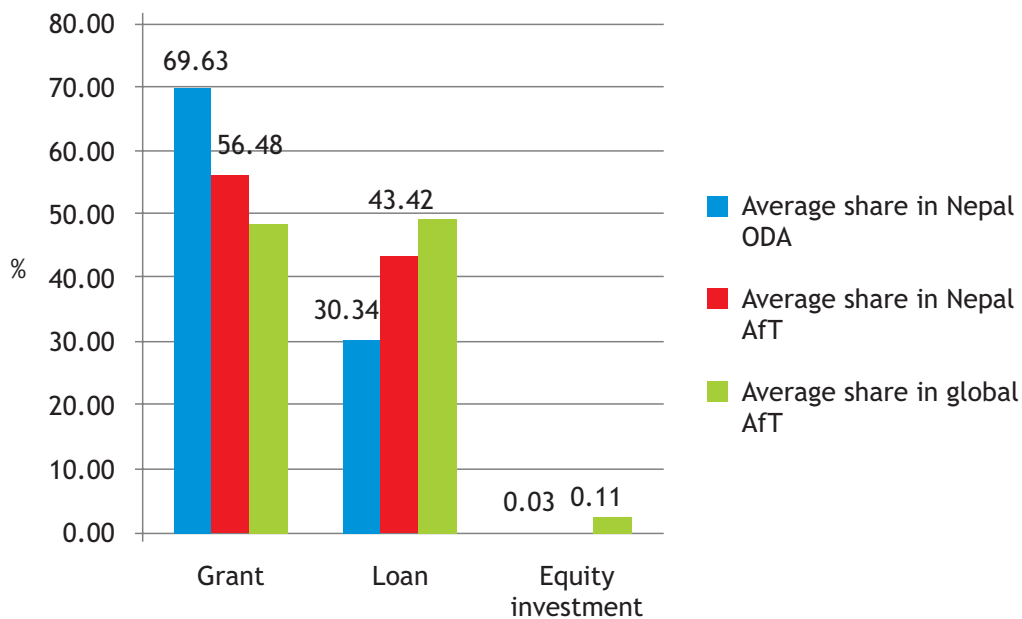
As a result, the share of grants in AfT commitments increased from 56.5 per cent to 72.5 per cent while that of loans decreased from 43.4 per cent to 25.6 per cent. The share of equity investment reached 2 per cent (Figure 21). The share of grants in AfT committed to Nepal was higher than that in

AfT commitments to all developing countries in both periods.²³ The reverse is true with respect to loans. However, the share of grants in AfT commitments has been lower (and correspondingly the share of loans higher) than that in overall ODA commitments to Nepal in both periods (Figures 22 and 23).

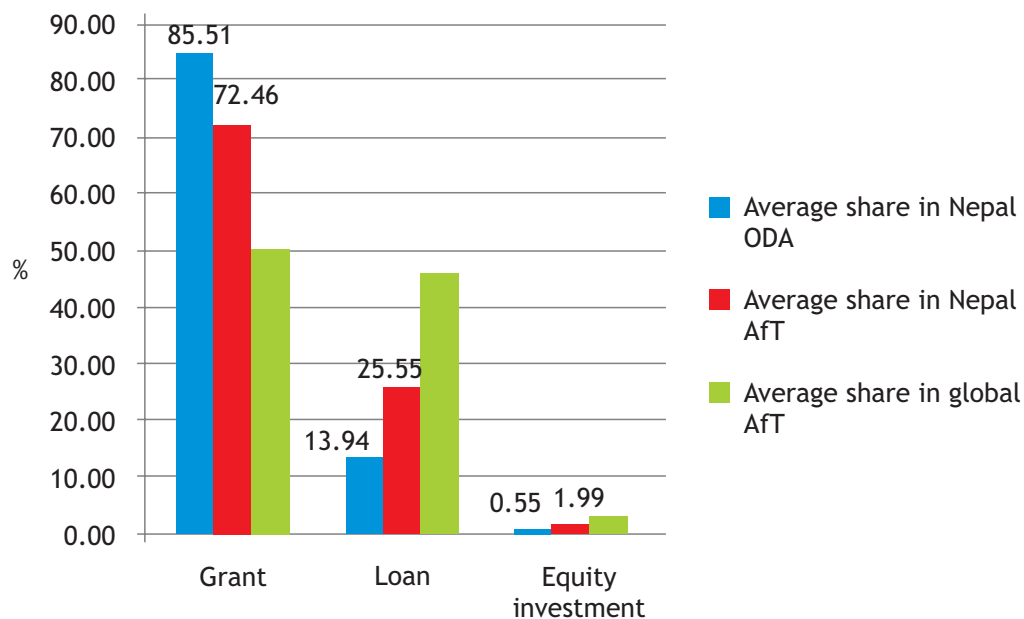
Figure 21: Share of grants, loans and equity investment in AfT commitments



Source: Calculations based on the OECD CRS database.

Figure 22: Non-debt creating nature: ODA vs. AfT commitments, 2002-05

Source: Calculations based on the OECD CRS database.

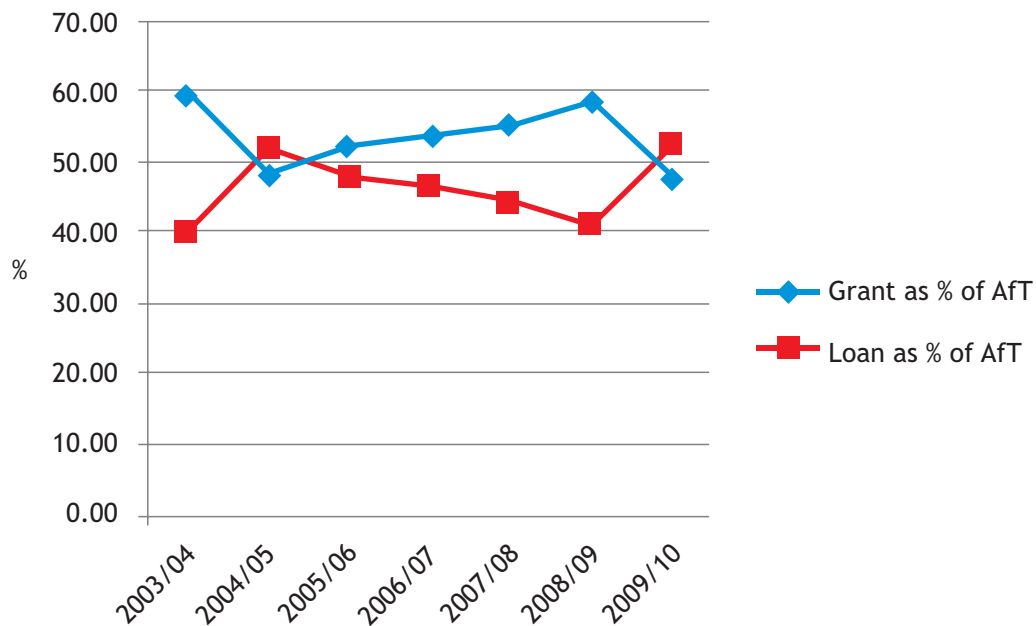
Figure 23: Non-debt creating nature: ODA vs. AfT commitments, 2006-09

Source: Calculations based on the OECD CRS database.

Using data from the GoN's Source Book, we see that the share of grants has increased and remained higher than that of loans from 2005/06 until 2008/09 (Figure 24), although

it is not as high as that shown by the OECD database. The share of grants in the total AfT commitments in the period 2005/06-2009/10 was 53 per cent.

Figure 24: Share of grants and loans in AfT (as projected in annual budget)

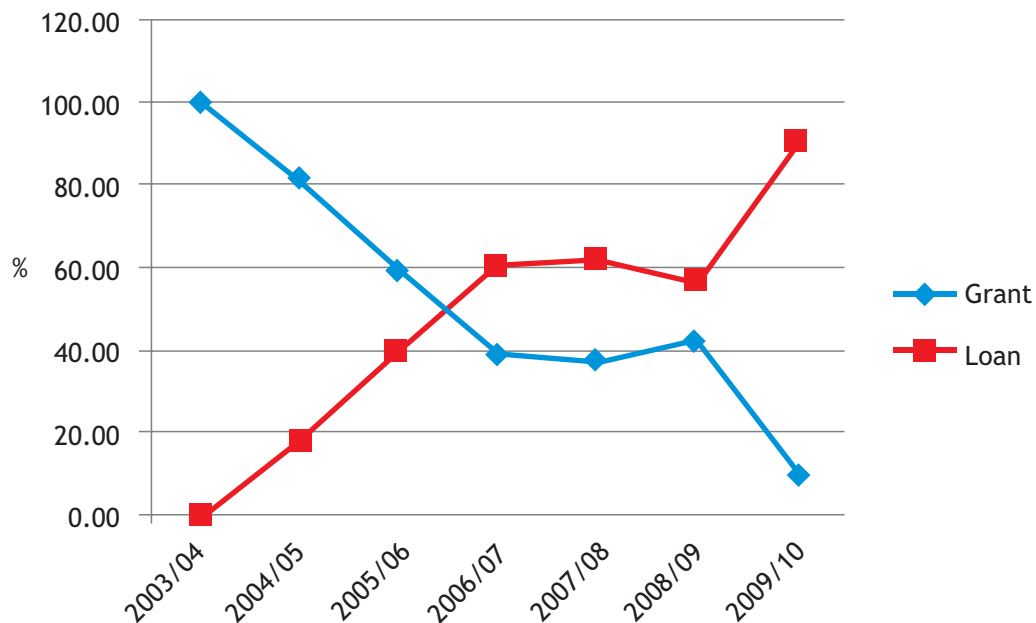


Source: Calculations based on GoN's Source Book, various issues.

In contrast to the increasing trend of the share of grants in total AfT commitments by developed countries, we find that the share of grants in South-South AfT commitments is declining (Figure 25), with loan accounting for 76 per cent of total

South-South AfT commitments during the period 2005/06-2009/10. The large share of loans is driven by aid from China and India, the major South-South donors to Nepal. Such loans are concentrated in the area of infrastructure development.

Figure 25: Grant/loan composition of South-South AfT



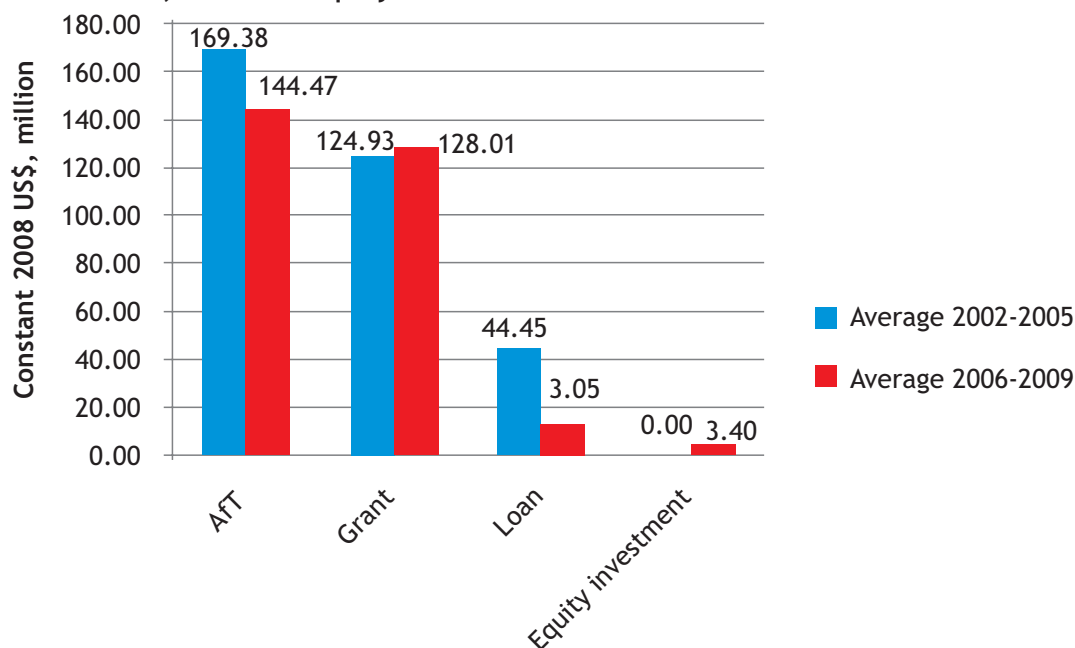
Source: Calculations based on GoN's Source Book, various issues.

Disbursement

While overall AfT disbursement decreased by almost 15 per cent, grant disbursement increased slightly, by 2.5 per cent (Figure 26). On the other hand, loan disbursement decreased by 70.6 per cent, which explains

the decline in overall AfT disbursement. Equity investment disbursement averaged USD 3.4 million in the new period compared to no such disbursement in the base period. However, equity investment disbursement was positive only in one year during 2006-09.

Figure 26: Grants, loans and equity investment in AfT disbursement

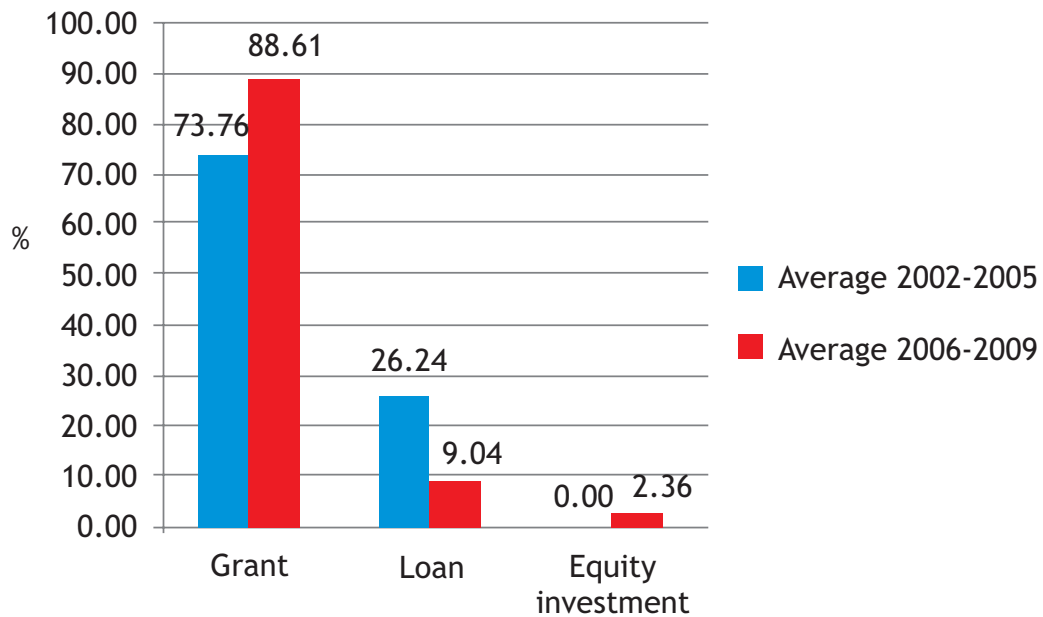


Source: OECD CRS.

