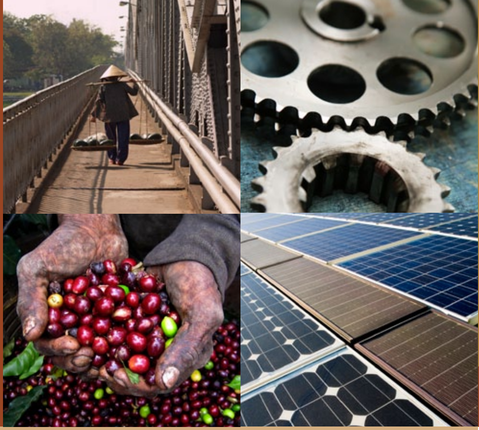


INFORMATION NOTE. OCTOBER 2012

Aid for Trade and the Least Developed Countries: Recent Trends and Impact on the Ground

1. Introduction

To achieve the trade-related objectives of the Istanbul Programme of Action (IPoA)[1], least developed countries (LDCs), together with their development partners, are expected to work together in addressing LDCs' supply-side constraints so that these countries can better integrate into the global trade structures, which are currently dominated by the global value chains. Trade-related official development assistance, institutionalized under the Aid for Trade (AfT) initiative, represents a proxy framework for monitoring and evaluation of the outcomes from such efforts.

This information note will examine the general trends in the AfT that LDCs received during 2002-2010, which are the latest years for which comprehensive official records are currently available (OECD's CRS database). More recent data has yet to be processed and released, thus preventing the evaluation of those outcomes relevant to IPoA's operational period. Nevertheless, a set of quantitative and qualitative evaluation and impact studies have been conducted by various institutions, including ICTSD's own set of country assessments. The second part of this information note will briefly discuss the results, as well as some of important lessons learned for LDCs that emerged from these studies.

2. Global Trends – How Much and Where

Total AfT flows to LDCs – what do the numbers show?[2]

LDCs receive additional AfT resources on the whole

The AfT initiative, officially endorsed in 2005 at the Hong Kong WTO Ministerial Conference, was born out of the recognition that trade

1 The IPOA establishes the target of significantly increasing the share of LDCs' trade relative to global trade, with the goal of doubling LDCs' share in global exports by 2020. The IPOA also calls for fulfilling the Doha Development Agenda in that an ambitious, comprehensive, balanced, and development-oriented outcome is achieved.

2 In this information note, all numbers need to be read with the following information in mind. All AfT values are based on recent reported data, expressed in 2010 constant USD prices. These AfT numbers are taken from the official records in the Organisation for Economic Co-operation and Development's (OECD) Creditor Reporting System database (or the Query Wizard for International Development Statistics, QWIDS), the only official tracking source of ODA flows categorized under the AfT label.

Note, however, that this data represents an approximation of actual flows. Therefore, these flows do not exactly match the AfT definition as proposed by the WTO Task Force on Aid for Trade in 2006, which is one of the major drawbacks of AfT monitoring Several other qualifications apply to this AfT-labelled data: reporting is only provided by the OECD's Development Assistance Committee (DAC) members and designated multilateral organizations on a continuous basis; "unallocated by income" records are difficult to appropriate; etc.

Aggregate figures for LDCs are based on the ready-made figures in QWIDS (for the LDC income group, based on the LDC list – *including Maldives, but not including Cape Verde*, who graduated from LDCs status in 2007). Furthermore, the numbers used in this information note contain ODA flows, but do not take into account other official flows (OOF).

ICTSD

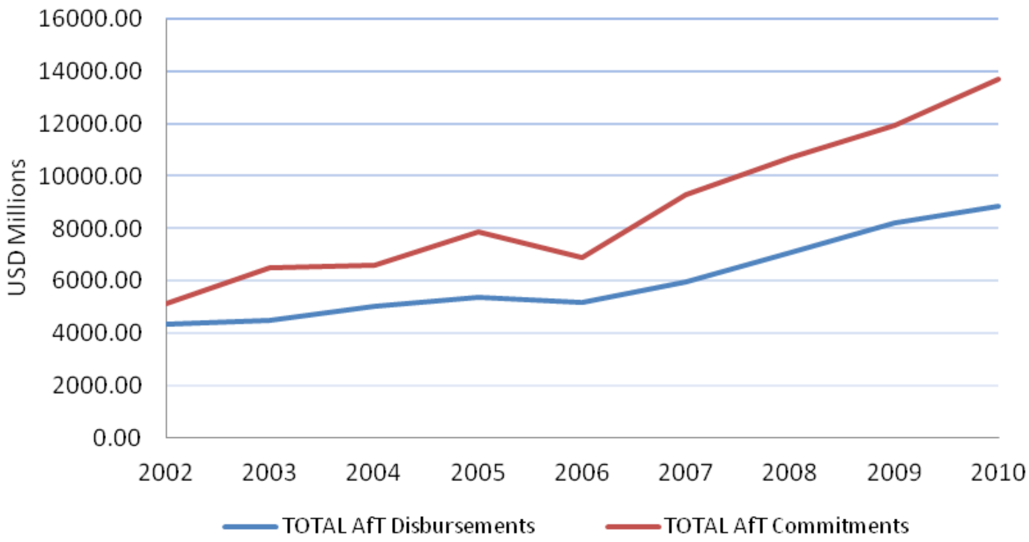
International Centre for Trade and Sustainable Development

can help alleviate poverty in developing countries, particularly in LDCs. That same year, the design and structure of the Integrated Framework (IF)[3] for LDCs was reviewed and subsequently re-launched as the Enhanced IF (EIF), with the objective of mainstreaming trade into LDCs' development strategies. Since then, the flows of trade-related official development assistance (ODA) geared at addressing the various constraints that developing countries face in these efforts have been vigorously discussed, monitored, and evaluated, with the view of increasing overall trade-related ODA flows and improving their effectiveness.

The title of a recent OECD/WTO publication regarding AfT and LDCs contends that the initiative has begun to show a positive outcome: "Aid for Trade and LDCs: Starting to Show Results." In terms of the overall trends in AfT flows to LDCs, these figures do indeed offer a somewhat optimistic picture. Institutionalization of the AfT initiative in 2005 seems to have enhanced the growth rates of AfT funds to LDCs (Figure 1), both in terms of aid commitments (reaching the USD 14 billion threshold in 2010) and actual disbursements, i.e. the financial resources deployed on the ground (slightly less than USD 9 billion in 2010). The latest Global Review of the Aid for Trade (AfT GR) in July 2011, held under the auspices of the WTO and OECD, confirmed that AfT commitments to LDCs maintained high annual growth rates, despite a general slowdown in global AfT flows – gradually pushing the LDCs' share in global AfT flows up to one-third.[4]

Remarkably, Figure 1 shows that AfT flows seem to have effectively weathered the storm of the 2007-2008 financial crisis. The impact of the ongoing eurozone crisis, however, remains to be seen. Nevertheless, the high-increase trend in disbursements over 2006-2009 slowed down in 2010 at the global level. Actual disbursements to LDCs only increased by approximately 8 percent, a slower rate when compared with previous years, whereas commitments rose by 14.5 percent.

