

Aid for Trade Series



Assessing the Effectiveness of Aid for Trade

Lessons from the Ground



By ICTSD



International Centre for Trade
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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AfT	Aid for Trade
CGE	Computable general equilibrium
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DfID	Department for International Development, UK
DTIS	Diagnostic Trade Integration Study
ENTReC	Enhancing Nepal's Trade Related Capacity
Exim Bank	Export-Import Bank
FDI	Foreign Direct Investment
HIPC	Heavily Indebted Poor Country
ICTSD	International Centre for Trade and Sustainable Development
IFC	International Finance Corporation
LDCs	Least developed countries
MoCS	Ministry of Commerce and Supply, Nepal
NTIS	Nepal Trade Integration Strategy
ODA	Overseas development assistance
OECD	Organisation for Economic Cooperation and Development
PENX	Plan Estrategico Nacional Exportador, Peru
SAWTEE	South Asia Watch on Trade, Economics and Environment
SVEs	Small and vulnerable economies
TRTA/CB	Trade-related technical assistance and capacity building
USAID	United States Agency for International Development
WTO	World Trade Organisation

FOREWORD

This paper examines the conditions that make Aid for Trade (AfT) effective by looking at country-specific factors based on the direct experience with AfT of eight developing countries, including four least developed countries (Bangladesh, Cambodia, Malawi, Nepal), three lower-middle income countries (Ghana, Guatemala, the Philippines) and one upper-middle income country (Peru). Assessments of the AfT initiative have been undertaken in these countries by ICTSD since mid-2010, using a methodology that the Center has developed jointly with the South Asia Watch on Trade, Economics and Environment.

The paper does not seek to offer a conclusive statement about whether AfT has or has not worked in a given country. Instead, it focuses on identifying those factors or circumstances that appear to enhance the effectiveness of AfT, and this with the aim of teasing out lessons of best practice that could inform and enhance the initiative in the future.

This study, as well as the eight country-analyses, offers fresh insights into the dynamics of AfT on the ground, the institutional set-up underlying the initiative and its weaknesses. Overall, the findings are not radically different from what has emerged from the more general aid effectiveness debate. In short, AfT is likely to be effective when the host country has the appropriate institutions and human resources to utilise aid; when the aid program enjoys broad local ownership, including political ownership; and when donor objectives are aligned with local priorities. To these, we shall add that, specifically for AfT flows, it is crucial that these are additional, and not just a diversion from existing aid resources.

The findings have important implications for taking the AfT initiative forward. The most important constraints to aid effectiveness are conditions specific to the host country rather than to the AfT initiative itself. While developing countries should step up efforts to mainstream trade and take a more active and participatory role in AfT project design and implementation, donors, on the other hand, should do more to build the absorptive capacity that developing countries critically lack.

Through this analysis, ICTSD aims to contribute to the ongoing discussion on the AfT Initiative and to provide information and evidence to guide developing countries and their trade and development partners in designing and implementing more effective AfT programmes in the future.



Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

1. INTRODUCTION

This paper enquires into the conditions that make Aid for Trade (AfT) effective by drawing from evidence on the ground. This evidence is not quantitative nor does the paper purport to undertake a systematic evaluation of the Aid for Trade initiative. Instead, it is based on a set of country-level case studies that the International Centre for Trade and Sustainable Development (ICTSD) has undertaken since mid-2010, using a unique methodology developed jointly with SAWTEE.¹

The ICTSD studies offer fresh insights into the dynamics of Aid for Trade on the ground, the institutional set-up underlying the initiative, and its weaknesses. The methodology, based broadly on the Paris principles, allows an assessment of AfT effectiveness using a combination of quantitative indicators and information from key stakeholders, obtained through interviews. Unfortunately, there is no way of aggregating these diverse indicators into a conclusive statement about AfT effectiveness. Hence, as far as possible, we shall avoid making inferences about whether AfT has or has not worked in a given country. We focus instead on pointing out those circumstances that appear to enhance the effectiveness of AfT with the aim of teasing out lessons of best practice that could inform and enhance the initiative in the future.

The findings, ultimately, have a sense of déjà-vu: AfT seems to be most effective when it is additional and predictable; when AfT projects are owned by the host country and trade mainstreamed into the national development strategy; when donor objectives are aligned with the recipient government's priorities; and, critically, when adequate local absorptive capacity exists. The case studies also reveal a lack of awareness of the AfT initiative both in concept and in practice, even among those responsible for implementing such AfT projects in the country. It appears that this situation is due both to a definitional problem as well as poor coordination among implementing agencies.

The rest of the paper is organized as follows. The next section explains the need for AfT evaluation, presents some available evidence and describes briefly the methodology used in ICTSD country studies. Section 3 discusses some trends in AfT to place in context the discussion in the following section on the additionality and predictability of AfT funds. Section 4 provides insights from the country studies. Section 5 summarizes the key findings, draws out lessons of best practice and offers some thoughts on the way forward.

2. EVALUATING AID FOR TRADE: WHY, HOW AND WHAT?

2.1 Why Evaluate AfT?

The need to evaluate Aid for Trade is as old as the initiative itself. In its 2006 report, the WTO Task Force called for “concrete and visible results on the ground”, arguing that such results would “provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda”.² However, while the Task Force set a number of goals for the Aid for Trade initiative to pursue, it fell short of providing any guidelines on how to conduct a proper evaluation of the initiative. In the meantime, a number of developments have made evaluation more urgent than ever before. First, donors are facing a tight budget situation at home, forcing them to reassess their external aid policy. Second, the landscape for aid has changed dramatically with the rise of emerging economies, whose Aid for Trade activities, while significant, remain largely outside of the DAC framework. Finally, the demand for greater transparency and accountability in developing countries has increased with the return of democracy in many countries and aided by rapid and efficient information exchange.

Perhaps more than ever before, there is a need to demonstrate to donors that Aid for Trade is value for money and that their disbursements help poor countries harness the benefits of trade as an engine of development. Concrete evidence that goes in this direction will help secure the future of Aid for Trade while bringing to light the factors that reduce aid effectiveness could guide efforts aimed at improving the initiative’s impact.

2.2 Evaluation Methods and Difficulties

A variety of methods have been proposed to evaluate AfT, and these have generated evidence of various kinds. The Third Global Review in 2011 threw the spotlight on 275 case stories of AfT and more than 140 self-assessments by partner countries and donors that the OECD and the WTO had compiled. However, most of these case stories were

based on specific AfT projects in a country or at the regional level. While this exercise provided unique insights on selected issues, the evidence collected through the case stories remained anecdotal in nature, and understandably focused on the rather positive impacts of AfT.

A meta-evaluation of AfT by the OECD, drawing on projects in two sectors - transport and storage - in two countries, Ghana and Vietnam, over the period 1999-2010 offers a more nuanced view on the effectiveness of AfT.³ This study, based on a count of key words occurring in evaluations of trade-related operations by aid agencies, shows that trade or trade policy linkages hardly ever feature in these evaluations. More importantly, the evaluations provided little insight into AfT’s impact: causal links between projects and performance were hard to establish.

A more systematic approach to AfT evaluation centers on the Paris principles, as recommended by the WTO Task Force. This approach implicitly assumes that aid will be effective - in terms of achieving its goals - if it adhered to the Paris principles of strong ownership, alignment of aid along national priorities, coordination among donors, mutual accountability and transparency, and adequate absorptive capacity in the host country. An analysis of donors’ evaluations of trade-related technical assistance and capacity building (TRTA/CB) programs by the OECD confirms that most of the “success stories” were indeed cases where these good practices were faithfully adopted.⁴

Some studies have used econometric analysis to identify the impact of AfT programs at the aggregate level - on some quantifiable target, such as exports or export growth. In general, however, such studies have suffered from the lack of a long-enough time series due to the fact that the AfT initiative was only formally established in 2006. Another problem is reverse causality: since AfT is meant to boost exports, one should observe countries with large

exports to be receiving small AfT flows. If this endogeneity problem is not properly addressed, a regression of exports on AfT is most likely to yield a negative coefficient on AfT, which could lead to the misleading conclusion that AfT reduces exports!

Despite these problems, AfT assessments at the aggregate level, albeit scant, have been more common than project-based evaluations. These studies, such as Ferro et al (2011), Cali and te Velde (2011) and Brenton and von Uexkull (2009), have used regression to investigate the impact of AfT on exports. Several econometric studies have used gravity models (e.g., Portugal-Perez and Wilson, 2012; Shepherd and Wilson, 2009). Some - especially on trade facilitation - have also used CGE (computable general equilibrium) modeling (e.g., Zaki, 2010) but these studies have not focused on any AfT projects as such; moreover, they have adopted a much larger view of trade facilitation than is commonly understood in the WTO circles.⁵

The focus on aggregate-level analysis of AfT is not difficult to understand. It was long thought that AfT projects lacked the characteristics of ‘clinical’ policy interventions and were therefore not amenable to randomized control trials that have been successfully used in project evaluations in other areas of development assistance (e.g. poverty alleviation or health). Moreover, externalities in AfT projects make it difficult to appropriate benefits and to assign them to a specific project. Incentives and costs are two other constraints to project evaluation (Cadot and de Melo, 2013). AfT project evaluations are likely to suffer from a time-consistency problem: project managers generally loathe undertaking such evaluations knowing that they might be held accountable for poor results. They may find a convenient excuse in the fact that evaluation costs are typically high relative to the value of trade-related projects, making evaluations appear as a waste of resources.

However, a “culture of rigorous evaluation” among AfT donors and implementing agencies is emerging now (Cadot et al., 2011) as the demand for aid to show results has increased

sharply. Even so, the uptake is very slow, and concrete evaluations of AfT projects at the national level remain rare.

2.3 The ICTSD-SAWTEE Methodology

The methodology used in conducting the country-level studies is based on the Paris principles of aid effectiveness as highlighted above. However, it goes beyond the 5 key elements of the Paris Declaration and includes several other quantitative and qualitative benchmarks. Specifically, the ICTSD-SAWTEE methodology assumes that additionality and predictability of AfT funds are important preconditions for AfT effectiveness, and proposes various indicators to track them. AfT funds are considered as additional if AfT flows to a country have not increased over time at the expense of non-AfT ODA flows. A sufficient condition for additionality is that both AfT and non-AfT ODA increase consistently through time. Similarly, AfT is said to be predictable if disbursements, on average, keep pace with commitments. Quantitatively, the gap between disbursements and commitments should not widen but preferably narrow down over time.