As a result, the share of grants in AfT disbursement increased from 73.8 per cent to 88.6 per cent while that of loans decreased from 26.2 per cent to 9 per cent. The share of equity investment increased from zero to 2.4 per cent (Figure 27). The share of grants (loans) in AfT disbursed to Nepal was higher

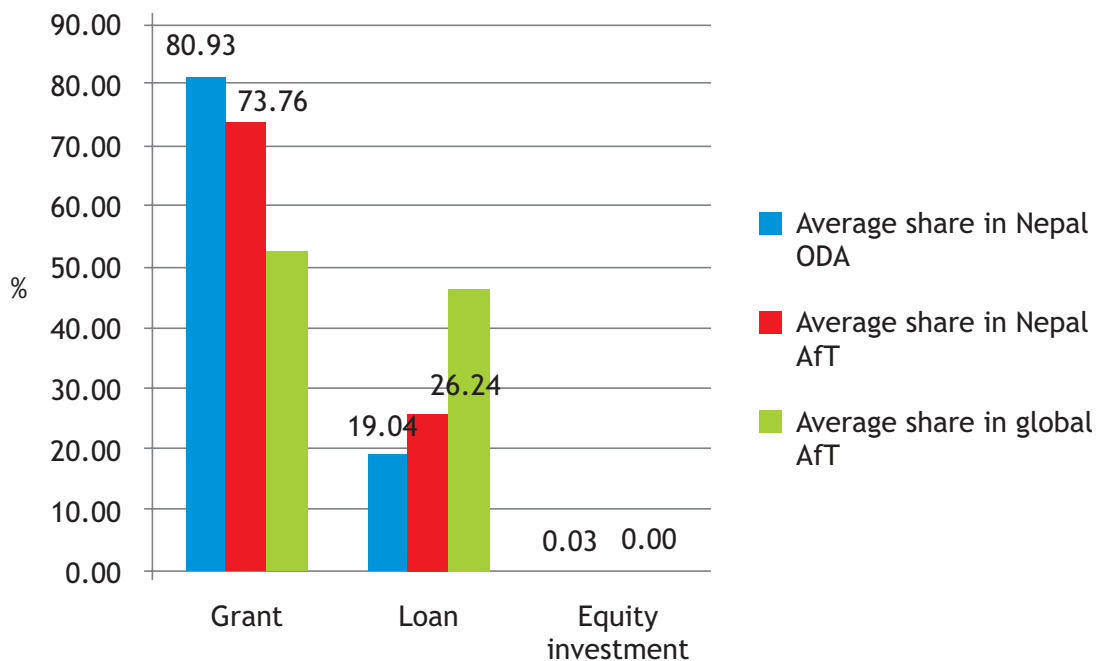
(lower) than that in AfT disbursements to all developing countries in both periods. However, the share of grants (loans) in AfT disbursement has been lower (higher) than that in overall ODA disbursements to Nepal in both periods (Figures 28 and 29), although this difference is lower than that in commitments.

Figure 27: Share of grants, loans and equity investment in AfT disbursement



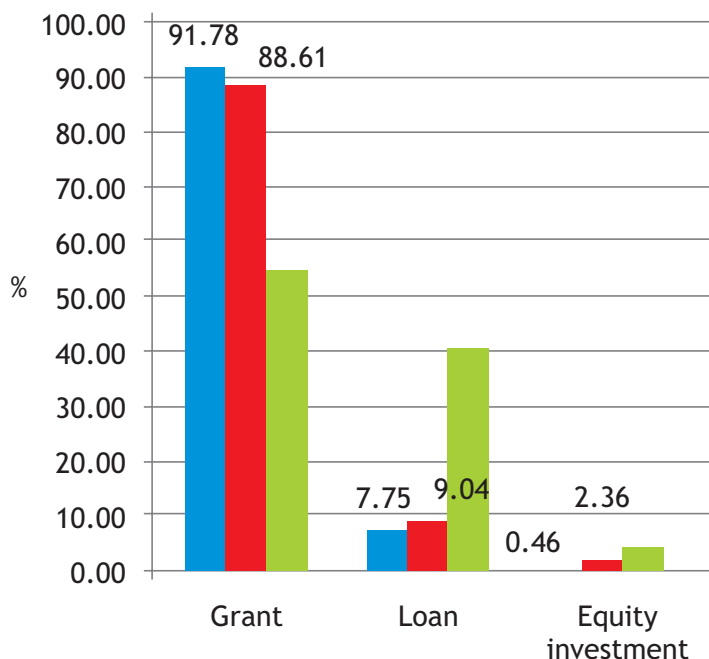
Source: Calculations based on the OECD CRS database.

Figure 28: Non-debt creating nature: ODA vs. AfT disbursement, 2002-05



Source: Calculations based on the OECD CRS database.

Figure 29: Non-debt creating nature: ODA vs. AfT disbursement, 2006-09



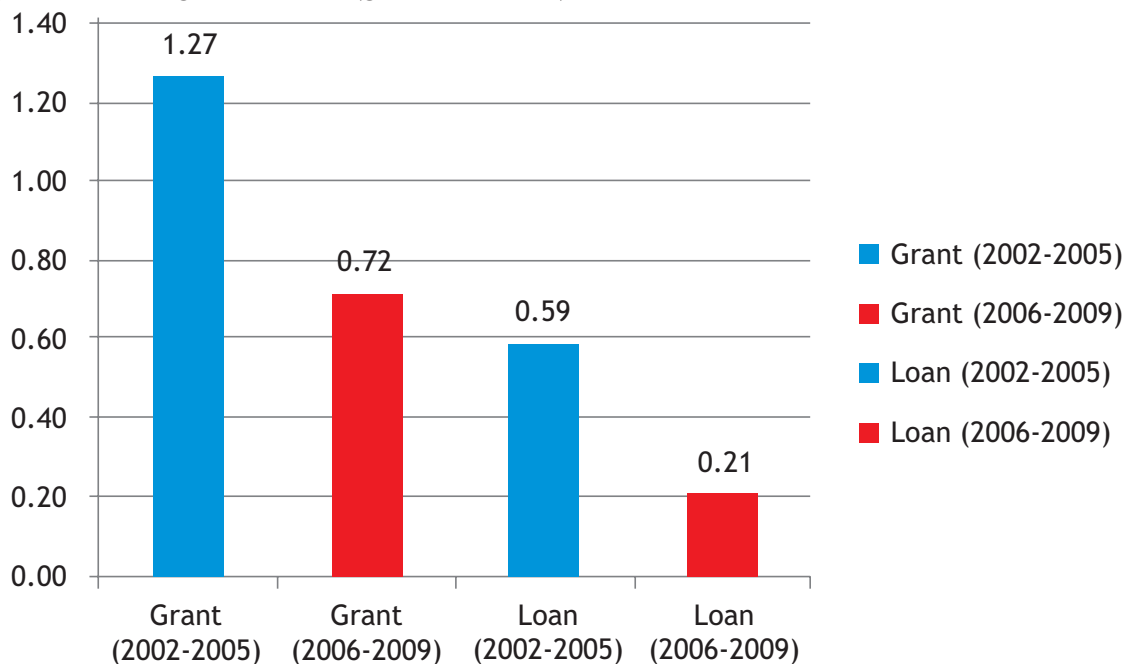
Source: Calculations based on the OECD CRS database.

Utilization

The annual average utilization rate (ratio of average disbursement to commitments) of both grants and loans has declined, but more sharply in the case of loans (Figure 30).

While the average utilization rate of grants decreased from 127 per cent to 72 per cent, that of loans decreased from 59 per cent to 21 per cent. The grant utilization rate has remained better than loan utilization rate in both periods.

Figure 30: Average utilization (grants vs. loans)



Source: Calculations based on the OECD CRS database.

Information on grants vs. loans from stakeholders' interviews

Bilateral aid is mostly in grant form while multilateral aid is a mix of grants and concessional loans. In the case of multilateral donors, whether aid comes as a grant or concessional loan or both is subject to review every year, and hence there is an element of uncertainty. In the roads sector, however, the grant component has increased in World Bank and ADB aid.

While AfT must come in the form of grants as far as possible, in order not to add to Nepal's external indebtedness, concessional loans, if unavoidable, should come for hardware (e.g. infrastructure, etc.). Software projects (e.g. training, capacity building, skill development, etc.) should be entirely grant-funded. Increased loans create the problem of debt sustainability in the case of LDCs. Not surprisingly, there is also the view among stakeholders that the entire debt of LDCs, including Nepal, should be cancelled.

4.11.3 Absorptive Capacity

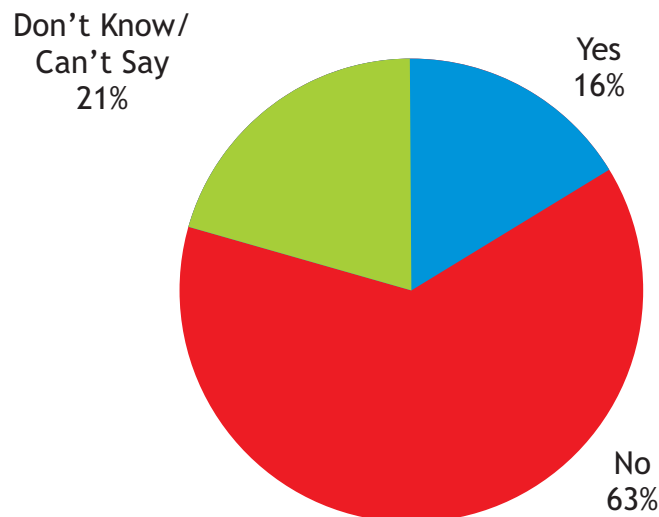
Here, we assess the GoN's absorptive capacity and factors constraining it, largely drawing on the in-depth interviews with stakeholders.

As we saw in the section on predictability, the utilization rate (defined as ratio of disbursement to commitments) of AfT has worsened and the gap between the utilization rate of AfT and the utilization rate of non-AfT ODA has widened. Due to data constraints, the utilization rate of AfT in terms of annual spending of allocated AfT at the level of programmes and projects could not be obtained from national sources.²⁴

The low absorptive capacity of the government appears to be a factor behind the low utilization rate. Some 63 per cent of respondents find the absorptive capacity of the government to be inadequate, as opposed to only 16 per cent who find it adequate (Figure 31).

Figure 31: Absorptive capacity of government agencies

Do you think the absorptive capacity of Nepal government agencies, responsible for implementing AfT projects, is adequate?



Source: Survey, 2011.

However, 49 per cent of respondents find the government's absorptive capacity to have improved in the last five years. The utilization rate of AfT funds could not be exactly quantified through survey or national-level data. But it emerged from the survey that it may be less than 60 per cent. However, donors find absorptive capacity in trade-related projects more adequate than that of other sectors.

The need to enhance absorptive capacity as part of capacity building aid was identified.

The private sector is of the view that channelling aid through the private sector will lead to better utilization.

The government's low absorptive capacity appears to be a factor behind the low utilization rate. The reasons for this, as suggested by the respondents, could be clustered into three broad categories, namely: a) human resource related; b) systemic factors (internal and external); and c) procedural factors (as explained in Table 8).

Table 8: Reasons for low AfT absorptive capacity in Nepal

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

5. EMPIRICAL STUDY: IMPACT

This chapter discusses the impact of AfT in Nepal at two levels: the project level and macro level. The reason for allocating a separate chapter for the impact assessment is that because of the depth and breadth of issues under investigation under this theme, it is difficult to cover them under Pillar II of the methodology, as envisaged earlier. Section 5.1 constitutes an impact evaluation of a project conducted as part of this study. Section 5.2 presents a summary of a case story, submitted to the Third AfT Global Review, on the EIF in Nepal that focuses on the development, formulation and implementation of NTIS 2010. Section 5.3 discusses macro-level impact. Section 5.4 presents the findings of the survey.

5.1 Project-level Impact Evaluation

5.1.1 Introduction

Since we consider impact evaluation to be a critical element for evaluating the effectiveness of AfT, we have used multiple methodological tools to perform this. The last one entails conducting a case study of a trade-related technical assistance (which can also be considered an AfT) project, and studying necessary documents relating to the project, discussions and follow up questions with the officials directly involved in it, as well as a Focus Group Discussion. The FGD, which was organized on 26 April 2011 at SAWTEE's Office, provided a platform for the relevant stakeholders to openly share their views on various aspects of the project.²⁵ However, care was taken to ensure that the discussion focused on the key issues relating to the project.

The reason for choosing a case study approach to supplement other qualitative and quantitative methods for impact evaluation was that it would facilitate an in-depth elucidation of a case (a project in this case), which is an objective of interest in its own right (Byrman, 2008: 54).

We, however, remain cognizant of one of the limitations of the case study approach, i.e. the findings derived from the study may not always meet the test of "external validity", although it may be possible to generalize the findings in similar contexts (ibid.: 57). Having chosen the case study approach, the reason for choosing FGD as the major methodological tool is that an impact evaluation of a project, which tends to be critical in nature, can be profitability applied so as to elicit a wide variety of different views in relation to the four major criteria (discussed later) based on which the project is going to be evaluated (ibid.: 475).