Figure 1: Overview of AfT Flows to LDCs, 2002 – 2010 (10 constant prices)



Source: OECD CRS Database (QWIDS), accessed July 2012

The *additionality*[5] of such increased trade-related funds, however, should be examined. This can be approximated by separating AfT flows from the other ODA flows to LDCs in order to identify individual trends, as shown in Figures 2a and 2b. Except for non-trade related commitments in recent years, both trend lines suggest that AfT commitments and disbursements for the LDCs as a group might have been additional in that they increased over time, and do not appear to be diverted from other sectors (notably the social and health sectors), as these have also been growing (especially in disbursement terms). The growth rates of such *non-AfT funds* might be instructive in this sense – aid commitments (Figure 2a) to the non-trade sectors increased at a faster pace between 2006 and 2010 (7 percent annually on average) compared to the baseline period (4.6 percent), except for the stagnation and later decline between 2008 and 2010. Disbursements (Figure 2b) of *non-AfT aid* rose at 8 percent annually on average from 2006 onward, while the pre-2006 period shows a mixed picture.

3 IF was established in 1997 as a mechanism aiming at helping the LDCs to formulate, negotiate and implement trade policy with the view of a successful integration into the multilateral trading system. For further information: www.enhancedif.org

4 OECD/WTO (2011): Aid for Trade and LDCs: Starting to Show Results, p. 13.

5 Additionality is usually understood as additional resources to what has been received by a country in the past.

Figure 2a: Evolution of AfT, non-AfT ODA, and total ODA* to LDCs (commitments), 2002 – 2010 (Mil USD, 2010 constant prices)

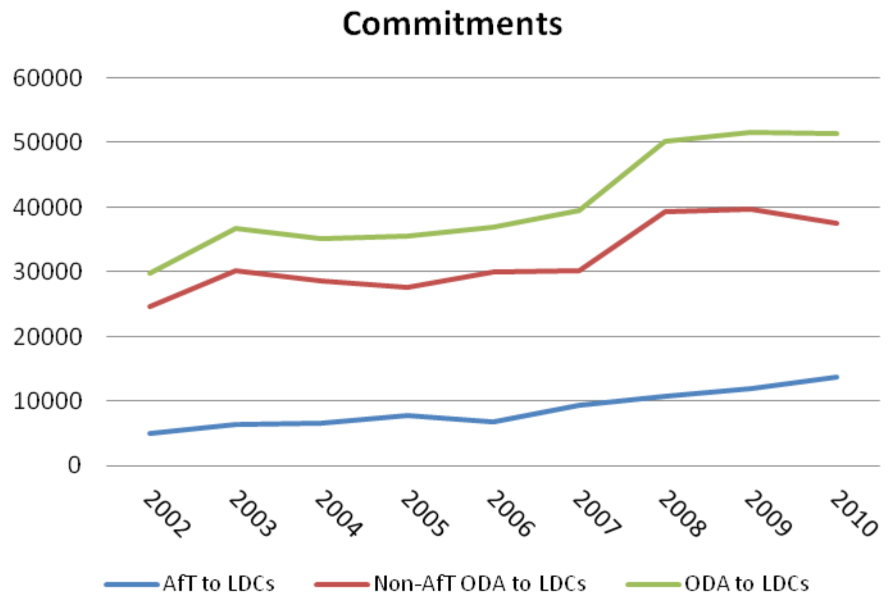
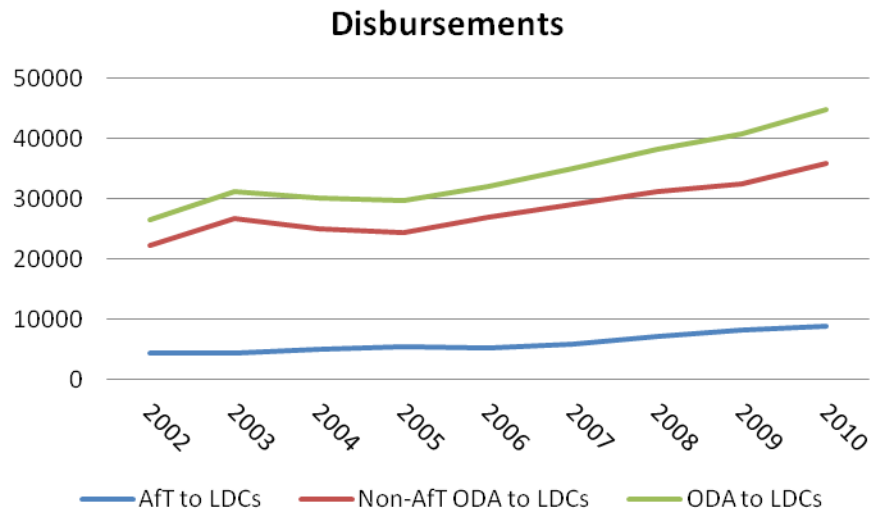


Figure 2b: Evolution of AfT, non-AfT ODA, and total ODA* to LDCs (disbursements), 2002 – 2010 (Mil USD, 2010 constant prices)



Source: OECD CRS Database (QWIDS) and OECD.Stat (Extracts), accessed July 2012
**Non-AfT ODA here accounts simply for all ODA flows outside of AfT (according to the OECD definition, i.e. including debt relief). Total ODA disbursements stand for "Net Disbusements" (including net loans, among other things).*

The fact that LDCs have been receiving increasing amounts of aid recorded under the AfT-heading is noteworthy in the trade and development context. OECD data reveals that the share of funds marked as AfT reached nearly 27 percent of all ODA commitments to LDCs in 2010, while in 2002 and 2006 this number stood at 17 percent and 19 percent, respectively. Disbursed AfT funds displayed a similarly positive trend, rising from around 16 percent in both 2002 and 2006 to an almost 20 percent share of total LDC-bound ODA in 2010.[6] Nevertheless, the United Nations Conference on Trade and Development (UNCTAD) recently showed that this share in the case of *other developing countries* amounted to almost 30 percent in 2010.[7]

In this context, it should be noted that the reported total ODA also contains debt relief and other non-sectoral items. If only *sectoral aid* is considered (aid

6 LDC-bound ODA numbers based on DAC3a (ODA commitments) and DAC2a (ODA disbursements) tables, as accessed in August 2012 on-line at OECD.Stat.

7 Figure 1 *In*: Aid for Trade: A Failing Grade in LDCs? UNCTAD Policy Brief No. 2, April 2012

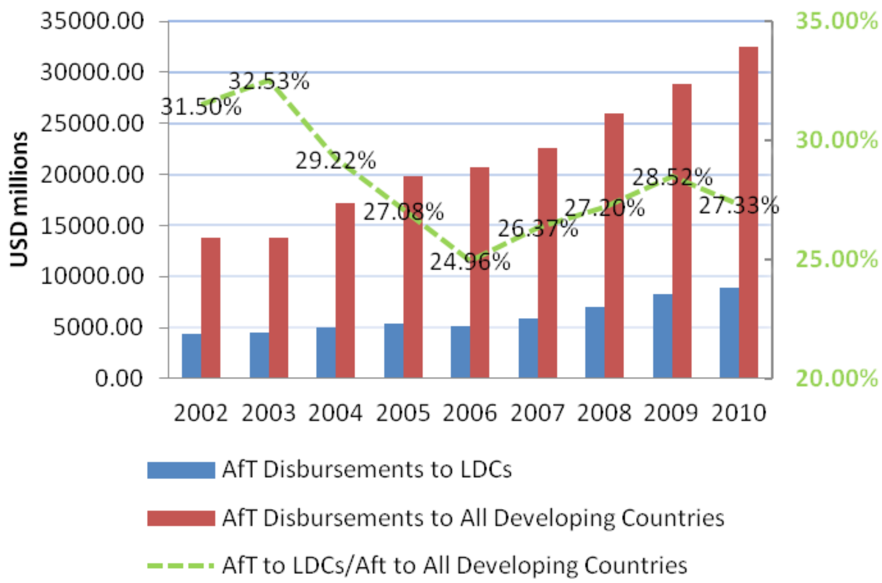
for trade, social, or health sectors)[8], the ratio of resources committed to trade in LDCs is much higher (35 percent in 2010, in contrast with 27.6 percent in 2006 and 31 percent in 2002) – matching partly with the conclusions of the 2011 AfT GR, which deemed that the initiative had led to improved trade awareness and trade mainstreaming into development strategies.[9] However, the share of trade-related *disbursed* resources compared to aid to all sectors slumped considerably by 2006 (from 34 percent in 2002 to 26 percent) and has improved little since then (reaching approximately 28 percent in 2010).