The methodology also explains how some of the other elements of the Paris Declaration could be assessed using quantitative indicators (see Table 1). However, due to data limitations, not all of the proposed indicators could be computed in the country case studies. Ultimately, the methodology produces a combination of quantitative evidence and qualitative data that need to be judiciously used in determining the effectiveness of AfT. To this end, the narratives on impacts at both the macro- and micro levels could be particularly instructive.

Our methodology does not purport to provide a binary answer to the question of whether aid for trade in a given context has been effective. It serves rather to draw attention on the essential conditions that affect aid effectiveness and weigh in their implications for the design and implementation of AfT projects in the future.

The methodology was applied through a bottom-up approach. Each country study was conducted

by local independent researchers under the coordination of ICTSD. These researchers, in turn, worked in close collaboration with government agencies, development partners, the private sector and other local stakeholders, collecting data and information through structured interviews. Each draft report was then presented and discussed at a national workshop where initial findings were shared with various stakeholders, whose insights were incorporated in the final report. As a last step, each study underwent extensive peer reviewing

by experts from the country concerned and internationally.

Through the involvement of local stakeholders the project also intended to strengthen their ownership both of the report and of local AfT programmes, as well as build their capacity for planning, implementing and evaluating projects. Moreover, this inclusive and participatory approach was intended to foster a dialogue among national and regional stakeholders, which is crucial in making AfT effective.

Table 1: A Description of the ICTSD-SAWTEE Methodology

Aspects	Elements	Indicators
AfT funds trajectory	Additionality	<ul style="list-style-type: none"> AfT in the recent period is greater than AfT in the base period (2002-2005) Non-AfT ODA in the recent period is greater than non-AfT ODA in the base period Growth rate of non-AfT ODA in the recent period is greater than or equal to the growth rate of non-AfT ODA in the base period
	Predictability	<ul style="list-style-type: none"> Variations between commitments and disbursements over time Extent to which AfT programmes/projects have been completed without any constraints
Absorptive capacity	N/A	<ul style="list-style-type: none"> Capacity of partner country's institutions in utilizing available AfT resources to achieve the defined purposes of AfT programmes/projects
Ownership at country level	Mainstreaming of trade	<ul style="list-style-type: none"> Formal and substantive trade mainstreaming: extent to which trade is mainstreamed in national development plans, sectoral policies, line ministries, etc. Percentage of AfT resources allocated to programmes/projects that are considered as priority by the partner country and designed by the partner country.
	Stakeholders coordination	<ul style="list-style-type: none"> Level of coordination (formal vs. substantive) between ministries and government agencies, as well as other relevant stakeholders (e.g. private sector and civil society) in formulating and implementing trade policies as well as AfT programmes/projects

Donors' responses to countries' trade and development needs	Donors alignment	<ul style="list-style-type: none"> Formal and substantive level at which donor priorities are aligned with the partner country's trade and development agenda
	Use of country systems	<ul style="list-style-type: none"> Extent to which donors use public financial management and procurement systems of the partner country as well as local human resources Number of projects implemented by government or through the creation of a parallel implementation unit
AfT Impact	Impact at macro level	<ul style="list-style-type: none"> Changes observed in a country's export performance at aggregate level and at the sectoral level through AfT measures Sector- level productivity changes in relation to AfT programmes/projects Role of AfT in enhancing inter-sectoral and intra-sectoral export diversification Effect of AfT in trade policies and regulations as well as in building capacity related to trade amongst government officials (governance) AfT relationship with establishment of new firms and increases in the number of international traders; as well as training/ capacity building of private sector stakeholders related to international trade (private sector development) Allocation of AfT funds towards trade-related infrastructure; reduction in time for the movement of goods and imports/exports procedures
	Impact at project/ programme level (micro-impact)	<ul style="list-style-type: none"> Relevance of the specific programme/project with country's trade and development strategies and priorities Efficiency in programme/project design and involvement of relevant stakeholders in designing the project Extent to which programmes/projects are efficiently managed and implemented and involvement of relevant stakeholders in programmes/projects implementation Effectiveness of project outputs and outcomes in achieving the expected results Impact of the programme/project in achieving the expected results

Source: Adapted from Adhikari (2011)

3. AID FOR TRADE GLOBAL TRENDS

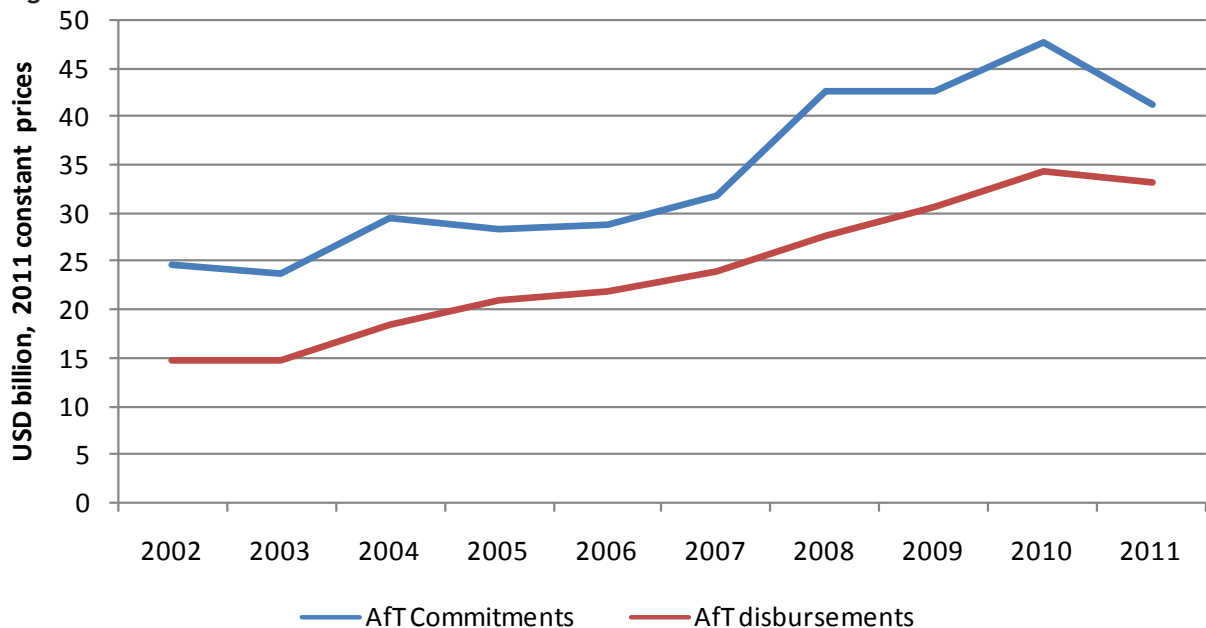
This section looks at the latest trends in aid - both AfT and ODA - to gauge whether commitments are being followed through and whether AfT resources are “additional”; to determine whether LDCs have received a fair share of AfT resources; and to examine the sectoral distribution of AfT flows. The section concludes with a discussion of emerging donors, whose engagement is becoming increasingly important but who continue to operate outside of the DAC framework.

3.1 Aid for Trade: is It Additional?

The additionality of trade-related development assistance has long been at the centre of AfT discussions. The WTO Task Force on AfT recommended that “additional, predictable, sustainable and effective financing is fundamental for

fulfilling the Aid-for-Trade mandate.” The flow of funds available to support developing countries’ trade-related needs seems to suggest that AfT resources have been ‘additional’. Total AfT committed resources were up from USD 28 billion in 2005 to USD 41 billion in 2011, representing a 45 percent increase over this period. Remarkably, commitments have increased faster in recent years - at an average of 7.4 percent per annum between 2006 and 2011 - than in the base period of 2002-2005 when the increase was 5.4 percent per annum. AfT flows have generally kept pace with committed resources but the wedge between disbursements and commitments has widened since 2007, decreasing only in 2011 when both commitments and disbursements significantly declined as result of the economic crisis (figure 1).

Figure 1: Global AfT Commitments and Disbursements

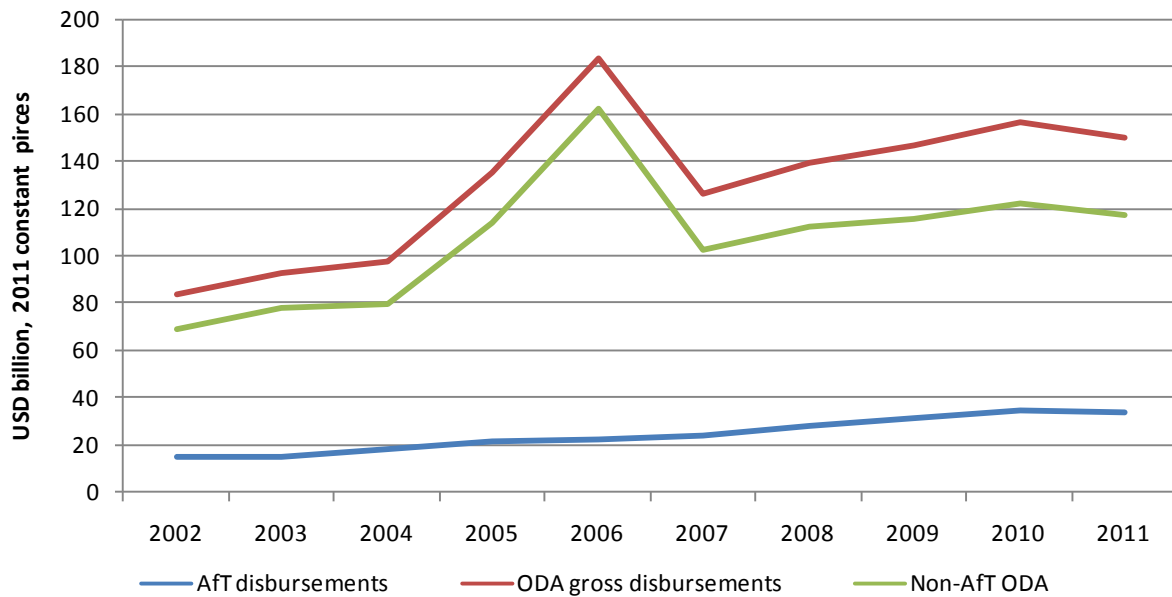


Source: OECD Creditor Reporting System (CRS) Database, accessed June 2013.