5.1.2 Project selection

A four-step scientific methodology was followed to arrive at the selection of the project for impact evaluation. First, the project team initially determined the following five criteria for the selection of the project:

- *Category*: Project falls clearly under one of the six categories of AfT identified by AfT Task Force;
- *Time-frame*: Substantial project/programme activities implemented between 2002 and 2009 (the period under observation);
- *Information*: Availability of information, including a project website and presence of institutional memory to seek and obtain required information;
- *Modality*: Multiple modalities of delivery ("hardware" and "software");
- *Donor*: Multiple donors' engagement.

The second step entailed the review of relevant literature, including websites on trade and other tradable sectors (such as the agriculture, industry and services sectors, of which tourism is considered the major tradable sector). During the third step, we included one question, which was posed to almost all the persons interviewed

during the survey phase, with a view to eliciting their ideas on which project they consider to be a “model” AfT project. Here one of the major problems encountered was that a number of interviewees were not fully aware what constituted AfT. Therefore, even after we prompted the interviewees, a very limited number of them were able to name such a project. The six major projects that were suggested as “model” projects by the interviewees were:

- Construction of Dry Port in Sirsia;
- Enhancing Nepal’s Trade-Related Capacity;
- Export Promotion of Aromatic and Medicinal Plants Project;

- Micro Enterprise Development Project;
- Multilateral Trade Integration and Human Development Project;
- Nepal Accession to the WTO Project.²⁶

Finally, these projects were analysed on the basis of them meeting the predetermined criteria, by giving a score of 2 to projects that fully met the relevant criterion, 1 to those that only partially met the criterion and 0 to projects that did not meet the criterion. The total score was then calculated for each project and finally the project scoring the highest score out of 10 was selected (Table 9).

Table 9: Criteria for the selection of project for impact evaluation

S.N	Project	Evaluation criteria and score					Total score (out of 10)
		Category	Time-frame	Information	Modality	Donor	
1	Construction of Dry Port in Sirsia	1	0	1	2	1	5
2	Enhancing Nepal’s Trade-Related Capacity (ENTReC) Project	2	2	2	2	2	10
3	Export Promotion of Aromatic and Medicinal Plants Project	1	2	1	2	1	7
4	Micro Enterprise Development Project (MEDEP)	1	2	2	2	2	9
5	Multilateral Trade Integration and Human Development Project	2	2	2	0	0	6
6	Nepal Accession to the WTO Project	2	1	2	0	0	5

The exercise proved rather more difficult than originally thought. Project numbers 2, 5, and 6 fall directly under the “Trade Policy and Regulations” category as per the recommendation of the AfT Task Force and they would also qualify to be considered as TRTA, even before the AfT initiative came into existence. However, this issue is not very clear for the other three projects. For example, the construction of a dry port in Sirsia should fall, for all practical purposes, under AfT because of its nature. However, it does not seem to fall under the category listed in Annex V of this report. The closest category within which one could expect it to fall is the “Economic

Infrastructure” category, specifically its “Transport” sub-category. However, this sub-category does not include dry ports within its ambit. If it does not fall anywhere, it could potentially fall under the residual category titled “Others”, but that too is difficult to determine because this category includes only the support that is decided by the donor and partners to fall under the AfT. Since the project was completed before the AfT initiative came into operation, this possibility is also ruled out. Therefore, we had no choice but to provide a score of 1 to the project under this category, because, to the best of our knowledge, it could be considered as only partially meeting the

requirement of falling under one of the six categories of AfT. Similar confusion exists in the case of the other two projects as well.

However, given the fact that the ENTReC project received the highest score 10/10 based on the criteria discussed above, followed by MEDEP with a 9/10 score, we selected the ENTReC project for the impact evaluation.

5.1.3 Impact evaluation

The impact evaluation is based on the four criteria prepared by Matthias Meyer, one of the consultants involved in preparing the methodological framework for evaluating the development effectiveness of AfT (see Adhikari 2011a for further details). These criteria are: a) relevance; b) efficiency; c) effectiveness; and d) sustainability. We will now apply these criteria to evaluate the impact of the project in a sequential manner.

(a) Relevance

In order to assess the question of the relevance of any AfT project, the first thing that we need to be aware of is the economic policies of the country at the time it was launched to find out whether the project was then considered to be a “high” priority. Based on the review of literature, including detailed project documents prepared by UNDP (2006), we found that the project was a “high” priority for the GoN at that time. However, before arriving at this conclusion, we studied three documents that were relevant at the time of designing the project, namely: i) the Trade Policy of 1992, which was the document that outlined the trade related priorities of the GoN at the time; ii) the Tenth Development Plan of the GoN (which is also known as the Poverty Reduction Strategy Paper, 2002-07), which provides the broad contours for the economic policies the country adopts for the relevant five-year period to achieve the government’s development objectives (NPC, 2003); and iii) the Nepal Trade and Competitiveness Study, the DTIS prepared by the GoN under Window I of the IF (MoICS, 2004).

Another issue of relevance that was discussed in the detailed project document and that came up during the FGD was that Nepal had become the 147th member of the WTO in 2004, which had further necessitated capacity building in the areas of trade and investment to take advantage of the market access and predictable trading opportunities offered by the WTO.

(i) Trade policy²⁷

It should be emphasized that Nepal’s membership of the WTO and other reform measures were part of a broader economic liberalization programme that was initiated in the mid-1980s. Among the many new policies implemented for this purpose, the Trade Policy of 1992 guided Nepal’s trade liberalization process. It contained the following objectives:

- Enhancing the contributions of the trade sector to the national economy by promoting internal and international trade with increased participation of the private sector through the creation of an open and liberal atmosphere;
- Diversifying trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable;
- Expanding trade on a sustained basis through a gradual reduction in trade imbalances;
- Coordinating trade with other sectors by expanding employment-oriented trade.

(ii) Tenth Plan²⁸

The Tenth Plan’s poverty reduction strategy is based on four pillars: achieving broad-based growth; social sector development, including human development and development of rural infrastructure; implementing targeted programmes including social inclusion; and ensuring good governance (NPC, 2003). One of the strategies for attaining broad-based economic growth, as envisaged in the plan document, was through the adoption of policies

to increase trade. Some of the means proposed for achieving this objective were:

- Lowering of transport costs by developing Inland Container Depots;
- Developing strategic roads and implementing a multi-modal transport strategy;
- Improving customs administration;
- Carefully negotiating accession to the WTO to link Nepal to the global community in an advantageous manner.

The Tenth Plan also aimed at undertaking reforms, including foreign trade and labour reforms, to improve the competitiveness of the private sector. It sought to promote the private sector, especially export-oriented industries, by removing impediments to development through strong promotional packages and incentives for investment.

(iii) Nepal Trade and Competitiveness Study

Although this document was prepared mainly by the World Bank with some inputs from local consultants, the Policy and Technical Assistance Matrix prepared by the study was highly relevant in the context of Nepal's impending accession to the WTO and its dwindling exports. The Matrix, among others, identified the following issues as priority actions to be taken by the government and/or other stakeholders, including the private sector:

- Strengthening trade policy capacity;
- Rationalizing institutions and practices;
- Setting up regulatory framework and strengthening institutions for attracting FDI;
- Enhancing the competitiveness of Nepali exports through reductions in trade and transaction costs;
- Identifying goods and services with future export potential, the latter in particular

in line with commitments made during the process of WTO accession.

Although not appearing as a separate item in the Matrix, but as a cross cutting issue, the Nepal Trade and Competitiveness Study envisages proactive engagement of the private sector in the implementation of several actions identified as priorities by the report.

If we juxtapose the ENTReC project's objectives with those of the three documents discussed above, we see striking similarities. For example, the project objectives were:

- Increasing the competitiveness of Nepali exporters;
- Creating a more empowered and engaged private sector;
- Enhancing the rigour of analysis underpinning Nepali trade policy;
- Fostering human development-friendly investment;
- Exploring areas of future promise for Nepal's trade-related economic growth.

It is clear from the above discussion that the project was relevant and did fit into the economic policy context of the GoN when it was designed. Unsurprisingly, there was a striking convergence of opinion amongst the participants of FGD on this issue. The observations made during the FGD were as follows:

- The project was based on the Poverty Reduction Strategy Paper, which is the Tenth Plan;
- Nepal had secured WTO membership, and work was to be initiated in the areas of intervention identified by the Nepal Trade and Competitiveness Study;
- The private sector did not have much awareness of trade-related issues and hence its capacity had to be enhanced;

- There was a need to create a moral pressure on donors to provide TRTA to Nepal, because a mandatory provision on technical assistance was incorporated in the working party report;
- There was a need for awareness on trade issues, including WTO membership. The public in general and the media in particular lacked information on trade matters. This gap needed to be filled;
- Even the government's capacity to deal with some of the trade-related issues was limited and there was a need to enhance the capacity of various government agencies.
- Trade negotiating capacity, especially at the bilateral level;
- Technical capacity of domestic standards-related and other business environment supportive institutions;
- Export capacity of "inclusive" export potential goods and services;
- The GoN's capacity to coordinate and manage TRTA and AfT and implement NTIS 2010.

It was also agreed that the project is still relevant in today's context. If we look at the approach paper for the second Three-Year Development Plan (2010/11-2012/13), the trade issue has not only been fully mainstreamed in the document, but also included as one of the pillars for achieving the country's overall development objectives (NPC, 2010). Similarly, the recent Trade Policy of 2009, announced by the GoN has the following objectives:

- To create a conducive environment for the promotion of trade and business in order to make it competitive at the international level;
- To minimize the trade deficit by increasing exports of value-added products through linkages between imports and exports trade;
- To increase income and employment opportunities by increasing competitiveness of trade in goods and services and using it as a means of poverty alleviation;
- To clearly establish interrelationship between internal and foreign trade, and develop them as complementary and supplementary to each other.

Finally, NTIS 2010, which was prepared by this very project, and which is now considered the most authentic GoN document on trade strategy, aims to strengthen the following:

Incidentally, the first of the above objective emanates from one of the activities under the ENTReC project (ENTReC, 2010). The other objectives also more or less support the issues identified and ideas contained in either the initial project document or the revised one. Probably based on these considerations, there was a near unanimous view among the participants of the FGD that the project remains valid at present too.

(b) Efficiency

There are three elements that need to be closely looked at in order to assess whether or not the project was efficient. These elements are: i) efficiency in project design; ii) efficiency in governance and management; and iii) efficiency in project implementation. Let us look at them sequentially.

(i) Project design

Since project design is largely a process-related issue, the only way to assess the efficiency of project design was to get an idea from the stakeholders. Fortunately, it was found that five out of the 10 persons who participated in the FGD or the institutions they represented were involved in the project design process. Looking at the project document and from the discussion with stakeholders who were engaged in the preparatory process, it was found that:

- Consultations were held with a wide range of stakeholders and beneficiaries, including the private sector (FNCCI as well as the Federation of Nepal Cottage and Small

Industries) while designing the project. The diversity of the project's activities also shows that stakeholders were consulted. This was partly due to the practice of the donor (UNDP) who funded the project. UNDP is mandatorily required to constitute what is known as a project advisory committee prior to the finalization of the project - in which representation from almost all the stakeholders is ensured.

- The project Steering Committee created for the project, the Project Executive Group (PEG), which was chaired by the Secretary of the MoCS, had representation from the relevant line ministries, private sector umbrella organizations and UNDP as donor facilitator and DfID as lead donor. That committee gave broad directions for the designing of the project.
- Although ownership of almost all the stakeholders at a general level was encouraged, the representative of the Department of Customs mentioned the Custom Valuation Manual published by the project, which despite its quality, was not owned by the Department, as could be seen from its refusal to use its office seal in the publication. However, participants at the FGD mentioned that such reluctance could be due to a lack of institutional memory or the personal preference of the head of the institutions at different time periods.
- Monitoring was mainly internal and more of the reporting type, with the project team reporting to the SC about the project and conducting a routine project audit, including financial audit, at regular intervals.
- Although it was mentioned that project alternatives were also considered, no evidence could be found of such alternatives having been considered at the stage of project design.

(ii) Governance and management

Since governance is about the policy direction and supervision at the political level of the

project, we approached this issue with the question as to whether the mandate of the SC, considered the topmost body in the governance hierarchy of the project, was adequate or not. Since there was no mention of the mandate of the SC (PEG in the case of this project), its adequacy could not be tested. However, from our reading of the Annual Progress Report 2006, which was prepared in 2007, we get an impression that PEG members lacked orientation as to their role and that their interaction with the donor was limited. The following remark from the report, which was made in the context of the perceived indifference of the PEG towards human resource problems faced by the project, is self-explanatory:

“Many issues could be minimized through active roles played by the project executive board [PEG]. In this context PEG members need proper orientation on their roles and a minimum level of interactions between UNDP high level authority and PEG is also felt necessary” (ENTReC, 2007: 9).

Next, we wanted to find out whether the reporting was adequate and if the SC intervened when necessary. On this issue we received positive responses from the project management team as well as the stakeholders. We then wanted to know whether or not the staffing of the project was adequate. The response to this question was an empathic “no” because, as emphasized by the erstwhile project team, the project never had adequate staff during the entire duration of the project. Although three professional positions (namely National Project Manager, Trade Policy Analyst and Private Sector Development and Communications Officer) were envisaged under the project proposal, they were filled only initially. When the National Project Manager left the country for further studies, the Trade Policy Analyst was given the “interim” responsibility of handling the project - which continued until the extended duration of the project and the position of Trade Policy Analyst was never filled. As explained by the MoCS official, this was because the project extension was not guaranteed, and there was

no strong justification for hiring the Trade Policy Analyst for the remaining duration of the project. Moreover, as narrated in the project termination report:

“Apart from the regular project activities, the project staffs [sic] were expected by the Ministry to support the ministry officials in terms of inputs and research work which, in most cases, are not part of the work plan given the highly technical advisory inputs needed by the Ministry at times, and the staff engagement should be well taken into account in the work planning exercise” (ENTReC, 2010: 10).

The report also mentions that the key staff turnover affected the project’s achievements significantly. The National Programme Directors - which are normally the senior-level government officials from the MoCS - changed six times during the project’s lifetime. The project was managed by an acting/interim Programme Manager for more than two years and there was no Account and Finance Assistant for the last two years of the project. Moreover, the split of the Ministry of Industry, Commerce and Supplies, which was responsible for implementing the project, into two different ministries also created serious problems for the project.