LDCs are getting a larger slice of global AfT commitments, but disbursements do not match this pace

The above-mentioned gap between the share of AfT out of total ODA in other developing countries and in the LDCs has been gradually narrowing, thanks to the faster growth rates of committed AfT funds to LDCs relative to global AfT growth rates. Between 2002 and 2010, *AfT commitments to LDCs* increased by *168 percent*, while the growth of *global AfT commitments* in the observed period stood at *94 percent*. Consequently, the share of trade-related aid pledged to LDCs in global AfT commitments gradually increased to almost 30.6 percent of the total amount of AfT in 2010, from 22 percent in 2002 and 25 percent in 2006.

The records of actually deployed funds generally vary from commitments made. This is due to several factors, including contextual and systemic reasons – aid is rarely disbursed in the year it is committed, and one-time commitments can be disbursed over several years (implementation periods vary, but might last between five to eight years, according to the OECD). This pattern also applies to AfT developments in LDCs, and consequently the portrait of AfT disbursements in LDCs might be affected by this inconsistency. Despite these qualifications, the growth rate of disbursements tells a different story from the one on commitments (Figure 3).

Figure 3 : Share of AfT to LDCs out of Total AfT Flows (disbursements), 2002 – 2010 (USD 2010 constant prices)



Source: ICTSD calculation based on WTO World Tariff Profiles 2008 - 2011 and Accession Databases.

Disbursements to LDCs increased less than the *global AfT flows* between 2002 and 2010 (*88 percent and 108 percent* respectively), which explains the rather negative trend in the LDCs' share of total AfT between 2003 and 2006, and the limited recovery seen after 2006, as depicted in Figure 3. The narrowing of the gap thus seems to be slower in disbursements. The recovery, however, should not be underrated, as the annual growth rates of disbursed AfT funds in LDCs in the post-2006 period grew at a non-negligible average annual rate of 11 percent, compared to 7 percent annually in the baseline period.

In summary, despite the rising total amount of AfT funds obtained by LDCs, their relative share of global AfT remained lower – and the year 2010 does not seem to be a rebound year. This might signal that the trade agenda in LDCs as compared to other sectors (social or health-related) has not gained the necessary prominence in terms of actual projects and support (see again Figure

8 OECD makes a distinction between ODA and "Total Sector Allocable" aid: the latter number does not contain debt relief, for instance, but it may contain sectoral budget support. Generally, "Total Sector Allocable" and AfT funds consist of specific project-related aid/support/technical assistance.

9 OECD/WTO 2011: Aid for Trade At a Glance, pp. 105-106.

2b), despite the commitments pledged and the efforts made by the Enhanced Integrated Framework (EIF) in operationalizing AfT.

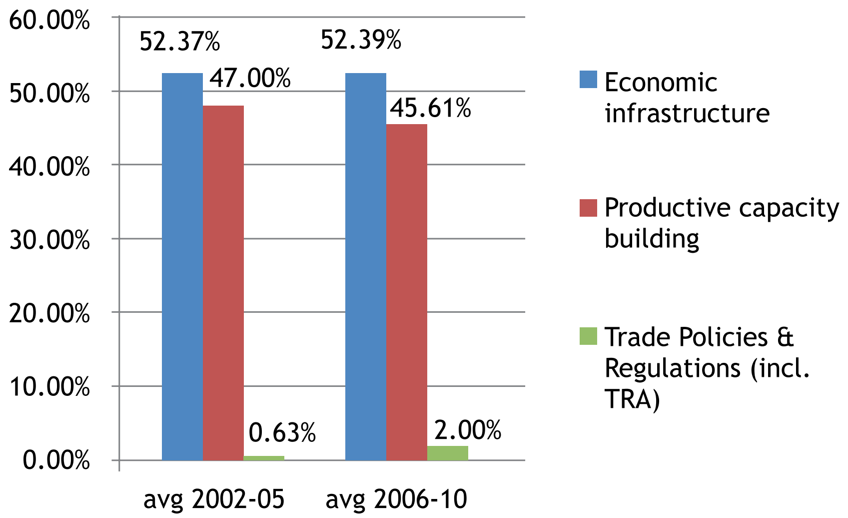
Any assessment of AfT increments and additionality, nevertheless, must acknowledge the inherent risk of using possibly incomplete data. For example, the report on the EU's AfT in 2012 suggests that the share of LDCs in total AfT flows might be underestimated due to the design of the CRS database from which data is typically extracted – for instance, some regional programmes, including several of substantial financial value, fall under the heading "unallocated by income," despite being LDC-targeted.[10] Analysis on the extent to which such regional development programmes affect individual LDCs goes beyond the scope of this information note.

AfT flows to LDCs by category

Official AfT flows are monitored by the OECD under four main categories. Since 2006, the biggest part of global AfT funds has been committed to the first two categories (53 percent for economic infrastructure building, 44 percent for productive capacity building)[11], with the remaining two AfT categories receiving little financial attention due to the very nature of this categorization.[12] A similar pattern can be seen on the ground in the LDC group, with respective shares amounting to 52.5 percent and 46 percent for the two "tangibles" over 2002-2010.[13]

The structure of funds allocated to LDCs underwent a slight change between the baseline and post-2006 periods (Figure 6). Economic infrastructure retained its position as a priority in trade-related aid, whereas funding of productive capacity building decreased – interestingly, in 2002 more resources were disbursed to this latter category. The regulatory leg of trade development received increased support – from 0.28 percent in 2002 to almost 2 percent of all resources in 2010 – tracking with the growing attention being devoted toward mainstreaming trade into development strategies.

Figure 6: Breakdown of AfT categories (Disbursements, USD 2010 constant prices)



Source: OECD CRS Database, accessed July 2012

Closer scrutiny of the two largest AfT categories reveals that the largest part of the disbursements into economic infrastructure building went into the sector of "transport and storage" (36 percent of all disbursements between 2002 and 2010) whereas "agriculture" dominated by far the category of productive capacity development in LDCs (with 24 percent of all disbursed resources between 2002 and 2010). Such sectoral funding priorities have been found to be in line with the priorities indicated by the LDCs in the 2009 and 2011 AfT GRs surveys.[14]

Given that infrastructure "has the strongest direct effect on trade performance" according to a study cited during the last AfT GR[15], this dedication to lowering trade costs through targeted transport projects (which are themselves part of larger trade facilitation efforts) can be viewed as a positive outcome. Apart from lowering trading costs,

10 The EU AfT Report 2012, pp. 29+31. The EU mentions, for instance, a regional programme in Africa amounting to EUR 615 mil in 2010.