However, additionality means not only that AfT resources increase, but also that such increase has not diverted resources from aid in other sectors (for instance, social and health).⁶ One way to check for additionality is to compare trends in AfT and non-AfT Official Development Assistance (i.e., ODA minus AfT).⁷ On this count, while AfT flows have increased in recent years, non-AfT ODA has exhibited a fluctuating trend and, in 2011, was almost at the same level as

2005 (about USD 117 billion) (Figure 2). Meanwhile, over this period, the share of AfT in total ODA went up from 15.5 percent to 22 percent. This could be interpreted to mean that some AfT flows were being fed by diverting resources away from ODA in other sectors. If true, this would be a cause for concern for recipient countries and could only be justified if spending ODA through AfT is relatively more effective in promoting development.

Figure 2: Global AfT and Non-AfT ODA flows



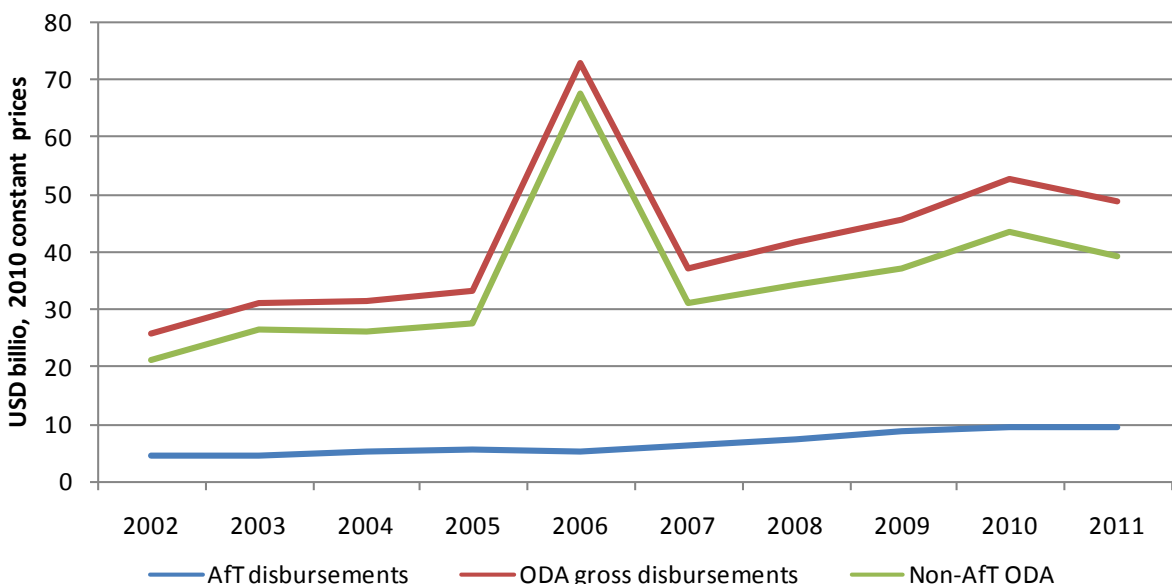
Source: OECD CRS Database, and OECD.StatExtracts, accessed June 2013.

3.2 AfT to LDCs

It would be particularly worrisome if the decrease of non-AfT ODA had affected the Least-Developed Countries (LDCs), given their known vulnerabilities and structural weaknesses, and hence their need for sustained AfT flows. For-

tunately, the data does not bear this out: AfT in LDCs appears to have been additional since both AfT and Non-AfT ODA have generally increased (Figure 3). LDCs' share of AfT has hovered at about 28 percent in recent years. More worrying, in 2011, total ODA flows declined while AfT slightly increased

Figure 3: AfT and Non-AfT ODA disbursements in LDCs



Source: OECD CRS Database, and OECD.StatExtracts, accessed June 2013

A closer inspection at country-specific data shows that AfT flows vary quite significantly among LDCs. Indeed, 20 out of 49 LDCs have attracted 65 percent of total disbursements.

The smallest amount of funds have been directed to small islands and small LDCs, which by contrast have usually received more AfT *per capita* than other countries. Moreover,

CRS data reveal that some of the poorest LDCs have received very little in per capita terms – typically less than USD 10 over the period 2006–2011.¹ While there is no available benchmark to determine the adequacy of AfT funding, these figures indicate that LDCs might not have received a share of AfT resources proportionate to their needs.

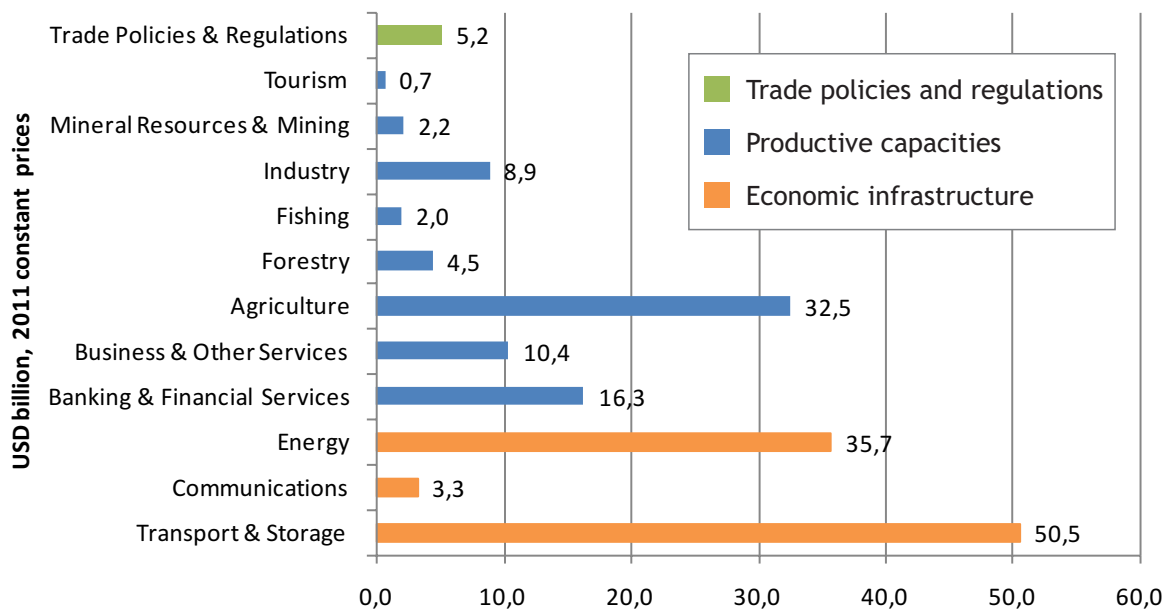
3.3 Other Trends

OECD data reveals that the bulk of AfT resources has been channelled for building economic infrastructure and productive capacity. Since 2006, funds spent for economic infrastructure amounted to USD 89.4 billion (52 percent of total disbursements). Among these funds, the largest part was spent on transport and storage (56 percent) and in the energy sector (40 percent), whereas the remaining financed projects in the communications sector (figure 4). In the same period, USD 77.5 billion was

disbursed to build productive capacities (45 percent of total disbursements). Agriculture dominated this category by far, followed by investment in banking and financial services, business and other services, and industry. Finally, 3 percent of funds were channelled for strengthening trade policies and regulations.

Among the top five AfT recipient countries, four are in Asia and one in Africa. With USD 5.8 billion received as AfT in 2011, Afghanistan was the largest recipient, followed by the Democratic Republic of Congo (USD 4.2 billion), Pakistan (USD 2.6 billion), Vietnam (USD 2.1 billion), and India (USD 2 billion). Ethiopia, Iraq, Mozambique, Tanzania and Kenya complete the list of the top ten recipient countries. In terms of donors, the United States is the main AfT provider, followed by European Union institutions, Germany, United Kingdom, France, Japan, the Netherlands and Sweden.

Figure 4: Aid for Trade, Sectoral Distribution, 2006 - 2011



Source: OECD CRS Database, accessed February 2013.

3.4 Emerging Economies' Trade-Related Aid

A significant trend in recent years in the AfT arena is the growing role of emerging economies. These countries are not DAC members and, as such, there is no systemic data and information about their AfT activities. However, various reports have documented their increasing contributions, which nevertheless remain small in

comparison with DAC donors. Emerging donors tend to provide development aid in a different way from traditional donors, focusing more on infrastructure and much less on social sectors.

Typically, emerging donors maintain development cooperation ties with their neighbouring countries, but they have also expanded their activities to other regions. For instance, China

and India, which are the largest providers of aid among non-traditional donors, have conducted aid activities in Africa (admittedly with the aim of advancing trade and investment relations). This has taken place particularly through large funds and credit lines administered by the respective Exim Banks.

China generally provides development support through export credit in which concessional and market rate loans are combined. In various cases, partner countries have provided China (more precisely, China's Exim Bank) preferential access to their natural resources as a means to repay loans, as in the case of a USD 6 billion joint venture negotiated in 2007 by China with the Democratic Republic of Congo for infrastructure work in return for a mining concession.⁹ Other emerging donors are increasingly emulating the Chinese model by tightening their relations with other developing countries through a mix of aid and investment.

There is a perception that aid provided by emerging donors lacks transparency and contains little or no conditionality, thereby undermining DAC members' efforts of making aid more effective. While the rapid rise of these new forms of aid pose many challenges for both traditional donors and recipient countries, several studies have challenged these perceptions.¹⁰ For example, AfDB et al (2011) argue that emerging donors "tend to adopt a more holistic approach to promoting exports, supporting direct investment and offering development assistance". Recipient countries generally perceive emerging economies' aid as less bureaucratic and faster than traditional donors', and more effective at meeting their development needs in infrastructure.¹¹ Moreover, to the extent that emerging economies tend to support projects that traditional partners usually do not finance, they play a useful role in complementing ODA. The aid relationship between North-South donors can thus be a mutually reinforcing one.