The final set of questions was whether the project management designed adequate annual business plans and managed its finances properly or not, and how the project was monitored. On the first question, we received a response from the project team that business plans were designed and executed to manage project finances. Since the stakeholders did not have any idea of whether or not that was the case, they did not comment on this aspect. However, the monitoring and evaluation aspect of the project was not that straightforward. Although the project document envisaged three distinct but interrelated modalities for monitoring and evaluation, it was found that only the annual review and bi-monthly/quarterly reporting were undertaken satisfactorily. We were also informed that internal monitoring at the end of the year through the SC was done on a regular

basis. The programme and financial audits were also conducted on an annual basis, which entailed auditing of the output as well. It was also mentioned that the financial auditing was also done by the Comptroller General’s Office. However, a mid-term independent programme review to be conducted to evaluate the “outputs/outcomes and to identify the areas for strategic, budgetary, or programmatic adjustment, if necessary” (UNDP, 2006: 7) as envisaged in the project proposal, was not found to have been conducted during the entire duration of the project.

(iii) Implementation efficiency

We used twin criteria - namely management efficiency and the views of the beneficiaries on the quality and usefulness of the project - to judge the success or otherwise of the project in terms of its implementation aspect. For this we first looked at the terms of reference of the project team and then compared them with the activities implemented under the project. While appreciating the human resource limitations that the project encountered, we noticed that deliveries of some activities were considerably delayed, while others were not implemented at all. For example, no study was conducted to assess the problem of the Nepali rupee’s hard-peg to the Indian rupee and provide recommendations for potential strategies to be adopted.

Similarly, a blueprint for key policy and institutional reform, which should have been prepared by the end of 2007 for improving the investment climate, was not achieved by the project. What the project instead did was to prepare an investment kit titled “Foreign Investment Opportunities in Nepal”, which was not included in the project document. This may have been very well endorsed through a demand-driven process, but we consider the project’s inability to prepare the “blueprint” as a lost opportunity. The project also prepared a draft investment policy, which has not been adopted by the government so far. It was revealed that due to the split of the Ministry, the new Ministry of Industry felt it expedient to conduct further deliberations before its adoption. This appears

plausible because the trade policy prepared by the project, which remained within the jurisdiction of the MoCS, was eventually adopted by the government in 2009. Likewise, a comparative analysis of existing SEZs in other jurisdictions with recommendations based on Nepali circumstances, which was meant to contribute to the objective of building a human-development friendly investment regime, was not conducted.

Finally, the project could not complete its work of including Nepal in the Global Trade Analysis Project database - despite the fact that the required spade work, including preparation of a Social Accounting Matrix and Input-Output Table, had been completed - due to the donor's decision to discontinue the work borne of budgetary constraints, and the decision of the MoCS to transfer this work to the National Planning Commission, which had undertaken to complete the task.

At the same time, some of the activities that were not originally envisaged in the project document were also conducted. Examples include: lobbying for duty-free quota-free market access in the US; organization of workshops on competition policy and consumer protection issues; and the training of judges on copyright issues. While some of these activities contributed to the achievement of the project objectives, either directly or indirectly, the contribution of the others could not be ascertained.

On the second aspect of the evaluation, i.e. the project's quality and usefulness in the eyes of beneficiaries, we had to exclusively rely on the FGD, during which stakeholders made the following observations:

- The Department of Customs has received increased attention from donors after the preparation of DTIS and NTIS 2010. The usefulness of the hardware support, such as the installation of CCTV in five customs offices, which has contributed to enhanced monitoring, efficiency and transparency, was well appreciated by the Department.
- Appreciation was also expressed for the software support in the form of the publication of a customs valuation manual, which the participant from the Department of Commerce hailed as "one of the best documents on customs valuation produced thus far", as well as a handbook on post-clearance audit.
- In the opinion of the private sector representative, dialogue under the Business Consultative Round Table could not produce the desired impact, but market intelligence reports were highly useful. Others remarked that the perceived lower impact of the roundtable could be ascribed to the weak institutional memory of the private sector bodies.
- The participant from the media sector mentioned that NTIS 2010 has identified export potential products, which provides a basis for further action and that donors also find NTIS 2010 a positive output of the project; interaction with stakeholders has been good; the project has provided inputs to trade and industrial policies; and the project has contributed to enhancing the capacity of the media on trade and investment issues. He was of the view that given the relatively low budget, the outputs should be considered quite substantial. Despite generally positive observations about the NTIS 2010, some stakeholders were found to be critical of the methodology applied for selecting the goods and services, with some even suggesting that political rather than economic criteria guided the selection of some products included in the list of 19 goods and services identified as having export potential. Others criticized the engagement of foreign consultants in the preparation of the NTIS 2010 despite the existence of sufficient in-country capacity to prepare the report.
- The representative of the Trade and Export Promotion Centre also lauded the efforts of the project in helping it fulfil its mandate.

(c) Effectiveness

Measuring effectiveness entails assessing outputs and outcomes, following the indicators in the project's log-frame and comparing expected and real results, and identifying the lessons learned that could be replicated in other projects/jurisdictions. While measuring the outputs is straightforward, in any project evaluation, one of the major challenges that an evaluator encounters is to measure the outcomes. This is more so in the case of the "trade policy and regulations" category of AfT, which is mainly responsible for providing software support, although the ENTReC project did provide some hardware support, as noted above. There are two major problems in measuring outcomes. The first is the attribution problem, which means that it is extremely difficult, if not impossible, to link the contribution of the project to a particular outcome. The problem is further compounded when the outcomes are as broad as "achieving human development objectives" as was envisaged under the project. The second problem is that there is, more often than not, an absence of counterfactual evidence, which

makes it doubly difficult for the project team as well as evaluators to predicate what would have happened if the intervention envisaged under the project had not taken place.

Given these challenges, our analysis here would be limited to understanding whether the outputs produced under the project could make any contribution to achieving the objectives envisaged by the project based on the project documentation and the FGD, taking into consideration the constraints under which the project had to operate and the country context. Although an exercise of this nature is necessarily subjective, it is our understanding that it could, at the very least, provide an indication of how the project fared in terms of achieving its intended objectives. We do recognize that the overall objective of the project, i.e. "to build capacity and capabilities of the government, private sector, and citizens in urban and rural areas to take advantage of international income and employment opportunities" (UNDP, 2006: 1) is too broad and too vague to make any meaningful measurement. Table 10 presents the findings of our assessment.

Table 10: Results for effectiveness

Project intervention	Results	Major constraints/impediments/additional points
Increase competitiveness of Nepali exporters	Partially achieved	Aggravation of supply-side constraints mainly due to fluid political situation
Create a more empowered and engaged private sector	Partially achieved	Lack of institutional memory of the private sector and discontinuity of some of the activities initiated under the project
Enhance the rigour of analysis underpinning Nepali trade policy	Partially achieved	Lack of full support for the completion of the database for inserting the country into the Global Trade Analysis Project and transfer of responsibility to the National Planning Commission
Foster human development-friendly investment climate	Very limited achievement	Continued deterioration of investment climate and non-enactment of major economic legislation because of them falling outside the priority of the government, and non-adoption of investment policy due to the split of the Ministry of Industry, Commerce and Supplies
Explore areas of future promise for Nepal's trade-related economic growth	Fully achieved	Preparation of NTIS 2010 is a major achievement in the areas of exploring the future promise for Nepal's trade-related economic growth

Finally, in terms of lessons learned and the possibility of replicating this project elsewhere, based on the FGD, we found that:

- The project should contribute to building the capacity of the government, as much as those of other stakeholders, for which the MoCS should establish its own research wing. Such projects should also help build national institutions for research and analysis, rather than relying on foreign consultants.
- To create a greater sense of ownership among stakeholders (from government to the private sector), projects of this nature should refrain from using project/donor logo/names in publications or while issuing invitations.
- The problems of weak institutional memory, whether within the government or the private sector, should be overcome.

(d) Sustainability

Although the sustainability aspect was not fully taken care of at the time of designing the project, during the FGD it was found that a demand-driven approach followed during the project has led to a certain level of sustainability. As the project was nearing completion, the MoCS approached other donors to support the preparation of NTIS, which was meant to be an update of the DTIS prepared in 2003. While DfID and the government of Finland provided resources for this endeavour, the IFC also provided support by fielding consultants. This support contributed significantly to the financial, institutional and human resource-related sustainability of the project. Even after the NTIS was prepared, the MoCS prepared a proposal for EIF Tier 1 funding, and received support worth USD 900,000 from the EIF secretariat. Efforts are already underway to prepare a proposal for EIF Tier 2 funding. From this perspective, it is clear that the institutions created under the project are going to survive at least in the medium term and the project has adequate funding to continue the work it has done in the past.

Although it is not guaranteed that the project will be able to offer the same nature and quality of services as previously, due to human resource constraints, there has been a continuity on the human resource front because the national programme manager of the ENTReC project continued to serve in the same capacity in the current project. However, for the sake of long-term sustainability of the project/programme, it is necessary to build national capacity and the government should provide adequate resources for the implementation of trade-related projects rather than relying on donors. Despite this, private sector representatives expressed doubts as to the ability of MoCS to ensure long-term sustainability of such projects/programmes due to political reasons.

5.1.4 Conclusion

In order to gauge the impact of AfT, we conducted an in-depth case study of the ENTReC project, which was selected on the basis of certain pre-determined criteria. As in the case of most “trade policy and regulations” type of projects, it was difficult to evaluate effectiveness at the outcome level. However, based on the study of the project documents and the FGD with the stakeholders, we find that the project has to a considerable extent been successful in achieving its objectives. Having applied a pre-determined approach to evaluate the project, we found the following:

In terms of relevance, we found that the project was not only highly relevant when it was designed, but remains relevant to this day. The present-day relevance is buttressed by the publication of NTIS 2010, which was prepared by an extended version of the project itself. There was a general consensus that despite its limitations, NTIS 2010 is a useful document, which will not only guide Nepal’s trade integration strategy, but also be an advocacy document to attract donors’ support.

As regards efficiency, it was found that the project has done reasonably well in terms of project design, although ownership of stakeholders was not up to the desired level and

there was no evidence of project alternatives having been considered. In terms of governance and management, despite the human resource problem, most project deliverables were more or less achieved. It was also noticed that had the human resources of the project not been utilized by the MoCS for conducting some other time-consuming assignments, the project could have performed better. It was also observed that despite a systematic approach to monitoring and evaluation having been designed, no external/independent evaluation of the project has taken place. Finally, in relation to implementation efficiency, although the single “surviving” project staff performed according to his ability, he could not complete some of the critical activities envisaged under the project. They included an independent study on the currency peg, spadework to prepare the operational modality of SEZs for Nepal, and preparing a blueprint for a human development-friendly investment regime. The project achievements were generally viewed in a positive light by stakeholders, with the representative of the Department of Customs having emphasized the role of NTIS 2010 is attracting donors’ attention and the media representative suggesting that the project had achieved a lot considering the limited resource available. However, some stakeholders felt that the project was not helpful in building the capacity of the government per se, and that institutions like the Business Consultative Round Table may not have achieved the desired results. There was almost unanimity on the fact that the inability to complete the process of including Nepal in the Global Trade Analysis Project database due to the change in the donor’s priorities was a missed opportunity.

In terms of effectiveness, while outcomes could not be measured due to the attribution problem and absence of counterfactual, we tried to measure the effectiveness of the project on the basis of whether the project was able to complete the required interventions as envisaged by the project proposal. It was found that the project was able to fully achieve one intervention, and partially achieve three others, but that it made only limited headway in the

direction of fostering a human development-friendly investment regime, as noted above. In relation to the lessons learned, it was suggested that building national capacity - both within and outside government - was critical and the problems emanating from weak institutional memory should be overcome.

As regards sustainability, the MoCS has taken care of this aspect not only by mobilizing additional resources for the preparation of the NTIS, but also through the EIF to provide continuity to some of the project activities and to ensure financial, institutional and human resource sustainability. However, stakeholders were of the view that long-term sustainability of the project/programme can only be ensured if the government provides adequate resources, building the capacity of its officials for the implementation of trade-related projects rather than relying on donors and external consultants.

5.2 Case Story on NTIS 2010

In this section, we consider a case story on the EIF in Nepal, focusing on the development and formulation, and implementation of NTIS 2010, prepared by Bachmann (2011) and submitted by GoN to the Global AfT Review. It assesses the EIF in Nepal in three areas: mainstreaming and integrating trade into national development and poverty reduction strategies; setting up the necessary structures to coordinate the contribution of trade-related technical assistance at all levels (intra-governmental coordination, government-private sector coordination and government-donor coordination); and building capacity to trade. The case story finds that “major achievements” have been made in these areas.

NTIS 2010 charts a possible course for the development of the country’s export sector over the next three to five years, together with possible capacity development actions and selected short- to medium-term priorities that are supportive of “inclusive growth” (MoCS, 2010). It identifies 19 goods and services as priority sectors. It is the product of an effort

led by the MoCS, with financial and substantive support from UNDP, Finland, DfID, the IFC and the International Trade Centre. The aid for NTIS 2010 was part of EIF and constitutes AfT.

The case story notes that trade has been increasingly mainstreamed into Nepal's national development and poverty reduction strategies and is reflected in the annual budget of the GoN; the necessary structures to coordinate the contribution of TRTA have improved; an initial capacity to trade has been increasingly built up; and NTIS 2010 charts the possible ways towards tackling supply-side constraints in the future.

The case story points out that NTIS's focus on a limited number of goods and services, and the formulation of detailed action plans, have been widely regarded as a major advantage, enabling it to be the guiding document for all trade-related issues. NTIS 2010 was formulated through consultations between various government agencies, private sector bodies, civil society and the donor community, ensuring the involvement and therefore buy-in of all trade-relevant stakeholders, notes the case story. The case story notes that NTIS 2010 has emerged as the guiding document for trade issues, and the GoN's commitment to trade mainstreaming and implementing NTIS is seen in a range of activities:

- Trade in general and mainstreaming trade in the national development endeavours is mentioned as one of the six strategies to achieve broad-based economic growth in the Three-Year Development Plan 2010/11-2012/13;
- Export trade (both goods and services) is identified as one of the priority sectors in the Plan;
- Trade-led economic growth is prioritized and the promotion of international (and domestic) trade has been set as one of the main objectives for economic development in the Plan;
- The Plan refers in its working policy to NTIS 2010 as the guiding documents, stating that the necessary resources shall be mobilized and implemented according to NTIS 2010;
- GoN's commitment to a successful implementation of NTIS 2010 is reflected in the national budget. For fiscal year 2010/11, GoN has allocated NPR 30 million (around USD 0.4 million) for the implementation of NTIS 2010; for the following fiscal year, the amount is to be increased to NPR 50 million (around USD 0.7 million).