11 For the period 2006 till 2009.

12 OECD/WTO 2011: Aid for Trade At a Glance, p. 48

13 OECD CRS Database, AfT disbursements to LDCs (income group), 2010 constant prices

14 OECD/WTO 2011: AfT and LDCs: Starting to Show Results, p. 15

15 OECD/WTO (2011): Results Emerging from the Case Stories, p. 36, citing Portugal-Perez, A. & J.S. Wilson (2008): Lowering Trade Costs for Development in Africa: A Summary Overview. Development Research group, The World Bank

there is a growing body of literature that suggests that, due to food security concerns following the 2007-2008 food price crisis, LDCs must invest in agriculture rather than shy away from it.[16] For instance, while the growth rates of funds geared toward the traditional backbones of industrialization – "industry" or "banking and financial services" sectors – were only 8.8 percent and 11.4 percent, respectively, between the 2006-10 and baseline periods disbursements to agriculture more than doubled (122 percent).

AfT flows to LDCs by donor

The World Bank Group[17] was the largest contributor of AfT funds flowing to LDCs, and to Africa in particular, between 2006 and 2010. The US, EU Institutions, Japan, and the African Development Fund follow in the amounts of disbursed funds – in 2010, these "top 5" provided 68.4 percent of trade-related resources that were actually deployed to LDCs. Nonetheless, if the EU is counted as a whole (EU Institutions together with the separate activities of individual EU Member States), it becomes the largest provider of AfT to LDCs in the period of 2006-2010 (almost USD 11 billion in total). It is also noteworthy that, while the OECD reported that the EU Institutions' global AfT commitments declined by 26 percent between 2009 and 2010[18], their disbursements into LDCs as a group actually increased by 22 percent in the same period, also pointing to the time gaps that the nature of commitments and disbursements can create.

Figure 7 below summarizes the developments in donors' AfT funding to LDCs between 2002 and 2010. On the bilateral level, Canada, Finland, Italy, Luxembourg, New Zealand, Korea, and the US substantially increased their support to trade-related development between the baseline and 2006-10 periods, with Korea[19], the US, and Canada reporting the most impressive increases. Multilaterally, new AfT sources disbursed by the special funds of Asian and Islamic Development Banks are the most notable.

Figure 7: Donors' AfT flows to LDCs, 2002 - 2010 (AfT disbursements, USD 2010 constant prices)

Donor(s)	Total 2002-05	Total 2006-10	Avg 2002-05	Avg 2006-10
IDA	7779.04	9341.94	1944.76	1868.39
United States	1410.96	6068.27	352.74	1213.65
EU Institutions	2251.09	4764.09	562.77	952.82
Japan	1673.86	2437.86	418.47	487.57
AfDF (African Dev.Fund)	1273.93	2229.39	318.48	445.88
Germany	849.19	1102.98	212.30	220.60
United Kingdom	473.70	977.81	118.42	195.56
Canada	207.90	972.58	51.98	194.52
France	595.60	866.62	148.90	173.32
Denmark	377.19	804.67	94.30	160.93
Norway	520.93	801.40	130.23	160.28
Sweden	359.76	469.41	89.94	93.88
AsDB Special Funds	0.00	462.32	0.00	92.46
Belgium	213.19	448.17	53.30	89.63
Italy	168.53	447.71	42.13	89.54
Korea	0.00	355.50	0.00	71.10
Netherlands	248.36	351.66	62.09	70.33
Spain	182.24	280.79	45.56	56.16
Australia	137.03	232.93	34.26	46.59
Switzerland	279.75	216.31	69.94	43.26

16 Cf. Eugenio Diaz Bonilla and Juan Francisco Ron (2010). Food Security, Price Volatility and Trade. ICTSD Programme on Agricultural Trade and Sustainable Development, International Centre for Trade and Sustainable Development, Geneva, Switzerland; FAO (2008): Soaring Food Prices: Facts, Perspectives, Impacts and Actions Required. High Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy, Document HLC/08/Inf/1, Rome, 3-5 June, p. 46; Rosin, Ch., P. Stock, H. Campbell (eds.) (2012): Food systems failure : the global food crisis and the future of agriculture. New York, NY: Earthscan; Cohen, M. J. Et al. (2012): Global food-price shocks and poor people : themes and case studies. London : Routledge.

17 Reporting to OECD through its fund for developing countries, International Development Association (IDA)

18 OECD Document Aid for Trade Flows in 2010 (COM/DCD/TAD(2012)7

19 Started to report to CRS Database in 2006 (member of the DAC since 2010), see also OECD/WTO 2011: AfT and LDCs: Starting to Show Results, p. 15

Figure 7: *Continued*

Donor(s)	Total 2002-05	Total 2006-10	Avg 2002-05	Avg 2006-10
Ireland	93.91	190.32	23.48	38.06
IDB Spec. Fund	0.00	135.77	0.00	27.15
Finland	22.79	86.78	5.70	17.36
UNDP	23.88	85.95	5.97	17.19
New Zealand	10.50	58.58	2.63	11.72
Austria	38.24	48.56	9.56	9.71
Luxembourg	11.51	46.17	2.88	9.23
Portugal	36.81	25.21	9.20	5.04
Greece	0.73	1.03	0.18	0.21

Source: OECD CRS Database (QWIDS), accessed July 2012

Note: This list of donors covers around 98 percent of all reported AfT disbursements to LDCs between 2002-2010. Zero values do not necessarily imply zero flows; they rather reflect the lack of AfT-specific reporting in the period before 2006.

Non-traditional or "South-South" donors and their increasing role in development cooperation, and in the trade-related branch of aid, is no longer an exception.[20] South-South trade links have been growing in volume and relative importance in the past couple of years, providing LDCs with "new" export markets. No systematic data is available to assess their contributions, but China, India, Brazil, Argentina, Indonesia, and Mexico are mentioned as South-South donors in the last AfT GR, and they "all report[ed] an increase in trade-related co-operation."[21]

China and India typically target Africa (with the largest number of LDCs) on a continent-wide basis, admittedly with the aim of advancing trade and/or investment relations with individual countries. This has materialized particularly through large funds and credit links administered by the respective Export-Import Banks. Examples include the Focus Africa Programme or the Techno Economic Approach for Africa India Movement provided by India[22], which have some potential for remedying the ubiquitous lack of trade finance in Africa, and in LDCs in general. Both India and China have started to focus on training LDCs in trade issues, through the Indian "Technical and Economic Cooperation Programme" (particular focus on LDCs)[23] and the Chinese "China's LDCs and Accessions Programme" within the WTO.

Since 2009, other non-DAC donors, such as the United Arab Emirates and Kuwait, have also played an active role in LDCs, according to the OECD. Notably, from three records under the "transport" category (mainly road construction in Afghanistan) in 2009[24], UAE and especially Kuwait (through its Kuwait Fund for Arab Economic Development) have financed transport infrastructure projects in 17 LDCs in 2010, in 84 percent of cases through ODA loans.

Regional distribution and country-level allocation of financial resources

Given the high number of LDCs in Africa and the size of population they cover, most AfT resources were channelled to this continent's poorest countries between 2006 and 2010 (64 percent of disbursements). Asian LDCs received 32 percent, while LDCs in Oceania and Haiti received the fewest resources (4 percent). This geographic distribution of trade-related aid has not changed significantly from the baseline period.