4. INSIGHTS FROM COUNTRY EXPERIENCES IN MANAGING AfT

The effectiveness of AfT in boosting trade-related performance depends crucially on a large number of country-specific factors. This section discusses the experience of eight developing countries with AfT projects/programs on the ground. Four of them are classified as LDCs: Bangladesh, Cambodia, Malawi, and Nepal. ICTSD also looked at countries from different income groups to get a more diversified picture of AfT interactions at the national level: in fact, Ghana, Guatemala and the Philippines are lower-middle income economies, whereas Peru is an upper-middle income economy. Other criteria guiding the selection process included the presence of a diversified donor community, investments in various sectors (e.g. infrastructure, agriculture, energy, tourism, services, etc.) as well as geographical considerations. Finally, the host government's interest in collaborating with the local research team throughout the research was critical for building ownership among local institutions in the project.

The country experiences indicate that the overall effectiveness and impact of AfT on trade performance has been extremely varied. Not surprisingly, countries that effectively mainstreamed trade in their development strategies, established functional coordination mechanisms both with national constituencies and donor agencies, clearly identified their trade-related constraints and used aid to tackle them witnessed a greater and more positive impact through the use of AfT resources. The following sections provide a detailed analysis of the main findings of these studies according to the different criteria established in the methodology described above.

4.1 Utilisation of AfT Funds

Trajectory of funds

The positive trend in global AfT disbursements noted in the preceding section is also reflected in the eight country cases. AfT commitments increased in all countries since 2006, except in the Philippines, where pledges decreased by 23 per cent in comparison with 2002-2005. Yet,

disbursements have increased by 42 per cent in recent years. Disbursements increased in all countries but Bangladesh and Nepal, two of the four LDCs in the sample. This seems to confirm our earlier observation that the disbursement of AfT resources takes place at a slower pace in the world's poorest countries.

In order to determine whether AfT was additional, we have to consider not only if AfT resources have increased in an absolute sense since the launch of the initiative in 2006, but also if these funds have not diverted resources from other aid sectors.¹² Only in Cambodia and Peru did both AfT and non-AfT resources increase in recent years. It appears, therefore, that trade-related development assistance in these countries was additional; that is, it did not divert resources from other aid sectors. Instead, in Guatemala and Ghana while AfT flows increased, non-AfT ODA declined,¹³ suggesting that the additional resources for supporting trade-related needs in these two countries might have come at the expense of other aid sectors.

Any attempt at assessing additionality of AfT resources is hindered both by the way AfT is defined as well as the monitoring framework of international AfT flows, which is mainly based on donors reporting to the OECD. This difficulty seems to be particularly relevant in light of the limited understanding of the concept of AfT in several aid-recipient countries. In fact, evidence from the eight countries shows that key stakeholders often have a limited knowledge of what AfT means, brings and entails. This was stressed not only by actors from the private sector and civil society, but also in some cases by officials within ministries of trade, finance, other line ministries, as well as by local donor agencies. Indeed, this limited understanding of AfT, both as a concept and in practice, constitutes a key institutional weakness in the operationalization of the initiative, and this despite its growing prominence. As we discuss later, this negatively affects the local ownership of AfT programmes and projects, and hence the effectiveness of the initiative both at the local and global levels.

Predictability is one of the core elements of the Paris Declaration as well as a key recommendation made by the WTO Task Force on AfT. Predictability can be defined as the extent to which donors provide reliable commitments over a period of time and disburse aid in a timely and systematic way.¹⁴

Predictability of AfT funds has emerged as a problem in some of the countries, particularly in Nepal, Bangladesh, and Ghana. In these countries, disbursements have not kept up with commitments. Two main factors seem to have negatively affected AfT predictability. First, changes in donor priorities altered the availability of resources in Cambodia, Nepal, Bangladesh, and the Philippines. Second, limited local absorptive capacity has often delayed the release of funds in almost every country, particularly in the LDCs, as further discussed below.

Nature of funds

Remarkably, the bulk of AfT resources is disbursed in the form of grants. Nevertheless, in some countries, loans constitute a large share of disbursed funds. This can be explained partly by the prevalence of loans in financially demanding economic infrastructure projects, as in the cases of Guatemala, Ghana, Peru, and -surprisingly, given its LDC status -Bangladesh. On a positive note, overall AfT does not seem to have contributed to increasing the public debt of recipient countries. An exception to this is Ghana: before 2006, the country's public debt ratio was on a significant declining trend, mainly thanks to the Heavily Indebted Poor Country (HIPC) Initiative. In recent years, however, this trend has reversed dramatically. AfT loans might have contributed to this situation. In 2002, the public debt ratio to GDP was at its highest at 93 percent, declining to about 42 percent in 2006-2007. Since then, the ratio is on an increasing trend and almost doubled since the AfT initiative started.

Absorptive capacity

The increased funds generated through the AfT initiative are a welcome development as they allow to tackle some of the existing supply-side constraints hindering developing countries' participation in world trade. However, if these flows of aid are not matched by adequate absorptive capacities in the recipient countries, their efficient utilization could be retarded, which could limit AfT's impact on the ground. Unfortunately, absorptive capacities remain weak in almost all the countries analysed. The extent of this problem varies considerably from country to country. For instance, in Peru it is not considered a major problem within ministries, whereas regional and local governments are notoriously deficient in AfT management capacity.

The case of Nepal is typical of LDCs. In the Himalayan state, a series of factors - clustered into three broad categories - were identified as reasons for low absorptive capacity: a) human resource-related; b) systemic factors (internal and external); and c) procedural factors (Table 2). Similarly, in Malawi, stakeholders complained that project effectiveness was hindered by a lack of effective knowledge transfer in training activities. Cambodia, on the other hand, has done better. Having identified capacity building for trade development as a key priority, the government of Cambodia has established mechanisms for intra-government policy coordination, and for consultation among key stakeholders, including the private sector and civil society.

But weak absorptive capacity is not unique to LDCs. Lack of technical expertise for project implementation, often addressed by recourse to foreign experts, was a key problem in Guatemala. In the Philippines, delays in project implementation were caused by the fact that the implementing agency not always had the required personnel to implement AfT projects.

Table 2: Reason 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. 	

Source: Adhikari, R.K. Paras and S. Chandan S. (2011)

4.2 Ownership at Country Level: Mainstreaming of Trade and Multi- Stakeholder Coordination

Mainstreaming of trade as a stepping stone for greater effectiveness

Ensuring that developing countries exercise effective ownership over their trade and development policies and coordinate their development actions is a critical element of AfT effectiveness. This is one of the pillars of the Paris Declaration. Local ownership in the context of AfT primarily lies in the recognition of trade as a driver of economic growth, and ultimately

of development. This hinges upon in-country awareness and understanding of the cross-cutting nature of trade, as well as the ability to translate this awareness into formal plans and substantive processes (trade mainstreaming) so that the aid-receiving country creates an environment conducive to trade in cooperation with donors, the private sector, and other stakeholders. Trade mainstreaming represents a crucial step in negotiations with donors, and it helps set the ground for results-based intervention programming. As a result, a key expected outcome of the AfT initiative is to promote awareness of the development potential of trade, where the Enhanced Integrated Framework for

trade-related assistance for LDCs should have played a pivotal role.

Indeed, those countries that have mainstreamed trade in a systematic manner seem to be benefiting the most from AfT. The impact has generally been stronger, resulting in increased export capacities. Although exports are determined by numerous factors, AfT has been successful in creating a strong base for export development while providing new opportunities for export diversification. The cases of Cambodia and, to a certain extent, Bangladesh, are winning examples of where AfT has contributed to boost exports, respectively in the rice and ready garment sectors through an improved business climate, gains in competitiveness, and increases in flow of FDI. This will be further discussed in the section on impact.

Review of national development plans, strategies and projects reveal fairly diverging levels of trade mainstreaming among countries. On a positive note, trade has been found to be formally mainstreamed in all countries' development plans, either fully or partially. For instance, trade has gradually become part of either national strategic development policies (e.g. the National Strategic Development Plan 2009 - 2013 of Cambodia) or specific trade-oriented policy papers (e.g. *Plan Estratégico Nacional Exportador* - PENX of Peru, and Nepal Trade Integration Strategy 2010.).

While trade has been mainstreamed in national development plans, there is still a lack of clear understanding among key stakeholders of how trade objectives can be realised through specific activities at the programme level. In recent years in Malawi, for example, the ministry of Agriculture and Food Security has focused on maize production rather than trade, or export diversification. The objective was to first develop productive capacity and then to find markets at a later stage. As a result, some agriculture projects that did mainstream trade had only a limited impact. Due to the current large maize surplus, the government is now realising that trade is important and is starting to move beyond simply focusing on food security. Indeed, since 2010, the government has tried to

mainstream trade through the Agriculture Sector Wide Approach. Meanwhile, the main road transport corridors in Malawi are being developed with this trade objective in mind, and the energy sector is also increasingly being driven by trade priorities, both in part financed by AfT resources. At the end of 2012, the new administration adopted a National Export Strategy for the period 2013-2018 - a first for the country.

According to the government, this paradigm shift is intended to serve "as a critical component to achieve the millennium development goals [...] by providing a framework and focus on how Malawi may build its productive capacity". The strategy aims to provide "a clearly prioritised and realistic roadmap that Malawi needs in order to develop the productive base of the economy".¹⁵ These efforts to align trade policy with overall development strategy and the Millennium Development Goals should be seen as a positive step in achieving sustainable development through trade. As part of these efforts, the government is now trying to mainstream trade in the Ministry of Agriculture and Food Security, as well as in other line ministries, and to work closely with donors to align aid to this strategy. This is crucial to enhance AfT effectiveness, which so far has been limited in Malawi. Indeed, when aid is part of a sector-wide approach and is integrated into a strategy to address major supply-side bottlenecks to trade, it is more likely to be effective.