According to the case story, donor support is increasingly in line with the trade priorities identified in NTIS 2010, and since the beginning of 2011, development partners have begun to meet frequently in a newly formed Donor Group on Aid for Trade in order to more closely coordinate their efforts in line with NTIS 2010.

Besides these achievements, the case story also notes some problems and challenges ahead. The three problems faced during the development of NTIS 2010 and its implementation are: a) stakeholders are yet to recognize the importance of trade for economic growth; b) the frequent change in government staff; and c) concerns have been expressed over the methodology employed in the selection of priority sectors and the resultant exclusion of some important goods from the identified products, especially those that were included in the DTIS of 2004.

Cooperation and coordination at three levels - intra-governmental, government-private sector and among the donor community - is the most important challenge to the implementation of NTIS 2010, although it is widely recognized that great progress has been made in this regard. There is considerable scope for improvement. There is a critical need for structured information sharing and dissemination at all levels.

The lessons learned, according to the case story, are as follows:

- the need to involve all stakeholders right from the beginning to gain shared ownership during the implementation of NTIS 2010;
- the need to achieve a strong commitment from all the relevant governmental agencies and to increase the awareness that trade is a major driver of economic growth;
- the need to build up institutionalized coordination mechanisms and to use NTIS 2010 as a tool to achieve this goal.

5.3 Macro-level Impact

For a quantitative analysis of macro-level impact, we run a time-series regression to determine the relationship between AfT received by Nepal and the country's export performance (exports of goods and services), our independent variable of interest. AfT disbursement is used because, compared to commitments, it is more representative of actual spending. The OECD CRS database has commitment figures for Nepal from 1995 onwards but disbursement figures from 2002 onwards. We estimate the disbursement figures from 1995 to 2001 on the basis of the disbursement-to-commitment ratio for the period 2002-09 and annual growth in commitments from 1995 to 2001 (see Annex VI for detailed explanation of the disbursement estimation method). The time period covered by the regression is, therefore, 1995-2009. Both exports and AfT disbursements are considered in real terms, with the inflation adjustment done by using the consumer price index (CPI) index (with base year 2005) of Nepal. Since AfT interventions take time to show results, AfT disbursement is entered into the regression with a lag of one year. Both the dependent variable (exports) and the independent variable (AfT disbursement) are in logs.

We attempt to control for other factors, besides AfT, that can affect a country's export

performance. At the outset, we propose to consider the real effective exchange rate (REER), real world demand and domestic supply capacity.²⁹ The real world demand is defined as the total value of world imports of goods and services adjusted for world inflation given by the world CPI index (with base year 2005). The domestic supply capacity can be proxied by two variables: political risk (a governance indicator measuring political instability and absence of violence/terrorism calculated by Kaufmann et al., 2010) and Nepal's real Gross Domestic Product (GDP). Except REER and political risk, the other variables are entered in log form. The sources and the methodology for computing data for the variables are available in Annex VI.

As the variables are time series, one needs to investigate whether the variables are stationary or not. We conduct Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) unit root tests on the variables proposed to be included in the model. Given that we have only 15 observations, we restrict the lag length in the ADF tests to one. We find that the log of real exports is non-stationary (integrated of order one, i.e. $I(1)$), such that its first difference is stationary. The log of one-year lagged value of real AfT disbursement ($L1RAfTD$) is found to be stationary ($I(0)$), as is its first difference (more robustly). REER is stationary ($I(0)$), as is its first difference (more robustly). The log of Nepal's real GDP, a proxy for supply capacity (LRPNPL), is non-stationary. The PP test shows LRPNPL to be $I(1)$ whereas both ADF and PP tests show the variable to be $I(2)$. However, correlogram analysis and white noise tests lend support to the PP test result that the first difference of LRPNPL is stationary. Hence, we consider LRPNPL to be $I(1)$. The log of real world demand (LRWD) is non-stationary at its level, and integrated of order 3 ($I(3)$) without trend. Using third-difference of a variable means losing three observations, and, in view of the small sample size, we do not include LRWD in the regression. Further, Nepal being a small economy, dropping world demand as defined as total world imports may not lead to omitted variable bias. The political risk

variable (POL) is not stationary at levels. While the ADF test shows it to be non-stationary at first difference and integrated of order 2, the PP test shows it to be stationary at first difference (hence, $I(1)$). However, correlogram analysis and white noise tests lend support to the PP test result that the first difference of POL is stationary. Hence, we consider POL to be $I(1)$.

As the dependent variable and independent variables are not all stationary at levels, running Ordinary Least Squares (OLS) regression on levels could lead to spurious relationships. However, the possibility of a cointegrating relationship between the dependent and independent variables remains. But since the order of integration of the variables is not the same, the Engle-Granger cointegration test cannot be applied here. Given the extremely small sample size, we do not go for advanced cointegration tests such as Johansen's test. Hence, we do not consider the possibility of a cointegrating relationship between the dependent and independent variables.

Given these constraints, our estimation strategy, then, is to regress the first difference of log of real exports on the first difference of the independent variables REER, LRPNPL, POL, L1RAfTD. This way, all the variables in the model are rendered stationary. The number of observations falls to 13 (from 15 in the original sample) due to the use of a one-year lagged value of log of AfT disbursement (L1RAfTD) and the first differencing of all variables. When only dL1RAfTD (first difference of L1RAfTD) is taken as the independent variable, the coefficient is 0.13 (Column 1 of Table 11 in Annex VI). The linear pairwise correlation between the four (first-differenced) independent variables is less than 0.44 and statistically insignificant. Further collinearity diagnostics also show multicollinearity is not a problem: a) the largest variance inflation factor (VIF) is 1.78 (for dLRPNPL) while the mean VIF is 1.45; and b) the conditional number is 3 when data are uncentred and 2.24 when data are centred. In this multiple regression (Column 2 of Table 11 in Annex VI), all coefficients have the expected

sign but only dL1RAfTD, our main variable of interest, and dPOL are significant. The model is significant overall, as indicated by the F-test. The Durbin Watson statistic is 2.38, which, given $n=13$ and k (number of regressors) =4, is greater than the tabulated upper bound value of 1.826, the null hypothesis that there is no autocorrelation (against positive first-order autocorrelation) cannot be rejected. Further, Durbin's h test for serial autocorrelation, white noise test of serial autocorrelation, Breusch-Godfrey Serial Correlation LM test for higher-order serial autocorrelation, as well as correlogram analysis of the errors confirm that errors are not auto correlated. In this model, where the real effective exchange rate, real GDP and political risk are controlled for, AfT disbursement (with a one-year lag) is positively associated with exports, and the relationship is statistically significant. The coefficient on AfT disbursement is 0.14, slightly more than in the single explanatory variable model. Since both the dependent variable and the independent variable are in the form of first difference of logs (i.e. change in logs, or growth), the interpretation of the coefficient on AfT disbursement would be that a 1 percentage point increase in the *growth* of AfT disbursement is associated with a 0.14 percentage point increase in the *growth* of exports one year later, *ceteris paribus*.³⁰

Since both dLRPNPL and dPOL capture supply capacity, although there is statistically no correlation between them as mentioned above, we drop dLRPNPL (which had the highest, albeit low, VIF as discussed above) from the regression, and find that the coefficients on dL1RAfTD and dPOL do not change significantly, while the coefficient on dREER increases (maintaining the same sign) and becomes significant at the 10 per cent level (Column 3 of Table 11 in Annex VI).

Note that AfT disbursement enters the above-described models with a one-year lag. However, if one uses current-year AfT disbursement, there is no statistically significant relationship between AfT disbursement and export performance. Further, the fact that the time

series properties of the variables cannot be tested comprehensively because of the small sample size suggests caution while interpreting the regression results, which, therefore, should be taken as *indicative*.

These findings were challenged during the dissemination meeting on the grounds that over the past few years Nepal's exports have been decreasing. This is due to various reasons, such as political transition at home and the phasing out of textiles and clothing quotas at the multilateral level, and it would be difficult to discern a positive relationship between export performance and AfT.³¹ However, our argument is that there was a robust growth of exports between 1995 and 2001, followed by bouts of lacklustre performance in the latter period, which explains the positive association.

5.4 Survey Results on Impact

Most of those interviewed either argued that it would be premature to assess the impact of AfT, especially at the macro level, as it is still in a preliminary stage, or that its impact has not yet been felt. Some pointed out that there is a lack of awareness about AfT issues in the concerned government administrations and among donors themselves. That being said, respondents pointed to the impact of AfT being visible in some sectors. For example, projects involving upgrades of roads to bituminous roads have led to a reduction in transportation costs, according to a GoN official. AfT should focus on building core network roads that are vital for trade promotion. Likewise, the ADB-

supported ASYCUDA project in the Department of Customs is said to have a positive impact on trade facilitation and revenue collection. At the sub-sector/product level, AfT has helped in production and promotion of products such as large cardamom and ginger, but in other sub-sectors its impact is not visible.

Only 41 per cent of the respondents said that they were aware of AfT-supported projects that can be regarded as a successful model. Some identified the Micro Enterprise Development Project as a successful model not only from the trade perspective, but also from social development and social inclusiveness perspectives. The support for producing DTIS 2003 and NTIS 2010 are also some noteworthy achievements of TRTA/AfT programmes. The ENTReC project, discussed above, is also cited as a success. Furthermore, AfT-supported capacity building programmes in promoting small industries, tea, large cardamom and ginger are also noteworthy. The ASYCUDA project in the Department of Customs is also regarded as a success. AfT-supported projects have been helpful in promoting essential oil, food supplementary products, handmade paper, and cosmetics. Other "successful" projects cited were: Construction of Dry Port in Sirsia, which was mainly financed by the World Bank; Export Promotion of Aromatic and Medicinal Plants Project implemented by the AEC; the Multilateral Trade Integration and Human Development Project supported by UNDP; and the Nepal Accession to the WTO Project supported by UNCTAD. However, not all of these pertain to the post-2005 period.

6. SUMMARY AND CONCLUSIONS

We divide the summary and conclusions into the following categories based on the sequence of the analysis above.

6.1 Additionality

There has been additionality in AfT commitments received by Nepal, but not in disbursement. As per the OECD's CRS database, while commitments increased by 42 per cent in the post-Hong Kong period (2006-09) compared to the base period (2002-05), disbursements fell by nearly 15 per cent in the same period. There have been a 104 per cent growth in commitments in the economic infrastructure category, but AfT commitments under building productive capacity has decreased by 9 per cent. In both commitments and disbursement, the shares of economic infrastructure and trade policies and regulations have increased while the share of building productivity capacity has decreased. Economic infrastructure and building productive capacity categories accounted for more than 99 per cent of commitments and disbursement during 2006-09. Nepal has not received any AfT-related adjustment despite the need for it.

From the stakeholder survey, it emerged that dedicated AfT has been mostly in the form of software (mainly technical assistance, including training, capacity building, studies). Donors are not as eager to provide hardware support, which is much needed, as they are to provide software support. Bilateral AfT is mostly technical assistance. Multilateral donors tend to provide more support for hardware (e.g. infrastructure) compared to bilateral donors.

Tied aid is particularly a problem with bilateral aid, including technical assistance. Bilateral aid is tied to the requirement of having to procure resources (from equipment to human resources) from the donors. Aid received by the private sector is also found to be tied. Tied aid has serious negative implications for project sustainability. Some technical assistance is paid directly by the donors, outside the government

mechanism, and hence does not get recorded in the government's Red Book (which details expenditures and their sources). There is high prevalence of the use of foreign consultants even when local consultants are available.

The definition of AfT is too broad, encompassing even aid flows remotely related to trade. This has led to concerns about traditional, regular ODA being counted as AfT. While AfT has received the attention of donors at the global level, there is a lack of knowledge/awareness of AfT and/or a lack of commensurate attention to it in country offices.

The private sector has not received any significant dedicated AfT. It is of the opinion that donors do not understand the needs of the private sector and are against the cost-sharing approach that the private sector prefers.

Given the relative success of aid channelled under SWAPs, where donors contribute to a basket fund, policymakers, experts and civil society members recommend that a SWAP be followed for AfT too.

6.2 Predictability

There has been significant variation between commitments and disbursements of AfT. The utilization rate, defined as the ratio of average disbursement to commitment, declined in the period 2006-09 compared to the period 2002-05, from 98 per cent to 59 per cent. This is in contrast to the average variation of non-AfT ODA only slightly declining, from 102 per cent to 98 per cent.

There are several possible reasons for the variation between commitment and disbursement. First, the domestic absorptive capacity is low. The problems related to absorptive capacity for general aid to the economic sectors bedevil AfT. Second, the requirements stipulated by donors for the release of donor funds have proven burdensome

in some cases. Some funds are provided on a reimbursement basis, which means that the partner country should spend the resources first and then ask for reimbursement of the expenses. Third, even when the resources are spent in a particular year, it does not get reflected in the disbursement until such a time as the money is physically transferred to the partner country, which could take place in the next calendar year; and due to differences in fiscal years for reporting adopted by donors (typically based on the Gregorian calendar for reporting) and Nepal (which follows a fiscal year from mid-July to mid-July), the amount reflected in the CRS database and the figures prepared by GoN do not tally. (However, by comparing AfT commitment and disbursement flows for a four-year period, instead of looking at annual variations, this problem has been partly taken care of in this study.) Fourth, since revenue growth has been robust over the past few years, the government found it expedient to use its own money rather than asking donors to release the funds or asking for reimbursement. Fifth, donors are simply not disbursing the committed amount. Especially since 2006, donors' focus has been on social sectors and the area of "conflict and peace". Furthermore, for small entrepreneurs who have received foreign aid, donors' approaches and working modalities and procedures are "highly bureaucratic" and the administrative costs are high.