Trade-related funds disbursed to LDCs are rather skewed in favour of the top ten recipient countries in this group - 64 percent of total recorded funds were transmitted to only 20 percent of LDCs. Conversely, as seen in Figure 9 below, the smallest amount of funds is directed to Small Island and/or Vulnerable states. It is difficult to draw clear-cut conclusions from this fact alone - when converted to per capita numbers, these perceived "losers" in fact obtained the relatively largest resources to address their trade-related constraints. In this sense, Afghanistan provides the exception that proves the rule - it stands out as one of the most populous LDCs, receiving by far the largest AfT resources in absolute terms while figuring also among the top ten recipients in per capita terms.

20 For an analysis of the rise of non-traditional donors, see, for instance, Kragelund, P. (2010). *The Potential Role of Mon-Traditional Donors' Aid in Africa,* ICTSD Programme on Competitiveness and Sustainable Development, Issue Paper No. 11, ICTSD, Geneva, Switzerland.

21 AfT at a Glance (2011): p. 55.

22 Kragelund (2010) pp. 7-8 & 11-12

23 AfT at a Glance (2011): p. 55

24 First records of ODA flows for these two donors.

Figure 9: AfT flows by country, 2002 - 2010 (AfT disbursements, USD 2010 constant prices)

		(USD mil)	(USD mil)	(USD mil)	(USD)	
	LDC	Avg 2002-05	Avg 2006-10	Total 2002-10	Avg per capita 2006-10	Ranking (per capita)
1	Afghanistan	437.03	1276.61	8131.19	38.84	7
2	Ethiopia	411.48	621.24	4752.11	7.79	33
3	Bangladesh	549.28	380.27	4098.46	2.61	44
4	Tanzania	360.02	504.34	3961.76	11.82	24
5	Mozambique	351.03	346.66	3137.41	15.56	19
6	Uganda	174.39	410.83	2751.73	13.06	23
7	Democratic Republic of the Congo	250.91	271.74	2362.36	4.31	42
8	Madagascar	243.88	225.01	2100.59	11.67	25
9	Mali	170.35	265.33	2008.05	18.27	16
10	Senegal	167.02	224.97	1792.93	19.05	15
11	Burkina Faso	137.41	211.36	1606.43	10.61	28
12	Nepal	165.31	159.38	1458.12	5.48	37
13	Zambia	175.23	139.17	1396.79	11.30	26
14	Haiti	86.75	199.91	1346.55	20.31	14
15	Cambodia	91.81	151.13	1122.88	10.91	27
...	...	...	...	...	...	...
41	*Solomon Islands*	*10.21*	*20.88*	*145.23*	*40.89*	*6*
42	*Samoa*	*13.96*	*16.55*	*138.60*	*90.83*	*4*
43	*Kiribati*	*9.78*	*8.85*	*83.36*	*92.50*	*3*
44	*Somalia*	*1.11*	*12.07*	*64.80*	*1.33*	*46*
45	*São Tomé and Príncipe*	*7.29*	*5.68*	*57.56*	*35.62*	*8*
46	*Comoros*	*4.54*	*4.76*	*41.97*	*6.78*	*34*
47	*Tuvalu*	*2.01*	*5.26*	*34.34*	*537.93*	*1*
48	*Equatorial Guinea*	*2.03*	*0.46*	*10.43*	*0.69*	*47*

Source: OECD CRS Database (QWIDS), accessed August 2012

Note: The list is ranked on the basis of total disbursements received by the country in the period of 2002-2010 (calculated in 2010 constant prices).

The overall increase in AfT disbursements to LDCs between 2006-10 and the baseline period was not spread equally across the individual countries in the group. When comparing the average flows between these periods (to account for yearly fluctuations), the available AfT resources increased the most in post-conflict countries, after having started off with an almost negligible amount of received AfT. Liberia has received approximately USD 63 million a year on average in trade-targeted aid, compared to less than USD 1 million on average each year in the baseline period; a similar increase was seen in Sudan.[25] Somalia, Vanuatu, Burundi, Togo, and the above-mentioned Afghanistan also witnessed the largest gains in AfT flows during the post-2006 period. Overall, in around 30 percent of the LDCs, the average amount of AfT flows at least doubled between the 2002-05 baseline and 2006-10 periods, while in approximately the same number of countries the average AfT flows did not increase or considerably slumped (in Eritrea and Equatorial Guinea, this slump amounted to almost 55 and 77 percent, respectively) between the two periods.

25 All numbers in USD 2010 constant prices.

3. Effects on the Ground

LDCs are the least protected from the external shocks that result from trade openness and - from the capacity perspective - the least prepared for a full integration into the global trading reality. Whether the increased resources, as briefly sketched above, also substantially contribute to overcoming the inherent weaknesses of LDCs is a subject for both qualitative and quantitative impact assessments, which are increasingly oriented towards providing lessons for the effectiveness and policy design of AfT. Several initiatives have been launched with this objective in mind, starting at the global level with the Global Review under the auspices of the WTO and OECD, and continuing at country or project levels, often as contributions from other organizations and stakeholders.

Global monitoring of resources

The 2012-2013 AfT Work Programme mentions a three-pronged impact of AfT, as has emerged from the 2011 Global Review exercise.[26]

First, AfT supports trade opening and regulatory reform, in turn attracting investments and thus contributing to economic growth. In the LDC group, this applies particularly to those countries trying to accede to the WTO or in need of further assistance with implementing their existing WTO commitments, and those required to undergo a broad range of legislative and regulatory reforms in the process. Cape Verde, which became a WTO member in 2008 and which saw the growth of FDI inflows surpass the aid received in 2007, is typically cited as a case in point.[27]

Second, the Review provided unparalleled empirical – yet often still anecdotal in many cases – evidence of outputs and outcomes of AfT at project/programme level, citing results such as increased employment or positive outcomes in the reduction of transport costs. As an illustrative example, USAID's[28] African Trade Hubs programme was targeted at improving connectivity between Tanzania and Malawi through new technology to decrease transit time between the two countries, among other things.[29]

Third, quantitative empirical research has shown a positive correlation between improved trade performance and AfT. However, this type of research is still scarce and often inconclusive, since clear attribution of such results to AfT is difficult to establish for both methodological and practical reasons. Despite these limitations, several studies are worth mentioning. The widely-cited econometric submission by the United Nations Economic Commission for Africa underscores the significance of looking at AfT resources' effectiveness in the specific case of African trading costs – a 10 percent increase in AfT reduces the exporting costs of one 20-ft container by 1.1 percent.[30] This figure grows in magnitude in light of the actual large number of containers engaged in transporting trade volumes in and out of Africa. In its own set of empirical studies on the effectiveness of AfT, the Commonwealth Secretariat came up with quantitative findings in relation to the positive effects AfT can have for recipient countries.[31]

Considering the conclusions from existing research on the role of high trade costs – which are caused by limited infrastructure and poor trade facilitation instruments – as one of the main obstacles for developing countries to fully engage in trade[32], such quantitative results are a reason for optimism, to a degree. Nevertheless, outcomes resulting from the utilization of AfT resources admittedly vary country by country. Detailed country-focused studies then have the potential to uncover and account for aspects of dissimilar development stages of each country, prompting the question: what real impact does AfT have in individual countries?