In this respect, the distinction between formal and substantive mainstreaming of trade is highly relevant. As already observed, all countries have formally mainstreamed trade in their development strategies, in the sense that they have formulated some trade-related objectives and made them part of their development efforts. However, what really matters here is the substantive mainstreaming of trade at the policy level, which occurs, for instance, when trade strategies, policies and actions are clearly determined or when line ministries include trade objectives in their domain, in coordination with the trade authority.

The eight countries assessed throughout this project recognize trade as one of the drivers

of development in their strategies, but out of these only Cambodia, Peru, Ghana, and Philippines are pursuing an approach in trade promotion that can be qualified as “active”. Nevertheless, the level of substantive mainstreaming proved to be a weak point in all of the countries. For instance, lack of mainstreaming of trade in the different ministries falling into the cross-cutting nature of trade is quite common, as further discussed in the next section. Lack of recognition of trade at operational levels, for instance at project and programme levels, was observed in Ghana, Malawi, and Bangladesh, whereas in Peru stakeholders complained about the lack of trade mainstreaming at regional or local administrative levels.

Substantive mainstreaming of trade, however, is a matter of in-country policy evolution, as illustrated by the recent positive developments in Malawi (described above). Likewise, in Nepal, the transition towards greater mainstreaming of trade within the national policy structures occurred over time: while the Diagnostic Trade Integration Study (DTIS) in 2003/04 involved the Ministry of Commerce and Supply (MoCS) only, the Nepal Trade Integration Study of 2010 already tangibly involved all relevant ministries responsible for implementation of the NTIS, under the coordination of MoCS. Similarly, Cambodia’s efforts towards full-scale trade mainstreaming were embodied in the adoption of the Trade Sector Wide Approach. Along the same lines, the government of Guatemala is now re-defining its priorities within AfT in order to link it with its trade and competitiveness policies, with a view to better managing aid and enhancing its effectiveness. Nevertheless, at the moment there are no clearly defined trade objectives set by the government and the opportunities offered by AfT are not taken into full consideration by the International Trade Policy Framework (*Política Integrada de Comercio Exterior*).

Therefore, even though much room remains for substantive and effective mainstreaming of trade in many developing countries, particularly in the LDCs, evidence from the ground reveals that significant efforts are under way.

This is certainly a positive outcome generated through the AfT initiative. In fact, as part of these efforts, many countries have been trying to design AfT strategies aligned with their trade and development policies.

Stakeholder coordination - in-country dialogue as lever for ownership

Deficiencies in trade mainstreaming are usually manifested in a lack of coordination and stakeholder involvement in both the trade-related needs-identification process and the implementation of trade-related programmes such as AfT. In this sense, coordination deficiencies can be classified at two levels.

Firstly, government stakeholders, especially line ministries and other agencies, sometimes advance competing interests or agendas. In Malawi, for instance, some ministries tend to behave territorially and defensively in competing for resources. For example, the Ministry of Transport, Public Works and Infrastructure, a key institution in implementing AfT infrastructure projects, does not systematically collaborate with the Ministry of Trade. Consequently, the ministry lacks a thorough understanding of trade needs and priorities, especially in the rail and air sectors. Similarly, in Cambodia, the reason behind limited cooperation is a lack of understanding of trade as a cross-cutting issue. Guatemala, however, provides an interesting counter-example: while intra-government coordination in the field of trade is weak, exporter associations are generally active in promoting national-level coordination. This, for instance, has contributed to raising trade as a priority in the textile and clothing policy agenda, and to a certain extent, in agriculture.

Secondly, and more prominently, in-country policy coordination is limited by a truly participatory dialogue comprising all relevant stakeholders. For instance, despite the setting up of national and sectoral working groups and public-private dialogues on issues relating to trade, the Malawian government has failed to adequately engage the private sector in the trade policy process. Coordination with the private sector continues to be constrained by the

poor level of organization of producers, particularly in agriculture, which is largely dominated by smallholder producers. In Nepal, policy dialogue with the private sector remains only in consultative contours and has had limited impact on the formulation and implementation of trade policies. In Bangladesh, the donor-driven nature of certain AfT projects precludes an effective in-country coordination and stakeholder engagement, even though the government often implements AfT projects. Conversely, a high level of stakeholder consultation and input inclusion into the formulation of trade-related policies has been observed in Peru and Ghana. Nevertheless, in the case of the former, the consultation process stumbled at the regional and local levels, and in the latter, the views of the civil society was systematically ignored, making inter-ministerial collaboration largely ineffective and stakeholders' involvement weak at operational level.

It therefore seems crucial that the government exercises effective leadership in coordinating the efforts in the framework of national policies. Lessons from Cambodia are particularly instructive:

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.¹⁶

Similarly, in Peru, one of the reasons for the overall effectiveness and impact of AfT is clearly the strong and active role of the Ministry of Commerce in synchronizing and coordinating all relevant policies with respect to external trade, and in using AfT resources together with locally generated fiscal resources to implement these policies.

4.3 Donors' Responses to Countries' Trade and Development Needs

Donor Alignment

The Paris Declaration requires donors to align their overall development support “on partners' national development strategies and periodic reviews of progress in implementing these strategies.” Efficient institutional mechanisms are key to ensuring donors' alignment with the trade and development priorities of partner countries. Evidence suggests that when there is a high degree of alignment between donors and the development agenda of the partner country, the benefits of AfT - and more generally of ODA - are likely to be the greatest. While this appears an obvious observation, the reality on the ground indicates that sticking to this principle has remained a challenge.

Peru constitutes a positive example of donors' alignment. Indeed, aid delivery in this country is overall in harmony with its trade and development priorities. Peru has clearly elaborated its trade and development objectives under the leadership of the Ministry of Commerce. It has also identified its supply-side constraints and reassessed its trade competitiveness, thus creating the conditions that are necessary for the alignment of donor interventions. Ghana and the Philippines have followed Peru: a review of donors' cooperation programmes suggests that development assistance in the area of trade is largely aligned to their trade and development priorities. Even in countries like Bangladesh, Guatemala, Malawi, and Nepal, where trade mainstreaming is limited and institutional capacities in managing aid projects are relatively weak, AfT is generally channelled towards projects and programmes in areas that have been identified as national priorities. In this sense, we can argue that donors align their aid interventions with countries' trade needs, strategies and policies.

Nevertheless, a careful analysis of AfT indicates that donors' use of in-country national systems to implement projects and programs is generally limited. In fact, donors have a tendency to use their own mechanisms to implement aid projects. Nepal's donor agencies, for instance, seem to implement AfT through the extensive use of Parallel Implementation Units, with donors largely dominating project design, staff recruitment as well as procurement. Indeed, this is a perennial problem in aid delivery, as donors' legitimate interests (efficient use of resources) and effectiveness principles (use of - often weak - country systems) sometimes clash. Lengthy decision-making and limited national capacity were identified as key obstacles to donor alignment to Nepal's priorities. Similar reasons were found behind the donor-led design and implementation of projects in Bangladesh, the Philippines, Ghana and Guatemala.

Some countries have taken steps to cope with the limited use of country systems, and more generally with the lack of alignment. Malawi, for instance, banned the use of parallel implementation units, but existing country systems remain weak, and so this action has not contributed to solving the problem. Bangladesh enacted the Public Procurement Act in 2008 and, since then, the use of parallel implementation units has declined. A similar procurement act was also issued in Nepal. In the Philippines, donors are reportedly keen on helping the country upgrade the quality of its systems and better align their intervention with the country's priorities. For example, Japan, the largest donor to the country, has recently commissioned a team to evaluate its assistance programme's consistency with Philippine development strategies and priorities. Similarly, the European Union has recently assessed the contribution of its development programmes to achieving the country's development objectives. The extensive use of Sector Wide Approach in Cambodia has also contributed to align donors' support to the country's priorities. As a result, the government implements around 70 percent of projects directly, and not through specific procurement systems.

Donor coordination

Donor coordination is a key element of harmonization and as such represents another crucial element of AfT effectiveness. When donors coordinate their activities, they can jointly contribute to achieve larger developmental outcomes, particularly when the recipient country is involved in the coordination mechanism. Moreover, it is more likely to avoid duplication of projects and programmes, especially in those situations where there is a proliferation of donor-funded activities. It is important to stress that effective donor coordination depends as much on the interaction among donors as on local information on aid activities, and more generally on trade-related issues. Therefore, the role of recipient institutions is central in facilitating coordination of aid interventions. Despite many improvements both at aggregate and local levels, experience from the ground almost invariably revealed important weaknesses in donor coordination.

The case of Nepal constitutes a typical example. It is reported that IFC, DfID and USAID have financed similar projects in the area of improving the business climate without necessarily coordinating their interventions. Many donors are supporting similar trade activities but are not coordinating them, potentially reducing the marginal productivity of aid resources and their impacts. This is both due to a lack of information among donors and a lack of government oversight in preventing such duplication of effort.

On the other hand, numerous efforts aimed at coordinating AfT activities exist. The Private Sector Development Programme in Ghana, for instance, has recently been bolstered by the establishment of a pooled fund of donors, also serving as a coordination mechanism. Similarly, Cambodia's Trade Development Support Programme established through a multi-donor technical assistance fund was intended to create synergies in the area of technical assistance. Unfortunately, this initiative has had limited success due to its slow implementation.

Ghana's Joint Assistance Strategy and Bangladesh's Joint Cooperation Strategy represent attempts at establishing coordination and mutual accountability mechanisms. Malawi donors' coordination has improved significantly, largely due to the Ministry of Finance's Division of Labour Matrix, which aims at avoiding duplication of effort by donors and aid fragmentation; the establishment of Sector Working Groups; Common Approach to Budget Support; and informal donor discussion forums.