There are cases of programmes and projects facing external resource constraints even after commitments have been made by donors. However, this does not appear to be a severe problem in general. This, coupled with the fact that the utilization rate of non-AfT ODA has worsened only marginally, in contrast to that of AfT, suggests that low domestic absorptive capacity may be a major reason behind the variation between commitment and disbursement.

6.3 Sustainability

There has not been any discernible progress on the sustainability of AfT projects, be it financial sustainability, institutional sustainability or human resource sustainability.

The GoN is increasingly reliant on foreign aid for trade sector expenditure (using the OECD's definition of AfT). As a share in the GoN's projected contribution to all aid-funded programmes/projects, the allocation for AfT programmes/projects has been on a decreasing trend. The projected share of GoN funds in AfT programmes/projects has been consistently less than the projected share of GoN funds in overall aid-funded programmes/projects. The government's commitment to continue supporting projects after donor funding ceases appears to be weak. There is also little planning or provision for an institutional home for projects such that the institutional memory is preserved and project achievement can be maintained.

On a positive note, in the Tier 1 support as part of EIF, the government is attempting to bring in AfT under a SWAp model through the proposed Trade Trust Fund, which will greatly help sustainability. However, to ensure greater transparency in operations, the Fund must evolve into a Trade SWAp.

A lack of human resource planning (e.g. to address the problem of the frequent transfer of staff) is also hurting sustainability, as is a dearth of technical human resources in some government agencies. AfT donors are in general not found to be building the capacity/expertise of local institutions and individuals such that AfT projects could continue even when donor support ceases. Donors have a strong tendency to impose external consultants, leading to a "recycling" of donor resources, rather than building the capacity of local institutions and human resources, which is crucial for

sustainability. The rigid organizational structure of government agencies also gets in the way of building local capacity and expertise. The effectiveness of trade-related training and capacity-building workshops has been adversely affected by the frequent change in staff in the bureaucracy and the problem of the right staff not being sent for such training programmes.

The private sector views that mainstreaming the private sector into donors' AfT strategy at the national level will help sustainability.

6.4 Ownership/Mainstreaming

Trade mainstreaming has taken place at the plan document level. Trade has been identified as one of the six pillars of development strategy for the realization of the objectives of the Three-Year Development Plan 2010/11-2012/13. This is the first plan that has laid focus on trade mainstreaming for achieving development objectives. However, trade is yet to be mainstreamed at the substantive level.

There has been little coordination between other relevant line agencies and the MoCS to promote trade by mainstreaming it in each ministry's plans, policies and agendas. The existing institutional arrangement is a challenge to substantive trade mainstreaming. There is a need for active high-level involvement in the mainstreaming process - say, of the minister or prime minister.

Nonetheless, the process of formulation of NTIS 2010 was inclusive: government agencies, the private sector and donors are generally appreciative of the process and the output. However, the GoN faces the challenge of addressing concerns, including the private sector's, over the exclusion of some major products and those identified as priority sectors by other documents, for example, the Trade Policy 2009. Although the government's engagement with the private sector in mainstreaming trade has increased, the private sector finds the engagement inadequate and not very effective. The GoN stands accused of taking the private sector as

a means to achieve its consultation objective only. The private sector thinks it is provided a ceremonial role in most of the committees formed by the government on matters related to trade policy. It says it is consulted mainly for data, information and ideas, but its suggestions are not taken on board in the implementation phase. The private sector considers donors' insistence on the involvement of the sector to be a fad. It says donors seek its opinions but do not involve it substantially in project formulation and implementation.

Most donors are yet to substantially mainstream trade in planning and implementation of their aid strategy. There is inadequate sensitization and awareness about AfT among donors at the country level. Donors' priorities are more on peace, reconstruction and constitution writing rather than on hardcore economic issues. They remain focused on MDGs and the social sector, while trade receives peripheral attention. However, some donors are beginning to include explicit trade-related components in their programmes and projects.

6.5 Alignment

AfT appears generally to be going to areas identified as priority areas by the GoN, although the tendency of donors to push their own priorities and agendas remains. Every donor prepares its country assistance strategy even when the government has its own strategy. Partly due to inadequate national capacity and partly due to the approach of donors, national ownership in project design remains weak. If concrete bankable programmes and projects are developed for the operationalization of NTIS 2010, the document provides a basis for further alignment of AfT with the GoN's priorities, although the contents of other related GoN policy/plan documents must also be taken into account.

With regard to financial management and procurement mechanisms, a hybrid system, combining both donors' and the GoN's systems, is generally in place. Donors' use of their own systems is more prevalent in the case

of procurement under grants and technical assistance. After the Paris Declaration, donors appear marginally more conscious about following the domestic system.

The national Procurement Act is identified as a problem. Even honest and well-meaning bureaucrats are reluctant to go ahead with procurement involving relatively large amounts for fear of being wrongly implicated. The Act is construction-centred and stipulates a time-consuming process.

Implementation through PIUs is rampant. There is a tendency among some donors to implement projects through companies from their countries, while claiming that they themselves are not directly implementing the programme. It is difficult to keep track of projects implemented through PIUs. Similarly, money coming from international NGOs is difficult to track. Even some of them are creating a dual identity, by registering at the local level. The GoN has given extra latitude to certain donors to bypass the government system while disbursing aid.

6.6 Duplication and Donor Coordination

There is duplication of projects and funding, although donors are trying to avoid it and attempting to create synergy, particularly with the launch of NTIS 2010. Donors tend to copy already successful projects rather than support new ones, and are reluctant to support the development of entire value chain by pooling resources from all concerned agencies. They are very selective in picking up the easiest portions of NTIS 2010, with most picking up software components. Although donors are making efforts to create synergy between various projects even when duplication takes place, they have not achieved the desired level of success so far. The GoN is not found to have made enough efforts to prevent duplication.

6.7 Impact

At the macro level, regression analysis shows that AfT growth is positively associated with

export growth in Nepal. However, stakeholders in general feel that it would be premature to assess the impact of AfT, especially at the macro level, as it is still in a preliminary stage, or that its impact has not been felt yet. But there are some projects that are regarded as relative success stories.

A case study of the ENTReC project conducted to get an idea of the effectiveness of the project at the micro level shows that out of five areas of intervention proposed under the project, it has achieved full success in one area (exploring areas of future promise for Nepal's trade-related economic growth), partial success in three areas (increasing the competitiveness of Nepali exporters; creating a more empowered and engaged private sector; and enhancing the rigour of analysis underpinning Nepali trade policy), but very limited success in one area (fostering a human development-friendly investment climate) at the output level. The impact of the project at the outcome level could not be measured because of the extremely broad objective of the project, the problem of attribution and the absence of counterfactuals.

6.8 Coherence

In general, there has been no conscious effort at establishing coherence between AfT and climate finance, either at the donor or recipient level. However, there is near unanimous recognition of the need to create synergy between these two modes of financing. The EIF's National Implementation Arrangements do not involve the Ministry of Environment, which handles climate finance. To determine how to create synergy efficiently, comprehensive research is needed. Regarding donors, most of them have not explicitly linked AfT with climate finance in Nepal.

The major South-South donors in Nepal are India and China. The OPEC Fund and Republic of Korea are also providing AfT. The GoN's data show that AfT commitments from Southern donors have been fluctuating. Nonetheless, their share in total AfT commitments have

increased from less than 4 per cent in 2003/04 to nearly 38 per cent in 2009/10. The relative importance of AfT in their total aid commitments is also increasing. Their focus has been on infrastructure development. There is a perception of a lack of transparency in Southern donors' aid activities. Nepal is yet to fully tap the vast potential for AfT from China and India.

6.9 Demand-Supply Gap

Nepal is not being supplied with AfT in adequate amounts to meet its demand for such resources. The reasons for the gap are on the supply side as well as the demand side. On the supply side, donors are not providing dedicated AfT as per demand. The factors on the demand side are low domestic capacity to design and implement projects, poor ministerial coordination and weak articulation of national needs. The government is found lacking in its efforts to ensure that resources are being supplied to the areas of greatest national demand.

6.10 Grant Vs. Loan

The share of grants in AfT commitments increased from 56.5 per cent to 72.5 per cent while that of loans decreased from 43.4 per cent to 25.6 per cent between the periods 2002-05 and 2006-09 (based on the OECD CRS database). Nepal received a higher percentage of its AfT as grants than did developing countries as a whole in both periods. However, compared to ODA commitments to Nepal, the share of grants in AfT commitments is lower.

The share of grants in AfT disbursement increased from 73.8 per cent to 88.6 per cent while that of loans decreased from 26.2 per cent to 9 per cent between the periods 2002-05 and 2006-09. As in the case of commitments, Nepal received a higher percentage of its AfT disbursed as grants than did developing countries as a whole in both periods. However, compared to ODA disbursements to Nepal, the share of grants in AfT disbursement is lower.

In contrast, we find that the share of grants in South-South AfT commitments is on a declining trend (based on GoN data). The loan share in total South-South AfT commitments during 2005/06-2009/10 hovered around 76 per cent. Such loans are concentrated in the area of infrastructure development.

6.11 Absorptive Capacity

Although absorptive capacity is identified as a major problem by all stakeholders, there are significant differences in the explanations offered. We divide them broadly into three categories: human resource related, systemic (internal as well as external) and procedural. While the first category of problems include the lack of qualified human resources and their level of motivation, systemic problems within the government include political instability and a lack of project banks, which can be "sold" to donors based on their priorities. Similarly, systemic problems on the external front include delays in the disbursement of resources due to procedural delays on the part of donors and donors' reluctance to directly fund the private sector. Finally, procedural problems include the mismatch between fiscal years of donors and recipients (which might show lower disbursement in one year and higher in the other), delays in procurement due to the excessively bureaucratic provisions in the Procurement Act and difficulties in the timely allocation of counterpart funds.

Based on the indicators developed for the purpose of this study and having analysed them with the help of primary as well as secondary, and qualitative as well as quantitative, information - and subject to the limitations of this study - we conclude that AfT, at least in the context of Nepal, has only been partially effective. This is, at least in part, because AfT, being a part of ODA, cannot steer clear of the conundrum of aid (in)effectiveness that bedevils the traditional aid system.

While the "development" implications of AfT are far from clear because of several limitations

highlighted above, there is a strong case for increasing both the quantity and quality of AfT. The positive association between AfT and export growth augurs well for the quantity part. However, in order to improve the quality of AfT, strict adherence to the Paris Principles and the Accra Agenda for Action alone and participation in the relevant follow-up activities of these initiatives may not be enough; neither will the “business as usual” mentality of stakeholders (primarily

the government, donors and the private sector) be helpful. Taking a cue from other LDCs that have leveraged AfT for their development, and learning from its own successes and failures, the GoN should commit itself to making AfT effective, and donors should contribute to this endeavour in the spirit of the declarations/decisions adopted in Paris, Accra, Hong Kong and Geneva (where the WTO Task Force on Aid for Trade met and finalized its report).

7. RECOMMENDATIONS

Based on the findings of the study, the following recommendations are made, for the government, donors and the private sector.

7.1 Government

Policy/institutions:

- Review and revise Foreign Aid Policy to incorporate AfT.
- MoCS to maintain a record of AfT programmes and projects in coordination with other government agencies and donors.
- Effectively ban direct implementation of projects by international NGOs by bypassing government policies/mechanisms and registering as domestic NGOs. Develop and implement guidelines on mode of project/programme implementation for donors so that the national mechanism is not bypassed.
- Unpack NTIS 2010 by developing concrete programmes and projects (create a Project Bank), including cost estimates, for implementing its action matrix. In this regard, operationalize the EIF's Technical Committees.
- Determine the opportunities and challenges of a Trade Trust Fund, and expedite the creation of such a Fund so as to pool/consolidate AfT resources, ultimately under a Trade SWAp. Estimate the size of the Fund and how much the GoN can contribute to it before approaching donors to fill the gap.
- Strengthen the National Implementation Unit at MoCS, including by defining the roles and responsibilities of the inter-ministerial coordination officer, for effective coordination between MoCS and sectoral ministries. Clearly define the role and responsibilities of sectoral ministries in implementing NTIS, and help them/build their capacity to mainstream trade in their respective policies and strategies. Upgrade WTO focal points in

line agencies to trade focal points. Set up an effective mechanism for monitoring NTIS implementation.

- Where possible, link AfT projects with related national academic institutions to ensure sustainability in terms of human resources and technical capacity. For example, establish synergy between the Department of Customs and information technology-related academic institutions for effective customs modernization.
- Increase budgetary allocation for trade-related projects and programmes; and pay due attention to the sustainability aspect of aid-funded projects.
- Revise the Procurement Act so that the procurement process is not unduly time-consuming and bureaucratic.
- Establish coherence between AfT and climate finance. To this end, commission research on how to create synergy between these two modes of financing efficiently; and include the Ministry of Environment in the EIF's National Steering Committee.
- Ensure high-level involvement in trade mainstreaming - for example, at ministerial or prime minister level.

Aid negotiations:

- Press for AfT to build supply-side capacity and trade-related infrastructure as a priority.
- Firmly insist on the use and/or enhancing the capacity of domestic human resources and institutions in aid-funded programmes and projects.
- Seek trade-related adjustment, particularly to address the negative consequences of trade liberalization.
- Seek aid for enhancing the absorptive capacity of GoN agencies and improving civil servants' capacity to design projects.

- Be more pro-active in securing a greater quantum of AfT trade from South-South donors, in particular neighbouring countries, China and India.

Engagement with stakeholders:

- Continue engagement with the private sector in NTIS 2010 formulation by taking it on board in the implementation phase. Address concerns about the exclusion of certain products in NTIS' priority list.
- Explore avenues for public-private partnerships for the implementation of AfT projects and programmes.
- Develop, jointly with the private sector, an AfT project bank for public-private partnerships and develop modalities for implementing such projects.

Human resources/capacity building:

- Improve human resource planning: minimize staff turnover through the implementation of a rational transfer policy; effectively link rewards and penalties to performance. Minimize turnover of staff at the Planning and International Trade Division at the MoCS, provided their performance is satisfactory. Take appropriate measures to improve institutional memory in government agencies.
- Build the capacity of civil servants for designing projects.
- Strengthen and institutionalize the research and analysis capacity of the MoCS, including its affiliate organizations, such as the Trade and Export Promotion Centre.
- Develop programmes to enhance the absorptive capacity of GoN agencies.