Local responsiveness - increased funds, unevenly spread results[33]

An independent methodology for assessing AfT effectiveness and impact at country level (using an in-depth qualitative framework, and to a lesser extent a quantitative one), which allows for identifying

26 Aid for Trade Work Programme 2012-2013 "Deepening Coherence", WTO Document WT/COMTD/AFT/W/30 (15 November 2011)

27 OECD/WTO (2011): Aid for Trade and LDCs: Starting to Show Results, pp. 17-19

28 U.S. Agency for International Development.

29 www.oecd.org/aidfortrade/47434962.pdf

30 www.oecd.org/aidfortrade/47747898.pdf

31 For a brief overview of all results, see the Commonwealth Secretariat Case Study on AfT Effectiveness: www.oecd.org/aidfortrade/47700215.pdf

32 For a brief discussion, see African Development Bank (2011): Impediments to Regional Trade Integration in Africa. Africa Economic Brief 2/11.

33 This section is an extension of a previously published information note by ICTSD: Aid for Trade on the ground: Early Findings from Country Studies, ICTSD Information Note No.20, July 2011

the country-specific set of factors necessary for AfT effectiveness, was developed by ICTSD in cooperation with the Nepal-based South Asia Watch on Trade, Economics and Environment.

Several factors at the local level determine whether the AfT resources have created "visible" value added for the recipient country's trade capacity, and ultimately that country's economy. ICTSD's country-level assessments were undertaken by local and well-informed researchers and have provided useful lessons for the execution of ground-level individual projects and programmes in geographically and socio-economically diverse countries. The information generated from this country-level research, which follows an inclusive and participatory approach of relevant stakeholders, is intended to assist partner countries in implementing AfT programmes more effectively, and to assist the donor community in better responding to development needs.

The following text will focus on the three LDCs for which country studies have been prepared to date – Cambodia, Malawi, and Nepal – which represent the diversity inherent in this lowest income group, and as such can be used to draw some preliminary lessons for AfT in the LDC group. A brief overview of some of the lessons and observations is summarized in a table at the end of the text. More knowledge and possible lessons will be generated in the coming months, as soon as the ongoing country studies for Bangladesh and Rwanda are finalized and released.[34]

a. Trajectory of funds

As discussed above, a general increase in both commitments and disbursements for the LDC group has been reported in recent years. This was also the case in the three LDCs examined here, but the additionality of trade-related funds was found to be an issue in Malawi and partly in Nepal, signalling that these might have in fact been increased at the expense of other sectoral programmes (health, social programmes). On the other hand, AfT funds can be additional when carefully aligned with the government's objective of promoting trade, as shown in the case of Cambodia. Adequate predictability of funding was found in the country studies, even though such conclusions can be fairly subjective. Systemic factors involved in the disbursement of funds and the absorptive capacity of the recipient country can often explain a possible commitment-to-disbursement variation.

b. Nature of AfT

Transport and storage, energy, and agriculture were – as expected – the three high-profile sectors for fund allocation in the LDCs studied. However, the productive supply-side capacity building has been generally restricted due to a dearth of human capacity. It became clear that, if improved complementarity of AfT funds is to be achieved, attention needs to be directed more towards human capacity building and private sector development, with AfT projects designed accordingly, instead of focusing primarily on infrastructure.

In Malawi this argument was particularly pronounced, even though more funds were actually geared toward productive capacity building (and, notably, to agriculture). In this context, some authors have argued that the international focus on short-term results and strong disbursement data might, to a degree, undermine investment in local human capacity and in the development of local institutions.[35] In Cambodia, in turn, trade facilitation projects with a focus on infrastructure were highlighted as those with high potential for impact on the export performance of the country, given that the productive capacity has – admittedly also thanks to AfT – improved.

The three examples of LDCs prove that AfT flows have tended to increasingly take the form of grants as opposed to loans, a positive sign from the external debt creation perspective. Nevertheless, this trend is reversed in the resources provided by non-traditional donors, where concessional loans prevail.

c. Absorptive capacities of recipient countries

The effects of larger reported amounts of AfT in LDCs might be a double-edged sword. In countries with underdeveloped human and institutional capacities, larger aid inflows also raise questions about absorptive capacity and aid dependency. Yet intuitively, a lot can be achieved with limited funding, as long as it is well-targeted. Absorptive capacities remained weak in all the LDCs studied, but the magnitude of this deficiency differs. For instance, Nepal received more AfT disbursements than Cambodia overall between 2002 and 2010 (see Figure 9 above), but studies concluded that AfT projects had a visible and remarkable impact

34 ICTSD has also conducted an assessment in Peru. Additional studies are ongoing in Guatemala, the Philippines, and Ghana, which are not LDCs.

35 See, for example, Said, J.: Where Aid for Trade is failing and why: The example of Malawi. Trade Negotiations Insights, Volume 10, Number 7, October 2011. Available online: http://ictsd.org/i/a4t/115355/

on productive and trade capacity in agriculture in Cambodia, while in Nepal "AfT has not been able to address supply-side constraints to increase trade capacity at the macro level."[36]

Absorptive capacity thus emerges as a strong roadblock in achieving AfT development goals, as it invariably slows an efficient utilization process of AfT funds. The Malawi study cites in particular the lack of an effective transfer of knowledge from existing projects. This highlights the need for human resources development to be undertaken through formal training courses, coaching and mentoring by advisers, on-the-job training, and learning by doing. Project design and technical skills can only be learned through long-term exposure and direct involvement in project management in all phases. It may be a long learning curve, but it is also the most effective tool for capacity building.

Another key element in human resources development is for the key ministries to establish a permanent group of dedicated project teams to be trained as technical and managerial staff. The latter is aptly depicted in the Cambodia example, where most of the AfT disbursements were implemented by a ministry or government agency, but with varied outcomes. Generally, AfT utilization rates empirically proved to be higher in ministries with strong government leadership and an emphasis on human and institutional framework development.

d. Sustainability of AfT – ownership, mainstreaming, and alignment

Trade mainstreaming and defining of trade priorities were, unsurprisingly, found to be two of the broader key components of AfT effectiveness. In the three LDCs, public recognition of trade as a vital component of economic growth was the first prerequisite of sustained trade-related development efforts. Subsequent mainstreaming of trade into official development strategies led, in principle, towards better coordination and alignment of AfT funds with actual needs on the ground. Analyses showed, however, that mainstreaming of trade at a formal level (such as the inclusion of trade goals in Poverty Reduction Strategy Papers or the preparation of Diagnostic Trade Integration Studies) does not necessarily imply mainstreaming of trade in practice (informal level). Consequently, the fundamental *lack of awareness* among the public or private sectors – and even donors – regarding the development potential of trade and the AfT initiative as such often permeated the discussion on AfT effectiveness in the individual LDCs.

Mainstreaming of trade and awareness of stakeholders about AfT are projected in the general *ownership* of AfT, with direct ramifications for both the project and programme effectiveness. When all stakeholders, including donors, the public sector, and the private sector in recipient countries, make use of firmly established cooperation and dialogue-enhancing structures, the projects naturally have a greater chance of producing tangible results, as pointed out by the rice sector development case in Cambodia. But, if such structures for various reasons (both internal and external) are not in place, the AfT – in whatever amounts – has not been found to be fully effective (Malawi's failed Joint Integrated Technical Assistance Programme – JITAP - and some aspects of the Enhancing Nepal's Trade Related Capacity Project - ENTReC).[37] In this sense, the EIF could play a conducive role in coordinating external resources with internal conditions, but it receives limited funding[38] and in some cases even fails to establish operational ties with the recipient country (e.g., Malawi). This partial deficiency in channelling AfT may also help explain the overall decrease in LDCs' share of AfT global disbursements that was reported in the previous section.