The Philippines have also put in place an efficient mechanism that has contributed both in improving aid alignment as well as coordination among donor agencies. The country has established two institutional platforms for discussion among the government and donor agencies, namely the annual ODA portfolio review led by the National Economic and Development Authority and the Philippine Development Forum. These forums of discussion have been essential to identify cross-cutting implementation problems as well as solutions to tackle them. Indeed, in the forums, both government and development partners are expected to agree on and commit to actions to address these problems. A recent output of these continuous dialogues was the adoption of the Harmonized Philippine Bidding Document, which aims to resolve recurring procurement issues and inspire donors to cooperate and use the country's procurement system. Nevertheless, problems of coordination still remain. For instance, two major forthcoming technical assistance programmes in the area of trade, financed by the European Union and USAID, respectively, have strikingly similar objectives and some of the activities overlap.

4.4 AfT, Environmental Sustainability and Climate Change

The low emphasis on environmental concerns emerges clearly in the LDCs. In fact, environmental projects that may fall under the AfT "definition" are typically supply-driven (Malawi, Cambodia, and Nepal). No concrete steps to link the trade and climate change agendas have been taken despite the likely impact of climate hazards on the economies of those countries. In Malawi, for instance, even though the De-

partment of Environmental Affairs is active and operational in several areas, coherent actions in the AfT-environment realm are difficult to establish, largely because the agency has little control over the design and implementation of AfT projects .

In some cases such as Guatemala, an environmental performance assessment may be the precondition for an AfT project's renewal, which could be a way of ensuring longer-term consistency between AfT and the environmental dimension. Similarly, the standard requirements of export markets are another relevant driver of enhanced environmental practice in trade sector, as witnessed in Peru. Here, programs on certified organic and fair trade are being developed by the government in cooperation with donors, usually by involving the private sector and civil society, alongside courses on responsible management with regards to the environment.

Climate change - a major threat to livelihoods in developing countries - is also linked in important ways to the Aid for Trade initiative, even though this link may not be very obvious at first sight. AfT channels funding into areas of the economy, such as infrastructure and productive capacity in key sectors like agriculture, fisheries and tourism, that are directly or indirectly affected by climate hazards. Therefore, AfT can play a critical role in helping LDCs cope with the trade-related impacts of climate change. Indeed, well targeted AfT can contribute in building economic resilience and addressing climate change objectives.¹⁷ However, climate discussions are at the margins of the AfT debate. In fact, there is a lack of understanding about how trade-related development financing can be used to strengthen the climate resilience of developing countries as well as allowing them to grasp emerging export opportunities related to climate-smart goods and services. Clearly, this is a missed opportunity that both donors and recipient countries should exploit in the future. Understanding the initiative's interplay with climate change financing schemes is intimately linked with the future architecture of the AfT, and more generally with the trade-and-environment debate.

Interestingly, climate change considerations are high in Bangladesh and the Philippines while Cambodia and Nepal have yet to mainstream the climate dimension into their development planning. However, even when climate change is taken into account, it has not affected the way AfT is conceived and implemented. For instance, the Philippine government has explicitly included disaster risk reduction and climate change adaptation in the development planning process through the most recent national development plan. But this has still to be mainstreamed directly into policies and programs on industry, agriculture, fisheries, tourism and infrastructure, which are all AfT-relevant. The potential for promoting synergies in AfT and climate change financing are present, but the government has to consciously build this link in order to make AfT coherent with climate change financing mechanisms and use these schemes in a mutually and reinforcing manner.

4.5 South-South Cooperation

While the total size of the development assistance from emerging donors is still small in comparison with the traditional donors' aid, their role is growing rapidly in the eight countries analysed in this paper.

Strategic geographical interests and regional stability play a driving role behind the fairly intense cooperation between China and India with their smaller neighbours, particularly Nepal, Bangladesh and Cambodia. Cooperation with China, India, as well as with other countries in the region features similar trajectories: substantial credit to infrastructure, in most cases on a concessional basis, but also AfT to productive sectors. The emerging economies' engagement with their development partners is largely driven by trade and investment interests. China stands out as an active donor across all regions, particularly in Asia and Africa, while in the two Latin American countries the ties were not found to be so intensive. In all countries, particularly in Malawi and Ghana, it emerges that South-South donors are eager to finance projects - especially in the area of infrastructure - that DAC countries are less interested in financing. Moreover, government officials as well as

representatives of the private sector perceive emerging donors as less bureaucratic and faster in implementing cooperation projects than traditional donors.

An interesting reflection relates to the adherence to the Paris Declaration principles by the non-DAC donors. While in most accounts these principles were not found to be complied with, and the non-traditional donors generally do not participate in donor coordination meetings, there is some evidence that issues such as ownership, accountability, harmonization and alignment are increasingly taken into account by emerging donors, as emerged in the interviews with stakeholders.

4.6 From Implementation to Impact

While AfT could play a role in boosting a country's exports, its effects are entangled in a complex web of factors bearing on trade. Nevertheless, by using a mix of quantitative indicators and anecdotal evidence, it is possible to identify some of the impacts of AfT - especially at the project level - on the ground. Country experiences indicate that the impact of the initiative on trade performance has been extremely varied. Not surprisingly, and as would be expected from the Paris principles as endorsed by the WTO Task Force, countries that effectively mainstream trade in their development strategies and establish functional coordination mechanisms both with national constituencies and donor agencies, clearly identify their trade-related constraints and use aid to tackle them are more likely to generate positive impact through the use of AfT resources.

A careful analysis of major AfT projects in Peru suggests that the country can be considered a success story. The positive impact and overall effectiveness of AfT may be attributed to the clear prioritization of trade objectives in development strategies, the identification of supply-side constraints, collaboration between the government and donor agencies, and involvement of the private sector, particularly in the needs assessment and planning phase. A careful assessment of project documents and

interviews with relevant stakeholders reveals that various AfT projects have contributed to diversifying exports and increasing value added, particularly in agriculture, but also in the textile and clothing sector. Moreover, trade facilitation and infrastructure projects financed through AfT funds have proved beneficial in speeding up import/export procedures.

Cambodia's experience with AfT implementation has also been rather positive. Between 2006 and 2009, a total of USD 304 million of AfT funds was allocated to develop economic infrastructure, such as transport and storage, communication, and energy. One of the most prominent projects in this context was the World Bank's Trade Facilitation Competitiveness Project, which, among others, installed an Automated System for Customs Data. Indeed, the impact of these investments appears to be taking shape. According to the World Bank's Doing Business Survey, for instance, the number of days for export procedures went down from 43 days in 2002 to 22 days in 2010, with a small reduction registered in export procedure costs. A similar effect is noted for import procedures. The reduction in bureaucracy and cost for import/export procedures is likely to have played an important role in the country's trade performance.¹⁸

At the sectoral level, the country has focused, among others, on enhancing the competitiveness of the agricultural sector. The main objective of most, in not all, agriculture-focused AfT interventions is to shift Cambodia's low-value-added, subsistence agriculture into a commercialized and diversified sector. Therefore, both government policies and AfT investments have focused on enhancing productivity and increasing value addition in the agriculture sector. Moreover, the emphasis on private sector development has strengthened capacity for competitive agriculture commercialization¹⁹. Overall, the impact of these efforts is still small; stakeholders believe that local institutions have limited implementation capacity that might negatively affect the sustainability of project outcomes. As already discussed above, the absorptive

capacity of the government is generally low and capacity building for trade development has been identified as a priority for future AfT programmes and projects. Despite these problems, AfT projects have generated some modest productivity gains, as suggested by the recent increase in production and trade of rice, maize, cassava, fish, and small livestock production.²⁰

Cambodia was particularly successful in the design and delivery of the Rice Export Policy, which may be credited for the increase in rice yields from 1.8 tons per hectare in 1998 to 2.8 in 2010. As a result, Cambodia is now self-sufficient in rice and produces a 2 million ton exportable surplus. Indeed, the country has been able to break the vicious cycle in which insufficient investment in the agriculture, water, and rural development sectors resulted in low productivity and compromised the country's food security. However, these positive results cannot be attributed to AfT projects alone. Clearly, an improved investment environment has also been a critical factor. But the key message for the AfT debate is that the right emphasis on a clearly formulated development strategy (Rice Export Policy) has created the necessary conditions for improving aid effectiveness in Cambodia, thanks also to the cooperation between the government and the private sector.

At the project and programme level, some positive outcomes through AfT have been observed in all countries. For example, in Bangladesh, AfT projects in the ready-made garment sector have been useful to address some critical areas such as capacity building of workers and fulfilment of compliance requirements, which in turn have improved the sector's competitiveness. In the Philippines, technical assistance and capacity building programmes financed both by the European Union and the US have generated concrete gains in reducing trade barriers, lowering transaction costs, eliminating restrictive rules on business processes and direct investment, and strengthening regulations. A European project on technical assistance on sanitary

and phytosanitary measures has resulted in an increase in food exports to the EU of almost 15 percent annually between 2003 and 2008. Yet, the impact was uneven across products: for example, fisheries exports increased whereas exports of coconut products declined. In Ghana, the Northern Rural Growth Program, with projects financed by a mix of donors, has shown some modest gains. The programme, aimed at addressing some of Ghana's key national development priorities with a focus on improving income through production in the country's poorest regions, has benefited from a highly participatory, consultative and demand-driven process, involving the private sector, civil society, and local and regional authorities. However, due to lack of absorptive capacity, the programme has not been effective in achieving the majority of its short-term targets and is not likely to meet its medium and long-term objectives, particularly because the programme does not have a substantive focus on tackling existing capacity constraints.

In Nepal, the Enhancing Nepal's Trade Related Capacity project (ENTReC), established as a long-running partnership between the United Nations Development Programme and the government, has shown some success in achieving some of its objectives, such as increasing the competitiveness of Nepali exporters, creating a more empowered and engaged private sector, and creating a more favourable investment environment. This was possible mainly because the project was designed consistently with the country's trade policy. Nevertheless, a partial lack of ownership due to limited human capacity has prevented some of the project's deliverables from being fully achieved, which has limited its overall impact.

Similarly, the Joint Integrated Technical Assistance Programme 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.

Overall, the impact of AfT in Malawi "is close to negligible with respect to [the country's] trade deficit and export growth, largely because of a fragmented approach to aid that does not tackle Malawi's export constraints in a comprehensive manner."²¹ Indeed, a lack of local ownership, manifested mainly among line ministries and the private sector; weak absorptive capacity; and poor alignment and coordination have meant that while overall exports were growing, the relationship with AfT remained weak. In particular, a fundamental disconnect between AfT and the private sector in most areas of economic activity was manifested not only in Malawi, but also in Guatemala, Ghana and Bangladesh.