7.2 Donors

Sustainability:

- Provide dedicated AfT through the proposed Trade Trust Fund/Trade SWAp.

- Focus on building the capacity/expertise of local institutions and individuals such that AfT projects could continue even when donor support ceases. Emphasize trainers' training rather than just training.

- Stop imposing conditionalities on the sourcing of equipment and human resources. Allow mobilization of local institutions and experts, as far as possible. When hiring foreign consultants is unavoidable, station them inside government agencies.

Alignment:

- Align AfT with the needs identified in NTIS 2010 at the sectoral level as well as the GoN's other relevant policy/plan documents.
- Increase the use of the GoN's financial management and procurement systems.
- Simplify working modalities and administrative procedures, which are onerous particularly for small entrepreneurs.
- Avoid implementing projects through parallel implementation units. Implement projects by notifying the GoN - either through GoN agencies, Nepali NGOs and/or Nepali private sector organizations, as appropriate. Cooperate with the MoCS when it seeks information on AfT projects and programmes.
- Provide aid for enhancing the absorptive capacity of GoN agencies, as well as enhance the capacity of GoN agencies and employees to design projects and programmes.
- Scale up direct aid to the private sector as well as to PPP projects.

Mainstreaming:

- Mainstream trade in aid strategy for Nepal.
- Sensitize staff at country offices in Nepal on AfT and the donors' positions on AfT at the global level.

Coordination/coherence:

- Effectively coordinate to avoid duplication of assistance (including for the implementation of NTIS 2010).
- Move coordination beyond sharing information to creating synergy between aid flows, e.g. developing entire value chains.
- Establish coherence between AfT and climate finance in aid strategy for Nepal.

Other:

- Provide AfT in grant form as far as possible in order not to add to Nepal's external

indebtedness. This is relevant particularly for South-South donors.

7.3 Private sector

- Develop AfT project proposals for implementation in PPP mode.
- Conduct research and studies so as to be able to provide informed inputs to the government in relation to trade policy issues in general and for the implementation of NTIS 2010 in particular.
- Make investments in creating human resources capable of negotiating AfT with donors, and effectively implementing projects.

ENDNOTES

- 1 This report applied a draft methodology (Adhikari, 2011a). The methodology has been revised on the basis of the findings of the Nepal study and the other country studies conducted by ICTSD, and then applied in other countries.
- 2 Brief descriptions of these initiatives are provided in Annex IV.
- 3 See, for example, Saner and Paez (2006); OECD (2006); CUTS, NSI and FLASCO (2006); Adhikari (2008).
- 4 “The first stage of the programme provides the key trade-enabling building blocks for countries to work through how to prioritise actions needed to promote economic growth and sustainable development. The diagnostic trade integration studies provide a common platform for government, civil society, private sector and development partner stakeholders to own the trade and development track a country is moving down to secure a strong trading future”. See: http://www.enhancedif.org/EN%20web%20pages/EIF%20toolbox/Project_guidelines.htm (accessed November 2011).
- 5 The National Implementation Arrangements comprise a National Steering Committee, led by the Chief Secretary, GoN; a Focal Point (Secretary, MoCS); a National Implementation Unit, led by the Joint Secretary, Planning and International Trade Cooperation Division, MoCS, among others. See: http://www.enhancedif.org/documents/Vacancies/TOR_Capacity%20Development%20Advisor_10Jan2011.pdf (accessed November 2011).
- 6 Ibid.
- 7 STDF website (accessed 31 December 2010).
- 8 Based on email communication with Mr. Shiv Raj Bhatt, National Project Manager, MoCS, between 30 March and 1 April 2011.
- 9 See Annex V and WTO (2006) for further details.
- 10 Due to its special importance and length, the results for the impact part are presented and discussed in the next chapter.
- 11 The OECD’s Development Assistance Committee defines technical cooperation as including “both (a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and not separately identified as technical cooperation in statistics of aggregate flows”.
- 12 See note 18.
- 13 Ministry of Finance, 2010b.
- 14 Department of Customs, GoN, “Status paper prepared for the tripartite review meeting to be held on Kathmandu on 9-10 September 2003”.
- 15 See Khanal et al. (2008), p. 105-8.
- 16 Ibid.

- 17 Interview with Mr. Jib Raj Koirala, Under Secretary, MoCS.
- 18 Interview with Mr. Pushpa Shakya, Joint Secretary, National Planning Commission.
- 19 It was also suggested that there should be a mandatory tenure security of at least five years.
- 20 For example, DfID provided support to MoCS for the preparation of NTIS 2010, as well as support to tourism-related programme such as the Great Himalayan Trail Development Programme.
- 21 The Economic Development Cooperation Fund provides development assistance in the form of concessional loans to developing countries. See: <http://www.odakorea.go.kr/eng/introduction/loans.php> (accessed November 2011).
- 22 The figures in this paragraph are taken from the country fact sheets prepared by OECD as part of the Aid for Trade at a Glance 2011 report. These are available at: http://www.oecd.org/countrylist/0,3349,en_21571361_46750445_47569579_1_1_1_1,00.html (accessed November 2011).
- 23 The share of grant-like AfT was negligible in global AfT during 2006-09.
- 24 From the Red Book, the utilization of only the total budget (domestic resources and foreign aid) allocated for AfT programmes and projects can be determined.
- 25 See Annex III for a list of participants in the FGD.
- 26 These projects are enlisted based on responses received during the field survey. See Section 5.4 below for further details.
- 27 This part draws on Adhikari et al. (2008).
- 28 Ibid.
- 29 These are considered by Jongwanich (2007) in an ADB study on the determinants of export performance in East and Southeast Asia.
- 30 If the variables were in log forms only and not first differenced, then the coefficient would have been interpreted as the export elasticity with respect to AfT disbursement. Since we use the first difference of log values, the interpretation has to be in terms of growth rates.
- 31 Based on intervention made by Prithvi Raj Ligal, former Vice-Chairman of National Planning Commission, at the dissemination meeting of the draft report, Kathmandu, 2 May 2011.
- 32 Extracted from: <http://stats.oecd.org/qwids/> (accessed 23 June 2011).
- 33 See: <http://go.worldbank.org/QWGE7JNJG0> (accessed November 2011).
- 34 Nepal Rastra Bank. See: <http://www.nrb.org.np/fxmexchangerate1.php>
- 35 As calculated in Jongwanich (2007).

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ANNEX I: METHODOLOGY AND SOURCES OF INFORMATION FOR CONDUCTING COUNTRY CASE STUDIES TO GAUGE THE EFFECTIVENESS OF AFT

Pillar I: Fundamental Issues

Aspects	Components	Indicators	Sources of information/data
Additionality	Whether or not the AfT received by the country is higher in 2006-09 than in the base period (2002-05)	<p>If the following four conditions are satisfied, we find additionality:</p> <p>AfT in the recent period (r) is greater than AfT in the base period, i.e., $AfTr > AfTb$</p> <p>Non-AfT ODA in the recent period (r) is greater than non-AfT ODA in the base period, i.e., $N-AfTODAr > N-AfTODAb$</p> <p>Growth rate of non-AfT ODA 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., $gN-AfTODAr \geq gN-AfTODAb$</p> <p>Growth rate of non-AfT ODA in the recent period (r) in country x is greater than or equal to the growth rate of non-AfT ODA at the aggregate level (y) for the entire period of 2002-09, i.e., $gN-AfTODArx \geq gN-AfTODAy$</p>	OECD CRS Cross-verification with national sources
	Whether or not additionality is in line with the commitment of the government to promote trade	Change in government's expenditure on AfT supported projects/activities vis-à-vis change in donor funding	OECD CRS Cross-verification with national sources, including national budgets

Pillar I: *Continued*

Aspects	Components	Indicators	Sources of information/data
Predictability	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)	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) Extent to which AfT projects have been completed as initially agreed without any external resource constraints	OECD CRS Interviews with officials from finance and commerce ministries and planning commission/ministry
Sustainability	To what extent sustainability criteria have been built into the project To what extent domestic capacity has been built to sustain the positive contribution of the project even after donors cease to support the AfT programme/project	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) Increase of government expenditure on issues covered by AfT Engagement of local-level institutions and individuals (experts or otherwise) in the project design and implementation of various components of AfT programme/projects	Finance and commerce ministries, PIU Interviews with government officials and country-based donors Interviews with government officials, country-based donors and project managers of various AfT projects

Pillar II: Effectiveness

Aspects	Components	Indicators	Sources of information/data
Ownership	Trade mainstreaming in national development strategies	Formal vs. substantive mainstreaming Policy-level mainstreaming vs. programme-level mainstreaming (e.g. whether the sectoral ministries have also mainstreamed or not)	Review of national development strategies/ documents (such as PRSPs or planning documents) OECD/WTO Aid for Trade at a Glance Country Fact Sheet, including detailed questionnaires Interviews with government officials (commerce and sectoral ministries), private sector, country-based donors, experts and civil society
	Relevance of programme/project to domestic trade and development priorities	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)	Publications of planning commission/ministry, finance ministry Interviews with government officials, private sector, country-based donors and experts
	Involvement of stakeholders in the process of formulating trade policies	Formal vs. substantive mode of engaging stakeholders in the process of trade policy formulation	Interviews with government officials, private sector, country-based donors and experts
Alignment	Use of country systems	Extent to which donors use public financial management and procurement system of the partner country	Interviews with government officials, donors and experts
	Avoiding parallel implementation structure	Number of projects implemented by government or through the creation of a parallel Programme Implementation Unit by donors	Project documents, interviews with government officials, donors and experts

Pillar II: *Continued*

Aspects	Components	Indicators	Sources of information/data
Donor coordination	To what extent donors coordinate their efforts to avoid duplication and create synergy from the AfT funding	Extent of AfT support in which there has been duplication Extent to which donors have been able to establish synergy	Finance ministry Survey of government officials, private sector, donors and experts
Impact	Macro-level impact assessment: Controlling for other factors such as political climate, variation in international market dynamics, and taking into account the time lag, what has been the impact of the project/programme on export growth?	Impact evaluation of AfT at various levels: National level (e.g. links between AfT and export performance) Sector level (e.g. AfT and agricultural exports)	AfT statistics from the finance and commerce ministries Export statistics from central bank or export promotion agency (e.g. Trade and Export Promotion Centre in the case of Nepal and Export Promotion Bureau in the case of Bangladesh) Survey of export promotion agencies, private sector, donors, experts and civil society Focus group discussions with exporters and country-based donors
	Micro-level impact assessment: Focus on the expected initial objective of a project/set of projects	Quantitative and qualitative analysis to match the results with the expected objectives Indicators often contained in project logical frameworks	Interviews and focus groups with project managers and others involved in the implementation of projects (including donors) Project documents and statistics Export statistics

Pillar III: Coherence

Aspects	Components	Indicators	Sources of information/data
Coherence	To what extent AfT financing has maintained coherence with climate-related financing Coherence of Southern donors' assistance programmes with AfT objectives; Paris declaration principles; and recipient countries development strategies	Identifying real or potential synergy and mutual compatibility between AfT financing and climate-related financing 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	Study of project documents and/ or interviews with donors, project manager, government officials and civil society Interviews with government officials, experts and officials of the embassies of the South-South donors

Pillar IV: Other issues based on research

Aspects	Components	Indicators	Sources of information/data
Grant vs. loan	AfT included in the OECD CRS under AfT, but in reality it could fall into either of the following two categories: a) that received purely in grant form; and b) that received as concessional lending	Segregating the grant and loan components of AfT	Finance ministry Survey of government officials, private sector, donors and experts
Demand-supply gap	The gap between AfT resources demanded by the partner countries and resources actually delivered by the donors	Gap = AfT disbursed - AfT demanded (based on needs assessment, where available)	Finance and commerce ministries, planning commission/ministry Interviews with government officials and country-based donors
Absorptive capacity	To what extent partner country has been able to utilize the AfT resources during the period in which it was intended to be utilized	Utilization rates of AfT project based on project-level budget and expenditure statement	Study of project documents, including annual reports and/ or interviews with project managers, government officials and donors and civil society

Source: Adhikari (2011a).