Along these lines, a pro-active government and public sector is instrumental for translating formal trade mainstreaming into practical measures, particularly in engaging the private sector and in financially sustaining the projects after the donor funding dries up. Political will in Cambodia helped create an environment conducive to trade-induced development (and the country's relatively fast accession to the WTO) and facilitate a truly multi-stakeholder trade and development dialogue, eventually leading to increased productivity in the agriculture sector with a spill-over effect on exports. In contrast, competing interests within government structures or lack of effort in ensuring that aid is being directed toward priority areas has been found to preclude the effective use of donors' resources. For example, Malawi's government delayed the establishment of an EIF Secretariat,

36 ICTSD: Aid for Trade on the Ground: Early Findings from Country Studies. Information Note No. 20, July 2011

37 For more details on the projects, please see the overview table at the end of this note, and the individual country studies available at http://ictsd.org/programmes/a4t/.

38 Aid for Trade: A Failing Grade in LDCs? UNCTAD Policy Brief No. 2, April 2012

thus preventing full utilization of the diagnostic and coordination function of this entity in the already cumbersome provision of AfT in the country.

Alignment of provided AfT funds with the recipient country's priorities is crucial for aid effectiveness, and yet in the examined LDCs it was more the exception than the rule. Smooth implementation in line with the recipient's priorities presupposes convergence in recipient and donor objectives, existence of reliable financial and procurement country systems, and strong national capacities, which together create an environment of confidence in government structures. All of this is a challenge in LDCs, in one way or another, and is sometimes swayed by a strict donor-recipient mindset.

e. Donor coordination and coherence with non-traditional donors

When there is efficient donor coordination and projects are not repetitive, AfT is more likely to have a positive impact on partner countries. In Malawi, for instance, donor coordination has improved significantly, largely due to the Ministry of Finance's Division of Labour Matrix, the establishment of Sector Working Groups, Common Approach to Budget Support, and informal donor discussion forums.

Another promising example is the multi-donor trade-related technical assistance initiative – known as the Trade Development Support Program (TDSP) – in Cambodia, which aims to increase the Royal Government's efficiency in formulating and implementing effective trade policies, even if implementation so far has been slow. Inefficient donor coordination and project duplication, as observed in certain areas in Nepal, is both due to lack of information among donors and/or simply because the government does not attempt to prevent donors from duplicating efforts. The study on Cambodia, where donor coordination is one of the weakest points of aid provision, came up with an interesting suggestion: that donor-coordination can actually be built into the incentive system of the heads of the agencies.

India and China are frequently cited as new emerging donors in the three analysed countries, including in the area of trade. For instance, Nepal reported *sustained* AfT from these two regional giants. Other players are also participating, notably the development funds of Arab countries (and OPEC fund). South Korea is often viewed as an emerging donor in these countries, but became a member of the DAC in 2010.

Non-traditional donors and China in particular[39] focus on helping LDCs in overcoming their supply-side constraints by primarily targeting gaps in infrastructure, with strategic interests in mind (the Chinese grant for road building in Malawi's mining area, for instance). In some cases, such strategic interests overlap with the recipient country's development priorities (as is the view of some of Nepal's stakeholders) and the projects then appear to be aligned with recipient's national priorities. Interestingly, new donors appear to fund projects that Development Assistance Committee (DAC) donors do not.

According to the country studies, South-South donors have been improving the effectiveness of AfT, but generally do not adhere to the principles of Paris Declaration on Aid Effectiveness. Even if some Paris Declaration tenets are, in fact, observed, the main issue remains that the new donors mostly do not participate in coordination mechanisms (reported in Cambodia and Malawi). Stakeholders – including the government – are sometimes not even aware of the presence of such projects (Nepal) and embedded country systems are seldom used.

f. Impact

In order to get a glimpse of the actual outcomes of – more or less effective – AfT resources in individual countries, the studies attempted to evaluate the effects both quantitatively and qualitatively, at macro (economy, exports) and micro (project, sector) levels.

Typically, quantitative causal effects of AfT on *macroeconomic* indicators were difficult to isolate, even though in both Nepal and Cambodia a positive association between AfT and exports was found. Nevertheless, cases of countries whose approach to AfT was more coherent and informed pointed to the rather strong link between the effectiveness of deployed AfT resources and their actual impacts in terms of broader development through trade (Cambodia, partly Nepal). On the other hand, in Malawi – where the effectiveness of AfT was not assessed as sufficient – AfT impact potential was not developed to the fullest due to the "fragmented approach to aid" vis-à-vis the supply-side constraints and remarkable trade deficit, although trade awareness had improved among stakeholders.

The assessment methodology further suggests that an in-depth qualitative study of a selected AfT project or programme be carried out to uncover the *"microeconomic"* effects. These projects were typically chosen according to their relevance to the AfT rationale in the given country and the country's economic and productive landscape.

39 See also Kragelund, P. (2010): pp. 8-9

The case studies support the findings of the analysis above. For instance, the analysis on the ENTReC in Nepal has shown that the project has – to a certain extent – been successful in achieving some of its objectives, in terms of increasing the competitiveness of Nepali exporters, creating a more empowered and engaged private sector, and creating a more favourable investment environment. According to the analysis, the project was designed consistently with the country's trade policy. Nevertheless, a partial lack of ownership due to limited human capacities has prevented some of the project deliverables from being fully achieved. Indeed, this lack of focus on enhancing human capacities can affect the long-term sustainability of the project.

Similarly, the JITAP project in Malawi was successful in achieving a number of planned outcomes – particularly in building awareness on the functioning of the multilateral trading system – due to its focus on training and capacity building. Nevertheless, these results have been short-term, as the project has not created those institutional capacities among local stakeholders that could last beyond the project's lifetime. In this regard, JITAP's lack of a holistic and long-term approach proved typical.

In contrast, Cambodia undertook significant efforts to include these aspects into the design and delivery of the Rice Export Policy development programme. The country "has broken the vicious cycle in which insufficient investment in the agriculture, water, and rural development sectors were attributed to the lack of strategies and policy, and when these were produced, tangible actions fell short due to a lack of implementation capacity.[40]" This emphasis on the Rice Export Policy strategy has created the necessary conditions for improving aid effectiveness in Cambodia, thanks also to the cooperation between the government and the private sector.

In conclusion, one of the major lessons learned from these studies is that AfT should not be regarded as a separate development effort, but rather in conjunction with the development in other sectors outside of trade-related capacity building, including social ones. This is even more urgent in LDCs, where human capacity (and consequently institutional) development is the first prerequisite for adequate AfT demand-formulation, planning, and subsequently the effective management and implementation of better targeted AfT resources. Donors' focus in LDCs should be more focused on local human and institutional capacity development in the form of long-term oriented results-based programmes.

40 Citation: Siphana, Sok; Cambodochine Dao; Chandarot Kang; Dannet Liv (2011); Evaluating Aid for Trade on the Ground: Lessons from Cambodia; Issue Paper No. 22, ICTSD. P.56.