In conclusion, one of the major lessons learned from the ground is that AfT should not be seen as an isolated development effort; rather, it should be integrated with the development in other sectors outside of trade-related capacity building, including social sectors. This is even more urgent in LDCs, where human and institutional capacity development is a prerequisite for adequate AfT demand-formulation, planning, and subsequently the effective management and implementation of AfT projects.

5. CONCLUSION AND THE WAY FORWARD

This paper presented new evidence on AfT effectiveness on the ground compiled from case studies of 8 developing countries, including 4 LDCs. The assessment of the AfT projects is undertaken at the national level but several of the country cases include narratives of specific projects. The methodology used is based on the Paris principles of aid effectiveness, but is innovative in several ways. Besides providing quantitative and qualitative indicators for monitoring various aspects of a project, our approach assumes that the additionality and predictability of aid flows are also a critical component of AfT effectiveness.

Evaluations of development assistance projects and programs have always proved elusive, and AfT is no exception. Perhaps, in AfT's case, the challenges have been even bigger: data limitations, the absence of clear benchmarks, and the high cost of evaluations relative to the size of projects have often placed rigorous evaluations of AfT on the backburner. The absence of a common definition of what AfT entails further complicates the analysis. The WTO Task Force defined AfT as "whatever a partner country considers trade-related". In practice this almost systematically results in mismatch between what donors record as AfT and what recipients consider as AfT. For example, it is difficult to differentiate AfT projects from the ODA bundle when AfT projects (i) are not presented or implemented as AfT per se, or (ii) span across several sectors.

The country-level studies on which this paper is based overcome several of these constraints by applying a workable methodology; by collecting primary data to complement secondary sources of information; and by balancing the need for quantitative evidence with the convenience and added value of qualitative data. This however comes at a cost. There is no objective way of aggregating the various indicators into a summary statistic that could say whether aid in a given country has, on the whole, been effective or not. As a result, we generally refrain from making such conclusions and

prefer to highlight the conditions under which AfT is likely to deliver results.

Annex 1 summarizes the main findings across countries and selected indicators. While the experience of the various countries is quite mixed, overall the main findings coming out of those studies are relatively consistent with what has emerged from the more general aid effectiveness literature. In short, AfT is likely to be effective when the host country has the appropriate institutions and human resources to utilize aid; when the aid program enjoys broad local ownership, including political ownership; and when donor objectives are aligned with local priorities. To these, we shall add that, specifically for AfT flows, it is crucial that these are additional, and predictable. A slightly worrying finding from the case studies, in this respect, is that there is a persistent lack of awareness about AfT and on AfT projects, even in implementing agencies. This may be partly due to definitional problems and partly the result of poor information flow and lack of coordination among line ministries and implementing agencies.

Going forward, the evidence presented here has several implications for the Aid for Trade initiative. First, AfT projects must address local capacity constraints and institutional weaknesses in their very design, and, more generally, the initiative should tackle problems related to additionality and misalignment. As the donor community calls for Aid for Trade to deliver results, it must share responsibility with partner countries to see to it that AfT brings value for money.

In this respect, the growing focus on AfT project evaluation may be counterproductive, as it can divert dwindling resources from more pressing needs. The evidence presented here suggests that aid for trade is effective when the right conditions prevail. However, in most of the countries considered in this study, and especially in the LDCs, these conditions are often absent. It might therefore be more

efficient for the donor community to devote greater effort to tackling the key determinants of success of AfT rather than investing more resources in improving AfT projects evaluation tools. As donors come under a tightening budget constraint, strengthening recipient countries' ability to effectively manage AfT resources may not only result in better use of limited resources but also improved development impacts.

Enhancing partners' capacity to benefit from AfT requires the establishment of effective institutional arrangements and mechanisms at the domestic level for stakeholder participation and interagency coordination, supported by appropriate legal frameworks.²² Yet, most countries have not elaborated a national definition of AfT nor have they established clear AfT strategies, incorporating results-based management practices, to allocate resources and assess impacts. Supporting them in this endeavor might have more impact than simply trying to improve the design and delivery of individual AfT projects.

This paper also reveals that there is limited coordination among relevant ministries and government agencies on the way AfT programs are designed and implemented. The private sector is generally poorly involved in the AfT

process and in-country donor agencies do not always coordinate their activities among themselves and with national stakeholders. All these factors tend to affect local ownership, aid effectiveness and, ultimately, development outcomes regardless of the quality of the AfT projects. These are the critical areas where greater effort should be directed in the future as the Aid for Trade initiative comes under increasing pressure to show results.

Overcoming these constraints is not an impossible task. Taken individually, many of the countries surveyed have tried to address them with different degrees of success. Beyond the 8 countries covered in this paper, there is a growing wealth of experience and creative solutions among recipient countries, particularly those who have been successful at making the most out of limited aid resources. As we move forward, identifying the best practices in managing AfT based on experiences so far, and sharing them among recipient countries might be one of the most efficient ways to improve the use of AfT resources and ultimately increase development impacts. Such South-South exchange of experiences should become part of a continuous learning process involving not only recipient countries but also traditional and emerging donors.

ENDNOTES

- 1 South Asia Watch on Trade, Economics and Environment is an NGO based in Kathmandu, Nepal.
- 2 Recommendations of the Task Force on Aid for Trade, Fifth draft, 24 July 2006, p.7.
- 3 See OECD (2011). Strengthening Accountability in Aid for Trade. OECD Publishing, OECD, Paris.
- 4 See OECD (2006).
- 5 See Cadot et al. (2011) and Basnett et al. (2012) for an up-to-date survey of the evidence.
- 6 Adhikari, R. (2011). Evaluating Aid for Trade Effectiveness on the Ground: A Methodological Framework. ICTSD.
- 7 Stiglitz and Charlton (2013) claim that AfT has not been additional in the sense that donors have reneged on their pledge - reiterated most recently at the 2005 G8 Summit in Gleneagles - to reach the aid target of 0.7% of GDP by 2015.
- 8 Angola, Bangladesh, the Central African Republic, Comoros, Chad, the Democratic Republic of the Congo, Eritrea, Equatorial Guinea, Ethiopia, Yemen, Guinea, Lesotho, Malawi, Myanmar, Nepal, Niger, Somalia, Sudan and Togo have received less than USD 10 per capita in the period 2006-2011. Some of them received even less than USD 5 per capita.
- 9 African Economic Outlook Report (2011). p.124.
- 10 See for instance Kragelund, p. (2010).
- 11 On the downside, emerging partners have a poor record in promoting good governance and building human capacity.
- 12 Adhikari (2011).
- 13 In the case of Ghana non-AfT ODA commitments decreased in recent years if compared with the 2002-2005 period, whereas non-AfT ODA disbursements increased.
- 14 Adhikari, pp. 13-14.
- 15 Government of Malawi; United Nations Development Programme; (December 2012). Malawi National Export Strategy 2013-2018. Available at: http://www.malawihighcommission.co.uk/Malawi_National_Export_Strategy_Main_Document.pdf
- 16 ICTSD (October 2012); Aid for Trade and the Least Developed Countries: Recent Trends and Impact on the Ground; p.11.
- 17 Ancharaz, Vinaye Dey; Riad A. Sultan; (2010); Aid for Trade and Climate Change Financing Mechanisms: Best Practices and Lessons Learned for LDCs and SVEs in Africa; ICTSD.
- 18 Siphana, Sok; et al.; (2011); Evaluating Aid for Trade on the Ground: Lessons from Cambodia; ICTSD.
- 19 Ibid., p.43.
- 20 Ibid., p.44.
- 21 Said, Jonathan et al. (2012), p. 47.
- 22 In this context, OECD's on-going work on Managing Aid for Trade and Development Results is worth mentioning. This program has generated case studies for Colombia, Ghana, Rwanda, Vietnam and Solomon Islands.

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ANNEX 1 SUMMARY OF FINDINGS BY KEY INDICATORS OF THE ICSTD/SAWTEE METHODOLOGY

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
	AFT funds trajectory							
Additionality	No: Aft commitments increased since 2006, but disbursements not. Non-Aft ODA increased, both for commitments and disbursements, but commitments grew slower than in the past. No diversion of resources resulting from Aft.	Yes: Aft funds additional, not resulting in diversion of resources from other ODA sectors.	Partial: Aft commitments and disbursements increased, as well as non-Aft ODA disbursements. However, non-Aft ODA commitments decreased.	Partial: Aft funds increased on the whole, but non-Aft ODA resources decreased in 2009-12 as compared to 2006-08.	Partial: Aft and non-Aft ODA increased, but at a lower rate than in the past.	No: Non-Aft ODA and Aft commitments increased, but Aft disbursements declined. Nevertheless, no diversion of resources from other ODA sectors.	Yes: Aft funds additional, not resulting in diversion of resources from social sectors.	No: Aft commitments decreased since 2006, but disbursements increased. The opposite is observed for Non-Aft ODA: commitments increased, though at a lower growth rate, whereas disbursement decreased.
Predictability	No: great variance in the Aft disbursements/commitments ratio (utilization rate), which declined in comparison to the baseline period; delays in initiation and implementation of Aft projects.	Yes: Overall, Aft has been predictable, though the disbursement of funds still needs improvements. Donors admit changes in their priorities sometimes affect availability of resources.	No: decline in the Aft commitments ratio since 2006. Aft funds are generally less predictable than aid to other sectors; this is mostly driven by limited predictability in Aft to economic infrastructure.	Partial: in general Aft disbursements follow donors' commitments, but limited absorptive capacity sometimes delays project implementation and funds release.	Yes: data and stakeholders suggest that Aft has generally been fairly predictable.	No: the utilization rate of Aft commitments declined since 2006. Moreover, untimely disbursements of funds. Low predictability is both due to changes in donors' priorities as well as to limited absorptive capacity.	Yes: disbursements follow commitments, except for occasional administrative hurdles/inconveniencing.	Yes: disbursements follow commitments. No widening gap has been observed. Local stakeholders confirm that programmes and projects are in general timely implemented.