ANNEX II: LIST OF PERSONS INTERVIEWED IN THE SURVEY

S.N	Name	Designation
	Government officials (16)	
1	Mr. Lal Shankar Ghimire	Joint Secretary, Ministry of Finance
2	Mr. Chandra Ghimire	Joint Secretary, Ministry of Commerce and Supplies
3	Mr. Pushpa Shakya	Joint Secretary, National Planning Commission
4	Dr. Hari Dahal	Joint Secretary, Ministry of Agriculture
5	Mr. Lok Bahadur Khatri	Joint Secretary, Ministry of Tourism
6	Mr. Ranjan Krishna Aryal	Joint Secretary, Ministry of Tourism and Civil Aviation
7	Mr. Kamal Raj Pandey	Joint Secretary, Ministry of Physical Planning and Works
8	Mr. Purushottam Ghimire	Joint Secretary, Ministry of Environment
9	Mr. Jib Raj Koirala	Under Secretary , Ministry of Commerce and Supplies
10	Mr. Moti Bahadur Kunwar	Joint Secretary, Ministry of Energy
11	Mr. Bishnu Pandey	Joint Secretary, Ministry of Finance
12	Dr. Dinesh Bhattarai	Joint Secretary, Ministry of Foreign Affairs, and Ambassador, Geneva
13	Mr. Shiv Raj Bhatt	Programme Manager, Nepal Enhanced Capacity for Trade and Development (NECTRADE), Ministry of Commerce and Supplies
14	Mr. Shyam Dahal	Director , Department of Customs
15	Mr. Poorna Prasad Manandhar	Coordinator , EC-Nepal WTO Assistance Programme
16	Mr. Janardan Gautam	Undersecretary, Ministry of Industry
	Private sector representatives (13)	
1	Mr. Kush Kumar Joshi	President , Federation of Nepali Chamber of Commerce and Industry (FNCCI)
2	Dr. Hemant Dabadi	Director General, FNCCI
3	Mr. Surendra Bir Malakar	President , Nepal Chamber of Commerce
4	Mr. Rajendra Khetan	Chairman , Khetan Group
5	Ms. Chhaya Sharma	President, Federation of Woman Entrepreneurs Associations of Nepal (FWEAN)
6	Ms. Renu Sthapit	Chairperson, Woman Entrepreneurs Association of Nepal (WEAN)
7	Mr. Pradeep Maharjan	Executive Director , Agro Enterprise Centre (AEC), FNCCI
8	Mr. Rajendra Ghimire	President , Large Cardamom Entrepreneurs' Association
9	Mr. Kiran Kumar Dangol	Acting President, Handmade papers Association
10	Mr. Govind Prasad Ghimire	President , Herbs and Herbal Products Association
11	Mr. Suresh Karna	President , Computer Association of Nepal
12	Ms. Lata Pyakurel	President, Federation of Nepal Cottage and Small Industries (FNCSI)
13	Mr. Narendra Kumar Basnyat	Vice President, Confederation of Nepali Industries (CNI)

S.N	Name	Designation
Experts (7)		
1	Dr. Bishwanbher Pyakuryal	Professor, Central Department of Economics, Tribhuvan University
2	Dr. D.B. Shakya	Agricultural economist
3	Dr. Dilli Khanal	Senior economist, CPN (Maoist)
4	Dr. Puspha Raj Rajkarnikar	Chairman, Nepal Bank Limited
5	Mr. Prachanda Man Shrestha	Trade and tourism expert
6	Dr. Binod Karmacharya	Trade economist
7	Mr. Madhab Prasad Ghimire	Former Chief, Foreign Aid Coordination Division, Ministry of Finance, Government of Nepal
Civil society/media representatives (7)		
1	Dr. Arjun Karki	President , Rural Reconstruction Nepal
2	Mr. Ramesh Adhikari	Team Leader, Policy and Thematic Support, ActionAid Nepal
3	Mr. Prabash Devkota	Coordinator, Alliance for Aid Monitor Nepal
4	Mr. Hari Bahadur thapa	Author, Pathology of Foreign Aid in Nepal (in Nepali)
5	Mr. Gokarna Awasthi	Chief, Economic Bureau, Kantipur Daily
6	Dr. Keshab Khadka	Professor, Department of Economics, Patan Campus, Tribhuvan University
7	Dr. Shri Krishna Shrestha	Professor, Faculty of Management, Tribhuvan University
Representatives of donor agencies (7)		
1	Mr. Philippe Kruschel	Advisor, GIZ, Kathmandu
2	Mr. Hisanobu Shishido	Policy Cluster Leader, World Bank, Kathmandu
3	Mr. Matti Vaananen	Programme Officer, Embassy of Finland, Kathmandu
4	Mr. Navin Dahal	Advisor, UK Department for International Development (DfID), Kathmandu
5	Ms. Yamuna Ghale	National Programme Officer, Swiss Agency for Development and Cooperation (SDC), Kathmandu
6	Ms. Anita Mahat	Economic Specialist, United States Agency for International Development (USAID), Kathmandu
7	Mr. Deepak Shrestha	Programme Analyst, United Nations Development Programme (UNDP), Kathmandu

ANNEX III: LIST OF PARTICIPANTS IN FOCUS GROUP DISCUSSION, 26 APRIL 2011

S.N.	Name	Designation/affiliation
1	Mr. Shiv Raj Bhatt	Programme Manager, NECTRADE, Ministry of Commerce and Supplies
2	Mr. Jib Raj Koirala	Under Secretary, Ministry of Commerce and Supplies
3	Mr. Navin Dahal	Advisor, UK Department for International Development (DfID), Kathmandu
4	Mr. Gokarna Awasthi	Chief, Economic Bureau, Kantipur Daily
5	Mr. Badri Adhikari	Trade and Export Promotion Centre, Kathmandu
6	Mr. Bijaya Mulmi	Executive Board Member, Federation of Nepal Cottage and Small Industries (FNCSI)
7	Mr. Shyam Dahal	Director, Department of Customs
8	Dr. Hemant Dabadi	Director General, Federation of Nepali Chamber of Commerce and Industry (FNCCI)

ANNEX IV: BRIEF DESCRIPTION OF VARIOUS TRADE CAPACITY BUILDING INITIATIVES

Initiatives (year launched) (1)	Main objectives (2)	Focus (3)	Institutions involved (4)	Indicative resource envelope and source (5)	Financing modality (6)
Integrated Framework for Trade Related Technical Assistance (IF)(1997)	Better integrating LDCs into the multilateral trading system and enhancing their ability to participate in and benefit from the world trading system by helping LDCs mainstream trade into development plans and poverty-reduction strategies, and to facilitate delivery of trade-related technical assistance.	LDCs	IMF, ITC, UNCTAD, UNDP, World Bank, and WTO	As of January 31, 2004, USD 21.1 million pledged: USD 13.1 million for Window I, USD 8 million for Window II (Agarwal and Cutura, 2004: ix)	Grant
Joint Integrated Trade Assistance Programme (JITAP) (1998)	Building national capacity to understand the evolving multilateral trading system (MTS) and its implications for external trade, adapting the national trading system to the obligations and disciplines of the new MTS, and seeking maximum advantage from the new MTS by enhancing the readiness of exporters.	African countries	ITC, UNCTAD, and WTO	USD 10 million over four years; from 13 donors(De Silva and Weston, 2002)	Grant
DDA Trade Related Technical Assistance (2001)	Helping developing countries better frame their trade policies and participate in trade negotiations through training and capacity building.	All developing countries	WTO and others	USD 2.1 billion as of 2001-02 Carey (2004)	Grant

Initiatives (year launched) (1)	Main objectives (2)	Focus (3)	Institutions involved (4)	Indicative resource envelope and source (5)	Financing modality (6)
Standards and Trade Development Facility (STDF) (2002)	Helping developing countries enhance their expertise and capacity to analyse and to implement international SPS standards, and to gain and maintain market access.	All developing countries	FAO, OIE, World Bank, WHO and WTO	USD 6.324 million in 2010 (STDF Annual Report, 2010)	Grant
The Trade Integration Trade Integration Mechanism (2004)	Assisting member countries to meet balance of payments shortfalls that might result from multilateral trade liberalization initiatives taken by other countries. Although not a special lending facility, it is designed to make resources more predictably available under existing IMF facilities.	31 Poverty Reduction and Growth Facility (PRGF) and 17 non-PRGF countries	IMF	Projected at USD 1.45 billion, if all eligible countries availed themselves of the facility (Grynberg and De Silva, 2004; Marti and Rampa, 2007)	Loan (with conditionalities)
Enhanced IF (2005)	Mainstreaming trade into national development strategies, ensuring policy coherence on trade and development issues, increasing donor coordination, and maximizing financing of trade-related projects through bilateral and multilateral channels.	LDCs	IMF, ITC, UNCTAD, UNDP, World Bank, and WTO	Proposal: USD 400 million (Nielson, 2006; Prowse, 2010). Commitment received: USD 170 million (Prowse, 2010)	Grant
Aid for Trade (2005)	Helping developing countries, in particular LDCs, address their supply-side constraints, build productive capacity and adjust to the evolving nature of global trade liberalization.	All developing countries	All the bilateral and multilateral development partners	Commitment of USD 39 billion in 2009 at 2009 constant USD (OECD CRS database) ³²	Grant plus loan

Initiatives (year launched) (1)	Main objectives (2)	Focus (3)	Institutions involved (4)	Indicative resource envelope and source (5)	Financing modality (6)
Trade Facilitation Facility (TFF) (2009)	Enhancing trade competitiveness of developing countries by strengthening trade facilitation systems and reducing trade costs, notably in such areas as border management, institutional development, trade procedures, logistics services markets and gateway infrastructure.	All developing countries	World Bank	USD 40 million to be raised in the medium term (Trade Facilitation Facility website) ³³	Grant

Source: Adhikari (2011b).

ANNEX V: CLASSIFICATION OF AID FOR TRADE

CODE	CATEGORY	SUB-CATEGORY
Trade Policy and Regulation		
331	Trade policy and regulations	Trade policy and planning; Trade facilitation; Regional trade agreements; Multilateral trade negotiations; Trade education/training
Economic Infrastructure		
210	Transport and storage	Transport policy and administrative management; Road transport; Rail transport; Water transport; Air transport; Storage; Education and training in transport and storage
220	Communications	Communications policy and administrative management; Telecommunications; Radio/television/print media; Information and communication technology (ICT)
230	Energy generation and supply	Energy policy and administrative management; Power generation/non-renewable sources; Electrical transmission/distribution; Gas distribution; Oil-fired power plants; Gas-fired power plants; Coal-fired power plants; Nuclear power plants; Hydro-electric power plants; Geothermal energy; Solar energy; Wind power; Ocean power; Biomass; Energy education/training; Energy research
Building Productive Capacity		
240	Banking and financial services	Financial policy and administrative management; Monetary institutions; Formal sector financial intermediaries; Informal/semi-formal financial Intermediaries; Education/training in banking and financial services
250	Business and other services	Business support services and institutions; Privatization
311	Agriculture	Agricultural policy and administrative management; Agricultural development; Agricultural land resources; Agricultural water resources; Agricultural inputs; Food crop production; Industrial crops/export crops; Livestock; Agrarian reform; Agricultural alternative development; Agricultural extension; Agricultural education/training; Agricultural research; Agricultural services; Plant and post-harvest protection and pest control; Agricultural financial services; Agricultural cooperatives; Livestock/veterinary services
312	Forestry	Forestry policy and administrative management; Forestry development; Fuelwood/charcoal; Forestry education/training; Forestry research; Forestry services
313	Fishing	Fishing policy and administrative management; Fishery development; Fishery education/training; Fishery research; Fishery services

CODE	CATEGORY	SUB-CATEGORY
321	Industry	Industrial policy and administrative management; Industrial development; Small and medium-sized enterprises (SMEs) development; Cottage industries and handicraft; Agro-industries; Forest industries; Textiles, leather and substitutes; Chemicals; Fertilizer plants; Cement/lime/plaster; Energy manufacturing; Pharmaceutical production; Basic metal industries; Non-ferrous metal industries; Engineering; Transport equipment industry; Technological research and development
332	Tourism	Tourism policy and administrative management
Trade-Related Adjustment		
33150	Trade-related adjustment	Contributions to the government budget to assist the implementation of recipients' own trade reforms and adjustments to trade policy measures by other countries; Assistance to manage shortfalls in the balance of payments due to changes in the world trading environment

Source: OECD (2010).

ANNEX VI: CALCULATION OF VARIABLES, DATA SOURCES AND REGRESSION OUTPUT

AfT disbursement

AfT disbursement data were sourced from OECD's CRS database. Since AfT disbursement data are not available after 2002, we calculated simple estimates based on the growth rate of AfT commitments, whose data are available since 1995. For AfT disbursement in 1995, the ratio of average of AfT disbursement to AfT commitment over the period 2002-09 is multiplied by AfT commitment in 1995. This gives us the starting point for AfT disbursement in the timeframe we are looking at. For the period 1996-2001, AfT disbursement is estimated by the following formula:

$$AfT_{d,i_n} = ((\Delta AfT_{c,i_n-i_{n-1}} \times AfT_{d,i_n}) / 100) + AfT_{d,i_{n-1}}$$

[In other words, AfT disbursement = ((Growth rate of AfT commitment * AfT disbursement in previous period) / 100) + AfT disbursement in previous period]

where

AfT_{d,i_n} is AfT disbursement in the period i_n

AfT_{c,i_n} is AfT commitment in the period i_n

$i_n = 1996, \dots, 2000$

The analysis uses AfT disbursement with a lag of one year.

Consumer Price Index and world demand

These data are sourced from the World Bank's WDI database. World demand is defined as the total world imports of goods and services.

Exports

Data for exports are sourced from the World Bank's WDI database.

Nominal exchange rate

The data for nominal exchange rates are sourced from Nepal's central bank.³⁴ Note that exchange rate data for Euros is available only

after 2001. Thus, to have a complete set of data over the period examined in this study, we assumed a constant exchange rate between Nepali rupees and Euros (NPR 66.5 = EUR 1) between 1995 and 1999.

Computation of real effective exchange rate

Real effective exchange rate takes into account prices in one country relative to the prices in another (or a group of countries) and both are expressed in common currency. We calculate it as:³⁵

$$RER = \frac{eP^*}{P} = \prod_{i=1}^I \frac{(e_i P_i^*)^{W_i}}{P_i}$$

where

e = nominal exchange rate of (units of Nepali currency to a unit dollar, euro, yen, and Indian rupee)

P^* = foreign price level (trade partner's Consumer Price Index with 2005 as a base year)

P = domestic price level (Nepal's Consumer Price Index with 2005 as a base year)

W_i = weight where $\sum W_i = 1$; the sum of shares of exports to the US, the EU, Japan and India is equal to the value one in weight. On average, exports to these four countries account for over 85 per cent of total exports by Nepal over the period 1995-2009.

Note that a decrease in the real exchange rate indicates an appreciation of Nepal's currency and vice versa.

Political stability and absence of violence/terrorism

The data for political stability and absence of violence/terrorism are sourced from World Governance Indicators (www.govindicators.org; Kaufmann et al., 2010). Data for 1995, 1997, 1999 and 2001 are not available. For 1995 and 1997, we assumed the same figure of 1996. Similarly, for 1998, the figure of 1999 was used. For 2001, the figure of 2000 was used.

Table 11: Regression output

Dependent variable: dLREXP	1	2	3
dL1RAfTD	0.127*** [0.032]	0.142*** [0.029]	0.148*** [0.023]
dREER		718.284 [550.143]	856.254* [405.644]
dPOL		0.115** [0.050]	0.111** [0.042]
dLRPNPL		0.135 [0.459]	
Constant	-0.005 [0.013]	0.012 [0.013]	0.014 [0.013]
Observations	13	13	13
R-squared	0.41	0.71	0.71
Robust standard errors in brackets			
* significant at 10%; ** significant at 5%; *** significant at 1%			
dLREXP = first difference of log of real exports			
dL1RAfTD = first difference of one-year lag of log of real AfT disbursement			
dREER = first difference of real effective exchange rate			
dPOL = first difference of political risk variable			
dLRPNPL = first difference of log of real GDP			
dLRPNPL = first difference of log of real GDP			

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