		Cambodia	Malawi	Nepal
Funds trajectory	*Additionality*	YES: AfT funds additional, not resulting in diversion of resources from social sectors.	NO: but government's contribution to AfT projects has increased in recent years.	YES in commitments, NO in disbursements.
	Predictability/ Reliability of commitments	YES: Practice suggests official disbursement rates are understated (in reality 80-90 percent). Donors admit changes in their priorities affect availability of resources.	YES: But difficult to measure due to whether conditionalities are appropriate or not	NO: untimely disbursements by donors
Nature of funds	*Most resources go to...*	2006-2009: 1. Economic infrastructure (Transport & storage), 2. Productive capacity (Agriculture)	2006-2009: 1. Productive capacity (Agriculture), 2. Economic infrastructure (Transport & storage)	2006-2009: 1. Economic infrastructure (Transport & storage + Energy), 2. Productive capacity (Agriculture). Private sector not receiving significant amounts of AfT, despite its willingness to cost-share.
	Grants/Loans	90 percent of disbursements in grants between 2008-2010 (Cambodia ODA database)	Most aid in the form of grants.	Increasing tendency toward grants, almost 90 percent of disbursements in grants between 2006-2009
Absorptive capacity	*Limitations?*	Varies according to government agencies (which implement most of AfT), but generally "adequate"	Capacity of local stakeholders weak despite AfT efforts, but evidence of improvement in certain areas. Low knowledge transfer in training activities, according to stakeholders.	Major problem as viewed by most of the stakeholders, but explanations vary greatly (human capacity, systemic, institutional problems).
Ownership	*Mainstreaming of trade*	YES: Fully at formal level (National Strategic Development Plan 2009-13), but not substantially mainstreamed to all relevant ministries. Awareness on the role of trade needs to be enhanced.	PARTLY: Not substantially at formal level, but varies across sectors (transport sector and agriculture sector improving). Public awareness of trade improved.	YES at the formal level, NO at substantive level. Little coordination between line agencies and Ministry of Commerce to promote trade.
	National level coordination	Stakeholders involved in the formulation of trade policies; Trade SWAp roadmaps developed through stakeholder consultation. Some coordination by Steering Committee for Trade Development. Expansion of ownership to all trade-relevant institutions is needed.	Different ministry priorities (competition for resources). Fragmented approach to aid at local level. Private sector only marginally involved in trade policy dialogue. Despite improvement, lack of understanding of AfT, precluding effective utilization of funds.	Process of formulation of Nepal Trade Integration Study (NTIS) inclusive; private sector feels to be only consulted without taking the suggestions on board by the government; lack of awareness about AfT among government officials and donors (survey results).
	Government financial participation & sustainability	YES: Government continues to co-finance AfT projects. Majority of AfT projects implemented by government. However, low implementation capacity is a constraining factor.	Mixed evidence, but generally not sustainable, both substantively and formally. Government recently increased investment in trade-related areas.	Financial sustainability differs from case to case, but general view is that the sustainability aspect has not been taken into account. Other forms of sustainability questionable.

		Cambodia	Malawi	Nepal
Alignment	*Donors vs recipient's priorities*	National Strategic Development Plan contains resource requirements (based on sectors), but AfT generally rather supply-driven (donors-driven)	Divergence of objectives between international trade community and government. Lack of long-term approach to local human capacity development.	AfT is generally going to programmes prioritized by the government at the broad level, although activities could clash at the activity level (stakeholders' view)
	Use of country systems?	NO: Mostly use of parallel donor structures; donors feel that government structures lack credibility and accountability.	NO: Low use of country systems in management of budgets, but use of Reserve Bank of Malawi's accounts. Recent government ban on parallel implementation units.	Bilateral donors tend to use their own systems, national Procurement Act is identified as a problem by stakeholders (it stipulates time-consuming process with legal difficulties etc.)
	Demand-supply gap?	YES: AfT generally supply-driven rather than demand-driven, gap exists.	YES: the gap remains significant despite some progress (stakeholders' view)	YES: gap exists and hinges upon both supply and demand
Donors coordi-nation?		NO: improvements, but both donors and local entities feel coordination still a major problem.	YES in Trade Infrastructure and some areas of Production Capacity (MoF's Division of Labour Matrix). NO in trade policy and development (stakeholders' view).	YES: duplication of projects and funding exists, although donors are trying to avoid it, particularly after the launch of NTIS.
Cohe-rence of AfT	*Environmental sustainability*	Limited effort to link trade to climate change adaptation and mitigation policies and to build coherence, but some positive steps already taken.	Weak environmental and adaptation policy. Trade takes precedence over environment objectives (stakeholders' view).	No conscious effort at establishing coherence between AfT and climate finance, either at the donor or recipient level, but recognition of the need to create such synergies.
	South-South Cooperation	China partly filling the demand-supply gap (economic infrastructure). Strategic economic interests are the main driver.	India (credit facility) and China (infrastructure), Arab Bank for Economic Development. Mostly in form of loans. Little evidence of adhering to Paris Declaration. Little coherence with traditional donors.	India, China, and OPEC Fund altogether gradually increasing the share on total AfT. Focus on infrastructure, lack of transparency reported.
IMPACT	*Macro level*	Reduction in bureaucracy and cost of exporting visible, but difficult to clearly isolate impacts on export performance (strong correlation between AfT and exports)	Close to negligible in terms of trade deficit and export growth due to fragmented approach to aid. Trade-awareness improving.	AfT is positively associated with growth of exports (indicative - regression analysis), stakeholders hold moderate views; AfT supported small industries projects, several other projects perceived as success (stakeholders' view).
	Micro level - sector/project	Positive impacts in rice sector (visible improvement in productive capacity), significant impacts in trade facilitation.	Joint Integrated Technical Assistance Programme - assessed as "typical" failure; inability to assume holistic approach to long-term capacity development. AfT does not address critical constraints (e.g. access to skills).	Enhancing Nepal's Trade-Related Capacity: success in one area, partial success in three areas (increasing competitiveness or creating more empowered private sector), very limited success in creating development-friendly investment climate.

About the International Centre for Trade and Sustainable

Development, www.ictsd.org Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank based in Geneva, Switzerland and with operations throughout the world including out-posted staff in Brazil, Mexico, Costa Rica, Senegal, Canada, Russia, and China. By enabling stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity-building, ICTSD aims to influence the international trade system so that it advances the goal of sustainable development. ICTSD co-implements all of its programme through partners and a global network of hundreds of scholars, researchers, NGOs, policymakers and think-tanks around the world.

Information Note by Petra Walterova, Paolo Ghisu and Vinaye Dey Ancharaz.

This paper has been produced under the ICTSD Programme on Competitiveness and Sustainable Development. ICTSD wishes gratefully to acknowledge the support of its core and thematic donors, including: the UK Department for International Development (DFID), the Swedish International Development Cooperation Agency (SIDA); the Netherlands Directorate-General of Development Cooperation (DGIS); the Ministry of Foreign Affairs of Denmark, Danida; the Ministry for Foreign Affairs of Finland; and the Ministry of Foreign Affairs of Norway.

For more information about ICTSD's programme on Competitiveness and Sustainable Development visit our website at www.ictsd.org

ICTSD welcomes feedback and comments on this document. These can be forwarded to Paolo Ghisu (pghisu [at] ictsd.ch) or Anne Pfister (apfister [at] ictsd.ch).

Citation: ICTSD; (2012); *Aid for Trade and the Least Developed Countries: Recent Trends and Impact on the Ground; ICTSD Programme on Competitiveness and Sustainable Development*; Information Note; International Centre for Trade and Sustainable Development, Geneva, Switzerland, www.ictsd.org.

ISSN 1684 9825