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
	Absorptive Capacity							
	Limited absorptive capacity, which negatively affects the utilization rate of AFT (disbursements/commitments ratio).	Limited absorptive capacity, but trade-capacity building programmes provided to relevant institutions have slightly addressed this problem.	Limited absorptive capacity largely due to weak institutional capacity of trade-related Ghanaian institutions.	Limited absorptive capacity. Lack of human resources, inadequate economic incentives and changes in policies and strategies cause a high turnover of qualified staff in Guatemalan institutions, which reduces institutional capacity and know-how.	Limited absorptive capacity of local stakeholders, resulting in significant delays in project implementation. AFT projects do not address this issue, resulting in limited aid effectiveness. However, some evidence of improvement in certain areas.	Limited absorptive capacity, manifested in low utilization of commitments and delays in disbursements. The utilization rate of AFT has worsened in recent years, and the gap between the utilization rate of AFT and non-AFT ODA has widened.	Good absorptive capacity. However, limited capacity at regional and local level.	Limited absorptive capacity manifested by the fact that implementing agencies often do not have the required personnel, infrastructure and resources to co-finance the implementation of projects. This delays project implementation, or causes the cancellation or reduction in the scope of some activities.

	Stakeholders coordination of trade	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
	<p>Limited: inter-ministerial coordination in implementing trade policies and AFT programmes is weak; scope for involvement of non-governmental stakeholders is narrow.</p>	<p>Good: stakeholders involved in the formulation of trade policies; Trade SWAp roadmaps developed through stakeholder consultations. Coordinating role of the Steering Committee for Trade Development.</p>	<p>Limited: weak coordination at government and inter-ministerial level (competing interests and priorities) although lower-level authorities substitute for this (e.g. AGROEXPORT).</p>	<p>Limited: different ministry priorities results in competition for ODA resources. Limited coordination and fragmented approach to aid at local level. Private sector only marginally involved in trade policy dialogue. Despite recent improvement, lack of understanding of AFT, precluding effective utilization of funds.</p>	<p>Limited: the formulation of the Trade Integration Study and other trade-policy documents is inclusive, but private sector's views have limited effects in policy formulation.</p>	<p>Limited: different ministry priorities results in competition for ODA resources. Limited coordination and fragmented approach to aid at local level. Private sector only marginally involved in trade policy dialogue. Despite recent improvement, lack of understanding of AFT, precluding effective utilization of funds.</p>	<p>Limited: the formulation of the Trade Integration Study and other trade-policy documents is inclusive, but private sector's views have limited effects in policy formulation.</p>	<p>Partial: the Ministry of Commerce implements and coordinates trade strategies and actions, including AFT. Involvement of stakeholders in trade discussions, particularly the business sector. However, the participation of regional and local stakeholders at policy-making level is very limited.</p>	<p>Partial: Creation of the Philippine Development Forum as a venue for dialogue among government agencies, donors, business groups, NGOs, member of Congress and academia to coordinate aid activities and generate additional commitments. However, limited focus on trade issues.</p>

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Donors alignment with countries' priorities	<p>Partial: AFT, and more generally ODA, almost fully aligned with national priorities. The Joint Cooperation Strategy between the government and 18 donors is intended to further strengthen donors' alignment. However, most projects conceived and formulated by donors, while the government is mainly responsible for implementation.</p>	<p>Partial: AFT projects are often not aligned with countries' priorities though the channelling of AFT funds to support Trade-Sector Wide Approach has partially contributed to align donor interventions</p>	<p>Good: donors programmes aligned with Ghana's trade and development agenda and national priorities.</p>	<p>Limited: limited AFT alignment is mainly due to lack of countries' priorities in the area of trade. However, each donor defines its intervention with the government through a strategic planning. However, the lack of a broader and long term view makes AFT largely ineffective.</p>	<p>Partial: AFT overall aligned with country's two main priorities - food security and infrastructure. However, lack of long-term approach to local human capacity development, which is a key priority for the country.</p>	<p>Partial: AFT is generally going to programmes prioritized by the government at the broad level, although activities sometimes clash at programme/project level.</p>	<p>Good: A clear strategy for Trade Capacity-building and the leadership of the Ministry of Commerce is crucial in pairing country's and donors' priorities.</p>	<p>Good: donors generally align their programmes with country's priorities.</p>

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Use of country systems	Limited: limited use of country systems, but reduction in the use of parallel project implementation units since 2005.	Partial: limited use of country systems, but many projects are implemented through direct budget support to government bodies; generally though, donors feel that government structures lack in credibility and accountability.	Limited: the large majority of AFT (and ODA) is provided through non-budget support and implemented through the creation of parallel implementation units, despite recent improvements in national systems.	Limited: donors tend to use their own implementation systems, Local systems are often regarded as inefficient and bureaucratic.	Limited: limited use of country systems. Extensive use of parallel implementation units, but recent limitations on their use.	Limited: donors tend to use their own implementation systems. Local systems are often regarded as inefficient and bureaucratic.	Limited: donors prefer not to use national systems of procurement as they are considered rigid and not efficient enough	Limited: limited use of county systems while implementors even require that implementation agency sets up a parallel implementation unit independent from existing organizations.

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Donors coordination	<p>Limited overall, but some progresses in improving coordination of aid activities through local consultative groups, which have fostered dialogue between the government and donors. This aims at promoting interaction and transparency on donors' activities. However, donors prefer to coordinate their interventions among themselves because these structures are considered inefficient.</p>	<p>Limited, but various interventions to avoid duplication of aids and create synergy to coordinate trade-related technical assistance programmes (e.g. Trade Development Support Programme).</p>	<p>Good level of coordination, facilitated by effective mechanisms such as the Multi-Donor Budget Support. However, coordination appears less strong for AFT activities that for non-AFT ODA. Intra-coordination between local donor offices and their headquarters is limited on trade-related issues.</p>	<p>Limited: mechanisms for donors coordination exist (e.g. the 13 largest donors, the "G13") and have improved in recent years. But coordination of AFT activities is limited. The lack of coordination is mainly due to internal factors such as the lack of an AFT strategy, limited mainstreaming of trade, and weak capacities of institutions dealing with trade.</p>	<p>Good: Donor coordination has significantly improved in recent years, largely due to the Ministry of Finance's division of Labour Matrix, the establishment of sector working groups, the adoption of the common approach to budget support and informal donor discussion forums. However, limited coordination for trade policy and regulation activities.</p>	<p>Limited: duplication of projects and funding exists, but donors are trying to reduce these inefficiencies, particularly after the launch of Nepal Trade Integration Study.</p>	<p>Good: donors have put in place both formal and informal coordination mechanisms. Overall, donors coordination improved in recent years. However, some cases of duplication of activities highlight that coordination among donors and with the government needs to improve.</p>	<p>Good: establishment of institutional mechanisms to facilitate donors coordination and government-donor coordination.</p>

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Impact at macro level	Statistically insignificant relationship between AFT and export performance.	Reduction in bureaucracy and cost for imports/exports procedures, which have enhanced trade performance, but difficult to clearly isolate the impacts of AFT. Modest impact in increasing production and diversifying exports, mainly in agriculture.	Despite the recent increase in exports, Ghana's exports are still highly concentrated and low-value added. Some degree of diversification towards non-traditional exports. However, this modest performance cannot be attributed to AFT.	Modest gains at project/programmes level: diversification of products; increased competitiveness in the textile and clothing sector and for some small and medium enterprises. However, the lack of an integrated approach to trade (and AFT), have limited the overall impact of aid, which has not been channelled in addressing some of the key supply-side bottlenecks.	AFT impact is close to negligible in terms of trade deficit and export growth due to fragmented approach to aid not channelled to key export constraints.	AFT is positively associated with exports growth. Modest impact of AFT is visible in the upgrading of infrastructure, building of core network roads, export growth and diversification (for example ginger and cardamom).	AFT impact is "marginal" in relation to the overall positive macroeconomic and export development of recent years, resulting primarily from sound national policies. Positive impact at project level resulting, for instance, in diversification towards non-traditional agriculture exports and private sector development.	Poor export performance of the country in terms of exports growth and diversification, which has negatively affected AFT impact. In general, AFT has had a modest impact on Philippine trade mainly because it has poorly addressed the country's key supply-side constraints (weak institutional capacity, poor infrastructure, etc.).

	Bangladesh	Cambodia	Ghana	Guatemala	Malawi	Nepal	Peru	Philippines
Impact at project/programme level (micro-impact)	AFT projects in the Ready-made garments sector have addressed some critical aspects such as capacity building of workers, compliance of standards requirements. Overall, they have contributed to improve sector competitiveness.	Positive impacts of AFT in the rice sector: visible improvement in productive capacity; increase in production and exports; positive spillovers to agriculture at large	Modest gains through the Northern Rural Growth Program. The programme addresses some of Ghana's key national development priorities (regional development focus). The programme has benefited by a highly participatory, consultative and demand-driven process. However, lack of absorptive capacity has limited its impacts, as many of projects expected outcome have not been achieved.	The Rural economic development capacity building programme (PDER) has been partly successful in terms of increasing production and exports (mainly of vegetables, fruits and coffee) and in creating a business mentality. However, delays in implementation often due to weak implementation capacity.	The Joint Integrated Technical Assistance Programme has had limited short-term impact only - particularly in building awareness on the functioning of the multilateral trading system - mainly due to its inability to assume a holistic approach to long-term capacity development.	The Enhancing Nepal's Trade-Related Capacity Project has contributed in increasing exporters competitiveness, creating a more empowered and engaged private sector, and creating a more favourable investment environment. Yet, weak human capacities have limited the overall impact of the projects.	Major projects on trade facilitation have had positive impact and have contributed to facilitate imports/exports procedures. Strong ownership of the government in driving custom reforms and facilitating trade. However, challenges in coordinating the various institutions involved.	Some impact of AFT in supporting Philippine custom reform efforts. However, the impact is limited, mainly due to the complex dynamics of corruption and patronage system existing in the custom sector.

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